THE GOVERNMENT AS SHAREHOLDER
THE GOVERNMENT
AS SHAREHOLDER

2014 ANNUAL REPORT
Boasting a substantial stock portfolio, France must make the most of its wealth while simultaneously implementing an economic, financial, industrial and social strategy that will help our economy to grow and bolster our strategic position.

The Government therefore set out to clarify its shareholding strategy and provide a clear set of objectives. The guidelines adopted by the cabinet on 15 January now provide a framework for the Government’s share capital strategy which is executed by the Government Shareholding Agency (APE) founded ten years ago.

Recent Government operations form an integral part of this strategy, including the far-reaching changes to the Airbus Group’s shareholder structure, and the disposal of stakes in Safran, Aéroports de Paris and GDF Suez. These disposals generated revenue of €4.8bn that has been reinvested in other areas and put towards reducing Government debt.

The Government has also provided support to PSA Peugeot Citroën in talks held by the Group to forge a manufacturing and sales partnership with Dongfeng, the Chinese car manufacturer. To this end, the Government acquired a stake in PSA in April 2014, reflecting its commitment to this project that will underpin the French Group’s long-term future and growth. At the end of June 2014, the Government reached an agreement with Bouygues allowing the Government to acquire 20% of Alstom’s voting rights and up to 20% of Alstom’s share capital owned by Bouygues. In addition to the Government’s direct role in these groups, Bpifrance, which was founded in July 2013 following a commitment made by President Hollande, oversees public sector financing and equity investment activities, particularly for French SMEs and medium-to-large-sized enterprises.

Disposals of Government shareholdings have also helped to reduce public debt. We must continue lowering our debt levels for the sake of future generations and to guarantee our creditworthiness in the eyes of investors.

Lastly, the ongoing modernisation and streamlining of the APE’s legal framework will enable the Agency to focus on holding strategic talks with businesses and to enjoy greater influence at boardroom level. The governance of companies in the APE portfolio will be brought into line with ordinary company law but will take into account some specific Government rules, particularly regarding the presence of employee representatives on governance committees.

To strengthen its role as shareholder, the Government will set up a strategy committee that will be tasked with adapting the Agency’s policy direction over time, and a Nominations Committee that will be responsible for helping to select managers and directors for appointment.

We would therefore like to take this opportunity to wish a happy anniversary to the new, improved APE.
In September 2014, the Government Shareholding Agency celebrated its tenth anniversary. The ten years since its creation have been spent managing the Government’s shareholdings, overseeing the governance of publicly-owned companies and getting the most out of every euro invested.

In this anniversary year, the value of the Government’s portfolio grew by 36.5%, equivalent to a net present value of €110bn; €4.4bn in dividends was also fed into the general budget, covering, for example, almost 40% of the lines of credit opened in the 2014 budget for “Labour and Employment”, equivalent to 5.4% of the Government payroll.

I would like to take this opportunity to pay tribute to my predecessors Denis Samuel-Lajeunesse, Bruno Bézard and Jean-Dominique Comolli, and to all the men and women who helped them to build this Agency and make it what it is today.

By constantly striving to improve and offer a more efficient and professional Government shareholding service, last year the Agency moved up a level thanks to the publication of the APE’s mission statement, the preparation of an order for Agency streamlining, and an overhaul of the Agency’s organisation and internal procedures.

After having been put forward as recommendations in a report to ministers in May 2013, these changes were announced after the cabinet meetings held on 2 August 2013 and 15 January 2014.

Adopting a mission statement has provided a framework for the APE to perform its tasks while its mission has become clearer: over and above supervising with due diligence the investment portfolio inherited from previous governments, the Agency must act as a strategic equity investor, selling off stakes where necessary and reinvesting some or all of the proceeds in other companies, without losing sight of the overriding goal of reducing Government debt. The creation of a strategy committee (Comité stratégique de l’État actionnaire) will, over time, make it possible to revise and adapt this mission statement, outline its precise details and monitor compliance with its targets.

Streamlining regulations will at once strengthen the Government’s position as a shareholder and as a director by moving away from the unsatisfactory functioning of the previous supervisory arrangements which were falsely protective. The Government will be able to play a more decisive and influential role and enjoy as much importance and authority as any other reference shareholder. These streamlining measures will also enable APE teams to use their time more efficiently for analysis and strategic purposes rather than to carry out checks after the fact that are already provided for under corporate governance rules.

Splitting the APE into four different divisions as of July, each responsible for managing a more coherent portfolio (energy, industry, services including financial services, and transport), as well as removing one layer of management, will make it easier to allocate resources and speed up decision making. The new management framework will also be much more suited to requirements.

As these far-reaching changes were implemented, with the full involvement of APE and other government entities, everyday work continued. For example, Bpifrance was established, disposals were made (Safran, Airbus Group and GDF Suez), and the Government acquired a stake in PSA Peugeot Citroën. More recently, the Government struck a deal with Bouygues to acquire up to 20% of the Alstom share capital owned by Bouygues. Lastly, the APE organised the second “State Holding dialogue” in Paris in April. This event was attended by the leaders of over 15 international Government shareholding agencies and provided an insight into some very original and fascinating approaches to common themes, including governance, strategic dialogue with businesses, etc.

These efforts have been made possible by the extreme diligence and faultless commitment of the APE team members. I would like to take this opportunity to thank them for all of their efforts.

David Azéma
Commissioner for Government Shareholdings
Key Figures

- **2 acquisitions** since September 2013 totalling €800m (PSA Peugeot Citroën and Aéroport de Marseille-Provence); the Government also increased its direct shareholding in Areva (€357m).

- **74 companies** make up the APE portfolio, 60 of which are included in the 2013 combined financial statements.

- **4 disposals** since September 2013 totalling €2.9bn (Safran, SNPE, Airbus Group and GDF Suez).

- **€145bn turnover** (combined financial statements).

- **€4.4bn dividends received** in 2013, including dividends received as shares.

- **€107bn shareholders’ equity** (excluding minority interests).

- **+ €110bn shareholdings managed** by the APE on 30 April 2014, including €85bn for listed companies alone (excluding PSA Peugeot Citroën), i.e. an increase of 23.5% since September 2013.
The Government appointed **761 directors** (excluding employee representatives and local representatives) that currently have a seat on the board of directors and/or the supervisory board of the companies included in the APE combination scope, 332 of whom are Government representatives.

**27.8% of Government representatives** were female on 1 June 2014.

**52 staff members** work for the APE (including 26 executives and portfolio managers).

Operating costs are equivalent to **0.01% of the portfolio** under management (over €110bn) and concern mainly the payroll (€5.13m) and the recruitment of advisers (€5m).

Companies in the APE combined scope boasted a total headcount of **1,666,058 in 2013 (annual average)**.

Since June 2013, the APE has attended **287 board of directors or supervisory board meetings**, as well as **274 specialised committee meetings**.

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**Key figures from the combined financial statements**

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<th>As at 31 December 2012 (restated)</th>
<th>As at 31 December 2013</th>
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<td>EBITDA of €34.7bn</td>
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<td>Operating income of €13.7bn</td>
<td>Operating income of €17.2bn</td>
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<td>Net financial income of €6.1bn</td>
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<td>Net combined profit of €5.9bn</td>
<td>Net combined profit of €6.5bn</td>
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<td>Cash flow from operating activities of €23.4bn</td>
<td>Cash flow from operating activities of €26.4bn</td>
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<td>Net debt of €117.9m</td>
<td>Net debt of €115.2m</td>
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16 July
Responsibility Pact between the Government and local authorities to deal with structured loans
The Government announced its goal of finding a long-lasting and comprehensive solution to the problem of structured loans taken out by numerous local and regional authorities with banks, mainly Dexia and the Société de financement local (SFIL) in which the Government owns stakes of 44% and 75% respectively. This solution is based, among other things, on a bill to secure structured loan agreements to control the fiscal risks resulting from two recent rulings by the Nanterre Court of First Instance (TGI) on 8 February 2013 and 7 March 2014. This bill became law in the summer of 2014.

12 July 2013
Establishment of Bpifrance (Banque publique d’investissement)
Creation of Bpifrance which is owned on a 50-50 basis by the Government and Caisse des dépôts et consignations (CDC) following the merger of Fonds stratégique d’investissement, CDC Entreprises and Oséo, the former Government-owned finance organisations.

2 August
Communication to the cabinet regarding the Government shareholding management approach
Pierre Moscovici, Minister for the Economy and Finance, and Arnaud Montebourg, Minister for Industrial Renewal, announced a new modernisation phase for the Government shareholding management approach as a strategic tool for implementing Government policies.
September

Presentation to the cabinet of measures planned to streamline regulations for companies and offer them more legal certainty for the future

The draft enabling bill relating to streamlining regulations and offering companies more legal certainty for the future, presented by Pierre Moscovici, Minister for the Economy and Finance, will comprise a section regarding the implementation of the policy decisions made by the Government in the summer of 2013 to ensure more effective management of Government shareholdings.

November

Government disposes of a 4.7% stake in Safran

Following on from an initial disposal in March 2013, a second block of Safran shares were disposed of for €903m through the exercise of an extension clause due to strong demand from institutional investors. The Government is still the reference shareholder with a stake of 22.4%.

December

Government sells SNPE to Giat Nexter

The Government sold 100% of SNPE’s share capital to Giat Industries, Nexter Systems’ parent company. This transaction will bring together within the same group and in compliance with their respective strategies, customers and markets, their activities in the ammunition field, while streamlining the management of their land and real estate affairs. It will also help to develop Eurenco, the SNPE subsidiary specialising in combustibles, propellants and explosives.

September

Government acquires 7.35% of Areva’s share capital from the French Alternative Energies and Atomic Energy Commission (CEA)

The Government acquired 7.35% of Areva’s share capital from the CEA for €357m. This acquisition took place as part of the agreement signed between the CEA and the Government on 19 October 2010. This reclassification of assets in the public domain is intended to guarantee the funding of part of the dismantling of the CEA’s nuclear power installations in addition to the grants allocated for this purpose. This acquisition had no impact on the Government’s total shareholding in Areva. Upon its completion, the CEA owned a 61.5% stake in Areva and the Government held 21.7%.
HIGHLIGHTS

29 December

Government buys back EPFR’s €4.5bn debt with Crédit Lyonnais

Pursuant to the 2013 Supplementary Budget Act, the Government bought back EPFR’s €4.5bn debt with Crédit Lyonnais. EPFR was founded by the Government to supervise the Consortium de réalisation (CDR), the bad bank set up as a subsidiary of Crédit Lyonnais to manage its assets. EPFR took out a 130 billion loan in French francs with Crédit Lyonnais that it was expected to pay back using the proceeds of the disposals carried out by the CDR. As the latter were insufficient, i.e. the sums earned were not enough to cover the loan repayments, the Government, as an EPFR shareholder, had to make up the difference.

16 January

Government disposes of 1% stake in Airbus Group

A block of Airbus share capital (€451m) was sold on extremely favourable terms, i.e. at a discount of 0.69% on the latest listed share price. This disposal took place to reduce the Government’s stake in Airbus Group via Sogepa to 11% following modifications to the EADS governance and shareholding structure agreement signed by France, Germany and Spain on 5 December 2012.

15 January 2014

Presentation to the cabinet regarding the Government’s shareholding strategy

Pierre Moscovici, Minister for the Economy and Finance, and Arnaud Montebourg, Minister for Industrial Renewal, outlined the Government’s shareholding strategy to the cabinet, including the four key objectives of the Government acting as a strategic equity investor, the respective positioning of APE and Bpifrance, and announced the forthcoming creation of a Strategy Committee and a Nominations Committee within APE.

28 & 29 April

Second State Holding dialogue held in Paris

The APE organised an international State Holding dialogue attended by managers from over 15 European and non-European Government shareholding agencies. The dialogue was held over two days, and discussions focused on national experiences, best governance practices and strategic dialogue with businesses.
29 April

**Government acquires a stake in PSA Peugeot Citroën Group**

Announced in February 2014 and approved by the PSA AGM on 25 April 2014, this acquisition made the Government a key shareholder in the Group on a par with the family-owned Peugeot Group companies and the Chinese car manufacturer Dongfeng. The Government’s 14.1% stake in the Group is held via Sogepa. This acquisition has given the Group the financial room for manoeuvre required to execute its development programme, and is a prime example of the Government’s shareholding strategy to support French companies in their growth and consolidation efforts, especially in sectors or industries that play a pivotal role in bringing growth to the French economy. The shareholders’ pact has resulted in a balanced and efficient governance structure to oversee the Group’s future, and the Government boasts two representatives on the PSA Supervisory Board.

10 June

**APE acquires an initial stake in Marseille Provence Airport**

The AGM held on 10 June 2014 approved the conversion of the Marseille Provence Airport into a public limited company with an Executive Board and Supervisory Board. The Government is the reference shareholder in the Airport with a 60% stake, followed by the Marseille Provence Chamber of Commerce and Industry and several local authorities. The Government now holds stakes in 10 French provincial airports.

22 June

**Government reaches an agreement with Bouygues giving it the option to acquire up to 20% of Alstom’s share capital**

The Government completed talks with Bouygues to comply with the condition that had been set in return for its approval of the merger between Alstom and General Electric. APE and Bouygues signed an agreement giving the Government, or any other Government-controlled entity, including Bpifrance, the option to acquire shares in Alstom from either Bouygues or on the open market, raising its stake in the Group to 20%. On completion of the transactions announced by Alstom on 21 June 2014, the Government will thus become the Group’s biggest shareholder in terms of voting rights even before it acquires the corresponding shares.

24 June

**Government acquires Bpifrance’s minority stake in STX France**

The Government acquired Bpifrance’s 33.34% stake in STX France. This reclassification of shares between the Government and Bpifrance brings the government’s shareholding in STX France into line with its recently outlined shareholding policy direction, with the direct involvement of various Government departments to monitor the company. This acquisition did not change the weighting of the Government’s shareholding in the company or the number of representatives on the board of directors.

24 June

**Government disposes of 3.1% stake in GDF Suez**

The Government sold off a block of GDF Suez shares for €1.5bn on very favourable terms. This disposal brings the Government’s stake in the company to 33.6%.
GOVERNMENT SHAREHOLDING AGENCY IN BRIEF…

Mission statement

OUR MISSION
Manage the Government’s shareholding portfolio, act as an equity investor in companies deemed as strategically important to bring stability to their share capital or provide them with support to grow or navigate a transition phase.

OUR GOAL
Manage the Government’s shareholdings while seeking to optimise the long-term value of the assets that belong to all French citizens.

As a patient but quality-focused reference shareholder and responsible director, provide companies with support to grow while overseeing the consistency of their strategy, the quality of their governance and compliance with corporate environmental and social responsibility best practices.

As a prudent investor, ensure a fair return on the equity invested and optimise the strategic return on every euro of public money invested through portfolio choices.

OUR VALUES

- **Public interest**
  because the assets under management belong to the French people

- **Dialogue**
  a key principle underlying any constructive relationship between employees; also essential for internal cohesion

- **Quality focus**
  for ourselves and the companies in which we hold stakes in the interests of making constant improvements

- **Commitment**
  to those who appoint us as directors to develop the value of the portfolio’s assets over the long term
APE staff and resources

To carry out its tasks, APE boasts a total headcount of 52, mostly civil servants, comprising 26 executives and portfolio managers, most of whom have a background in engineering (58%) or public administration (35%). An additional 26 people work for the support teams, specialist departments (finance, human resources, legal, audit and accounting) and secretarial functions.

Female representation within the Agency is 50%, rising to 60% at management level but falling to 20% for junior portfolio managers. The average age of APE staff is 41 or 35 for executives alone.

Portfolio managers, 20% of whom have corporate experience, boast an average of six years professional experience. As was the case last year, the turnover rate is still relatively high at 20% and even 50% for the more junior profiles despite the efforts to improve our internal mobility policy.
OVERVIEW

Playing an active role in corporate governance

Participation by government representatives in the governing bodies of entities within its purview is a crucial aspect of the government’s mission as a shareholder. Government representatives play an active role in the supervisory and directors’ boards and specialised committees of companies in the APE’s portfolio. In the first half of 2014, they attended 287 board of directors or supervisory board meetings.

The Government Shareholding Agency (APE) continually monitors the quality of governance in the entities in its portfolio and has helped raise standards in this area. The Agency works to ensure that its representatives are able to discharge their duties effectively and that its directors always show the utmost professionalism. Working closely with the Ministry for the Economy and Finance’s Institute of Public Management and Economic Department (IGPDE), the French Institute of Directors (IFA) and Ernst & Young, the APE has designed and established a training programme for directors acting as government representatives.

Following an initial two-day seminar, two specialised modules concentrate on remuneration governance and on the audit committee. All government representatives may attend these sessions, and new recruits to the APE are required to do so. Sessions are run jointly by professional instructors and members of APE staff. They offer government representatives a common set of rules and provide a forum to exchange views and share experience. Directors representing the government thus acquire the requisite skills and tools they need in subjects including law, accountability, risk analysis or market practices.

The members of APE’s management committee, the Secretary-General and those in charge of the audit/accounting and human resources divisions, are all members of the French Institute of Directors (IFA).

Boosting gender equality on the supervisory and directors’ boards

Female representation on the supervisory and directors’ boards of the 74 companies in the APE’s portfolio improved substantially in 2014 to reach 23.8% on 1 June 2014 compared to 20.7% in September 2013 and 16.2% in 2012.

This change reflects the requirement under the Law of 27 January 2011 for all large companies in both the public and private sectors to ensure balanced representation of men and women on their boards of directors and supervisory boards, regardless of whether they are listed or not.

Most companies in the APE’s scope governed by this law met the minimum quota of 20% female board representation in January 2014, the end of the three-year transition period.

This quota will rise to 40% in January 2017. Boards of directors or supervisory boards with no women will be required to appoint one within six months, failing which penalties can include the voiding of appointments or the suspension of directors’ fees. Complying with this target is still a major concern for APE when it comes to renewing boards of directors or supervisory boards.

For directors who are government representatives, the rate is 27.8%.

As regards the 20% intermediate target set for 1 January 2014, 41 companies have already met it, whereas 3 currently have no women on their board of directors or supervisory board.

There are significant differences from one sector to the next: there is a greater female presence in the energy and media sectors. In contrast, female representation at board level is at its lowest in the aerospace and defence and transport infrastructure sectors.

Listed companies have a significantly higher percentage of women at board level: 28.5% and 36.6% for directors who are government representatives. In contrast, female representation at board level in the CAC 40 companies stood at 30.3% on 1 June 2014, a 2 point improvement over one year*. SBF 120 companies have also reported a similar improvement to 28.8%, an increase of 3.1 points.

(* ) Press release from the Minister for Women’s Rights, Urban Affairs, Youth and Sport dated 5 June 2014 summarising the findings of Ethics & Boards.
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<th>Company</th>
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<th>Percentage of female government representatives</th>
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<td>SNCF</td>
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<td>28.6%</td>
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(1) All 74 companies in the portfolio
(2) All companies in the category
(3) Company in the APE scope not subject to the Law of 27 January 2011.
The Government Shareholding Agency closely monitors executive pay (Say on pay)

The Afep-Medef Code revised in June 2013 stipulates that the compensation of executives working for listed companies must be put to the vote at an AGM.

This new recommendation came into effect for the first time at 2014 AGMs in relation to 2013 compensation packages.

Publicly-owned companies are governed by Article 3 of Decree no. 53-707 of 9 August 1953 on government control of national publicly-owned companies and certain organisations whose purpose is either economic or social. This Decree was amended by Decree no. 2012-915 of 26 July 2012 and now caps executive compensation at 450,000 euros.

As all publicly-owned companies now comply with this requirement, Government representatives approved the compensation packages of ADP, Areva, CNP Assurances and EDF executives at the latest AGMs.

The APE informed the executives in companies in which the Government owns a minority stake that approval of their compensation packages would be dependent on their taking a significant pay cut of some 30%. In addition, there would be no directors' fees or top hat executive retirement schemes and any severance pay packages must not exceed 12 months' salary.

Government representatives therefore duly approved at AGMs the resolutions relating to the compensation packages for Air France-KLM, GDF-Suez and Orange executives. In contrast, they voted against the compensation packages put forward for Renault, Safran and Thalès executives.

As regards Airbus Group, which is governed by Dutch law and is not required to vote on the compensation packages offered to its executives at AGMs, the Government made clear its opposition by voting against the changes to remuneration policy proposed by the Group.

Dexia is governed by Belgian law which does require a vote on 2013 executive compensation at the AGM. The Government approved this compensation package – executive pay comprises only a fixed component, and severance pay is capped at 12 months' salary.

State Holding dialogue - 28 and 29 April 2014.

The APE hosted an international State Holding dialogue at the French economy and finance ministries which was attended by managers from over 15 European and non-European Government shareholding agencies. The dialogue was held over two days, and discussions focused on national experiences, best governance practices and strategic dialogue with businesses.

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The Government’s shareholding portfolio

Built up gradually over many years, the Government’s current portfolio, containing both direct and indirect sharholdings, is extensive and extremely diverse in terms of the sectors covered, the size of the government’s stake held in each company, and the wide range of legal statuses involved. With 74 companies in its scope, the APE operates in a diverse range of sectors, including aerospace and defence, energy, transport, services (particularly banking) and the audiovisual sector. It is also in charge of several end-of-life or defeasance entities. Built up over time, the portfolio changes regularly in line with acquisitions or disposals. In September 2013, SNPE, acquired by Giat Nexter, exited the portfolio. In April 2014, the Government acquired a key stake in PSA Peugeot Citroën.

The majority of the companies in the Government’s portfolio are public limited companies (almost 70%). Other legal forms exist, including six government-funded industrial and commercial institutions (BPI Group, SNCF, RATP, RFF, La Monnaie de Paris and Charbonnage de France), 3 government-funded administrative institutions (Caisse nationale des autoroutes, EPFR and FDPITMA), 14 government-funded institutions (mainly major sea ports and an international government-funded institution, Basel Mulhouse Airport) and three semi-public companies (Semmaris, ATMB and SFTRF).

The Government’s stake in the 12 listed companies mentioned varies considerably, from 1.1% in CNP Assurances to 84.5% in EDF, as the Government’s freedom to modify its share: the regulatory limit on public shareholdings is set at 50% for ADP and 100% for RTE. Similarly, the legal minimum threshold set for EDF is 70% and 33% for GDF-Suez.

The Government’s shareholding portfolio was valued at €84.7bn on 30 April 2014. A large portion of this valuation can be attributed to the energy sector which accounts for 72.06% of the stock market capitalisation, well ahead of the aerospace and defence sector which accounts for 13.3%.
ENTITIES COMPRISING THE FRENCH GOVERNMENT SHAREHOLDING AGENCY PORTFOLIO

Decree no. 2004-963 of 9 September 2004, as modified, establishing a department with national scope, the French Government Shareholding Agency (APE), and their subsidiaries and equity investments

- Agence pour la diffusion de l’information technologique (ADIT).
- Aéroport de Bâle-Mulhouse.
- Aéroports de Paris (ADP).
- Regional airports remaining under government management¹.
- Air France-KLM.
- Areva.
- Arte France.
- Banque publique d’investissement (BPI-Groupe).
- Caisse nationale des autoroutes.
- Casino d’Aix-les-Bains.
- Charbonnages de France (CDF).
- Civipol conseil.
- CNP-Assurances.
- Compagnie générale maritime et financière (CGMF).
- Dexia.
- DCNS.
- Défense conseil international (DCI).
- Electricité de France (EDF).
- Établissement public de financement et de restructuration (EPFR).
- Eramet.
- European Aeronautic Defence and Space Company (EADS N.V.)².
- France Médias Monde.
- Fonds pour le développement d’une politique intermodale des transports dans le massif alpin (FDPITMA).
- France Télévisions.
- GDF Suez.
- GIAT Industries.
- Laboratoire français du fractionnement et des biotechnologies (LFB).
- La Française des jeux.
- La Monnaie de Paris.
- La Poste.
- ODAS.
- Orange.
- French autonomous and major sea ports³.
- Radio France.
- Régie autonome des transports parisiens (RATP).
- Renault SA.
- Réseau ferré de France (RFF).
- Safran.
- Semmaris.
- Société de Financement Local (SFIL).
- French concession holder for the construction and operation of the road tunnel under Mont-Blanc (ATMB-Autoroutes et tunnel du Mont-Blanc).
- Société Nationale Maritime Corse Méditerranée (SNCM).
- Société de prise de participation de l’État (SPPE).
- Société de valorisation foncière et immobilière (SOVAFIM).
- Société de gestion de garanties et de participations (SGGP).
- Société de gestion et participations aéronautiques (Sogepa).
- Société des chemins de fer luxembourgeois.
- Société financière de radiodiffusion (SOFIRAD).
- Société française d’exportation de systèmes avancés (SOFRESA).
- Société française du tunnel routier du Fréjus (SFTRF).
- Imprimerie nationale.
- Société internationale de la Moselle.
- Société nationale des chemins de fer français (SNCF).
- SNPE⁴.
- Thales.
- TSA.

Also shareholdings in companies in which the government holds less than 1% of the capital.

¹ Martinique, Montpellier, Bordeaux-Mérignac, Côte d’Azur, Reunion, Lyon, Strasbourg-Entzheim, Toulouse-Blagnac and Marseille Provence as of 10 June 2014.
² Now Airbus Group.
⁴ Sold to GIAT Nexter.
Main Government shareholdings

Within each sector, the listed companies are represented by circles whose size is proportionate to their market capitalisation (government stake). Unlisted companies are represented by squares.

Energy
Aerospace and Defence
Services
Transport
Other industrial sectors

Transport Infrastructure
Media
Financial services
Stakes owned by BPI
Real Estate–Other

Source: APE

(1) The 11% stake in Airbus Group is held via Sogepa
(2) The 27% stake in Thales is held via TSA
(3) Main companies fully owned by the Government and whose revenue is between €150m and €5bn: RFF, La Monnaie de Paris, Imprimerie Nationale, LFB, France Medias Monde

Revenue in 2013 in billions of euros

(1) The 11% stake in Airbus Group is held via Sogepa
(2) The 27% stake in Thales is held via TSA
(3) Main companies fully owned by the Government and whose revenue is between €150m and €5bn: RFF, La Monnaie de Paris, Imprimerie Nationale, LFB, France Medias Monde
Establishing new policy guidelines for managing the Government’s shareholdings

Drawing up and communicating on the Government’s shareholding strategy has been one of the most important tasks undertaken since the publication of last year’s Annual Report.

For the first time, the Government has decided to adopt a proactive shareholding management policy, to clarify its direct corporate shareholdings and change them whenever necessary to tie in with its objectives.

Unveiled by the Government immediately after a cabinet meeting on 2 August 2013, the policy for managing the Government’s shareholdings was drawn up in close collaboration with the Minister for the Economy and Finance and the Minister for Industrial Renewal as well as the financial committees of both houses of Parliament. The new policy was presented to the cabinet on 15 January 2014.

It is available for consultation on the APE website, and confirms that the Government’s role as an equity investor is important and justified, highlighting four key objectives:

● Ensure the Government has sufficient control over companies of strategic public interest operating in areas key to France’s sovereignty.

● Guarantee the existence of resilient companies able to fulfil the country’s basic requirements.

● Support corporate growth and consolidation, particularly in sectors and industries that are key to French and European economic growth.

● In compliance with EU regulations, help in corporate bailouts on an ad hoc basis in systemic risk cases.

The APE strategy committee will be tasked with reviewing and updating the policy guidelines on a regular basis.

The share capital operations carried out since September 2013 (reorganisation of Airbus Group’s shareholder structure, adjustments to the stakes held in Safran and Aéroports de Paris, acquisition of a stake in PSA Peugeot Citroën*) were all part of this strategy.

They also highlight the APE’s ability to generate new sources of equity funding that has gone towards either paying down debt or reinvesting, to maintain an identical or similar level of Government control, and to pilot investment projects that are important for the French economy.

Streamline and modernise corporate governance

Article 10 of Act no. 2014-01 of 2 January 2014 was introduced in reaction to frequent criticisms of the manner in which the Government managed its shareholdings. Furthermore, it was designed to remove overlap, inconsistencies, gaps and/or unnecessarily complex passages from the regulations applicable to the Government as a shareholder. The new Article authorises the Government to adapt, streamline and bring into line with ordinary company law the legislative framework applicable to the governance and share capital operations of publicly-owned companies through an implementing order.

The draft order is currently being drawn up by the Government.

The first aim will be to streamline the regulations applicable to the Government as a shareholder: administrative procedures will be streamlined through the removal of unnecessary or duplicate formalities and by reducing the number of applicable procedures or thresholds, particularly as regards share capital operations.

(*) Since end-June 2014, Alstom and GDF Suez.
These measures will result in savings for both the Government and the companies concerned. They will also help the Government to act more effectively. For example they will do away with situations whereby seats on directors’ boards remain empty due to the complexity of current procedures.

Second, it will aim to improve the legal framework applicable to the Government as a shareholder to make up for the current gaps in legislation regarding, for example, the continuity of management in a company when there is a change at executive level. Current legislation will also be clarified, such as the rules regarding the application of Section II or Section III of the 1993 privatisation law.

Third, the draft is intended to modernise the regulations applicable to the Government as a shareholder, bringing them more into line with company law and to give the companies in which the Government is a majority shareholder greater flexibility to adopt the best governance practices possible. Board size requirements will be abolished as they do not take into account corporate reality or needs. The draft order will also enable the Government to appoint directors that do not have a civil service background, thus strengthening the professional approach taken. A Nominations Committee will also be created for this purpose.

The draft order will also maintain the specific governance characteristics of the companies in which the Government holds a stake. This will entail more employee representatives at governance body level in publicly-owned companies (“one-third rule”), appointment of Government directors, and protection of the Government’s strategic interests, particularly in the defence industries.

State Holding dialogue - 28 and 29 April 2014.
The APE organised an international State Holding dialogue at the French economy and finance ministries which was attended by managers from over 15 European and non-European Government shareholding agencies. The dialogue was held over two days, and discussions focused on national experiences, best governance practices and strategic dialogue with businesses.

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PLAYING AN ACTIVE ROLE IN HELPING PUBLICLY-OWNED COMPANIES ON THE ROAD BACK TO RECOVERY

2013 combined financial statements

Significant changes to the combination scope

At the end of 2013, the combination scope outlined in Note 32 to the combined financial statements comprised 60 companies, identical to the figure at the end of 2012. Some significant changes nevertheless took place:

- The Société de financement des collectivités locales (SFIL), formerly Dexia Municipal Agency acquired from Dexia, was added to the scope.
- BPI-Groupe, a government-funded industrial and commercial institution (épic) also joined the scope. The Government and Caisse des dépôts et consignations (CDC) are 50-50 owners of BPI-Groupe, a public limited company and parent company of BPI (Banque publique d’investissement). In terms of assets contributed to BPI-Groupe, the Government contributed its stakes in the FSI (Strategic Investment Fund), Sofired and Oséo. FSI and Sofired, both key companies included in the 2012 combination scope, are now included in BPI-Groupe’s 2013 combined financial statements.
- Sogeade, a subsidiary of Sogepa, exited the scope in 2013 after buying back its own shares to contribute Airbus Group shares (ex-EADS). Sogepa now has a direct 15% stake in Airbus Group’s share capital.
- SNPE exited the scope after it was sold to Giat Nexter (a company in the combination scope).

The shareholdings held in some equity method companies also underwent significant changes:

- Sogepa disposed of its 3% stake in Airbus Group.
- Disposal of 7.82% Safran stake.

Lastly, before the Act to create BPI-Groupe was passed, the government and the FSI jointly decided to allocate 4.81% and 4.69% of ADP’s (Aéroports de Paris) share capital to Crédit Agricole Assurances/Predica and the Vinci Group respectively. Pursuant to Act no. 2005-357 of 20 July 2005 relating to airports, the Government still owned a 50.63% majority stake in ADP after this transaction. On 31 December 2013, ADP was still controlled by the Government and its shareholders’ equity was fully combined in the financial statements in accordance with generally accepted accounting principles.
The breakdown of revenue between 2012 and 2013 has changed very little. The energy sector (EDF, Areva) still dominates, accounting for 55.77% of total revenue compared to 55% in 2012. Three economic sectors together account for 90% of the combined accounts’ revenue, i.e. the aforementioned energy sector, the transport sector (SNCF and RATP accounted for 23.6% of revenue in 2013 and 23% in 2012) and the services sector (La Poste and La Française des jeux accounted for 12.3% of revenue in 2013 and 12.6% in 2012).

**Revenue in the 2013 combined financial statements improved thanks to the energy sector**

Revenue increased between 2012 and 2013 mainly thanks to the energy sector (EDF and Areva) as displayed in the chart. The change in other sectors’ revenue was relatively limited, with the increase in the defence sector’s revenue in 2013 mainly attributable to Odas’ addition to the combined scope.

Operating income grew by €3.6bn between 2012 and 2013, thanks in particular to the Government’s buy-back of EFPR debt to the tune of €4.5bn, Sogepa’s disposal of Airbus Group shares for a profit of €0.6bn and €0.5bn in income from the Competitiveness and Employment Tax Credit (CICE).
A breakdown of operating income by sector highlights:
- A significant drop in the transport infrastructure sector’s operating income in the last two financial years due in particular to Réseau ferré de France (RFF) (€0.1bn in 2011 and €0.2bn in 2012) and SFTRF (write-back of the provision for asset impairments in 2011, an extraordinary item).
- A reduction in the transport sector’s operating income due to impairment charges on TGV activity in France and Europe despite the write-back of a provision for the Infrastructure sector (maintenance and repairs).
- An improvement in the defence industry’s operating income, thanks in particular to the capital gain generated when Sogepa disposed of its shares in Airbus Group (€0.6bn in 2013).

Total combined net profit improved slightly in 2013. This was due to:
- An improvement in the operating income generated by combined entities on the whole, recording a €3.5bn upturn in profit for the period (see previous paragraph).
- A €0.7bn jump in net financial income thanks to a reduction in the cost of debt during the period and a significant fall in the cost of discounting relating to the booking in 2012 of a €0.3bn accretion expense as a result of a change to the discounting rate for dismantling provisions.
- The fall in the income generated by equity method companies over the last two years from €3.2bn in 2011 to €2.5bn in 2013, Air France’s ongoing difficulties (€-0.1bn in 2011, €-0.2bn in 2012 and €-0.3bn in 2013), losses incurred by the FSI in 2012 (€-1bn), by GDF Suez in 2013 (€-3.5bn) and by Dexia (€-0.5bn).
The net value of tangible and intangible assets (excluding goodwill) increased from €223.4bn in 2011 to €248.8bn in 2013. The activities represented in the portfolio are still highly capital intensive. As a result, total gross capital expenditure over the last three years in the entities that are fully combined in the scope reached €81.4bn in 2013, including €26.9bn in 2013 (€14bn in the energy sector and €4.7bn in the transport sector).

Most capital expenditure in 2013 went towards:

1. The energy sector, to develop new capacity (approximately €4bn). Most of the investment went towards the ongoing construction of the Flamanville EPR reactor (in 2013, the dome was put in place and the reactor vessel was delivered), the methane terminal at Dunkirk (opening in 2015), the Georges Besse II and Comurhex II enrichment/conversion plants, the Bouchain and Martigues combined cycle gas plants, and the acquisition or construction of wind farms (Teeside farm in the UK, farms bought from Iberdrola in France, the Fallargo Rig wind farm in Scotland, the Black Spring Ridge wind farm in Canada, the Rignano Garganico site in Italy, the Linowo wind farm in Poland, etc.). Investments also went towards maintenance (€5.7bn including €3.6bn for nuclear maintenance), and the maintenance and development of the electricity grid (€3bn).

2. The transport sector: €0.7bn was spent on the renovation of stations and buildings, the acquisition and renovation of rolling stock (€1.9bn on the acquisition of TGV Duplex and Euroduplex trains, locomotive engines, tramways, and regional rolling stock, etc.) and development of infrastructure (extension of underground lines 4, 12 and 14, tramways T5 and T7 which started operating in 2014), and infrastructure maintenance projects (€0.5bn).

3. The transport infrastructure sector, particularly the extension by RFF of the LGV Atlantique high-speed railway line to Pays-de-la-Loire and the Nimes-Bordeaux bypass, as well as railway track renovations.
When analysing this stable position, we should take the following into account:

- Aggregate income for the period totalled €17.6bn.
- Aggregate dividends paid totalled €13.7bn (a payout ratio of 66.8% for companies paying dividends).
- Changes to accounting standards (particularly IAS 19 (revised)), which had a negative €8.8bn effect on net equity (amount included in the changes to other comprehensive income).
- Capital increase for La Poste (€2.1bn in 2011) and capital reductions for Sogepa (€0.9bn) and the FSI (€1.7bn) offset by capital increases for BPI-Groupe (€0.5bn) and La Poste (€0.6bn) in 2013.
- Changes to the 2013 combined scope (positive impact of €4.6bn) with the addition of BPI-Groupe, SFIL and Dexia and the exit of the FSI in particular.
Zero free cash flow was generated by the combined entities during the period (€1bn in 2011, €3.6bn in 2012 and €2.6bn in 2013 after €9.7bn in adjustments for changes in WCR relating to banking activities).

A significant increase in the value of the Government’s listed portfolio

The Government’s listed portfolio was valued at €84.7bn on 30 April 2014. Year-on-year, the portfolio’s value largely outstripped that of the main French and European stocks, gaining 40.75% compared to 16.35% for the CAC 40 and 9.28% for the Stoxx 600.

All of the sectors included in the portfolio contributed to this outperformance:
- At the end of April 2014, the energy sector accounted for 72% of the Government’s listed assets. It also benefitted from foreign investors’ renewed interest in the most discounted European stocks.
- The transport sector, whose cyclical stocks tend to amplify general market movements.
- The telecoms sector, which is going through a strategic consolidation phase.
- The aerospace and defence sector, which is still going through a long, bullish cycle and not necessarily in step with the general market movement. This is being driven mainly by orders for civil aircraft, particularly from Asian customers.

Most of the publicly-owned listed companies have considerably outperformed their respective sector indices, reflecting a significant improvement in their position and outlook.
This is particularly true for EDF, whose share price soared by 97.75% between 1 January 2013 and 30 April 2014 compared to 28.18% for the Stoxx electricity index and 23.24% for the CAC 40 over the same period as a result of tariff increases approved in July 2013 and the possibility of extending the life cycle of certain nuclear power plants. More generally, the market seemed to take a more favourable view of the group’s medium-term potential and the resilience of its earnings.

The increase in aerospace and defence share prices was also brought about by specific factors relating to the improvement in corporate governance within the sector, including clarification of the agreement between Airbus Industrie’s main shareholders, and the excellent market perception of Thales’ new management team. While the sector’s Stoxx index gained 33.85%, Airbus’ share price soared 67.76% and the Thales share price gained 74.70% (between January 2013 and April 2014). During the same period, Safran’s share price increased by 48.63%, driven mainly by improved visibility concerning the outlook for the group’s maintenance activities.
The Aéroports de Paris share price (+53.55% compared to +36.44% for the Stoxx transport index since the start of 2013) reflects the interest shown by investors in the stock following the recomposition of the group’s share capital carried out after the Government disposed of its stake in FSI.

Air France’s share price gained 48.09% despite near-flat air traffic volumes during the period thanks to the credibility of its restructuring programme, while Renault’s share price jumped 78.42% compared to the Stoxx auto index gain of 46.80%. The Group benefitted from the support of international investors that enabled it to pursue its international strategy through the development and enhancement of strategic partnerships.

Dominant position of the energy sector within the portfolio

The energy sector still dominates APE’s portfolio and even appears to have increased recently as a result of EDF’s share price surge. The sector’s value is dependent mainly on energy prices (market and regulated prices) and the transport sector’s significant sensitivity to macroeconomic cycles.

Disposals policy in line with APE policy guidelines*

The Government continued with the disposals programme that began at the start of 2013 to help reduce its debt levels and to finance investments in other sectors (PSA). Following an initial disposal in March 2013, a block of Safran shares was sold off in November 2013 for €903m after the Government exercised an extension clause due to strong demand from institutional investors. The Government’s shareholding in Safran was therefore lowered to 22.41%. The last block of Airbus shares was sold off in January 2014 for €451m in extremely favourable conditions at a discount of 0.69% on the latest listed share price. The aim of this sale was to bring the Government’s stake in Airbus via Sogepa down to 11% following changes to the Group’s shareholders’ agreement signed by various European Member States. Since January 2013, the Government has earned €3.3bn from disposals, including two Safran disposals, three Airbus disposals (two blocks of shares and a share redemption) and an over-the-counter sale of the portion of the ADP shareholding exceeding 50%. Most of the disposals took the form of an accelerated sale of blocks of shares sold to institutional investors.

(*) Does not factor in the disposal of GDF Suez on 24 June 2014

<table>
<thead>
<tr>
<th></th>
<th>Energy</th>
<th>Aerospace/Defence</th>
<th>Transport</th>
<th>Telecom</th>
<th>Other</th>
<th>Total</th>
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</thead>
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<tr>
<td>31 December 2012</td>
<td>67.4%</td>
<td>17.0%</td>
<td>9.8%</td>
<td>5.5%</td>
<td>0.1%</td>
<td>100.0%</td>
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<tr>
<td>30 April 2013</td>
<td>68.4%</td>
<td>16.1%</td>
<td>10.5%</td>
<td>4.7%</td>
<td>0.1%</td>
<td>100.0%</td>
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<td>15.6%</td>
<td>8.8%</td>
<td>4.0%</td>
<td>0.1%</td>
<td>100.0%</td>
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<tr>
<td>30 April 2014</td>
<td>72.0%</td>
<td>13.3%</td>
<td>9.5%</td>
<td>4.9%</td>
<td>0.1%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
A responsible dividend policy marked by a downturn in 2014

As a shareholder in both commercial and industrial companies, the Government’s goal is to invest French citizens’ money wisely to ensure there is no loss of value over time, and to guarantee a fair rate of return. To this end, the Government promotes a responsible, transparent and stable dividend policy to safeguard its assets and French companies’ outlook for long-term growth.

Companies in the Government’s portfolio contributed €4.4bn in 2013, including the payment of a portion of EDF’s dividend in shares (€156m). This revenue, equivalent to the revenue received from wealth tax and which could increase, makes a significant contribution to funding Government initiatives.

As was the case last year, the five main contributors were EDF, GDF Suez, SNCF, Orange and La Poste, accounting for over 87% of total contributions.

If we focus exclusively on listed companies, the yield stands at 6.97% for the dividends received in 2013, i.e. €3.8bn, and a stock market valuation of close to €54.8bn for the Government’s shareholdings on 1 January 2013. This yield is higher than that offered by the CAC 40 (3.5%) due to the sector make-up of the portfolio which is largely dominated by energy and telecommunications stocks which historically have a more generous dividend policy than companies in other sectors.

Given the economic and financial situation, dividends received are likely to fall in 2014: the budget bill contains a prudent estimate of €3.2bn based on the assumption that no dividends will be paid in the form of shares. This downward revision of €1bn factors in risk expectations that make it necessary to raise provisions. Under the current forecast, the dividends that will be received by the Government in 2014 are now estimated at €3.8bn.

The Government obviously takes into account the specific situation of each company and tries to strike a balance between a company’s liquidity requirements and the need for a return on its investment. Consequently, GDF Suez announced a lower dividend per share compared to the rate of €1.50 paid in 2013: “The Group has introduced a new dividend policy based on a payout ratio of 65–75% of Net recurring income, Group share, with a minimum of €1 per share payable in cash, and payment of an interim dividend. Combined with the accelerated investment program, this new dividend policy is designed to boost the growth potential of the Group and create greater long term value for shareholders”. Similarly, to maintain a robust financial structure and achieve a net debt/ebitda ratio of around 2.0x in the medium term, Orange will continue to pursue an attractive dividend policy in line with its OpFCF, and has announced it will pay a dividend per share of €0.6 in 2014 compared to €0.8 in 2013.

### DIVIDENDS RECEIVED BY APE (in Billions of euros per fiscal year)

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<tbody>
<tr>
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<td>1.4</td>
<td>2.9</td>
<td>4.8</td>
<td>5.6</td>
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<td>Dividends in shares</td>
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<td>0.1</td>
<td>-</td>
<td>1.4</td>
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<tr>
<td>Total</td>
<td>1.4</td>
<td>2.9</td>
<td>4.8</td>
<td>5.6</td>
<td>5.5</td>
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<td>4.4</td>
<td>4.6</td>
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<td>3.8</td>
</tr>
</tbody>
</table>

(*) Including interim dividends

(**) Article 21 of the Constitutional Bylaw on Budget Acts stipulates that operations relating to management of the Government’s financial shareholdings that have an impact on the value of the portfolio, excluding all current operations, are required by law to be recorded in the allocation account specifically for this purpose (CAS PFE).

Dividends paid in cash by government-owned companies are identified as non-tax income and booked directly to the general budget.
Generally speaking, however, the Government believes that lowering the dividends paid will be no substitute in the long run for re-establishing fundamental corporate balances and achieving a sustainable level of profit in keeping with corporate growth and investment requirements. The Government expects the dividends it receives from its investments to be in line with the dividends received by its main sector peers over an average period. The aim is to maximise the value created and to control the risk of reinvesting in projects whose yield will be less than the cost of the resources invested.

<table>
<thead>
<tr>
<th>GOVERNMENT’S PORTFOLIO OF LISTED ASSETS ON 30 APRIL 2014</th>
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<tbody>
<tr>
<td><strong>CAC 40</strong></td>
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<tr>
<td>Stock market capitalisation (EURm)</td>
</tr>
<tr>
<td>Government shareholding (%)</td>
</tr>
<tr>
<td>Share price on 30 April 2014</td>
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<tr>
<td>Value of shareholding (EURm)</td>
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<tr>
<td>Month-on-month</td>
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<tr>
<td>3-month</td>
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<tr>
<td>6-month</td>
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<tr>
<td>Year-on-year</td>
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<tr>
<td>2013</td>
</tr>
</tbody>
</table>

(*) Listed shares

Energy
Aerospace-Defence
Services

Transport
Transport infrastructure
Financial services
Conception : studio graphique du service de la communication

AGENCE DES PARTICIPATIONS DE L’ÉTAT