

22.05.08

REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL SHAREHOLDERS MEETING

The Board of Directors of Société Générale has considered the attached report by the Special Committee formed by the Board on January 30, 2008 subsequent to the trading losses discovered several days earlier. The Board approves the conclusions of this report and has decided to implement its recommendations. The Board shares the Committee's view that the time has now come to bring the Committee's assignment, which has been completed, to an end.

Thanks to the actions of Senior Management since the discovery of the fraud, to the considerable mobilization of the Group's teams at all levels, and to the trust of its shareholders and clients, the majority of the negative effects of the fraud on the Bank's business situation have been overcome. Above and beyond the control reinforcement measures currently being deployed, the Board is convinced that SG CIB and the Société Générale Group can and must succeed with the plan undertaken for the transformation of control methods for market activities, without compromising the factors that have assured their success and profitability, and that they will be able to find a new balance between the objectives of profitable growth and risk management.

The 2008 first quarter results have confirmed the strength of the businesses and the relevance of the strategy of the Group and its ability to bounce back in a difficult environment affected by the financial crisis. The Board considers that, with the measures described in the Special Committee's report, the Group will come out of the ordeal undergone as a consequence of the fraud stronger and better prepared to meet the challenges of the future.

23.05.08

**Report of the Special Committee
of the Board of Directors of Société Générale**

1. On January 30, 2008, the Board of Directors decided to form a Special Committee composed of independent directors¹ and to entrust the following assignments to this Committee: to ensure that the causes and sizes of the trading losses discovered in January 2008 have been completely identified, that adequate measures are put in place to prevent the occurrence of further incidents of the same type, that the information disclosed by the Bank faithfully reflects the findings of the inquiries and that management of the situation is conducted in the best interests of the company, its shareholders, clients and employees.
2. The Committee reviewed and approved the scope of the internal audit on the fraud entrusted to the Bank's General Inspection department from January 24, 2008 onwards. The aim of this assignment was to establish the chronology of the fraudulent positions, to identify the responsibilities and malfunctions of controls which allowed the fraud to occur, to seek the motives for the fraud and any potential accomplices, and to confirm the absence of any other fraud using some of the same mechanisms employed in other market activities of the Corporate and Investment Bank (SG CIB).
3. The Special Committee furthermore decided, from January 30, 2008, to be assisted by PricewaterhouseCoopers Audit (hereinafter, PwC). PwC was entrusted with the assignment, based on the work of the Bank's General Inspection department, of drawing up a diagnosis of the weaknesses in the internal control system which made the fraud possible, of analyzing the consistency and relevance of the action plans adopted by the Bank in order to remedy the weaknesses identified, and of making all appropriate recommendations.
4. Other inquiries were carried out alongside these investigations. The Banking Commission conducted an audit. Criminal proceedings were launched on January 28, 2008. The Financial Markets Authority opened an inquiry in February 2008 into the financial information and the market for Société Générale shares since December 31, 2006. On February 4, 2008, the Minister of the Economy, Finance and Employment presented a report on these events to the Prime Minister. The criminal inquiry clearly takes precedence over the other investigations and has in certain respects restricted the freedom of the General Inspection department to conduct its investigations regarding interviews with the Bank's associates necessary for the development of its own conclusions.

¹ Members: Mr. Jean-Martin FOLZ, Chairman; Mr. Jean AZEMA; Mr. Antoine JEANCOURT-GALIGNANI.

5. The Special Committee held 12 meetings, including two held jointly with the Accounting Committee. The head of the Bank's internal audit presented the investigations and conclusions of this assignment and the Committee met several times with the two PwC partners in charge of the project to discuss their work, observations and recommendations. The Committee also met with various Corporate and Investment Bank managers concerning the Bank's action plans. On February 20, 2008, the Committee presented a progress report to the Board of Directors, published the same day, summarizing its assessment of the intermediate conclusions of the General Inspection department's audit assignment and the progress made in the implementation of measures aimed at reinforcing control mechanisms in order to prevent the occurrence of any other fraud of the same type. This report was accompanied by the publication of the intermediate report of the General Inspection department.
6. The Special Committee addresses to the Board of Directors its following assessment of the final conclusions of the internal audit, delivered to the Committee on May 20, as well as of PwC's report delivered on May 21. In accordance with the transparent approach adopted in connection with the progress report of February 20, the Committee is publishing the attached report of the General Inspection department, as well as PwC's analysis of the Bank's action plans and their relevance, accompanied by a summary concerning the diagnosis of weaknesses of the internal control system.

The fraud and the factors which facilitated it or delayed its detection

7. The Bank's General Inspection department report describes the mechanisms and the timetable of the fraud. The fraud consisted of the taking by the trader of unauthorized directional positions on equities or futures traded on regulated markets, which he concealed by a series of fictitious transactions having no other aim. These fictitious transactions for the purchase or sale of equities or warrants with deferred start dates, futures transactions with a pending counterparty, or forwards with an internal Group counterparty, were used according to three categories of concealment techniques:

- entry and subsequent cancellation prior to market transaction control measures, concealing the positions' market risks and latent earnings;
- entry of pairs of fictitious reverse trades concerning equal quantities of the same underlying asset for different off-market prices, hiding earnings generated following the unwinding of positions;
- booking of intra-monthly provisions that temporarily cancel the latent or realized earnings.

When faced with questioning further to controls, the trader gave untruthful replies, occasionally supported by forged e-mails.

The conclusions of this report show that the trader's maneuvers and skill in concealing his positions, risks and earnings allowed him to evade detection of his massive directional positions by his hierarchy and the control services up until January 2008.

8. However, the conclusions of the Bank's General Inspection department, on the one hand, and of PwC, on the other hand, also show that the fraud was facilitated or its

detection delayed by weaknesses in the supervision of the trader and in the controls over market activities.

9. The trader's hierarchy, constituting the first level of control, proved deficient in the supervision of his activities. The direct supervisor lacked trading experience and was not given a sufficient degree of support in his new role; he demonstrated an inappropriate degree of tolerance in relation to the taking of intraday directional positions and neither he, nor his own supervisor, carried out an adequate review of the trader's activities on the basis of the available figures and reports or reacted to the alerts that would have allowed them to identify the concealed positions.
10. The control services (in particular, Back and Middle Offices, the risk control department, the financial and accounts departments, and the compliance department) generally carried out their assignments in accordance with procedures. However, these controls did not allow the fraud to be identified until January 18, not only because of the efficiency and diversity of the fraudulent concealment techniques used by the trader, but also because of certain weaknesses highlighted in the course of this investigation:
 - difference between the growth in the means (including information systems) available to control and support services and the very strong growth in transaction volumes within the equities division;
 - lack of certain controls liable to identify the fraudulent mechanisms, such as the control of the positions' nominal value or of the transactions used by the perpetrator of the fraud in order to conceal his positions;
 - fragmentation of controls between several units, with an insufficiently precise division of tasks, lack of a systematic centralization of reports and of feedback to the appropriate hierarchical level;
 - priority given to the correct execution of trades, which appears to be the primary concern of Back and Middle Offices, in the absence of an adequate degree of sensitivity to fraud risks;
 - insufficient level of responsiveness for the implementation of the corrective actions identified as necessary by internal audit bodies.

Measures aimed at reinforcing the range of controls over market activities in order to prevent the occurrence of any new fraud

11. From the moment of the discovery of the fraud, action plans were drawn up in order to reinforce the range of controls over market-related activities. These plans have been enhanced since January. They take into account the recommendations made in the report presented on February 4, 2008 to the Prime Minister by the Minister of the Economy, Finance and Employment, as well as those made by PwC. The plans include short-term measures aimed at remedying the weaknesses identified, on the one hand, and structural measures aimed at transforming the control environment of market activities, on the other hand.

Short-term measures implemented by SG CIB, aimed at remedying the weaknesses revealed by the investigation

12. In late January 2008, SG CIB launched a series of actions in order to secure the handling and control procedures whose imperfections or malfunctions may have facilitated the fraud or rendered its detection more difficult. As the diagnosis of these weaknesses advanced, additional actions were decided upon and subsequently prioritized.
13. In terms of remedial actions, SG CIB is concentrating its efforts on the following measures, considered as priorities for the reinforcement of the Bank's capacity to avoid and to detect fraud:
 - the implementation of controls and limits on the nominal value of positions and transactions, and the reintroduction of the review of nominal values into the analysis of daily earnings by the operational hierarchy;
 - the reinforcement of processes for the confirmation of transactions with deferred start dates and transactions with internal counterparties;
 - the improvement of procedures for controlling the use of counterparties and of technical transactions liable to be used for the concealment of positions, risks or earnings;
 - the implementation of controls over cancelled or modified trades;
 - the reinforcement of the monitoring and handling of anomalies and alerts.
14. These actions are integrated into a series of cross-departmental remediation projects, led by SG CIB Management, which are aimed at covering not only equity arbitrage activities, but also progressively all market activities worldwide. Additional actions are being added to these priority measures. These are based on the reinforcement of the analysis of atypical behavior or situations (size of brokerage fees, transactions at off-market prices) on the one hand, and on improvements to the operational control environment via the optimization of certain processes, such as the handling of suspense items or the reconciliation of positions with depositaries, on the other hand.
15. In terms of methods, the teams endeavored to implement the first measures rapidly and are today involved, in this second stage, in the industrialization and deployment of these measures throughout the international network and in all business sectors. This deployment is on-going and should be completed by the end of 2008 for key measures and by the end of the first quarter 2009 for all remediation measures.

Structural measures aimed at transforming the environment surrounding controls over market-related activities

16. In addition to targeted short-term operational measures which stem from the analysis of the direct causes of the fraud, SG CIB undertook a more general examination of its organization and processes in order to define its target plan in terms of the management and prevention of operational risk. As a result, a program of reforms has been launched, inspired by industry best practices as well as by principles newly developed by SG CIB teams. It includes four areas for work:

- the redesigning of the organization of transaction handling, inspired by the principle of the product control model¹ with the aim of reinforcing the integration and cross-departmental cooperation of key procedures relating to the processing and accounting treatment of transactions;
 - the creation of an inter-departmental body responsible for trading security whose assignment will consist, notably, of ensuring the quality of all control measures as a whole, both in terms of design and day-to-day functioning. Within this department, one team will be particularly dedicated to the prevention of fraud;
 - significant investments in security for information technology, both in terms of securing applications and technical infrastructure and in the management of accounts and authorizations, reinforced authentication systems and detection of anomalies;
 - a campaign to raise staff consciousness, focused on a more formal definition of the roles and responsibilities of each person, in addition to training programs on the subject of fraud prevention and rogue trading.
17. These projects, which have already been launched, will for the most part be completed during the first half of 2009, although investment in information technology will continue into 2010.
18. These two aspects of SG CIB's response to the lessons learned from the fraud today require the work of nearly 200 persons and represent an investment that will be in excess of EUR 100 million over two years.
19. The PwC report highlights the mobilization of SG CIB and the Group in order to launch the major program of change and reform described above, which aims to establish a balance between the urgent need to improve the robustness of the system of internal controls and the progressive implementation of new organizational or governance structures providing SG CIB with the inter-departmental coordination, responsiveness and adaptability necessary for its activities. The relevance of these projects is reinforced by the inclusion of workstreams dealing with weaknesses which already existed within the organization in the area of information technology security, suspense items, unreconciled transactions and operations carried out manually. In addition to these projects, a project for changing attitudes is underway, with a view to reestablishing a better balance between Front Offices and support and control services, strengthened by the provision of greater resources, improved independence and authority.

Conclusion: the keys to success

20. The Special Committee adopts the assessment of PwC, according to which the program for the reinforcement of the controls over market activities, taken in its

¹ This type of model aims to produce, in an independent manner, financial and accounting earnings generated by market activities and to put in place consistency controls allowing an understanding of the earnings of a given desk in relation to transactions it handles.

entirety, addresses the issues identified in the diagnosis of the weaknesses revealed in the aftermath of this fraud and is of strategic importance for SG CIB and the Group. The Special Committee has noted the achievements of the program identified by PwC as of April 30, 2008, three months after the discovery of the fraud, and the important deadline of June 30, 2008 for the effective implementation of the first additional controls.

21. The Special Committee shares PwC's analysis in relation to the key factors of the success of the program implemented by SG CIB under the direction of the General Management. In particular, the Special Committee considers that its success must be evaluated in terms of the short term improvements in the efficiency of internal controls; the quality of their implementation; and the ability to make the process sustainable by means of structural measures. These aims are ambitious and the future workload is considerable, taking into account the technical difficulties of many of the measures and of the complexity of the organization and activities of SG CIB, as well as the restrictions imposed by the current information technology architecture. The capacity of the information technology department to respond to all of the demands will be a determining factor in the program's success. More generally, the Bank must mobilize high levels of expert human resources in numerous support and control positions. The Bank will therefore have to recruit, train and integrate experienced employees. Further, the complete success of the transformation program launched relies on the capacity of SG CIB and of the central control services to propagate amongst all employees a culture of responsibility, discipline and mutual respect. The Committee adopts all of PwC's recommendations in these areas.
22. The Special Committee considers that, in order for success to be guaranteed, the management of the program must be supervised from the very highest level and that, as recommended by PwC, on the one hand the program's management structure must be provided with extensive powers and means, and that, on the other hand, the transformation plan management structure, already put in place within SG CIB, must be extended to cover all of the relevant central services of the Group and involve General Management. This management must be accompanied by very strict monitoring, ensured up until the completion of the program via formal quarterly reviews in order to validate progress made in relation to all actions and giving rise to periodic progress reports to the Board of Directors. The Special Committee recommends that this monitoring should be carried out by PwC from the third quarter of 2008 until mid-2009, *i.e.* up until the date at which it will be possible to verify the completion of the remediation plan; this role would then be taken over by the Bank's internal audit structures. The Special Committee moreover considers that monitoring should be carried out, on behalf of the Board of Directors, by the Audit Committee.
23. The Special Committee indeed considers that the time has now come to bring its own assignment to an end; this assignment, designed from the start to be temporary, is now completed with the publication of this report and of the conclusions, firstly, of the General Inspection department and, secondly, of PwC. The causes and size of the trading losses discovered in January 2008 have been completely identified, measures have been put in place or are underway in order to avoid the occurrence of any new

incidents of the same type, and the findings of the investigations have been made public. Finally, throughout this whole period, the Committee has ensured that the information disclosed by the Bank accurately reflected the findings of the investigations, and that the business was properly managed in the best interests of the company, its shareholders, clients and employees.