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## CHAPTER I -- FINANCIAL MARKETS IN 2004

Having rebounded in 2003, equity markets moved into a phase of consolidation during 2004 in which the main beneficiaries were small-cap and mid-cap stocks, along with value stocks. The year was also notable for a continued decline in market volatility, which now stands at historically low levels, and for a recovery in initial public offerings (IPOs). By contrast, the aggregate value of capital increases and rights issues by existing issuers was down sharply. Bond markets continued to benefit from highly favourable conditions as central banks maintained accommodative monetary policies and credit quality continued to improve. Derivatives markets posted significant increases amid heightened competition and further integration, despite weaker volatility in underlying markets.

**Table 1: Main trends in French financial markets (EUR billion)**

	2000	2001	2002	2003	2004
<b>Issuance</b>					
. Equity securities (1) ( <i>listed companies</i> )	21.5	9.2	15.1	22.8	10.6
. Debt securities	168.0	85.6	91.4	122.7	103.1
<i>Other issuers</i> (2)	120.5	33.1	38.0	55.5	26.5
<i>French government</i>	47.5	52.5	53.4	67.2	76.6
<b>French equity and bond markets</b>					
Capitalisation (year-end)					
. Equities	1,541.0	1,319.0	927.8	1,075.0	1,147.0
. Bonds and non-voting shares	779.1	795.1	818.0	809.0	813.8
<b>Total</b>	<b>2,320.1</b>	<b>2,114.1</b>	<b>1,745.8</b>	<b>1,884.0</b>	<b>1,960.8</b>
Transaction value (year) (3)					
. Equities		1,111.0	1,002.4	877.8	993.9
. Bonds		7.5	7.0	6.3	7.3
<b>Total</b>		<b>1,118.5</b>	<b>1,009.4</b>	<b>884.1</b>	<b>1,001.2</b>
<b>Number of listed companies</b>	<b>965</b>	<b>936</b>	<b>873</b>	<b>817</b>	<b>787</b>
Premier Marché	453	425	395	368	353
Second Marché	354	347	325	312	306
Nouveau Marché	158	164	153	137	128
<b>Collective investment schemes</b> (4)					
. Assets under management at 31 Dec. (5)	766.0	800.2	803.0	909.4	1,006.5
. Number of schemes at 31 Dec.	7,144	7,603	7,791	7,906	7,908

(1) Includes issues for cash + exercises of options + exercises of equity warrants + stock dividends + reserved issues.

NB: Previous annual reports counted issues for cash only.

(2) Includes French and international issuance of debt securities (bonds + all complex debt securities, cf. Appendix I p XX).

(3) Electronic order book transactions. Owing to a change of methodology, data are available only from January 2001.

(4) Comprising *sociétés d'investissement à capital variable* (SICAV, open-end investment companies) and *fonds communs de placement* (FCP, unincorporated investment funds).

(5) Calculated on latest known asset value.

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## I – EQUITY MARKETS

### A – A favourable economic situation, despite modest growth

Worldwide, economic growth accelerated in 2004, stimulated by a strong increase in international trade and sustained by demand in the USA, where GDP grew by more than 4% in real terms, and also by Japan. In the euro area, economic activity began to pick up again, but the magnitude of the recovery – close to 2% – remained relatively modest. The recovery was stunted by a steady rise in the oil price and a sharp depreciation of the dollar (Fig. 1 and Fig. 2). The consequent deterioration in consumer and business confidence weighed on job creation and capital spending, causing growth in the euro area to slow in the second half.

In the euro area as a whole, the recovery largely reflected the rise in the contribution of foreign trade to economic activity. In this regard, however, France was a special case, as domestic demand became the principal driver of economic growth. The confidence of French households revived in 2004. Over the course of the year they increased their consumption significantly, especially during the first half, and stepped up the pace of their housing investment (Fig. 3). They were more cautious when it came to financial investments. During the first three quarters of 2004 they increased their bank deposits but reduced their holdings of traded securities, in particular listed equities held directly or via investment funds. On the other hand, they continued to invest heavily in life insurance products (Table 2).

French businesses adopted a wait-and-see attitude. Their investment spending was more hesitant than is usual at this stage of the business cycle: the available data indicate that in the first half they paid down their debt and significantly increased their margins. Non-financial companies were thus not taking full advantage of the favourable financing terms they were being offered on stock and bond markets as well as on credit markets.

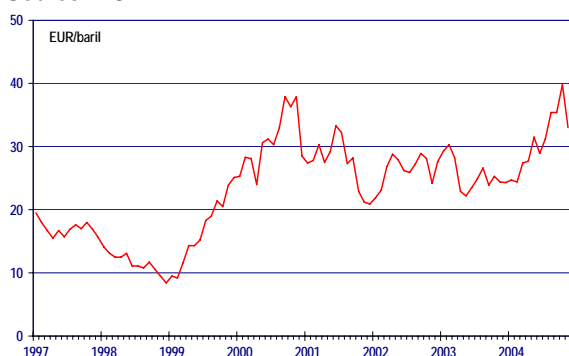
**Table 2: Net investment flows of French households**  
(EUR million)

	Currency and bank deposits	Debt securities	Listed equities	Collective investment schemes	Life insurance reserves
<b>2000</b>	3,657	62	-13,734	13,372	68,073
<b>2001</b>	20,697	9,083	-15,202	17,852	59,140
<b>2002</b>	32,566	-4,618	4,468	5,008	54,575
<b>2003</b>	33,666	-7,336	-1,032	190	58,410
<b>2003 Q1–Q3</b>	20,299	-5,627	186	1,012	43,640
<b>2004 Q1–Q3</b>	26,603	-1,608	-1,180	-5,835	43,460

Source: Banque de France

**Fig. 1: Oil: Price of Brent crude (EUR/barrel)**

Source: ECB



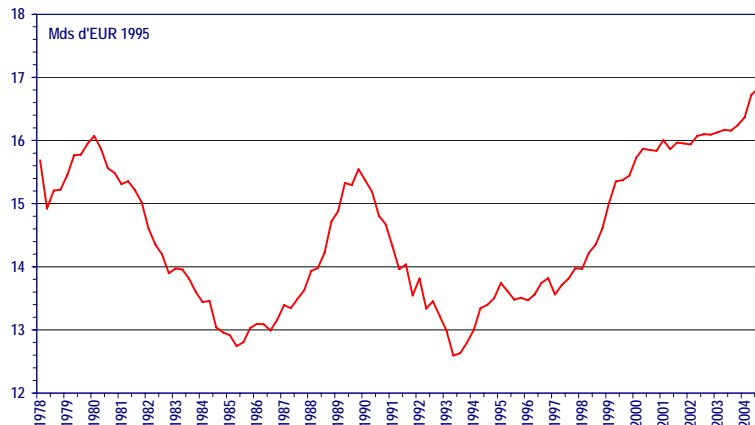
**Fig. 2: Exchange rates: Dollar and yen vs. the euro**

Source: ECB



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**Fig. 3: Property investment by French households (excluding sole proprietors)**



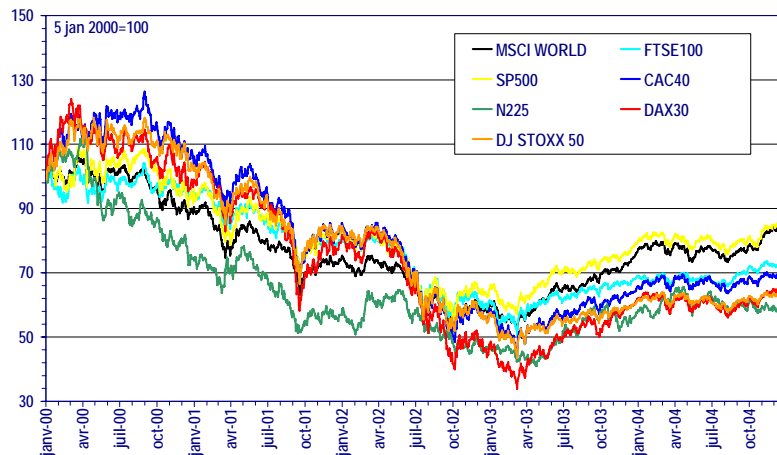
Source: INSEE

## B – Another up year for stock market indices following the 2003 rebound

### 1) After a slight pause, markets advance worldwide

The year 2004 brought buoyant economic fundamentals and, for listed companies, a meaningful increase in profitability and distributed profits. At year-end, average dividend yields in Europe stood at levels close to those of 5-year bond yields. Yet despite these favourable conditions, stock market indices were mired in indecision by geopolitical events (terrorism, Iraq), rising oil prices and expectations of tighter US monetary policy. Three times in succession until mid-August, short-lived rallies ended in sell-offs (Fig. 4). In the second half, however, a rising trend finally emerged to keep the 2003 recovery going, although at a more moderate pace.

**Fig. 4: Main world stock market indices**



Source: data vendors, AMF calculations.

### 2) The key determinants of performance: size and yield

Country indices showed relatively little geographic dispersion in performance in 2004. As would be expected given the movement in exchange rates, indices performed better in dollar terms than in euro terms (Table 3 and Fig. 5). With the exception of some Asian countries, notably China, South Korea and Malaysia, emerging economies generally outperformed developed economies. In Europe, the Italian and Spanish indices posted notably high growth rates, while those of new EU entrants – the Polish, Czech and Hungarian indices in particular – were even higher.

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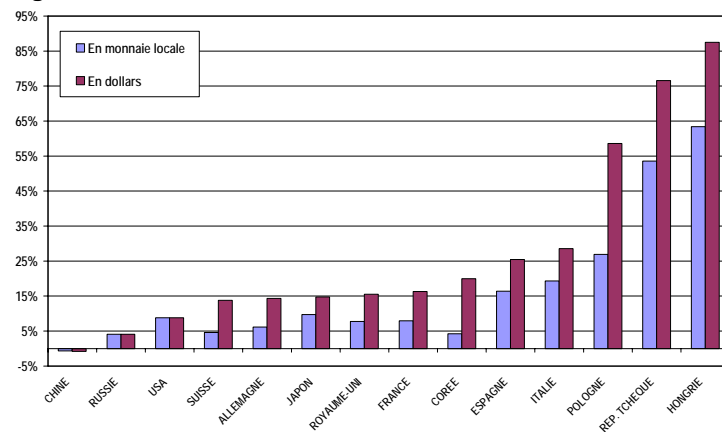
**Table 3: MSCI indices**  
(% chg, YoY)

	in local currency			in dollars		
	2002	2003	2004	2002	2003	2004
World	-25.2	22.8	9.5	-21.1	30.8	12.8
<b>Developed economies (G7)</b>	-24.7	23.8	8.9	-21.6	29.9	11.5
North America	-23.6	26.7	8.9	-23.6	27.8	9.4
Europe	-30.9	16.5	9.4	-20.1	34.8	17.8
Euro area	-35.0	16.4*	10.1	-23.3	39.9*	18.7
Pacific	-18.3	19.7	12.3	-10.4	36.3	17.2
<b>Emerging economies</b>	-9.1	42.3	13.2	-8.0	51.6	22.4
Asia	-10.3	44.9	5.1	-6.2	47.1	12.2
Latin America	-0.7	54.7	27.6	-24.8	67.1	34.8
Eastern Europe	9.3	52.5	21.5	14.6	56.7	32.1

Source: MSCI

\* These figures differ from those in the 2003 annual report. The new figures are for a stock index covering a broader and more consistent geographic area.

**Fig. 5: MSCI indices – Selected countries**



Source: MSCI

Likewise, the component indices by sector show little dispersion compared with past years. In 2004, the sectors that outperformed included energy, materials, financials and telecoms (Table 4). Rising oil prices and high levels of distributed profits stand out among the factors behind this strong performance. Two sectors posted particularly weak performance: information technology (semiconductors, computer hardware and software) and pharmaceuticals.

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**Table 4: MSCI World component indices at 31 Dec. 2004**

(in dollars; % chg, YoY)

	Capitalisation	Performance		Net dividend yield per share
		2003	2004	
<b>MSCI World Index</b>	<b>100.0</b>	<b>30.6</b>	<b>12.8</b>	2.1
<b>Energy</b>	7.9	22.6	25.6	1.7
<b>Utilities</b>	4.0	23.8	24.9	1.4
<b>Industrials</b>	10.4	35.7	17.5	2.9
<b>Materials</b>	5.3	41.6	15.8	3.8
<b>Telecom services</b>	5.0	22.6	15.1	2.2
<b>Financials</b>	24.5	35.2	14.9	3.2
<b>Consumer discretionary</b>	12.3	35.5	13.5	1.8
<b>Consumer staples</b>	8.6	14.5	10.1	0.6
<b>Healthcare</b>	10.3	17.9	4.9	2.1
<b>Information technology</b>	11.6	47.4	0.8	2.5
<b>World Index Value</b>	50.3	35.1	16.1	1.4
<b>World Index Growth</b>	49.7	26.4	9.5	2.7
<b>World Index Small Cap</b>	5.9	55.2	22.6	2.0

Source: JCF

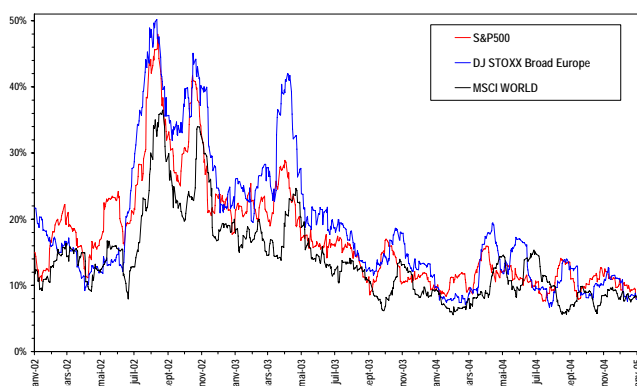
In 2004, the performance of listed shares was strongly and inversely correlated with company size. Small-cap and mid-cap stocks did better than the broad indices, and all of them outperformed large-cap blue chips. For example, the MSCI Small Cap index in dollars posted a rise of 22.6%, compared with 12.8% for the MSCI World index (Table 3). The Dow Jones Titans 50, a narrow index, was up only 5.5%. The same pattern is seen in the French market indices in 2004: the Second Marché, the SBF 250 and the CAC 40 turned in performances of 23.6%, 9.2% and 7.5%, respectively.

The distinction between growth stocks and value stocks also proved significant, with the latter outpacing the former in 2004: 16.1% for the MSCI World Value index, versus 9.5% for the MSCI World Growth index. This performance differential reflects the rise in corporate profits worldwide – up 27.4% in 2004 after 35.6% in 2003 – and risk aversion on the part of investors, who showed a preference for earnings distributed in the form of dividends.

### 3) French market in line with international markets

The performance of the French stock market largely mirrored the patterns observed abroad. The domestic context was much the same as the international context, with renewed IPO and M&A activity and robust dividend growth as CAC 40 companies distributed more than EUR 16 billion. All in all, the market's return to relatively low valuation multiples, combined with the decline in volatility to decade-long lows (Fig. 6), produced a meaningful reduction in the risk borne by equity investors.

**Fig. 6: Market indices: Historical volatility (20-day)**



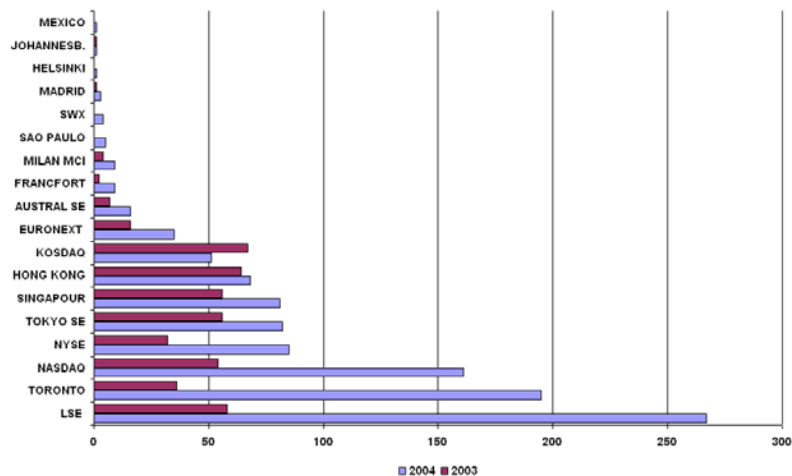
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## Equity market activity

1) Even with a marked increase in IPOs, the number of listed companies declined further in most markets

IPO activity picked up in the majority of financial centres in 2004, particularly in the English-speaking countries (Fig. 7).

**Fig. 7: Number of IPOs on the main stock exchanges in 2003 and 2004**



Source: Fininfo

The IPO market in Paris, which had been sluggish in 2003, rebounded in first-half 2004. Not counting exchange-traded funds (ETFs), there were 18 initial offerings on the regulated markets, compared with three the year before, and EUR 5.4 billion was raised. Two-thirds of that amount was generated by three flotations: PagesJaunes, Autoroutes Paris-Rhin-Rhône and Snecma (Table 5). Unlike on the Premier Marché and Second Marché, there was no perceptible IPO rebound on the Nouveau Marché, which went without a new listing for a second consecutive year. In contrast, the number of new listings on the Marché Libre rose from 14 in 2003 to 19. The slowdown in the ETF segment continued, with four new listings in 2004 compared with 6 in 2003 and 11 in 2002.

**Table 5: Number of IPOs on the regulated markets and new listings on the Marché Libre of Euronext Paris (excluding ETFs and transfers of listings)**

	2001	2002	2003	2004
<b>Premier Marché</b>	11	2	3	12
<b>Second Marché</b>	9	7	0	6
<b>Nouveau Marché</b>	9	2	0	0
<b>Total – Regulated Markets</b>	<b>29</b>	<b>11</b>	<b>3</b>	<b>18</b>
<b>Marché Libre</b>	36	23	14	19
<b>Total</b>	<b>65</b>	<b>34</b>	<b>17</b>	<b>37</b>

Source: Euronext Paris

The rebound in IPO activity slowed the ongoing attrition in the number of listed companies in most financial centres and, in some cases – such as London – actually reversed it (Table 6).<sup>1</sup>

<sup>1</sup> As in 2003, most of the 76 delistings recorded in France in 2004 resulted from public buyout offers and, to a lesser extent, from liquidations.

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**Table 6: Companies listed on regulated markets**  
(year-end data)

	2003 Total	2004			% chg. 2004/2003
		Total	Domestic	Foreign	
<b>NASDAQ</b>	<b>3,294</b>	<b>3,229</b>	2,889	340	<b>-2.0%</b>
<b>NYSE</b>	<b>2,308</b>	<b>2,293</b>	1,834	459	<b>-0.6%</b>
<b>Deutsche Börse</b>	<b>866</b>	<b>819</b>	660	159	<b>-5.4%</b>
<b>Euronext</b>	<b>1,392</b>	<b>1,333</b>	999	334	<b>-4.2%</b>
<b>Borsa Italiana</b>	<b>279</b>	<b>278</b>	269	9	<b>-0.4%</b>
<b>London</b>	<b>2,692</b>	<b>2,837</b>	2,486	351	<b>5.4%</b>
<b>Tokyo</b>	<b>2,206</b>	<b>2,306</b>	2,276	30	<b>4.5%</b>

Source: World Federation of Exchanges

In France, the number of listed companies continued to decline in 2004, but more slowly than in past years. There were 787 companies listed on the regulated markets at year-end 2004, compared with 817 at year-end 2003, a decrease of 3.7% (Table 7).

**Table 7: Companies listed on Euronext Paris**  
(year-end data)

	2001	2002	2003	2004
Premier Marché	425	395	368	353
Second Marché	347	325	312	306
Nouveau Marché	164	153	137	128
<b>Total – Regulated Markets</b>	<b>936</b>	<b>873</b>	<b>817</b>	<b>787</b>
Marché Libre	239	258	254	246
<b>TOTAL</b>	<b>1,175</b>	<b>1,131</b>	<b>1,071</b>	<b>1,033</b>

Source: Euronext Paris/AMF

## 2) Market capitalisation continued to rise

With the number of listed companies levelling off and share price indices on the rise, aggregate capitalisation continued to increase on the main markets (Table 8).

**Table 8: World ranking by market capitalisation of domestic equities (year-end 2004)**

Rank	Exchange	Capitalisation (USD billion)	% chg 2004/2003
1	<b>NYSE</b>	12,707.6	12.2
2	<b>Tokyo</b>	3,557.7	20.5
3	<b>NASDAQ</b>	3,532.9	24.2
4	<b>London Stock Exchange</b>	2,815.9	16.1
5	<b>Euronext</b>	2,441.3	17.6
	<i><b>o/w Euronext Paris</b></i>	1,559.1	15.0
6	<b>Osaka</b>	2,287.1	17.2
7	<b>Deutsche Börse</b>	1,194.5	10.7
8	<b>Toronto Stock Exchange (TSX Group)</b>	1,177.5	29.4
9	<b>Bolsas y Mercados Españoles</b>	940.7	29.5
10	<b>Hong Kong Stock Exchange</b>	861.5	20.6

Source: World Federation of Exchanges

## 3) Equity issuance on Euronext Paris down sharply

In Paris, the aggregate value of equity issuance on regulated markets came to EUR 10.6 billion in 2004, a decrease of 54% from the year before (Table 9). The capital increase by France Télécom in early 2003, via a rights issue to all

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shareholders, alone accounted for 68% of total equity issuance in that year, and the exercise of those rights for new shares explains the steep drop in issuance observed in 2004.

**Table 9: Issuance of equity securities on the regulated markets of Euronext Paris**

(EUR million)	2001	2002	2003	2004		
					% chg. 2004/2003	composition
<b>REGULATED MARKETS</b>	<b>9,035.9</b>	<b>15,032.2</b>	<b>22,840.7</b>	<b>10,591.3</b>	<b>-53.63%</b>	<b>100.00%</b>
For cash, with public offering	2,938.7	3,204.5	4,154.9	3,928.4	-5.45%	37.09%
Issues to staff	2,416.7	3,833.8	1,735.0	736.3	-57.56%	6.95%
Other reserved issues	75.0	4,134.8	49.0	2,850.4	++	26.91%
Scrip dividends	316.0	972.7	339.7*	520.0	53.09%	4.91%
Exercise of equity warrants	1,979.9	1,965.4	15,631.8	1,274.6	-91.85%	12.03%
Exercise of options	1,309.6	921.1	930.4	1,281.6	37.76%	12.10%

Source: Euronext Paris/AMF

\* Corrected figure.

In all, net financing of the economy by the stock market was only barely positive in 2004: share buybacks amounted to some EUR 10 billion on first estimate, against EUR 10.5 billion in gross issuance of new shares.

#### 4) Trading value

Secondary market activity firmed up in most financial centres in 2004, notably in Japan and the United Kingdom and to a lesser degree in continental Europe and the USA (Table 10).

**Table 10: Value of trading\* in 2004 on main stock exchanges**  
(EUR billion)

	2003		2004		% chg 2004/2003	
	Order book	Total	Order book	Total	Order book	Total
<b>NYSE</b>	—	8,503	—	9,317		9.6
<b>NASDAQ</b>	—	6,183	—	7,022		13.6
<b>Tokyo Stock Exchange</b>	1,857	1,857	2,591	2,591	39.5	39.5
<b>London Stock Exchange</b>	1,035	3,176	1,288	4,149	24.5	30.7
<b>Deutsche Börse</b>	833	1,143	903	1,238	8.4	8.3
<b>Euronext</b>	1,366	1,672	1,544	1,986	13.0	18.8
<b>Swiss Exchange**</b>	397	535	443	635	11.5	18.7
<b>Borsa Italiana</b>	679	722	738	778	8.6	7.8
<b>Bolsas y Mercados Españoles</b>	494	821	640	966	29.4	17.8

Source: World Federation of Exchanges.

\* These statistics are not strictly harmonised. The "Order book" data counts transactions recorded on centralised systems (electronic trading platforms and open-outcry markets) and provides a narrower but more relevant basis for comparison. The "Total" data counts transactions on the basis of trades reported to market authorities or on the basis of trades settled.

\*\* SWX and Virt-X.

In Paris, equity trading on the NSC system was up 13.2%, rising from EUR 878 billion in 2003 to EUR 994 billion in 2004, representing average daily trading of EUR 3.8 billion (Table 11). In contrast, trading in listed index funds (ETFs) declined further in 2004, falling by more than 30% to EUR 17 billion. Trading in covered warrants also fell by 10.5% to EUR 3.2 billion.

**Table 11: Value of trading in equities, listed index funds (ETFs) and covered warrants in 2003 and 2004 on Euronext Paris (EUR billion)**

	2003	2004	% chg 2004/2003
<b>Equities</b>	877.8	993.9	+13.2%
<b>ETFs</b>	17.3	12	-30.9%
<b>Covered warrants</b>	3.6	3.2	-10.5%

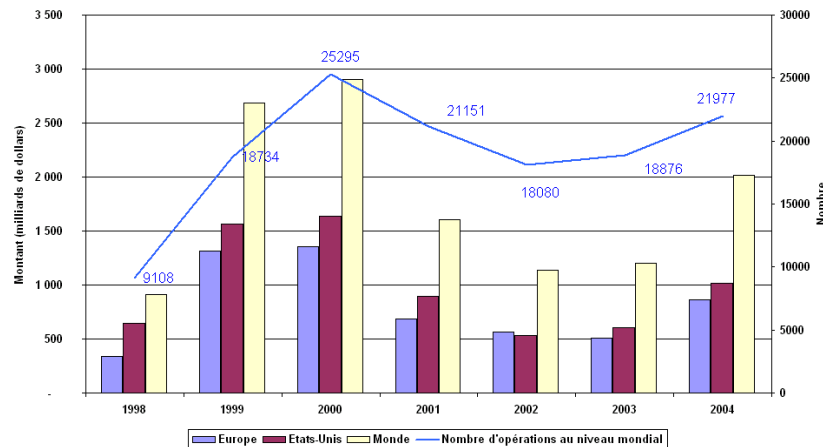
Source: Euronext Paris

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## 5) Recovery in mergers and acquisitions

The M&A market rebounded strongly in 2004 with deals worth roughly USD 2,000 billion in aggregate worldwide, up from barely USD 1,200 billion in 2003 (Fig. 8). This surge in activity, which affected all geographic areas in relatively similar fashion, chiefly reflects a return of very large deals, since the number of deals increased by much less (10%) than the aggregate value. In terms of deal flow and amounts, the M&A market reached its highest point since 2000.

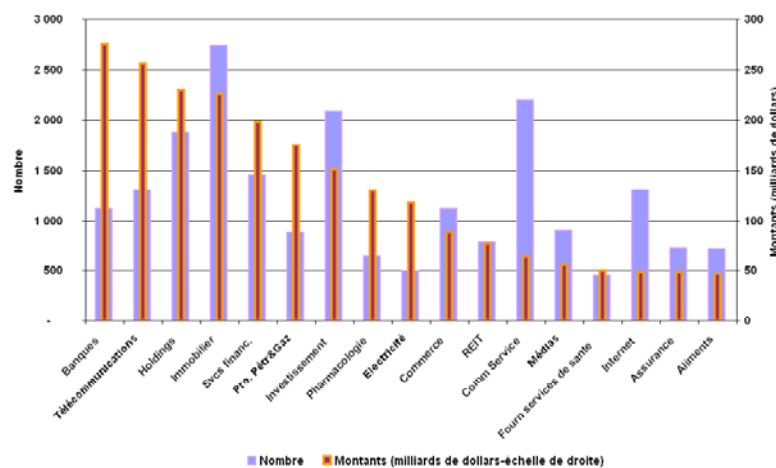
**Fig. 8: Number and value of mergers and acquisitions, 1998–2004**  
(value in USD billion)



Source: Bloomberg

As in 2003, the industries with the greatest M&A activity by value were banking and telecommunications, with more than USD 200 billion for each sector (Fig. 9). In both sectors, the relatively few transactions meant the deals were large.

**Fig 9: Number and value of mergers and acquisitions in 2004, by sector**  
(value in USD billion)



Source: Bloomberg

The largest deal in 2004 was the acquisition of Aventis by Sanofi-Synthelabo, which was valued by Bloomberg at USD 72.7 billion. In second and third places were the acquisitions of Bank One by JPMorgan Chase for USD 55.1 billion and FleetBoston Financial by Bank of America for USD 48.1 billion (Table 12). Taking into consideration transactions announced in 2004 but not completed, the Sanofi-Aventis merger drops to second place behind the Shell-Royal Dutch deal, valued at USD 80 billion.

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**Table 12: The ten largest acquisitions worldwide in 2004**

<b>Date announced</b>	<b>Date completed</b>	<b>Target</b>	<b>Buyer</b>	<b>Value (USD billion)</b>
Jan. 04	Sep. 04	AVENTIS SA	SANOFI - SYNTHELABO	72.7
Jan. 04	Jul. 04	BANK ONE CORP	JPMORGAN CHASE & CO	55.1
Oct. 03	Apr. 04	FLEETBOSTON FINANCIAL CORP	BANK OF AMERICA CORP	48.1
Feb. 04	Oct. 04	AT&T WIRELESS SERVICES	CINGULAR WIRELESS LLC	46.7
Nov. 03	Apr. 04	TRAVELERS PROPERTY CASUALTY	ST PAUL TRAVELERS COS INC	16.2
Oct. 04	Dec. 04	LNM HOLDINGS NV	MITTAL STEEL CO NV	15.8
Jul. 04	Nov. 04	ABBAY NATIONAL PLC	BANCO SANTANDER CENTRAL HISP	15.2
Oct. 03	Dec. 04	WELLPOINT HEALTH NETWORKS	WELLPOINT INC	14.7
Jun. 04	Nov. 04	SOUTHTRUST CORP	WACHOVIA CORP	14.1
Oct. 03	Apr. 04	AMERSHAM PLC	GENERAL ELECTRIC CO	11.6

Source: Bloomberg

The upturn in M&A activity worldwide in 2004 was also noticeable in France. The number of tender offers was up slightly, to 72 from 69 in 2003, but their aggregate value rose by 20% to EUR 12.5 billion.<sup>2</sup> This significant increase reflects primarily a return of large-scale deals, not just Sanofi-Aventis but also France Télécom's bid for Wanadoo and Alcan's for Pechiney.

<sup>2</sup> Offers whose results were published in 2004. The AMF's statistics are based on the traditional methodology, which does not value share exchange offers, whereas the data vendors value all-share offers at the opening price in order to permit cross-country comparisons.

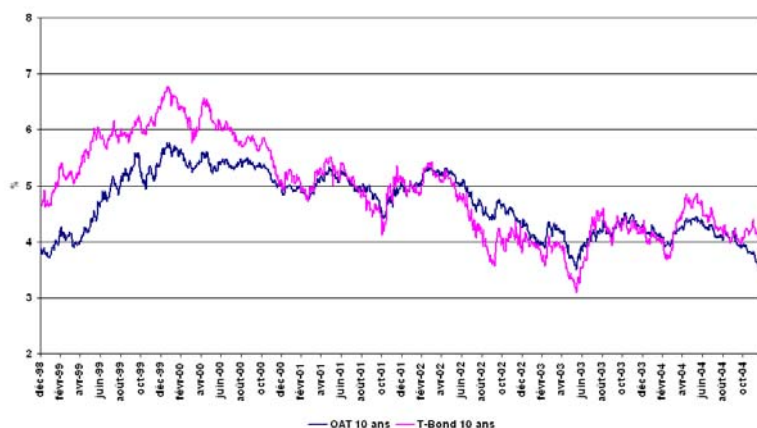
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## II – FIXED-INCOME MARKETS

### A – Government bond yields stay at historically low levels

Amid uncertainty in equity markets, bond markets continued to act as a safe haven in 2004. Yields on government bonds ended the year virtually unchanged, at around 4% for the 10-year T-note (Fig. 10). This stability was fostered by unaltered monetary policies. The US Federal Reserve did raise its policy target rates by 125 basis points over the course of the year, but only gradually. Moreover, those rates remain historically low, especially when set against the growth rate of the US economy in 2004. For its part, the European Central Bank (ECB) left policy on hold throughout the year.

**Fig 10: Continued decline in yields on government bonds**



National sources

### B– Credit markets continue to improve

With bond yields stable and equity markets uncertain, credit markets continued to enjoy extremely favourable conditions. In particular, credit spreads remained on the narrowing trend observed since mid-2002 (Fig. 11).

**Fig 11: BBB Spreads against the 10-year swap**



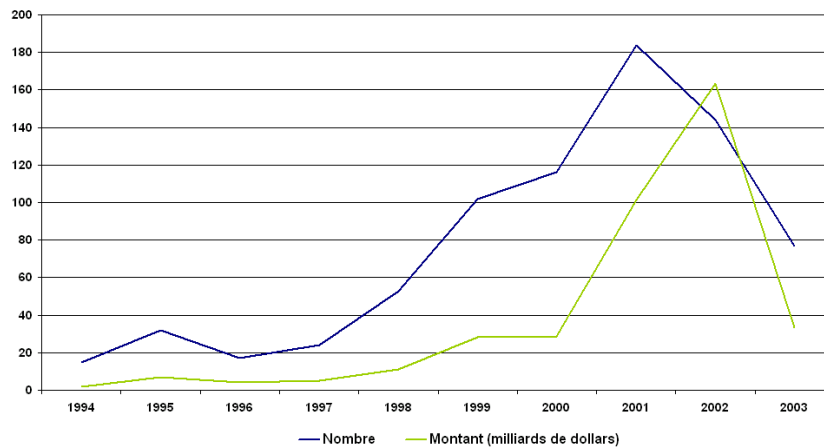
Source: Lehman Brother/CDC-IXIS

This trend is attributable mainly to improved credit quality. According to Moody's, the default rate fell in 2004 for the third straight year, to 0.7% from 1.7% in 2003. The number of defaults worldwide dropped to 34, for USD 16.6 billion, compared with 77, for USD 33.5 billion, the year before (Fig. 12). Most of these defaults occurred in the USA, mainly

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in the telecommunications sector and among issuers with the weakest ratings. Even so, the default rate among issuers classified in the speculative category (below BBB or Baa3) also declined, to 2.2% from over 5% in 2003.

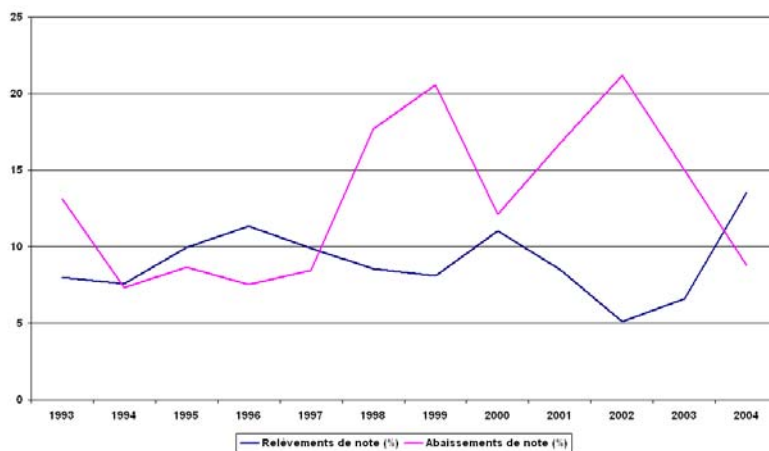
**Fig 12: Number and value of defaults, 1994–2003, worldwide**



Source: Moody's

Moreover, for the first time since 1997, the number of ratings upgrades exceeded the number of downgrades (Fig. 13).

**Fig 13: Ratings upgrades and downgrades, 1993-2004, worldwide**



Source: Moody's

### 1) Marked decline in debt issuance

In France, non-financial companies cut their issuance of debt securities significantly in 2004. The aggregate value of securities issued was down 52% from 2003 to EUR 26.5 billion (Table 13). The decline was most pronounced for complex debt securities with embedded equity derivatives but also affected conventional bonds to a lesser degree. The number of issues of conventional bonds was stable, but the amounts raised were smaller.

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**Table 13: Issuance of debt securities, by type**  
(EUR million)

EUR million	2003		2004		% chg
	Amount	Number of transactions	Amount	Number of transactions	2004/2003
<b>Bonds</b>	<b>18,074.6</b>	<b>45*</b>	<b>9,152.6</b>	<b>45</b>	<b>-49.4%</b>
<b>Bonds and subordinated securities giving access to equity capital</b>	<b>13,921.1</b>	<b>27</b>	<b>2,677.7</b>	<b>18</b>	<b>-80.8%</b>
Bonds convertible into new shares (OCA)	9.1	3	40.1	4	341.5%
Bonds convertible into new or existing shares (OCEANE)	5,062.3	11	1,968.5	6	-61.1%
Bonds redeemable in shares (ORA)	65.6	4	90.0	2	37.2%
Bonds redeemable in shares or cash (ORAN)	1,405.6	1	278.6	1	-80.2%
Bonds with equity subscription warrants (OBSAREM)	103.1	4	140.6	4	36.4%
Subordinated bonds redeemable in shares (OSRA)	901.3	1	160.0	1	-82.2%
Perpetual notes redeemable in shares (TDIRA)	6,072.9	1	0.0	0	-100.0%
<b>Subordinated notes</b>	<b>4,600.8</b>	<b>19</b>	<b>2,664.1</b>	<b>14</b>	<b>-42.1%</b>
<b>Mortgage bonds</b>	<b>16,078.4</b>	<b>24</b>	<b>11,442.2</b>	<b>25</b>	<b>-28.8%</b>
<b>Indexed debt securities</b>	<b>2,856.6</b>	<b>30</b>	<b>571.6</b>	<b>8</b>	<b>-80.0%</b>
o/w principal indexed to inflation rate or interest rate	0.0	0	564.6	6	—
o/w principal indexed to other indices	0.0	0	7.0	2	—
<b>Total</b>	<b>55,531.4</b>	<b>145</b>	<b>26,508.1</b>	<b>110</b>	<b>-52.3%</b>

Source: AMF-Banque de France

\* Figures corrected in 2004.

## 2) Rebound in trading on the central market but no increase on the OTC markets

The aggregate value of transactions in debt securities on the NSC system increased by 16% in 2004, to EUR 7.3 billion (of which EUR 6.2 billion represented corporates and other private issuers) from EUR 6.3 billion the year before.

On over-the-counter markets, in contrast, trading in debt securities of private issuers declined slightly (down 3.2%), to EUR 161 billion in 2004 from EUR 166 billion in 2003.<sup>3</sup>

<sup>3</sup> These statistics are compiled from Euroclear data and are therefore based on flows that may sometimes be netted. The data do not include trades in which securities are deposited with Clearstream.

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### **III – DERIVATIVES MARKETS**

#### **A– Overall trend**

After growing by 17% in 2002 and 2003, the total number of contracts traded on regulated derivatives markets<sup>4</sup> increased by almost 20% in 2004. The market share of the world's five largest derivatives exchanges – the CBOE, CBOT and CME in the USA, Eurex and Euronext Liffe in Europe – decreased slightly to 76.3% (again, measured by number of contracts traded).

Futures and options markets came under heavy competitive pressures in 2004. One sign of this inter-exchange competition was the offensive strategy of Eurex, which in February launched a Eurex US platform in Chicago to offer investors derivatives on US Treasury securities. In Europe, Eurex expanded its trading of options on foreign equities. At this stage, these innovations have not yet had a significant impact on market shares, except perhaps in options on Dutch equities. (Measured by number of contracts traded, Eurex's market share for products of this type has grown from 2.4% in 2003 to 12.2% in 2004.) On the other hand, the German exchange has consolidated its dominant position in European stock index derivatives by stretching its lead in the market for Dow Jones Euro-STOXX 50 derivatives (Table 14).

Derivatives exchanges also pursued further rationalisation of their operations. Examples of such rationalisation in Europe include migration to international trading platforms: in June 2004, the Baltic exchange operator, OM, adopted a common trading system, CLICK XT™, for the Finnish and Swedish exchanges. Meanwhile, Euronext Liffe took another step toward integrating its exchanges by extending the use of its LIFFE CONNECT system to Amsterdam on 29 November 2004.

Lastly, exchanges boosted their economies of scale by further specialisation. Segmentation on the supply side tended to accentuate during 2004 as flagship products took a greater share of overall growth than less widely used contracts.

#### **B – Increased segmentation by product type**

In stock index derivatives, the most active US exchanges in 2004 were the CME and, for options, the CBOE. In Europe, Eurex has now acquired a leading position in this segment, mainly because it has been able to attract the bulk of trading in European index derivatives (Table 14). For this reason, trading volumes in Euronext Liffe's CAC 40 and FT 100 futures contracts were either almost flat (2.6% for the FT 100) or down significantly (–17.9% for the CAC 40) in 2004, whereas volumes in Eurex's Dow Jones Euro-STOXX 50 and DAX contracts grew by 4.8% and 7.5%. Trading volume in the FTSE Eurofirst 80 contract, introduced by Euronext Liffe in 2003, has not yet risen by enough to offset this trend. Similarly, the number of options traded on the CAC 40 has declined sharply, so that in 2004 this contract was for the first time less traded than Eurex's Dow Jones Euro-STOXX 50.

In single-stock options, the market is largely dominated in Europe by Euronext Liffe and in the USA by the CBOE (Table 15). The highest growth rates were posted by Euronext Liffe's options on French stocks (32.3%) and by the CBOE (31.3%). These exchanges thus consolidated their commanding positions as the most-traded contracts on other exchanges, or other domestic segments of Euronext, achieved lesser rates of volume growth. Despite its market share gains in options on Dutch stocks, Eurex, which already lagged behind Euronext Liffe's French option segment, posted lower growth (12.4%) in trading volume.

Both in Europe and in the USA, the market for interest-rate derivatives continues to be divided between two major players, one specialised in long maturities – CBOT in the USA, Eurex in Europe – and the other in short maturities – CME in the US, Euronext Liffe in Europe. In general, volume growth in the USA in 2004 was significantly higher than in Europe (Table 15). With 42.5% annual growth in trading of its euro-dollar futures, the CME confirmed its pre-eminent worldwide role in this market segment. With 14.6% growth in trading of its 3-month Euribor contract, Euronext Liffe did not match the CME's volume increase but still posted a significant gain considering the level of activity on European exchanges generally.

In the long-maturity segment, the gap between the world leader, Eurex, and its US rival, the CBOT, narrowed substantially in 2004. Trading in Eurex's 10-year Bund futures declined by 1.9%, whereas trading in the CBOT's 10-

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<sup>4</sup> Including the following exchanges: Amex, CBOE, CBOT, CME, Eurex, IDEM/MIF, ISE, Liffe, MEFF RF/RV, Nybot, OM, Osaka SE, HKFE, SFE, BM&F, Safex, Tase and SGX-DT. Contracts traded on commodity exchanges are thus included, but figures for the Korean exchange, KOFEX/KSE, are excluded because international comparisons would be heavily biased by the small size of the contracts traded on that exchange.

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year T-note contract grew by 33.6%. Much the same pattern was seen in the second most-traded maturity, the contract on 5-year government bonds. Lastly, although the volumes involved were much smaller, the number of long Gilt contracts traded on Euronext Liffe grew by 38.4% year on year.

Interest-rate options, less widely traded than interest-rate futures, posted mixed results in 2004. In the USA, strong growth from quite low levels was observed in the CBOT's 10-year, 5-year and 3-month options: 77.5%, 38.2% and 191.6% respectively. In Europe, Eurex's 10-year options posted a 12.6% volume increase, but growth was weak in 5-year options and sharply negative in short maturities (–9.5% for Euronext Liffe's 3-month Euribor options).

## C – Euronext Liffe: contrasting trends in 2004

After a decline of 0.3% in the number of contracts traded in 2003, Euronext Liffe posted significant overall growth (13.7%) in 2004. There were wide disparities across market segments, however. Index derivatives declined, while single-stock options grew just enough to make up the ground lost in 2003. Interest-rate derivatives prolonged their growth streak, uninterrupted since 2002, with an annual rise of 13.6%. Note, however, that the number of interest-rate option contracts traded dipped slightly in 2004 after rising 82% in 2003.

**Table 14: Index derivatives – Number of contracts traded, 2004**  
(million)

Index futures	2004	% chg 2004/2003	Index options	2004	% chg 2004/2003
CME-E-mini S&P 500	167.2	+3.7	Eurex-E STOXX 50	71.4	+15.6
Eurex-E STOXX 50	121.7	+4.8	Euronext Liffe CAC 40	63.2	–14.3
CME-E-mini NASDAQ 100	77.2	+13.7	CBOE S&P 500	42.7	+27.5
Eurex DAX	29.2	+7.5	Eurex DAX	42.2	+1.6
Euronext Liffe CAC 40	24.1	–17.9	Euronext Liffe FT 100 (ESX)	17.9	+22.2
Euronext Liffe FT 100	20.8	+2.6	Euronext Liffe AEX	17.1	+31.1
CME S&P 500	16.2	–19.8	Osaka Nikkei 225	16.6	+12.5
Osaka Nikkei 225	14.4	+14.8	CBOE S&P 100	16.3	+16.6
SIMEX Nikkei 225	7.8	+14.4	CBOE DJIA	7.1	–22.9
Euronext Liffe AEX	5.7	–10.2	CME S&P 500	5.8	+17.0
MEFF IBEX 35	4.4	+21.4	CBOE NASDAQ 100	3.3	+120.2
CME NASDAQ 100	4.0	–9.3	MEFF IBEX 35	2.9	–8.1
Euronext Liffe FTSEurofirst 80	0.9	+21.7*	Euronext Liffe BEL 20	0.3	–15.2

Source: exchanges, IEM Finance, AMF \* Percentage change over H2 2003 (product launched in June 2003).

**Table 15: Equity derivatives – Number of contracts traded, 2004**  
(million)

Single-stock options	2004	% chg, 2004/2003
CBOE	258.2	+31.3
Euronext Liffe-Paris	230.9	+32.3
Eurex	211.7	+12.4
Euronext Liffe-Amsterdam	60.2	+0.7
Euronext Liffe-London	11.5	+14.1
IDEM	9.5	+19.9
MEFF	8.2	–35.3
Euronext Liffe-Brussels	0.3	+2.2

Source: exchanges, IEM Finance, AMF

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**Table 16: Principal interest-rate derivatives – Number of contracts traded, 2004**  
(million)

	2004	% chg, 2004/2003
<b>3-month contracts</b>		
CME-3-month Eurodollar futures	297.6	+42.5
Euronext Liffe - 3-month Euribor futures	157.7	+14.6
Euronext Liffe - 3-month Euribor options	52.2	-9.5
TIFFE - 3-month Euroyen futures	7.3	+74.7
<b>5-year contracts</b>		
Eurex - Euro Bobl futures	159.2	+6.0
CBOT - 5-year T-note futures	105.5	+43.0
CBOT-5-year T-note options	17.2	+77.5
Eurex - Euro Bobl options	10.8	+3.0
<b>10-year contracts</b>		
EUREX - Euro Bund futures	239.8	-1.9
CBOT - 10-year T-note futures	196.1	+33.6
CBOT-10-year T-note options	56.9	+38.2
Eurex - Euro Bund options	30.8	+12.6
Euronext Liffe - Long Gilt futures	14.0	+38.4

Source: exchanges, IEM Finance, AMF

**Table 17: Euronext Liffe – Number of contracts traded**

	2002/2001	% chg 2003/2002	2004/2003	Contracts traded in 2004 (millions of lots)
<b>Single-stock derivatives</b>	+31.3	-24.0	+25.7	316.5
<b>Index derivatives</b>	-6.7	+0.3	-5.2	152.3
Futures	+16.3	+9.2	-7.0	52.7
Options	-14.8	-4.0	-4.2	99.6
<b>Interest-rate derivatives</b>	+5.0	+38.0	+13.6	313.3
Futures	-1.5	+25.9	+19.7	237.0
Options	+38.6	+82.3	-2.0	76.3
<b>Commodity derivatives</b>	+20.5	+17.4	+20.5	8.0
<b>Total</b>	+12.6	-0.3	+13.7	790.4

Source: Euronext Liffe