

27 / 09 / 2004



SOCIETE GENERALE INVESTOR DAY

Alternative Investment

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GROUP



Disclaimer

The following presentation contains a number of forecasts and comments relating to our targets and strategies.

These forecasts are based on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be met. Readers are therefore advised not to rely on these figures more than is justified as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers should take into account elements of uncertainty and risk when basing their investment decisions on information provided in this presentation.

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**A complete offer and complementary frameworks at
SG AM and LYXOR**

Alain CLOT



What is “alternative investment”?

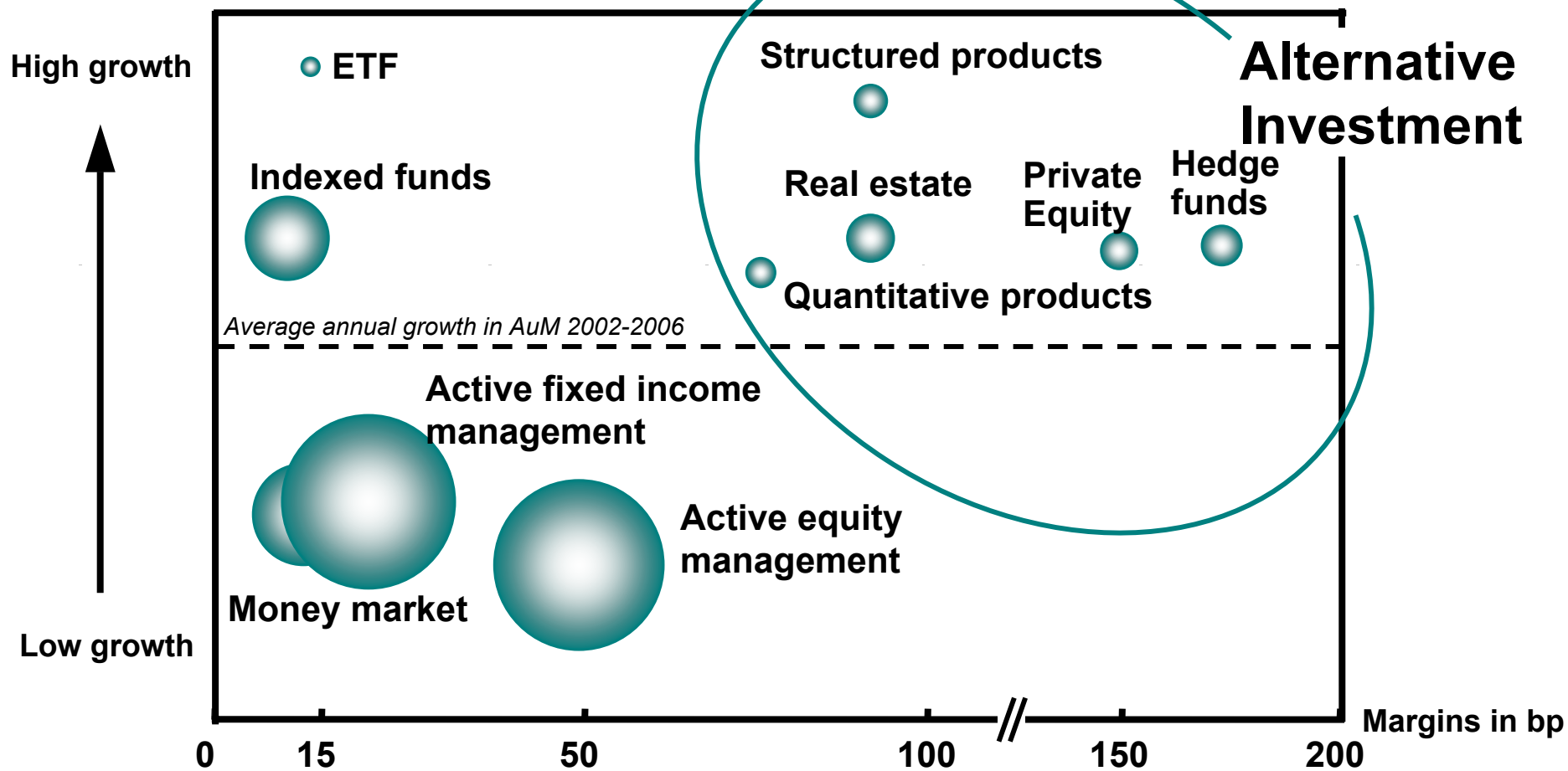
■ A response to client needs

- ▶ Search for absolute performance
- ▶ Search for decorrelation from the stock markets

■ Various categories

- ▶ Hedge Funds
- ▶ Structured Products
- ▶ Private Equity
- ▶ Real-estate

A growing market



Source: Market data, BCG, Morgan Stanley study dated June 2004

Size of market in 2002
(USD 1,000bn) =

A fundamental change, not just a passing trend (1/2)

The facts:

■ The asset class is now attracting all types of investor

- ▶ Institutionals, Pension funds
- ▶ Private banking, Family Offices
- ▶ Large corporates
- ▶ Distribution networks
- ▶ Funds of funds (profiled, hedge, private equity, etc.)

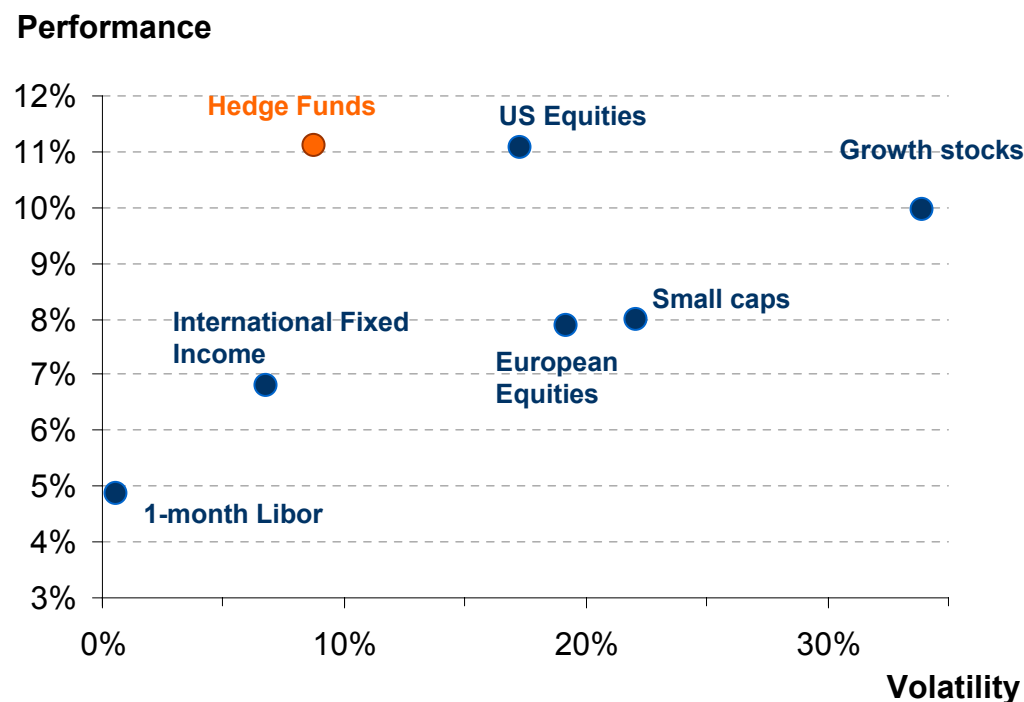
■ Europe is entering the foray

A fundamental change, not just a passing trend (2/2)

Our analysis:

- Clients want not only decorrelation, portfolio diversification, but also capital guarantees and outperformance of a benchmark index
- Hedge funds: best annual performance over the past 10 years, with one of the lowest levels of volatility and reduced risk

Performance and volatility of different asset classes*
(from January 1994 to end-2003)



* Asian Equities are not included in this chart, but posted a performance of -19% with a volatility of almost 22%.

Development of the market: from fragmentation to concentration and increased professionalisation

- **The alternative investment market should continue to expand...**

- **...becoming increasingly professional and concentrated, e.g. Hedge Funds:**
 - ▶ The market is still primarily made up of independent players...
 - The first players in the market
 - Specialised in one or more investment strategies

 - ... but is increasingly being taken over by large establishments...
 - Access to liquidity, to structured products
 - More global approach, scope effect
 - Accent on risk management and transparency

Société Générale Group: a global and innovative player

- **Asset Management is a strategic priority for the Group**
- **Strategy in Alternative Investment:**
 - ▶ Capitalise on the Group's specific strengths
 - One of the few global players in asset management
 - Longstanding and well-developed market culture – World leader in derivatives and structured products
 - ▶ Focus on quality and value-added:
 - Accent on innovation
 - Application of our best standards in asset management and capital markets
 - Risk management
 - Reporting and process
 - An entrepreneurial approach which has always characterised our market activities and asset management

2004: CDO of CDO

2004: Real estate investment trust

2003: Launch of the MSCI Hedge Invest Index

2002: DPI of leveraged hedge funds

2002: DPI of guaranteed hedge funds

2001: Launch of the CAC 40 Tracker fund

2000: Hedge funds (ADF)

1998: Dynamic Portfolio Insurance (DPI)

1998: 1st Lyxor managed account

1997: Tilted money market fund (Primelia)

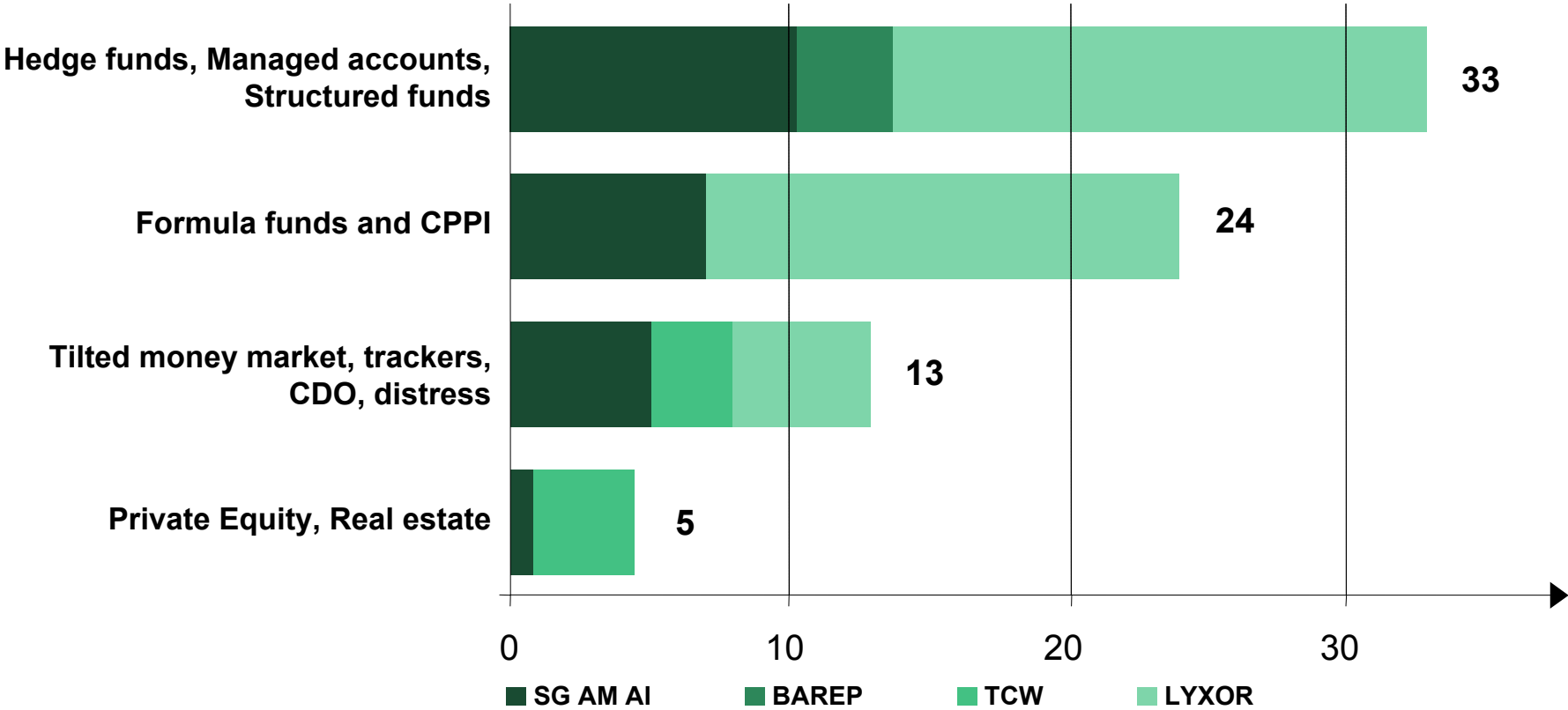
1996: UCITS derivative product

1992: Futures fund... (Barep)

Société Générale Group: a world leader

EUR 75bn of assets under management via 4 specialised platforms:
SG AM AI, BAREP, TCW, LYXOR

AuM at June 30th 2004 (in EUR bn)



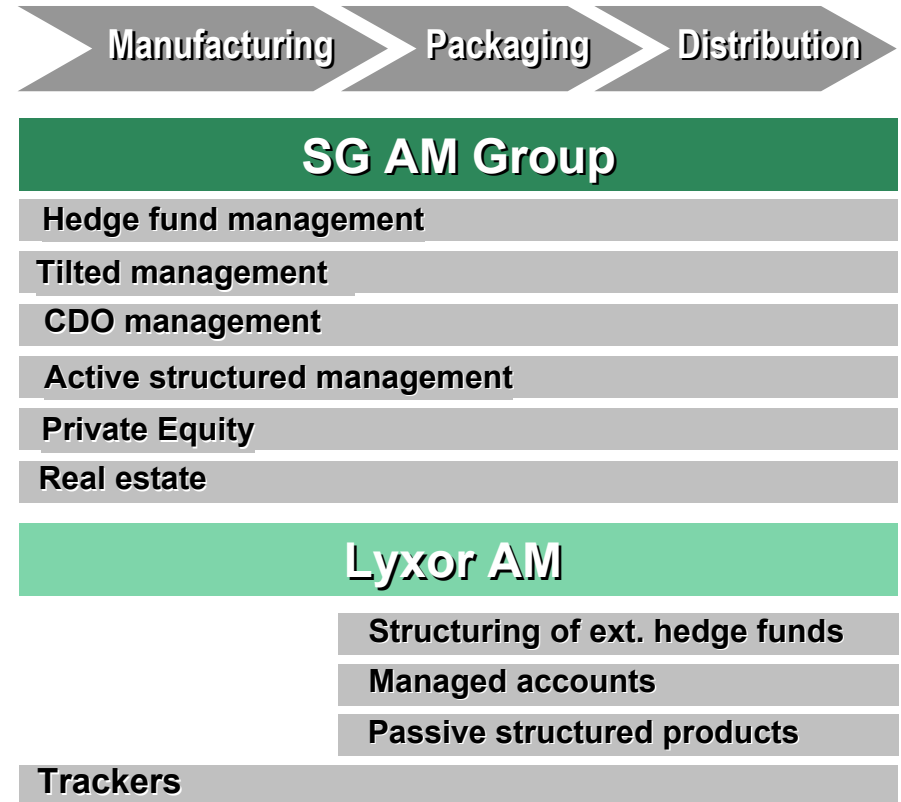
A diversified, coherent and innovative offering

■ Coverage of the entire spectrum...

- ▶ Clear separation of expertise, with a multi-brand approach
- ▶ Active management with the broadest possible offer
- ▶ A logistical platform for structured products funds and passive management
- ▶ A client-focused commercial approach

■ ...through the different business lines

- ▶ SGAM: active management, search for alpha
- ▶ LYXOR: structured investment platform (no investment manager)
- ▶ Coordinated distribution across the Group



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Alternative Investment at SG AM Group

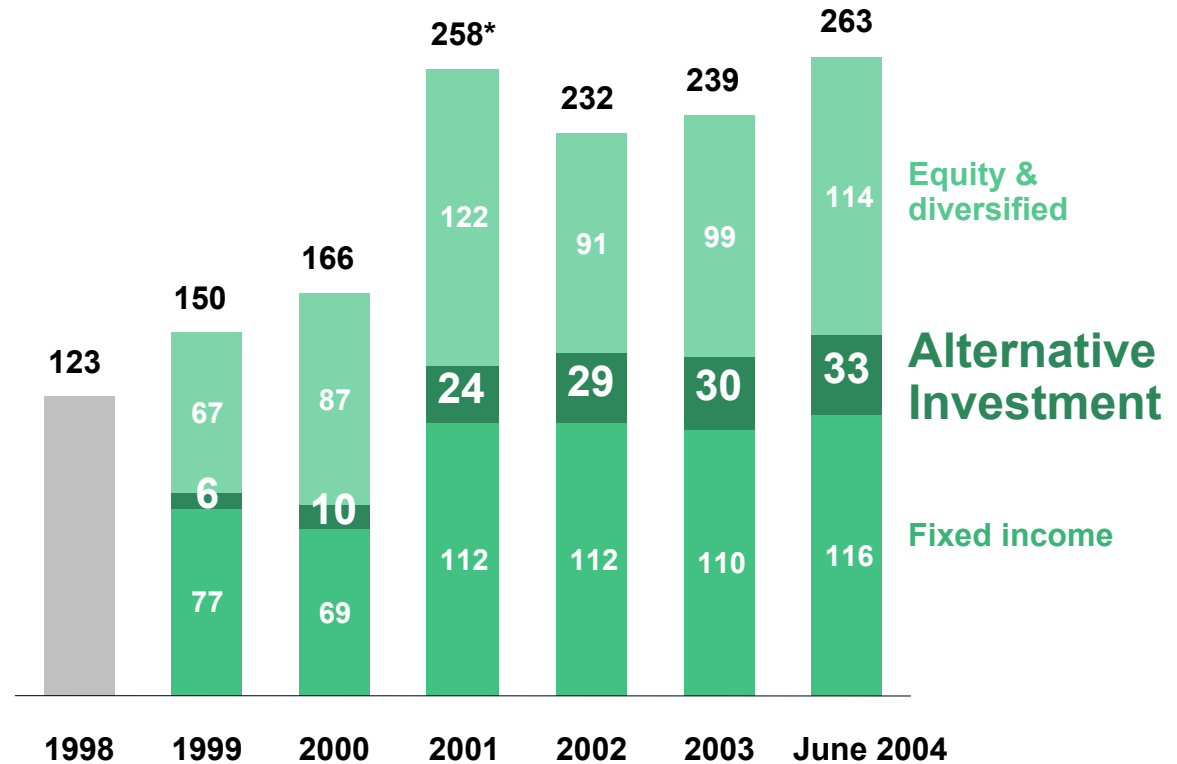
Philippe BROSSE



SG AM's strategy for Alternative Investment

- **Leadership** to attract the best clients and partners
- **Innovation** to anticipate client needs
- **High profitability** to enable further investments

SG AM Group
Assets under Management
 (at end of period, in EUR bn)

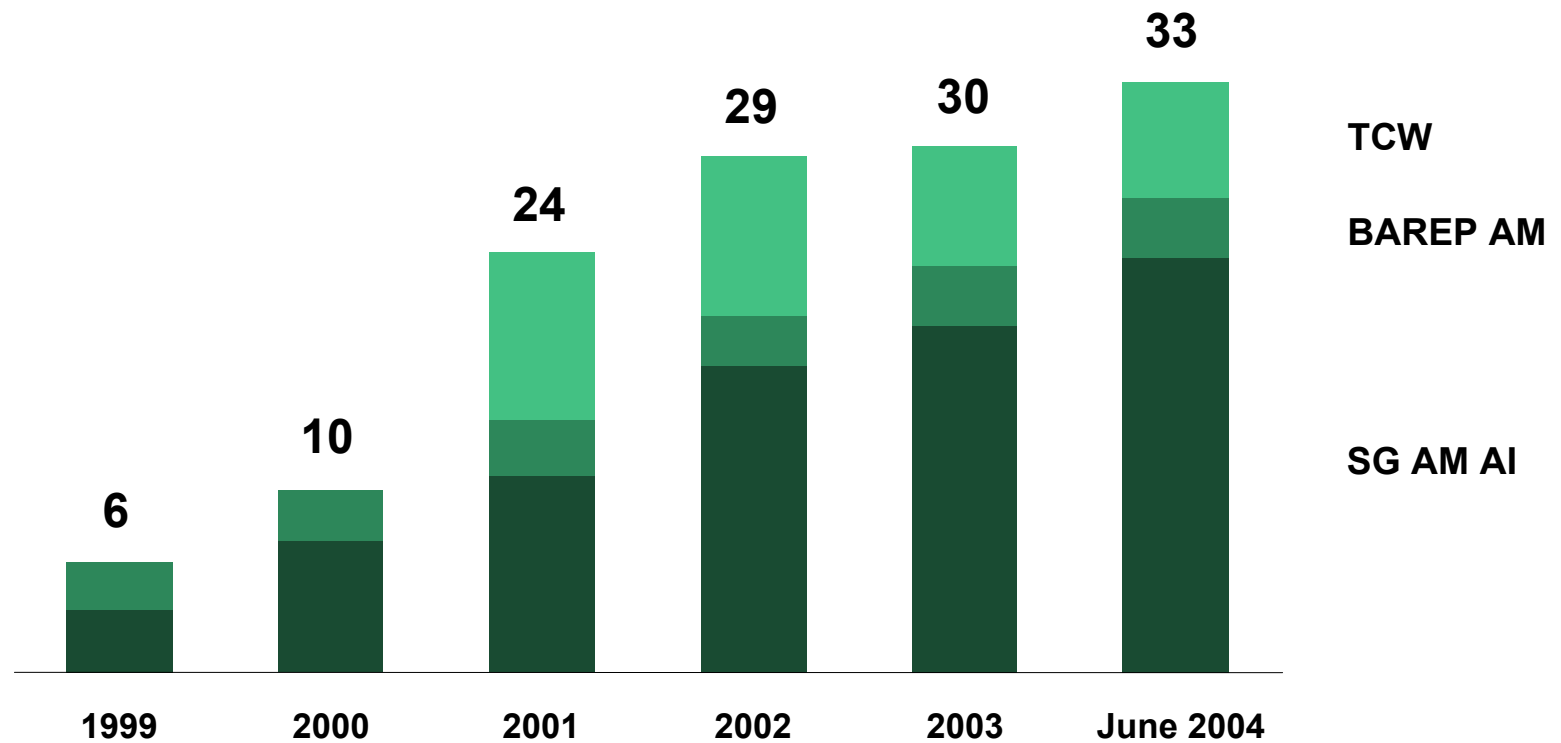


* Acquisition of TCW in 2001 (AuM - EUR 93bn).

* At constant exchange rates

SG AM: 3 management centres offering a broad product range

SG AM Group
AuM in alternative investment
(at end of period, in EUR bn)



Access to significant resources

■ Human resources

- ▶ 277 staff (15% of SG AM Group at end-June 2004) with an average of 10 years experience in the industry
- ▶ Highly specialised teams

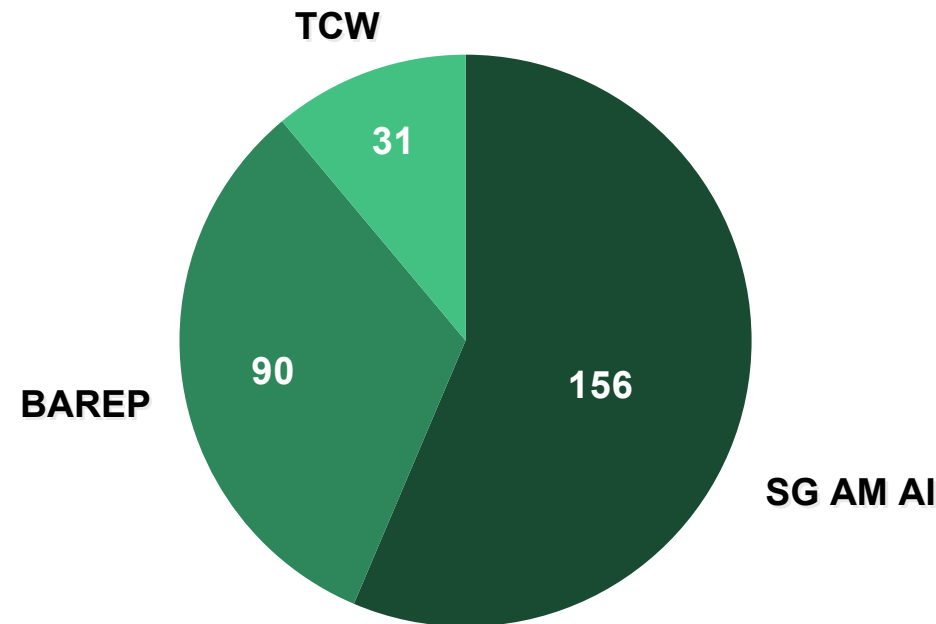
■ IT

- ▶ 50 staff dedicated to internal development of specific tools

■ Risk

- ▶ A dedicated team, independent from operational staff
- ▶ A harmonised approach across the group
- ▶ Low risk consumption
- ▶ Production of alpha with low volatility

SG AM Group staff dedicated to Alternative Investment



Alternative Investment: a complete product offering

Hedge funds:
coverage of the full spectrum

	SG AM AI	BAREP	TCW
Funds of funds	✓	✓	
Long/short Equity	✓		
Equity Hedge	✓		
Market neutral	✓		
Convertible arbitrage	✓		
Fixed income arbitrage	✓		
Relative value	✓		
Short selling	✓		
Market timing	✓		
Event driven		✓	
Global macro		✓	
Commodities		✓	
Emerging markets		✓	✓
Distressed securities			✓

Structured Management:
tailored solutions

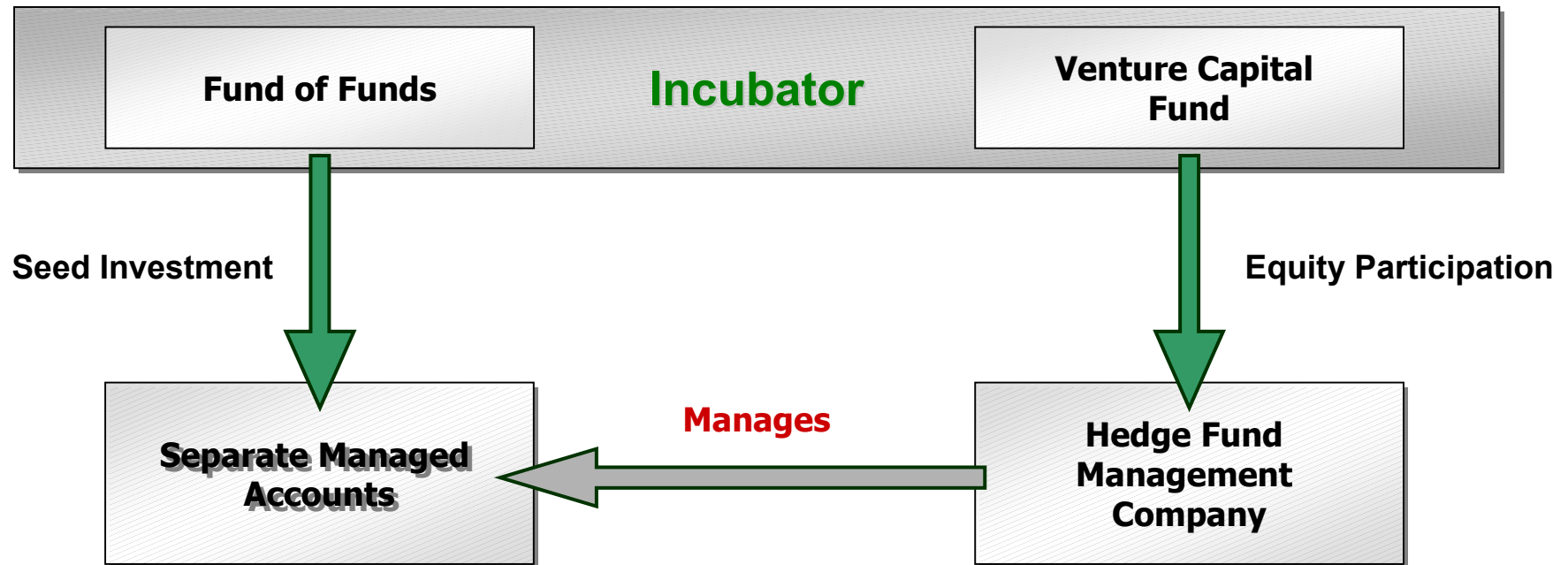
Tilted management	
Money market	✓
Indexed	✓

Structured management	
Leveraged	✓
Capital guaranteed	✓
CDO	✓

Private Equity

Private Equity	
Venture capital	✓
Extension capital	✓
Pan-European LBO	✓
Funds of funds	✓

A recent example of innovation: a hedge fund incubator



A strategy that generates performance

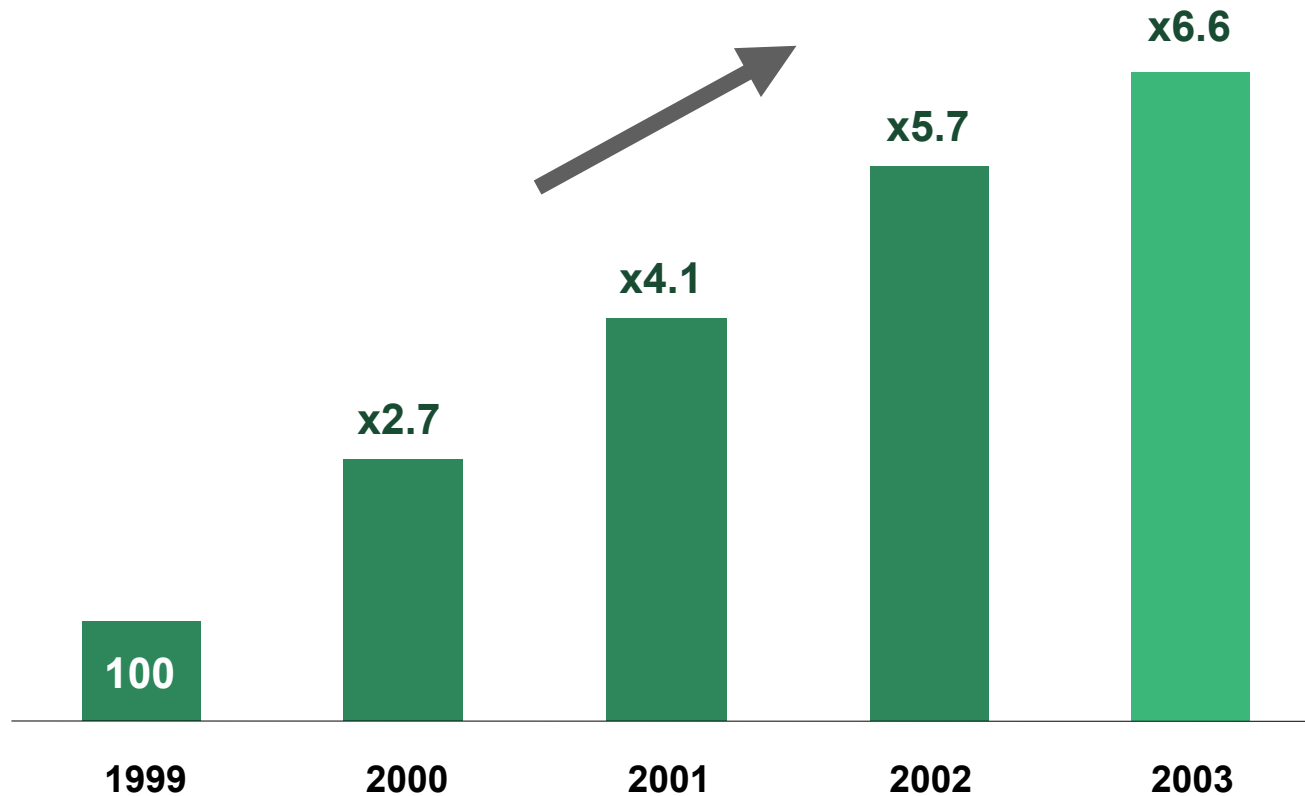
PERFORMANCE OF SGAM AI FUNDS AT END-JUNE 2004

Fund/Benchmark		Since start of year		Since creation		Creation
		Performance	Volatility	Performance	Volatility	
Fund of Hedge Funds	SGAM Premium	3.99%	3.32%	8.16%	2.95%	August 31st 2003
Benchmark	HFRX Global hedged in EUR	0.26%		4.64%		
Equity Fund	SGAM Equisys Euro	4.30%	7.64%	11.71%	7.85%	November 19th 2001
Benchmark	DJ Eurostoxx	1.83%		-19.19%		
Long Short Equity	SGAM Long Short Euro	5.11%	8.3%	5.36%	5.56%	November 29th 2002
Benchmark	EuroHedge European Long/Short Equity EUR	3.76%		10.14%		
Volatility Arbitrage	SGAM Alpha Vol Equity Index USA *	7.90%	2.58%	6.08%	4.55%	December 15th 2003
Benchmark	Fimat Volatility Arbitrage Mediam	-0.79%		-0.9%		
Protection Fund (Overlay)	SGAM Beta Hedge Premium *	11.23%	16.06%	11.23%	16.06%	January 1st 2004
Benchmark	S&P 500	2.60%		2.6%		

* USD share

SG AM AI: rising contribution to SG AM's revenues

Growth in SG AM AI's NBI
(1999=100)



What distinguishes SG AM AI from the competition

- A mix of “asset management” and “capital market” cultures
- A combination of two key skills: portfolio structuring and management of the underlying instruments
- A strong focus on innovation and risk management

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LYXOR AM

Christophe MIANNE



LYXOR AM: a recognised player in its 3 areas of expertise

■ Index tracking products: EUR 5.0bn

- ▶ Replicate the performance of the major stock market indices.
- ▶ Among the top 3 in Europe with a market share of 24.2% (end-August 2004)

■ Structured products: EUR 17.0bn

- ▶ Management of formula funds:
 - LYXOR provides the fund wrapper for certain structured products, mainly with a capital guarantee
 - Product is structured when it is issued, no subsequent active management
- ▶ “White label product”: distributed through retail networks, insurance brokers and private banks across the world

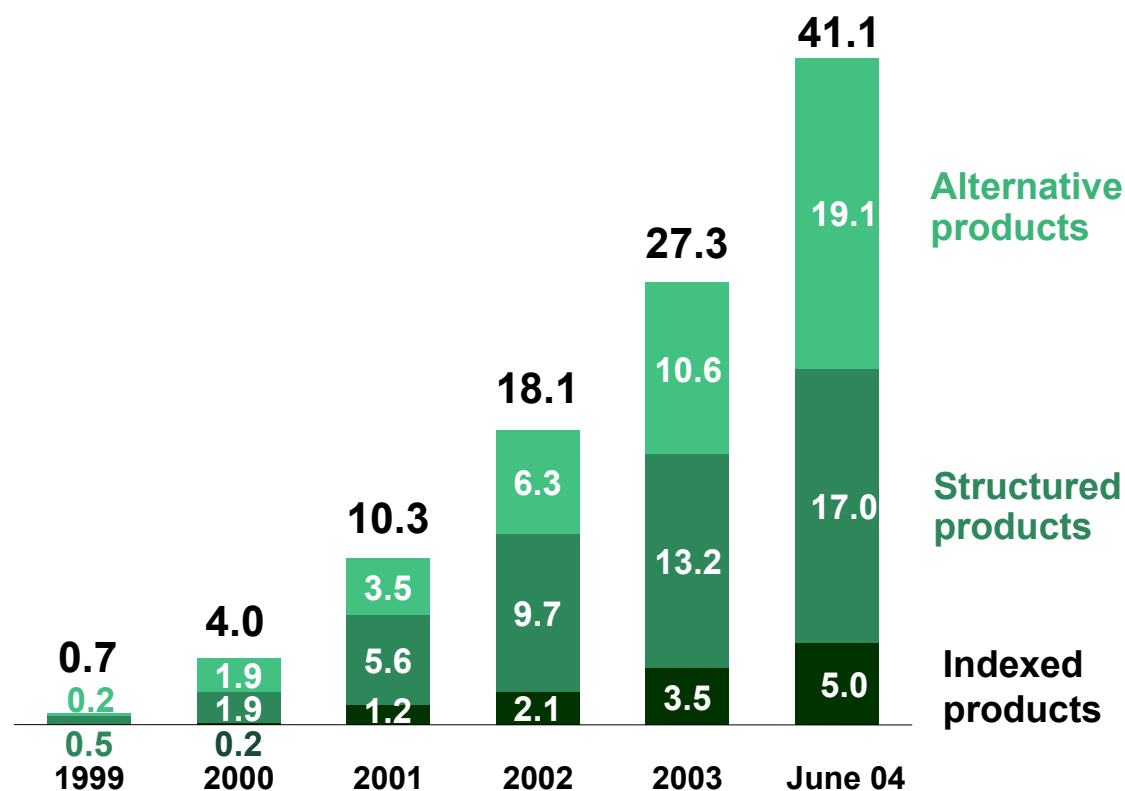
■ Structured Alternative Investment products: EUR 19.1bn

- ▶ Search for performance indexed on a basket of hedge funds external to Société Générale Group
- ▶ Lyxor AM is the world’s 10th largest player in the funds of hedge funds industry (Source Morgan Stanley Research)

LYXOR AM: critical mass achieved rapidly

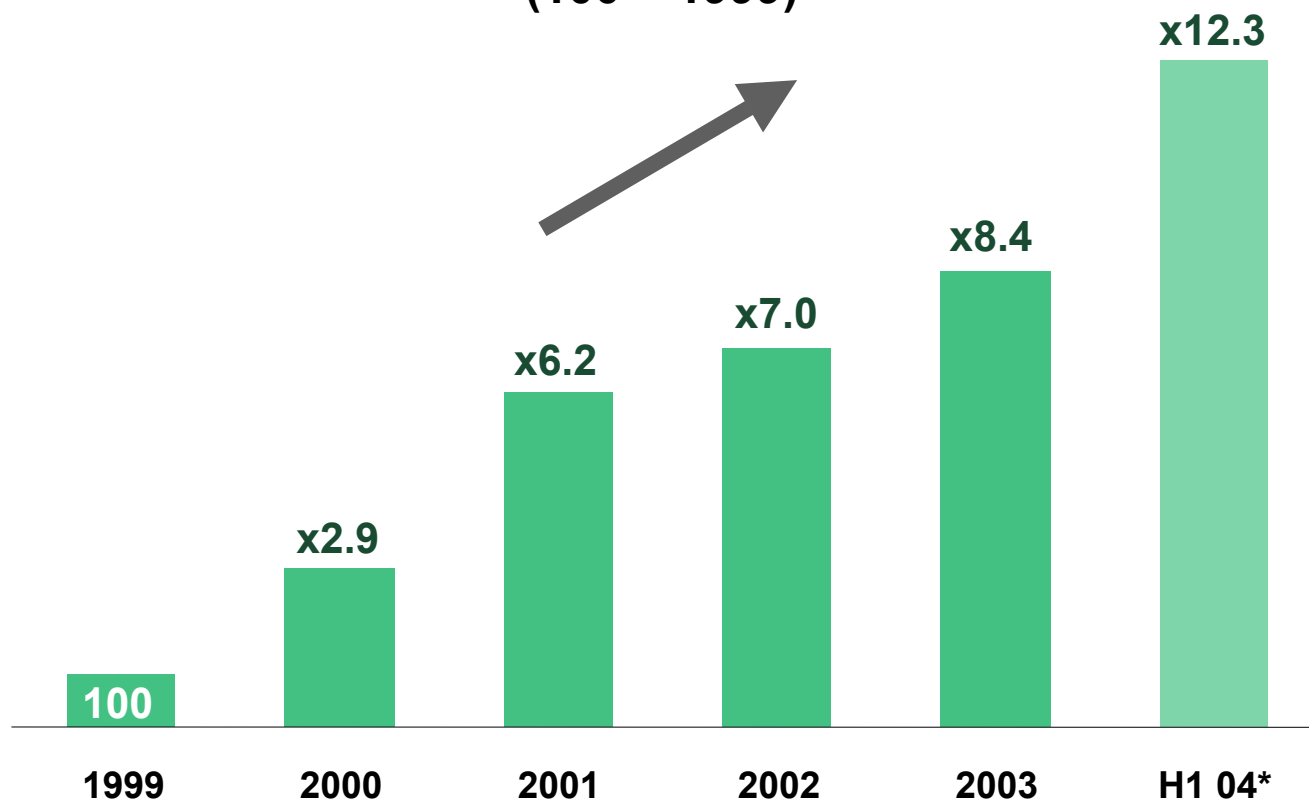
- **AuM multiplied by 10 in the past 4 years:**
EUR 41bn at end-June 2004
- **Over 1,000 funds “managed”,** o.w. 2/3 in alternative investment
- **International presence:**
France (35% of AuM), Other Europe (31%), US (17%), Asia (16%)
- **Headcount: 130 staff**
(doubled in 3 years)
- **LYXOR AM does not bear market risk**

AuM at LYXOR AM (EUR bn)



LYXOR AM: a remarkable success

Growth in Equity Derivatives NBI with
LYXOR AM's contribution
(100 = 1999)



* First half annualised

LYXOR AM – a benchmark platform in Alternative Investment

- **Sept. 04:**
voted “**Best Managed Account Platform**” by Albourne
(7,000 client votes)
- **120 managed accounts and 300 units in external funds**
- **Specific features: structuring of Alternative Investment products carried out by fund managers external to Société Générale Group**
- **One core product, but active policy of diversification**
 - ▶ The star product: **EMTN SG capital guaranteed offering the performance of a fund of hedge funds managed by LYXOR**
The fund of hedge funds is invested in LYXOR AM managed accounts or in external hedge funds
 - ▶ The Tracker fund, MSCI Hedge Invest Index: investable vehicle, indexed to 97 LYXOR funds, support for derivatives or cash products
 - ▶ Leveraged products



Structured alternative investment

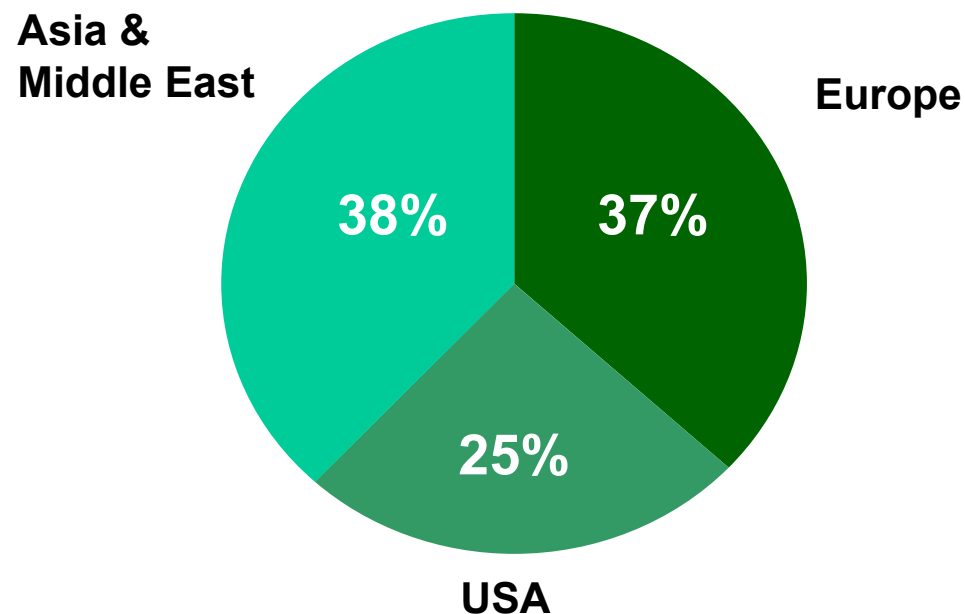
Sound diversification of revenues

- **Balanced geographical distribution of revenues**

- **Diversified client base:**

- ▶ Investment Advisors
- ▶ Retail distribution networks
- ▶ Private Banking networks
- ▶ Institutional clients
- ▶ HNWI

LYXOR's alternative investment revenues



Structured alternative investment

A technical advance: the managed account platform (1/2)

■ LYXOR AM's approach:

- ▶ Eliminate traditional risks associated with alternative investment by replicating the performance of existing, external hedge funds
- ▶ Provide a secure platform, with weekly liquidity

■ The main principles of managed accounts:

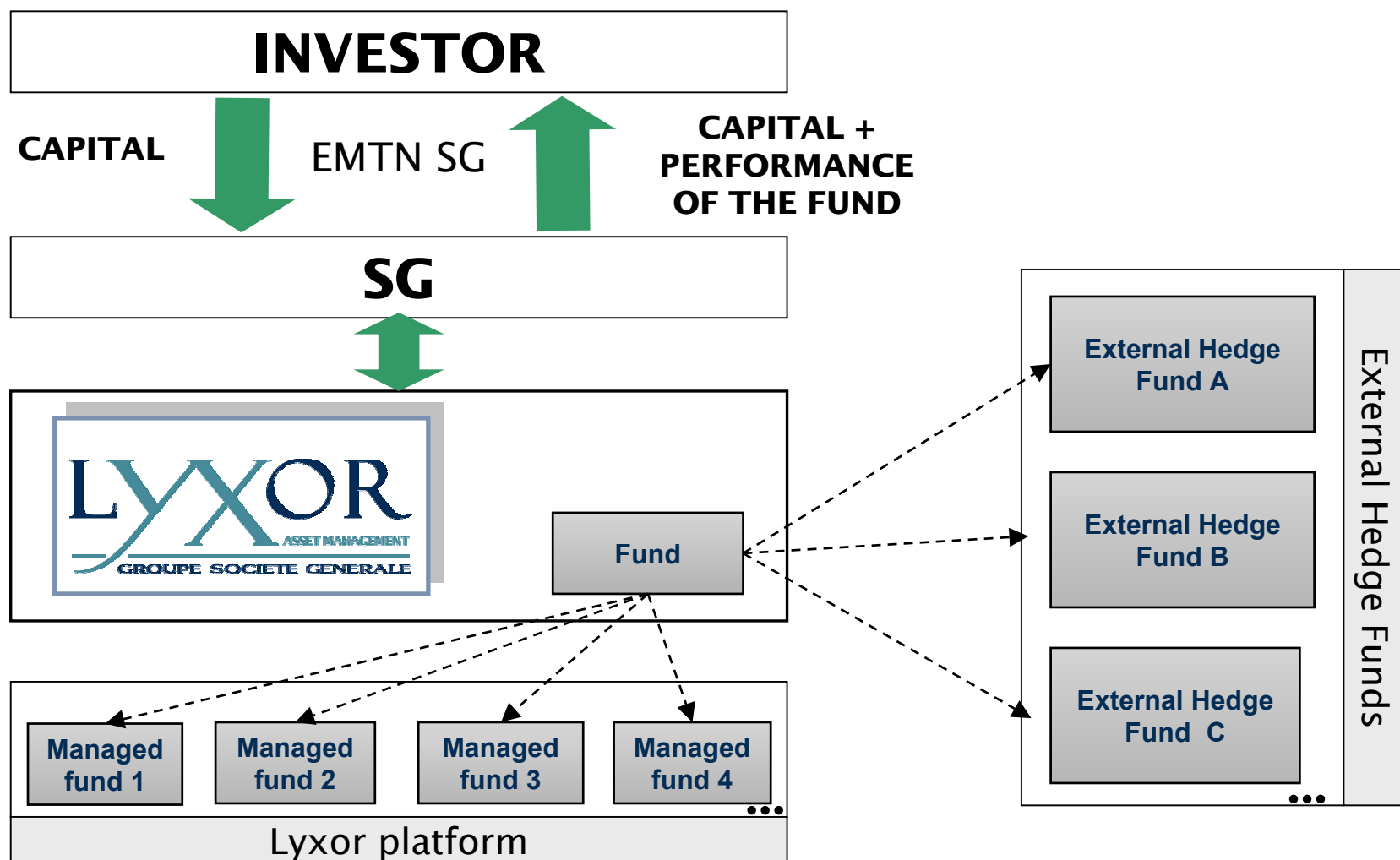
- ▶ For each selected hedge fund, an **autonomous fund is set up, controlled by LYXOR** (assets at LYXOR)
- ▶ A **management mandate** is granted to **the manager of the hedge fund**, specifying the investment universe and the exposure constraints
- ▶ LYXOR has **full knowledge of the positions taken**, and therefore of the risks associated with the managed account

Structured alternative investment

A technical advance: the managed account platform (2/2)

- **Implementation of due diligence process and definition of investment guidelines (under the supervision of the Risk Department)**
- **Control of valuations**
 - ▶ Valuation is independent from the investment manager
 - ▶ Internal LYXOR models are used to value all instruments
- **Risk management**
 - ▶ Transparency of positions
 - ▶ Strict compliance with defined investment guidelines
- **NAVs calculated weekly with the help of an external valuating agent**

Example of a structured product: EMTN SG Capital Guaranteed, delivering the performance of a Lyxor fund of hedge funds



Structured alternative investment

The MSCI® Hedge Invest Index tracker fund

- **An illustration of LYXOR AM's ability to innovate: MSCI® Hedge Invest Index, the new benchmark in alternative investment**
 - ▶ Aims to mirror the performance of a diverse sample of funds that are representative of the full range of alternative investment strategies
 - ▶ The tracker is made up of accounts managed by the LYXOR platform, and is designed and monitored using the MSCI method (in-house method for the construction of alternative investment indices)
 - ▶ An investable index, NAV is calculated on a weekly basis

- **Simple and recognised access to the alternative investment universe**
 - ▶ Available in several vehicles and currencies, easily investable
 - ▶ Gives individual customers access to alternative investment: e.g. Alternova product

- **Launched mid-2003, the tracker exceeded EUR 2bn at end-June, making it the leader among comparable indices in the industry**
 - ▶ Other market indices: CSFB/Tremont Investable Hedge Fund Index, HFRX Global Hedge Fund Index, S&P Hedge Fund Index

Structured alternative investment

Strong growth potential

■ The capacity of the platform is being expanded

- ▶ Increase in the number of managed accounts: from 120 at end-June to a target of 200 by end-2005, all with high, pre-negotiated investment capacity
- ▶ Steady rise in headcount over past 6 years, 150 staff predicted by end-2004

■ The product range has been expanded

- ▶ Guaranteed products + MSCI Hedge Invest Index tracker + Leveraged products + Sale of LYXOR managed accounts

■ Well ahead of our main competitors

- ▶ Sept. 04: two awards from Albourne
 - Best Managed Account Platform: Lyxor Asset Management/Equity Derivatives department
 - Most Reasonable Leverage Provider: Societe Generale/Equity Derivatives department

➤ **LYXOR has the means to remain the benchmark platform**

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Risk Management

David ATLAS



Risk Management : a comprehensive and high-quality framework

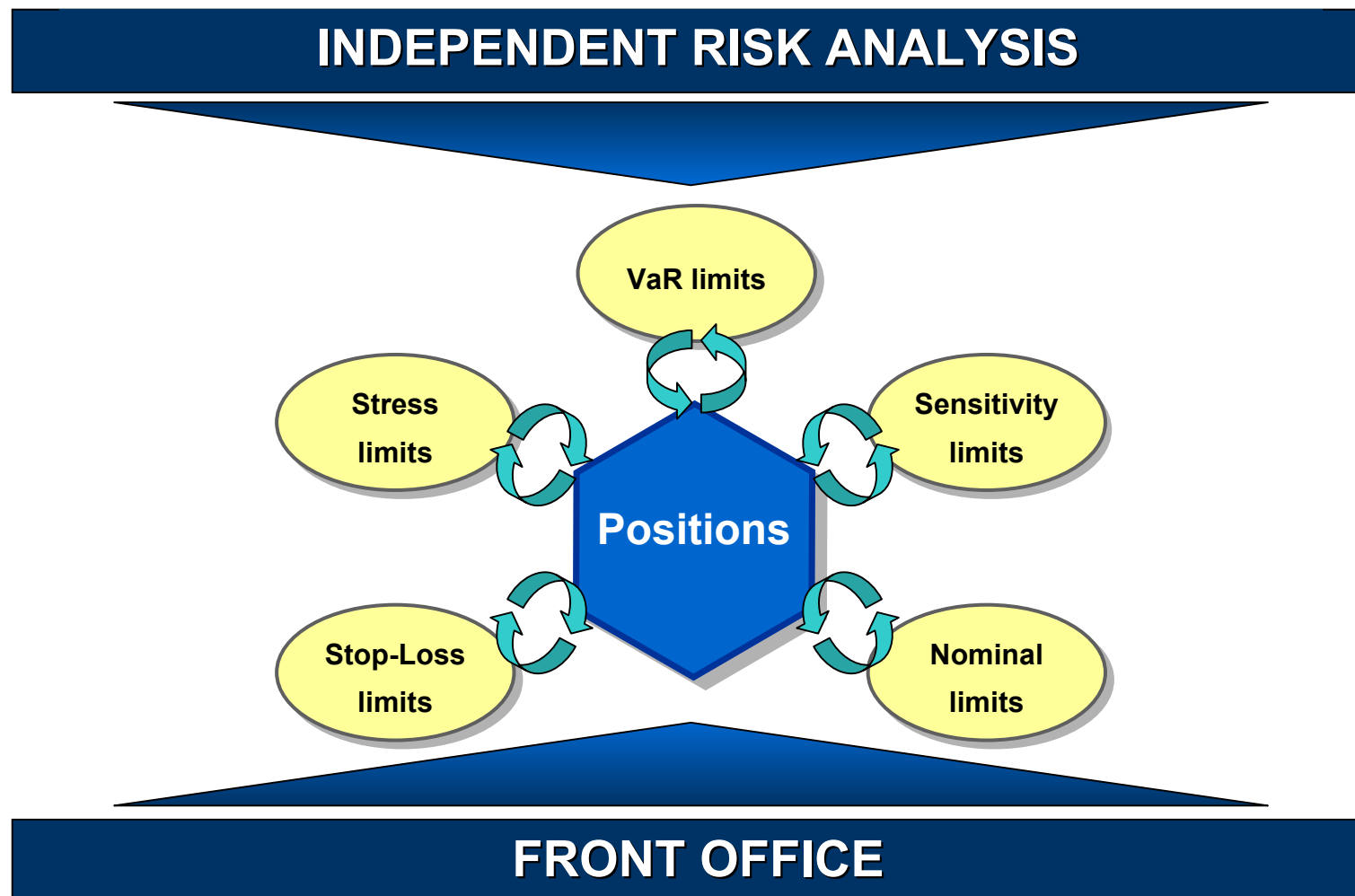
■ An effective and recognised risk function

- ▶ Approximately 80 staff dedicated to the monitoring of market risk
- ▶ A large number of former traders and experienced mathematicians
- ▶ Teams located on the trading floor, in close proximity to the traders

■ An efficient and proven organisation

- ▶ Secure data processing chains with integrated controls
- ▶ Standardised procedures for all the bank's activities
- ▶ Daily monitoring of risks
- ▶ Risk team is completely independent, guaranteeing exhaustive controls
- ▶ Checks and risk measurement methods are constantly being updated

Risk Management : a comprehensive and high-quality framework



Alternative investment: two basic types of risk

■ Operational risks associated with a potential lack of visibility or understanding of the risks taken in underlying funds

- ▶ Specific teams dedicated to due diligence, to improve knowledge of each fund
- ▶ The due diligence process is framed and controlled by central Risk Division (RISQ)

■ Market risks associated with potential changes in the NAV of individual funds

- ▶ NAVs are functions of the value of the underlying instruments traded by each fund
- ▶ Fund NAV is calculated at varying intervals: daily, weekly, monthly...
- ▶ Transparency is often limited to the announced investment strategy
- ▶ Historically, certain funds have defaulted
- ▶ Under extreme market conditions, this segment of asset management can experience a systemic crisis

Market risk: controls adapted to alternative investment

■ Methods for measuring and monitoring risk are adapted to the specific characteristics of alternative investment:

- ▶ Nominal limits on overall exposure and on exposure by strategy, fund, manager, allocation
- ▶ Sensitivity and specific VaR measurements for these activities

Market risk: controls adapted to alternative investment

- **Methods for measuring and monitoring risk are adapted to the specific characteristics of alternative investment:**
 - ▶ Stress tests taking into account differences between external funds, internal funds and managed accounts:
 - Fund liquidity
 - Transparency of underlying assets
 - Possibility of fund default
 - Diversification of each allocation

 - ▶ Expected tail-end distribution loss to measure extreme risks
 - Formula funds and CPPI



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