

PENSION BENEFITS

Current Accounting Practice

French GAAP does not provide detailed guidance on pensions accounting and the Group's pension obligations are therefore measured and recognized in accordance with US GAAP (SFAS 87 – Employers' Accounting For Pensions). The method used is described in note 45 to the 2003 consolidated financial statements. SFAS 87 requires obligations under defined benefit plans to be measured on an actuarial basis and recognized in liabilities. The liability recognized in the balance sheet corresponds to:

- The present value of the projected benefit obligation towards active and retired employees;
- Minus the market value of external funds;
- Plus or minus actuarial gains and losses arising from:
 - Variances between actual and assumed experience arising from changes in demographic variables (staff turnover rates and mortality rates, for example);
 - Changes in the underlying economic assumptions (interest rates, inflation rate, future salary levels, for example);
 - Variances between the actual and assumed yield on external funds.

Unrecognized actuarial gains and losses are recognized over future periods and included in periodic pension cost:

- Over the average remaining service lives of active employees;
- Over the estimated remaining lifetime of retired employees.

The Group does not apply the corridor method, which consists of amortizing over the remaining service live of active employees only the portion of net cumulative actuarial gains and losses that exceeds the greater of 10% of either the projected benefit obligation or the fair value of the plan assets.

After measuring the total projected benefit obligation at each year-end as explained above, the periodic pension cost recorded in the income statement corresponds to:

- Service cost, representing the benefit entitlements earned by employees during the year;
- Interest cost, corresponding to the discounting adjustment to the opening projected benefit obligation;
- Amortization of actuarial gains and losses.

Net periodic pension cost is determined by deducting the return on external funds, measured on the basis of a standard rate of return on long-term investments. The difference between the expected rate of return and the actual return on external funds is included in actuarial gains and losses.

Periodic pension costs are recorded in full as part of the operating margin.

IFRS

The method of measuring pension obligations prescribed by IAS 19 – Employee Benefits is not materially different from the method currently applied by the Group.

The corridor method is applied in the IFRS accounts.

Impact On The Group Accounts

The Group has recognized all cumulative actuarial gains and losses for all defined benefit plans at the opening IFRS balance sheet date, in accordance with the optional exception provided for in IFRS 1 – First Time Adoption of IFRS, and recorded the related adjustment directly in retained earnings.

Consequently, periodic pension cost recognized in the IFRS income statement no longer includes any amortization of these actuarial gains and losses.

The interest cost, corresponding to the discounting adjustment to the opening projected benefit obligation, and the estimated return on external funds, calculated on the basis of the standard rate of return on long-term investments, are included in other interest income and expense.

Actuarial gains and losses arising as from January 1, 2004 are amortized by the corridor method over the estimated remaining service lives of participating employees.