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RÉPUBLIQUE FRANÇAISE

MINISTÈRE DE L'ÉCONOMIE  
DE L'INDUSTRIE ET DE L'EMPLOI

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# FRENCH STATE AS A SHAREHOLDER



Agence des participations de l'État



# Foreword

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*The Government Shareholding Agency (APE – Agence des Participations de l'État) performs the missions of the State as a shareholder under my authority. The Agency's creation in 2004 marked an important step forward in the way in which the State exercises its role as a shareholder. Since that time the long-term interests of State shareholdings have systematically been (factored) taken into account in the public decision making process.*

*Today the State is a vigilant and responsive shareholder, playing a highly proactive role alongside company managements, supporting and fostering their development, (especially so in the case of) particularly with regard to strategic industrial projects such as the merger between Gaz de France and Suez, or EDF's bid to acquire British Energy.*

*Improving the management of State-owned companies, boosting their operational performance, strengthening their balance sheets and securing the widespread adoption of best practice in the area of corporate governance are priority objectives, and these are reflected today in the combined financial statements of the public sector presented in this report.*

*The French Government has built up an acknowledged technical know-how in corporate finance. This applies both to asset disposals as with the sale of 2.5% of EDF's capital in December 2007, with a highly positive outcome on these disposals, and to the acquisition of shareholdings in new entities.*

*The progress achieved since the creation of the Government Shareholding Agency should enable our state-owned companies to continue and even step up their industrial investments and help strengthen their capacity to withstand adverse economic conditions.*

Minister for the Economy,  
Industry and Employment

A handwritten signature in blue ink that reads "Ch Lagarde". The signature is fluid and cursive, with the first letters of the first and last names being capitalized.

**Christine Lagarde**

*The combined entity again improved its operational profitability in 2007, with an operating margin of 12.9% and a net profit of €13.9 billion. Both these aggregates are up slightly relative to 2006. The entity continued to improve its financial structure, reducing its debt/equity ratio from 1.5 in 2006 to 1.25 in 2007.*

*The year in review also witnessed two significant transactions concerning the capital of listed companies, before the recent stock market downturn. These concerned the disposal of 5% of the capital of France Télécom in June 2007 and 2.5 % of the capital of EDF in December 2007. The first of these operations generated net proceeds of €2.63 billion, used in full to repay down Erap's debt and enable this public undertaking to accelerate the reduction of its bond debt contracted at the time of France Télécom's recapitalisation. The second transaction yielded net proceeds of €3.686 billion, to be earmarked for a plan in favour of university buildings, fulfilling the promise made by the President of the French Republic.*

*The merger between Gaz de France and Suez went through in the first half of 2008, giving birth to a world leader in the energy sector.*

*Against a background of falling financial markets, the State's portfolio of listed shareholdings represented a market capitalisation of €148.8 billion at 1 September 2008 (versus €181.4 billion at 31 August 2007). It represented 18.3% of the total market capitalisation of the CAC40 index (compared with 17.1% at 31 August 2007).*

*This is the eighth report of the "French State as a Shareholder", published in compliance with Section 142 of the "New Economic Regulations" Act of 15 May 2001. It reports on the activities of the Government Shareholding Agency in the performance of its mission to defend the long-term patrimonial interests of the French State. The combined financial statements of the main government-controlled entities, which are published in full in Part 3 of the report, are presented in summary, with accompanying discussion, in Part 1. This discussion comprises a comparison with restated pro forma accounts for 2006, i.e. adjusted for changes in accounting methods and in the scope of combination. Part 1 also presents the most significant transactions having affected the capital of State-owned and semi-public undertakings in 2007 and since the beginning of 2008. Part 2 comprises a detailed presentation of the financial condition and strategy of the main shareholdings.*

# Overview

## Highlights since previous report

September 3rd, 2007	September 28th, 2007	October 26th, 2007	December 3rd, 2007	January 1st, 2008
Announcement of the final modalities of the merger of groups Gaz de France and Suez.	The State announces the transfer of 33,34 % of the capital of Semmaris (MIN de Rungis) to Altea.	General meeting of EADS NV ratifies the reform of the governance, requested by the main stockholders in July, 2007.	Disposal by the State of 2,5 % of his shareholding in the capital of EDF.	EDF and Gaz de France spun off distribution divisions currently known as ERDF et GrDF.



### The State as a Shareholder

#### The missions of the Government Shareholding Agency

The creation of the Government Shareholding Agency in 2004 made it possible to identify clearly the Government's functions as a shareholder within the French administration, and to defend the State's assets on a more professional basis.

During 2007 and the first half of 2008 the Government Agency devoted the bulk of its resources to carrying out its primary mission – optimising the performance of the undertakings within the portfolio, and to create value. This detailed oversight of the Government's shareholdings includes playing an active role in the governing bodies, namely boards of directors and specialised board committees. Specifically, this comprises:

- close oversight of the quality and fairness of the financial statements and accounting disclosure;
- assessing the suitability of major investments, external growth operations and disposals from an industrial and strategic standpoint, and optimising them with an eye to the long-term interests of the shareholder;
- discussion and approval of annual budgets, medium-term plans, and major strategic decisions.

Within this framework, the Agency works to ensure the widespread adoption, by the entities within its scope, of the principles of good governance, which are part of the Charter governing relations between the Agency and the State-owned or semi-public undertakings in its portfolio. It is notably concerned with strengthening the powers of the governing bodies, diversifying their composition by bringing in a greater number of independent directors, eliminating possible conflicts of interest as far as possible, improving the quality of discussion, and setting up specialised committees (audit, remuneration, strategy, etc.) within the governing bodies.

It also acts to improve the quality of financial disclosure through the adoption of IFRS, the Transparency Directive, etc. among others. This Charter is available on the Agency's website, at:

[www.ape.minefi.gouv.fr](http://www.ape.minefi.gouv.fr)

Moreover, the Government Agency pays close attention to the condition of undertakings within its purview by means of continuing dialogue with their senior managers, and by continuously monitoring developments in their respective sectors of activity.

In addition, the Agency carried through another of its missions, namely ensuring the success of capital transactions from the shareholder's standpoint, once the Government has decided on these transactions. In that regard the APE plays an important role in maintaining a watch on and analysing developments, and on making proposals. It regularly recommends to the Government transactions concerning the capital of undertakings within its ambit, when it deems these to be financially and industrially beneficial in terms of the market valuation of these undertakings, their medium-term outlook, and so forth.

The Agency manages a highly diversified portfolio, comprising undertakings that differ greatly in nature and size, some listed, others non listed, corporations and public undertakings, etc., and it seeks to raise their profile among investors, some of whom are already joint shareholders with the State or would be suitable joint shareholders in future.

The Government Shareholding Agency had many opportunities in the course of the past year to share its experiences with foreign counterparts. In particular, it regularly hosts foreign delegations, receiving around fifteen or so delegations each year, and it is also a member of the OECD Working Group on Privatisation and Corporate Governance of State-Owned Assets.

The report below discusses the main developments relating to the activities of the Government Shareholding Agency in 2007 and in the first half of 2008.

## The Government Shareholding Agency's means and resources

As a Service à compétence nationale (agency with national scope) operating under the authority of the Ministry for the Economy, Industry and Employment and attached to the Treasury and Economic Policy General Directorate (DGTPE), the APE has a staff of about 55. Since its inception, the Agency's staffing level has varied in function of its missions. Staff is made up people from many different backgrounds, and the Agency can also recruit significant numbers of contract personnel, especially in areas where their expertise is indispensable, as well as in operational functions. Its matrix organisation (the Agency has three centres of expertise – accounting, financial and legal – supporting its sector departments responsible for overseeing undertakings) is a source of strength in helping it to perform its missions, providing it with the requisite degree of responsiveness and depth of technical expertise. In addition to its internal operating budget, the Agency has access to credits allowing it to buy in intellectual services from investment banks, law firms, and audit and consulting firms. These services generally concern the structuring of transactions, their strategic, legal and financial implications, and valuations. Advisors are hired by the Government in keeping with the appropriate legal framework, putting contracts out to competitive tender wherever possible.

As well as giving consideration to financial terms, the Government pays particular attention to fundamental compliance with the rules of confidentiality and possible conflicts of interest. The credits concerned are very modest in relation to the portfolio under management. However, they are set to rise in 2009 in order to allow the Agency to respond to requests regarding dossiers that the Government considers to be of strategic importance and requiring the Agency's expertise. The growing complexity of the economic, legal and financial environment in which undertakings operate increasingly demands input from advisors or consultants to enable the Agency to perform its missions.

## The missions of the Government Shareholding Agency: enhancing the value of the portfolio of Government shareholdings

The combined financial statements for 2007 confirm the growth in the operating profitability of entities within the scope of combination and the improvement of their balance sheets.

The combined financial statements provide an overall view of the economic and financial condition of the main entities within the Government Shareholding Agency's scope of combination. The continuous improvement of these accounts since 2004, with increased operational profitability and the strengthening of their balance sheets, reflects the improving management of State-owned undertakings.

## Scope of combination and balance sheet

In 2007, the Agency's scope of combination comprised 51 entities

In 2007, the Agency's scope of combination consisted of fifty-one entities, against forty-eight in 2006.

Newcomers included La Monnaie de Paris (the French Mint), which was converted into a public industrial and commercial establishment (EPIC) under section of 36 of the 2007 Budget Act (law no. 2066-1666), and the Bordeaux, Lyon and Toulouse regional airports after they became joint-stock companies in 2007.

Following its privatisation in February 2008, the cotton-producing company Dagris was deconsolidated.

In addition, the State shareholding in the capital of Semmaris, the company that operates the Rungis fresh food market, was reduced from 56.85% to 32.16% following the acquisition of a 33.34% interest by Altaréa. As a result of this change this shareholding is now accounted for under the equity method.

The Agency's Resources						
HUMAN RESOURCES	SEPTEMBER, 2003	SEPTEMBER, 2004	SEPTEMBER, 2005	SEPTEMBER, 2006	SEPTEMBER, 2007	SEPTEMBER, 2008
Managers	33	43	43	38	35	31
Non managerial	12	19	18	19	18	18
Total workforce	45	62	61	57	53	49
Expected Recruitment						6
Originating from the Shareholdings Department	45	32	20	14	9	4
Contract staff	3	11	12	12	9	9
Average age	40 years	39 years	38 years	39 years	38 years	39 years
Male employees	26	36	35	33	29	23
Female employees	19	26	27	24	24	26
FINANCIAL RESOURCES (In € million)	2004	2005	2006	2007	2008	EST. 2009
Salaries (gross)	3.5	3.6	3.6	3.3	3	3.1
Advisors credits	4	4.3	4.3	4.5	5.7	7
Operations and administration	0.8	0.5	0.4	0.4	0.4	0.4
<b>Total</b>	<b>8.3</b>	<b>8.4</b>	<b>8.3</b>	<b>8.2</b>	<b>9.1</b>	<b>10.5</b>

In addition to these amounts, the Agency's installation and operating costs, estimated at €0.3 million per year on average, are spread among the various departments of MINEFE, together with fees paid to the Government's advising banks which are directly charged to the proceeds of the related financial transactions.

January 1st, 2008	February 15th, 2008	February 27th, 2008	
Dissolution and winding up of <i>Charbonnages de France</i> .	Publication of the order allowing the transfer of 51 % of the capital of <i>Dagris</i> to Géocoton Holding.	Mr Guillaume Pépy is appointed Chairman and CEO of <i>SNCF</i> . The mission letter, that the President of the Republic's mission letter sets him five priority objectives.	
March 19th, 2008	March 27th, 2008	April 15th, 2008	May 28th, 2008
The board adopts the 2007 financial statements of <i>SNCF</i> . For the first time the <i>SNCF</i> is going to pay a dividend of 131 M€ to the State.	The board of <i>La Poste</i> adopts the 2007 financial statements. <i>La Poste</i> is going to pay, for the first time, a dividend of 141 M€ to the State.	<i>Audiovisuel Extérieur de la France</i> , the holding company formed to gather the various entities of The French TV and Radio World Service, holds its first board of directors.	<i>SNCF</i> initiates a takeover Bid to acquire the whole capital of its subsidiary Geodis.



Other changes in the Agency's scope of consolidation in 2007 included:

- Government shareholding in Thales was reduced from 31.83% to 27.51% in January 2007 following the contribution by Alcatel Lucent of its transport and security activities, financed mainly by means of a capital increase;
- Thales sold its surface naval ships activities in France to DCNS, DCNS becoming the sole shareholding of the Armaris and MOPA2 subsidiaries, and Thales simultaneously acquired a 25% shareholding in the capital of DCNS;
- On July, 18, 2007 Erap repaid a capital contribution of €2.6 billion by the French State aimed at enabling the public undertaking to meet its subsequent payment obligations under a bond issuance, by transferring 130.7 million France Telecom shares.

These transactions have modified neither the scope nor the methods of combination applied to these entities.

3 - These rules are laid down in CRC regulation 2002-12.

4 - Under accounting rules, significant influence is presumed to exist when the State holds at least 20% of the voting rights or is represented in a significant committee of the entity. The equity method of accounting consists in replacing the book value of the shares held by their share in capital and reserves, including profit for the period, of the associate.

5 - The combined financial statements are presented on page 146.

As in 2006, the scope of combination in 2007 comprises entities reporting under French accounting standards and others reporting under IFRS standards. In view of the relative importance of the undertakings now reporting under IFRS, the combined data published in the Government Shareholding Agency's Annual Report are presented in accordance with IFRS standards, since the preparation of combined financial statements calls for the application of a uniform body of standards to all combined entities. RATP, La Poste, SNCF and RFF have all presented their financial statements under IFRS since 1 January 2007.

With effect from financial year 2007, and as stipulated in paragraph 38 of IAS 31, entities jointly-controlled by the State are accounted for under the equity method.

For the sake of more accurate financial disclosure, and derogating from the rules normally applicable to combinations (3) but in full compliance with consolidation rules, those entities in which the State as a shareholder wields significant influence in the accounting sense are maintained within the scope of combination. For that purpose, they are accounted for under the equity method. In the 2006 financial statements this method has been applied to all entities coming within the scope and in which the Government exercises significant influence(4). Six entities are thus included within the combination under this method for 2007, namely: Air France-KLM, EADS, France Télécom, Safran, Renault and Thales.

The accounting methods and rules of valuation applied to the combination at 31 December 2007 are identical to those applied at 31 December 2006. However, following the adoption of IFRS accounting standards by La Poste, RATP, SNCF and RFF, and the inclusion of Thales and EADS under the equity method, restated pro forma financial statements are presented in respect of FY 2006.

For purposes of comparison and discussion of the main balance sheet and income statement items for the financial years 2006 and 2007, synthetic financial statements have been established for 2007, adjusted for changes in accounting methods and scope of combination. These are presented in the table opposite (5).

**Total assets amounted to €535 billion at 31 December 2007**

Combined assets increased by €32 billion relative to 2006, and by €38 billion on a comparable basis. The €6 billion difference results from the fact that this year EADS and Thales are accounted for under the equity method (leading to a reduction of €13 billion) and from the changeover to IFRS accounting standards at La Poste, RATP, SNCF and RFF (leading to an increase of €7 billion, most of which stems from the inclusion in SNCF's consolidated financial statements of additional debt amortisation charges.

June 12th, 2008	June 27th, 2008	July, 2008	July 16th, 2008	July 22nd, 2008
French State negotiates with <i>STX</i> a position of minority shareholder within <i>Chantiers de l'Atlantique's</i> share capital, subject to <i>Aker Yard's</i> prior consent.	Signature of the first long-term business contract between the State and <i>La Monnaie de Paris</i> for period 2008-2012.	<i>DCNS's</i> employees and former employees enter the company's share capital as minority shareholders.	The shareholders' meetings of <i>Gaz de France</i> and of <i>Suez</i> approve the merger of the two companies.	Signature of the public service contract 2008-2012, between the State and <i>La Poste</i> .

## FINANCIAL STATEMENTS

ASSETS (In € million)	2007	2006 Pro forma	2006
Goodwill	15 195	12 855	14 111
Intangible, tangible and financial Assets	341 186	325 562	320 449
Of which equity method investments in associates	25 492	23 657	21 741
of which La Poste's assets for banking activity	68 339	64 021	62 530
Deferred tax assets	4 022	3 785	4 292
<b>Total non-current assets</b>	<b>360 403</b>	<b>342 202</b>	<b>338 852</b>
Inventories and receivables	117 370	106 107	113 020
Of which loans and receivables of La Poste's for banking activity	43 362	38 552	38 127
Other accounts of La Poste's for banking activity	7 302	6 942	7 656
Current financial assets, cash and cash equivalents	49 665	41 467	43 835
<b>Total current assets</b>	<b>174 337</b>	<b>154 516</b>	<b>164 511</b>
Assets held to Sale	444	672	142
<b>Total ASSETS</b>	<b>535 184</b>	<b>497 390</b>	<b>503 505</b>
LIABILITIES (in € million)	2007	2006 Pro forma	2006
Capital and reserves attributable to equity holders	67 523	56 396	54 898
<b>Total capital and reserves of the combined entity</b>	<b>70 566</b>	<b>59 003</b>	<b>57 515</b>
Provisions and retirement benefit obligations, non-current	73 271	71 057	72 668
Non current financial liabilities	87 872	96 282	87 648
Other non-current liabilities	36 156	34 737	35 033
<b>Total non-current liabilities</b>	<b>197 299</b>	<b>202 073</b>	<b>195 349</b>
Current provisions	7 683	7 209	9 982
Current financial liabilities	41 290	30 373	30 132
Trade and other payables	62 289	57 744	67 681
Other current liabilities	39 392	33 774	36 875
Debts of La Poste's for banking activity	116 487	107 098	105 855
<b>Total current liabilities</b>	<b>267 141</b>	<b>236 199</b>	<b>250 525</b>
Liabilities held for sales	178	116	116
<b>Total LIABILITIES</b>	<b>535 184</b>	<b>497 390</b>	<b>503 505</b>
INCOME STATEMENT (In € million)	2007	2006 Pro forma	2006
Net revenue of La Poste's for banking activity	4 667	4 610	4 583
<b>Revenue</b>	<b>151 455</b>	<b>146 361</b>	<b>155 380</b>
Other income from operations	6 873	5 400	7 442
Other operating expenses	- 84 971	- 79 723	- 87 370
Staff costs	- 42 989	- 42 690	- 45 397
Other income and expenses from operations	- 15 547	- 16 230	- 16 682
<b>Operating profit</b>	<b>19 488</b>	<b>17 727</b>	<b>17 956</b>
Financial income (expenses)	- 4 980	- 4 564	- 4 627
<b>Profit before tax</b>	<b>13 329</b>	<b>13 163</b>	<b>14 508</b>
Net profit of consolidated entities	11 212	10 401	10 632
Net profit of the combined entity	14 307	13 439	13 447
<b>Net profit attributable to equity holders of the parent</b>	<b>13 880</b>	<b>13 142</b>	<b>13 182</b>



September 17th, 2008

Announcement by the President of the Republic of the creation of a commission for the development of *La Poste* chaired by Mr Ailleret.

On the assets side, the €38 billion change stems primarily from the growth in La Poste's banking activities (+€9.5 billion), the increase in the net value of property, plant and equipment (€6.9 billion, even though EDF reclassified €28 billion of property, plant and equipment from its owned assets to assets given under concession, the change in intangible assets (+€4.7 billion) resulting from acquisitions by Areva (in particular Uramin), the €6.1 billion increase in operating assets (customer receivables and inventories), and the €7.8 billion increase in cash and cash equivalents (including €3 billion each for Erap and EDF).

On the liabilities side, the €11.1 billion change in capital and reserves is attributable to increases in the capital of certain entities totalling €0.9 billion (including €0.8 billion for Erap mainly), to payments of dividends to shareholders (€5.8 billion), to the improvement in the profit of the combined entity (€13.9 billion in 2007), and to changes in the fair value of derivative instruments (€2.4 billion). The other main variations reflect positive trends in debts relating to banking activity (€9.4 billion), to the increase in financial liabilities (€2.5 billion) and the increase in operating liabilities (€10.1 billion).

### Net profit rises more than €700 million on a comparable basis

Revenue for the combined entity and net banking income for La Banque Postale grew by €5.1 billion overall, or 3.4% relative to 2006 on a comparable basis, to €156.1 billion.

All sectors reported growth in their activity on a constant consolidation basis. Energy sector revenue growth slowed relative to prior years, with a rise of €2 billion or 2% relative to 2006. The share of the four energy sector undertakings accounts for 64% of combined revenues. The transport sector's revenue grew by more than 7.5% over the period, thanks in particular to SNCF.

6 - Source: French National Accounts 2007 (Aggregate economic data).

September 24th, 2008

EDF announces the submission of a public offer to acquire British Energy, main nuclear operator in United Kingdom.

**Profit increased by more than €700 million relative to the previous year on a comparable basis, amounting to €13.9 billion**, as a result of further growth in operating profit (+ €1.7 billion relative to 2006) and a slight deterioration in net financial costs. The latter increased from -€4.6 billion to -€4.9 billion, reflecting rising interest rates, while the combined entity's net debt stabilised over the period. Aggregate profitability, as measured by the ratio of profit attributable to equity holders of the parent to revenue, improved from 8.7% in 2006 (pro forma) to 8.9% in 2007.

All sectors of activity reported positive results for the year. The energy sector (€8.9 billion) accounted for nearly two-thirds of the combined entity's profit.

Net cash from operating activities for the combined entity totalled €21.5 billion in 2007. This item was again slightly below the figure for gross investing activities in the course of the year (€22.7 billion). Excluding the impact of changes in financial assets, investing activities amounted to €24.2 billion in 2007, versus €21.7 billion in 2006 on a comparable basis.

Total dividends arising from business operations, to be paid to the Government in 2008 (and which will be recognised in revenues for financial year 2008), are expected to amount to €5.6 billion, versus €4.8 billion in 2007<sup>(8)</sup> after inclusion of dividends received from investments not controlled by the Government, and minus the share of dividends paid by entities comprising the combination to non-Government shareholders. The table opposite presents a 5-year summary of dividends received by the State as a shareholder since 2003. These have grown sharply over the period despite the shrinkage in the size of the portfolio. This growth reflects improvements in the management of entities, as demonstrated by rising operating profit and stronger balance sheets. As a consequence of this, certain entities paid dividends to their shareholders for the first time in 2008, in respect of their 2007 profits (as in the case of SNCF and La Poste) without impairing their capacity to invest.

8 - These revenues are recognised on line 2116 of non-tax Government revenues. They include dividends paid in year N in respect of accounting year N-1 together with interim dividends paid, if any, in respect of accounting year N.

<b>Staffing companies</b>			
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Aéroports de Paris	10 688	10 816	11 381
Areva	58 760	61 111	65 583
Arte	524	525	541
ATMB	427	436	440
CDF	2 295	2 295	925
DCI	764	656	648
DCNS	12 556	12 459	12 831
EADS	113 210	116 805	116 493
EDF	156 765	155 968	154 033
Française des Jeux	1 204	1 247	1 231
France Télécom	196 452	189 028	183 799
France Télévisions	11 400	10 997	11 093
Gaz de France	52 958	50 244	47 560
Giat Industries	5 512	4 267	3 656
Imprimerie Nationale	1 030	816	747
La Poste	306 345	303 401	299 010
LFB	1 273	1 302	1 383
PA Bordeaux	450	428	427
PA Dunkerque	526	492	492
PA Le Havre	1 510	1 493	1 488
PA Marseille	1 457	1 484	1 495
PA Nantes	705	703	710
PA Paris	193	228	205
PA La Rochelle	-	135	139
PA Rouen	570	575	577
Radio France	4 053	4 070	4 109
RATP	44 860	44 907	45 879
RFF	691	761	843
RFI	1 147	1 120	1 188
Safran (Snecma en 2004)	51 928	57 669	52 515
Semmaris	220	219	210
SFTRF	292	301	306
SNCF (groupe)	205 839	201 742	201 545
SNPE	4 907	4 296	3 620
Thales	54 536	52 160	61 195
<b>Total</b>	<b>1 306 047</b>	<b>1 295 156</b>	<b>1 288 297</b>
<b>Change% (y/y-1)</b>		<b>-0,84 %</b>	<b>-0,53 %</b>
Monnaie de Paris			619
Aéroport de Bordeaux			182
Aéroports de Lyon			445
Aéroport de Toulouse			255
<b>Total</b>	<b>1 306 047</b>	<b>1 295 156</b>	<b>1 289 798</b>

<b>SYNTHETIC RATIOS</b>	<b>2007</b>	<b>2006 pro forma restated</b>
Return on capital employed <sup>(7)</sup>	11 %	10,5 %
Return on equity to equity holders of the parent	20,6 %	23,3 %
Operating margin (operating income/revenue)	12,9 %	12,1 %
Net debt/EBITDA	x 2,80	x 2,84
<i>Net debt</i>	<i>84 161</i>	<i>84 631</i>
<i>EBITDA</i>	<i>30 030</i>	<i>29 852</i>

7 – Capital employed consists of property, plant and equipment and working capital requirement (inventories and trade receivables – trade payables).

<b>DIVIDEND RECEIVED BY THE STATE AS A SHAREHOLDER (In billion of € by fiscal year)</b>					
<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007*</b>	<b>2008*</b>
0,9	1,2	1,4	2,9	4,8	5,6

(\*Including the interim dividends)

<b>PAYDOWN PROGRESS OF THE DEBT OF THE FINANCIAL STATES'S PARTICIPATIONS</b>						
<b>EXERCICE</b>	<b>2002**</b>	<b>2003**</b>	<b>2004</b>	<b>2005</b>	<b>2006 pro forma restated</b>	<b>2007</b>
Net dept/equity	8,3	4,1	3,1	1,96	1,5	1,25

(\*\*)The perimeters of the accounts of the exercises 2002 and 2003 are not comparable to the following ones

## Financial turnaround continues

The combined entity's capital intensity remains particularly high. Non-current assets (excluding goodwill) account for a very large proportion (65%) of the balance sheet for all sectors combined, represent 83% of the balance sheet of the transport infrastructure companies, and 65% of the balance sheet of the four energy sector companies (EDF, Gaz de France, Areva and Charbonnages de France).

The net value of tangible assets belonging to the entities (9) was €132 billion, of which energy sector installations alone accounted for €60.2 billion. Nuclear, thermal and hydroelectric power generating installations represented €23 billion in 2007, after reclassification by EDF of €28 billion worth of owned assets as assets given under concession (CHECK).

La Poste's portfolio of banking activities is identified in assets. The value of this portfolio grew to €68.3 billion in 2007, versus €64 billion in 2006.

The €7.8 billion increase in net cash over the period was chiefly attributable to Erap, which received a total of €3.4 billion in capital infusions from the State in 2007 in order to repay bonds maturing in April 2008, and to EDF, which increased the liquidity of its portfolio of financial assets in response to the financial crisis.

Provisions for risks and current and non-current charges totalled €60.8 billion. More than half of this figure concerned provisions for the decommissioning of nuclear sites (end of nuclear cycle, removal and disposal of radioactive waste, and dismantling of plants), and provisions for the renewal of concession assets. These provisions are stable relative to the previous year, overall.

Net financial liabilities (10) are down very slightly at €84.1 billion (-€0.5 billion compared with 2006 pro forma figures). This led to an improvement in the ratio of net debt to capital and reserves attributable to equity holders of the parent, from 1.50 in 2006 to 1.25 in 2007. Correspondingly, the debt burden further declined in 2007, albeit more moderately than in earlier years. These now represent less than a quarter of total liabilities (24.1%, versus 25.8% in 2006). The sustainability of debt has been consolidated, with a net debt-EBITDA(11) ratio of 2.8 for 2007, compared with 2.84 in 2006. Debt relating to La Poste's banking activities is identified under liabilities in the balance sheet and rose from €107.1 billion in 2006 to €116.5 billion in 2007.

9 - Long-term assets referred to as "owned assets" (domaine propre).

10 - This concerns current and non-current financial liabilities corrected for current financial assets (available for sale securities, negotiable debt securities, equity securities and UCITS), cash (and equivalents) and bank overdrafts.

11 - Net debt = current and non-current financial liabilities less available cash and available for sale securities. The debt relating to the banking activities of La Poste is not included in the calculation of the ratio since it is backed by assets of an equivalent amount.

EBITDA = operating profit + depreciation and provisions - reversal of provisions.

2007 FINANCIAL STATEMENTS SCOPE OF COMBINATION			
DEFENCE AND AEROSPACE	TRANSPORT INFRASTRUCTURE	ENERGY	OTHERS
<b>Fully-consolidated</b>	<b>Fully-consolidated</b>	<b>Fully-consolidated</b>	<b>Fully-consolidated</b>
DCI	AÉROPORT DE BORDEAUX	AREVA	BRGM
DCNS GIAT/NEXTER SNPE	AÉROPORTS DE LYON	EDF	EMC
SOGEADE	AÉROPORTS DE PARIS (ADP)	GAZ DE FRANCE	ERAP
SOGEPA	AÉROPORT DE TOULOUSE	CHARBONNAGES DE FRANCE	EPFR
	ATMB		FRANÇAISE DES JEUX
	SFTRF		IMPRIMERIE NATIONALE
	PORT AUTONOME DE BORDEAUX		LFB
	PORT AUTONOME DE DUNKERQUE		MONNAIE DE PARIS
<b>Proportional method</b>	PORT AUTONOME DU HAVRE		SGGP
EADS-15,20 %	PORT AUTONOME NANTES		SIG
SAFRAN - 38,32 %	PORT AUTONOME DE MARSEILLE		SIMAR
THALES-27,51 %	PORT AUTONOME DE ROUEN		SIDR
	RÉSEAU FERRÉ DE FRANCE		TSA
			SOVAFIM
			<b>Equity method</b>
			RENAULT - 15,42 %
			FRANCE TÉLÉCOM - 27,45 %
			SEMMARIS - 32,16 %
MEDIAS	LA POSTE	TRANSPORTS	
<b>Fully-consolidated</b>	<b>Fully-consolidated</b>	<b>Fully-consolidated</b>	
ARTE	LA POSTE	SNCF	
FRANCE TÉLÉVISIONS		RATP	
RFI		<b>Equity method</b>	
RADIO FRANCE		AIR FRANCE KLM - 16,97 %	

Off-balance sheet commitments given, as shown in the individual entities' annual reports and the consolidated reporting forms communicated to the Agency<sup>(12)</sup>, totalled €103 billion, a decline of €27.5 billion relative to 2006. Three significant transactions account for this change in liabilities relative to the previous year's figure of €131 billion:

- a re-estimation of SNCF's employee liabilities following the reform of the rules and financing of the enterprise's pension and provident schemes (-€33.8 billion);
- increased investment commitments at EDF and Gaz de France (€+4.3 billion);

• increased financing guarantees given by La Poste (+€8 billion).

At the same time, commitments received totalled €26 billion, versus €24.7 billion in 2006) and €24 billion in reciprocal commitments were given by and for undertakings comprising the combined entity. All of these commitments are regularly reviewed in detail by the audit committees of the entities and by the Government Shareholding Agency.

#### Fair value of the portfolio of listed undertakings

The Government Shareholding Agency manages a portfolio of eleven listed companies, namely: Aéroports de Paris, Air France-KLM, CNP Assurances, EADS, EDF, France Télécom, GDF Suez, Renault, Safran, Thales and Thomson. Its value at 1 September 2008 was down relative to 31 August 2007 due to the combined impact of the general and steep financial markets downturn and the reduced scope of combination following the disposal of a block of EDF shares in 2007.

Between 2007 and 2008, the market value of the Government's portfolio of quoted undertakings declined by €32.6 billion. €3 billion of this decline was due to a volume effect, chiefly resulting from disposal of the block of EFD shares in December 2007 and €29.6 billion was due to a price effect. This portfolio represented 18.3% of the total market capitalisation of the CAC 40 index at 1 September 2008 (versus 17.1% at 31 August 2007).

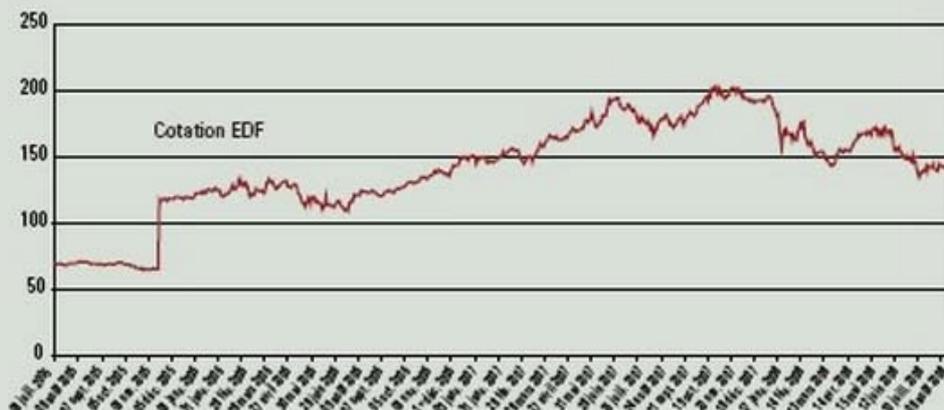
The activities and results of these undertakings are discussed in Part 2 of this report. Air France and Renault, which are included within the scope of combination but are not presented in detail in Part 2 of this report, together with CNP Assurances, call for the following comments.

12 - The notes to the combined financial statements (page 219 of this report) also presents the main unmeasured off-balance sheet commitments.

### Change in the value of quoted government shareholding (in million)

	Government shareholding	Closing price at 1st september 2008 in €	Value of Government Shareholding	Change from 31st August 2007		
				VOLUME EFFECT	PRICE EFFECT	TOTAL
Aéroports de Paris	68,38 %	59,12	4 001	0	-1 683	-1 683
Air France KLM	15,65 %	17,02	800	-52	-669	-721
CNP Assurances	1,09 %	82,05	133	0	-19	-19
EADS	15,08 %	15,71	1 928	0	-745	-745
EDF	84,85 %	58,37	90 245	-2 627	-25 060	-27 686
France Télécom	26,69 %	20,17	14 076	-341	-1 408	-1 749
GDF SUEZ	35,82 %	40,00	31 398	0	2 512	2 512
Renault	15,01 %	58,77	2 513	0	-1 721	-1 721
Safran	30,20 %	12,43	1 565	-10	-621	-631
Thales	27,10 %	39,05	2 099	0	-140	-140
Thomson	1,90 %	3,20	17	0	-46	-46
			<b>148 774</b>	<b>-3 030</b>	<b>-29 600</b>	<b>-32 629</b>

INFRA ANNUAL EVOLUTION OF THE STAKES PORTFOLIO SINCE JULY 2005  
MARKET VALUE OF THE FRENCH GOVERNMENT'S STAKES PORTFOLIO (€ BILLIONS)



## AIR FRANCE – KLM

Despite continuously rising oil prices and the crisis in the credit sector, 2007 was another growth year overall in air transport in general, and for Air France-KLM in particular. The group reported satisfactory earnings for the financial year 2007-2008, in line with its targets, especially regarding profitability. This performance reflects the strength of its network, which is coordinated around two hubs, i.e. Amsterdam-Schiphol and Roissy-Charles De Gaulle, and the success of its strategy based on the good fit between its two components, Air France and KLM. The State held 15.65% of the capital of Air France-KLM at 31 March 2008.

The group reported 3.9% growth in traffic (expressed in passenger-kilometres carried) for the year 2007-2008. Air France-KLM's revenues rose 4.5% relative to the previous year to €24.1 billion. Operating profit reached a record €1,405 million, up 13.3%. Profit attributable to equity holders of the parent worked out to €748 million for 2007-2008, versus a profit of €891 million for 2006-2007; after eliminating the €530 million relating to the cargo investigation recognised in respect of 2007-2008, profit grew by 10.8%. The balance sheet was strengthened still further in the course of the year, with net debt falling €1.1 billion to €2.69 billion, while capital and reserves total €10.61 billion. The group's debt to equity ratio was brought down from 0.45 at 31 March 2007 to 0.25 one year later.

Among significant events in 2007, Air France and KLM launched "Challenge 10", their first joint cost-cutting plan, aimed at achieving €1.4 billion in savings over the period 2007-2008 to 2009-2010. Further, the open sky agreement signed between Europe and the United States in March 2007 has opened up fresh prospects for the group and its American partners, Delta and Northwest. In June 2007, these four airlines, together with Alitalia and Czech Airlines, APPLIED for immunity from anti-trust legislation with the US Department of Transportation. In addition, Air France-KLM acquired VLM Airlines in December 2008, a Dutch airline that mainly serves business travellers out of London City Airport.

The Air France-KLM group has announced a strategy of moderate, flexible growth in capacity, for financial year 2008-2009, coupled with active management of fuel surcharges.



## RENAULT

The French State holds 15% of the capital of Renault. This enterprise announced its "Plan Renault Contrat 2009" in February 2006, aimed at sustainably establishing Renault as Europe's most profitable generalist car manufacturer. The plan comprises three major commitments, namely: (i) in terms of quality, making the future Laguna one of the top three in its segment; (ii) in terms of profitability, achieving an operating margin of 6% in 2009; (iii) in terms of growth, to sell an additional 800,000 vehicles in 2009 relative to 2005 (representing more than 3.3 million vehicles).

Renault returned to growth in 2007, thanks to new product launches in the second half of the year. Moreover, the group pursued its international expansion strategy in fast-growing markets. Revenues totalled €40.7 billion for the year, up 1.8% relative to 2006 on a comparable basis. Sales volumes grew by 2.1% relative to 2006, to 2.5 million units. For the France-Europe region, sales volumes were down by 4.1%, but they returned to growth in the second half thanks to new model launches. Outside this region, sales grew by 16.3%. Renault's operating margin was €1.4 billion, or 3.3% of revenue, compared with 2.6% in 2006. This increase stemmed primarily from continuing international growth and tight cost controls, enabling Renault to exceed its second annual profitability target. Its car manufacturing division generated a free cash flow of €961 million. The car manufacturing division's net financial debt totalled €2.1 billion and represented 9.5% of capital and reserves (11.5% in 2006). The group reported a profit of €2.669 billion in 2007, versus €2.886 billion in 2006. This figure includes the contribution of associates, Nissan especially (with which Renault formed an Alliance in March 1999, holding 44.3% of its capital).

Outside Europe, Renault signed a number of agreements with local partners in 2007, in Morocco, Russia and India especially. In Russia, Renault invested €1 billion to acquire 25% of the capital plus one share of AvtoVAZ, Russia's number one manufacturer, and the producer of Lada vehicles in particular. Noting that the deterioration in the macro-economic environment exceeded the most pessimistic assumptions contained in the "Plan Contrat 2009", in July 2008 Renault revised its growth target down to below 3 million vehicles for 2009 and announced a series of measures to safeguard its competitiveness. These measures included a voluntary retirement plan in Europe.

## CNP Assurances

CNP Assurances is a joint-stock company in which the Government owns 1.09% of the capital and voting rights. The two majority shareholders are CDC, which holds 40% of the capital and voting rights, and Sopassure (a joint and equally-held subsidiary of La Banque Postale and Caisse Nationale des Caisses d'Épargne), which holds 35% of the capital and voting rights. CDC, Sopassure and the Government are bound by a shareholder pact, which was revised in January 2007 to allow CDC to align its expiration date with that of the distribution contracts negotiated in 2006 between CNP, the Caisses d'épargne and La Banque Postale (which are due to expire on 31 December 2015).

Two outstanding events in 2007 were the completion of the acquisition of the 49.9% shareholding in Écureuil-Vie held by Caisses d'Épargne, while CNP Assurance modified its form of governance with the approval by its shareholders of the change from a joint-stock company with a Management Board and Supervisory Board to a joint-stock company with a Board of Directors. Also in 2007 an ambitious strategic plan for 2008-2012 was adopted, targeting a virtual doubling of EBITDA and a doubling of the value of new business.

Despite a contraction of the life assurance market in France and credit market tensions following the American mortgage lending crisis, achieved a robust performance in 2007. Profit attributable to equity holders of the parent rose 7% in 2007, while European embedded value before payment of the dividend amounted to €77.80 per share at 31 December 2007 (+14%).

## Governance of entities in the portfolio

The involvement of the Government Shareholding Agency in the governing bodies of the entities within its scope of combination is a central feature of relations between the State as a shareholder and these entities. The quality of the governance of these entities is a focus of constant attention, and the Agency has worked to raise standards of governance.

### **Government Shareholding Agency staff members play an active role in the boards of directors or supervisory boards of undertakings within the scope of combination**

A member of the Government Shareholding Agency staff represents the State as a Shareholder in the governing bodies of State-owned and semi-public undertakings. Agency representatives attended nearly 300 meetings of boards of directors or supervisory boards in 2007, and more than 230 meetings in the first half of 2008.

Where specialised committees are concerned, the Agency has systematically established audit committees, among others, attending their meetings on nearly 130 occasions in 2007 and 80 times in the first half of 2008.

The Agency also ensures that other committees, e.g. strategy and compensation committees, are set up wherever appropriate.

### **Criteria for the selection and training of directors representing the Government in governing bodies**

Appointment to the board of a quoted company as a director representing the Government (and hence as a member of the Agency staff) is for the most part reserved for executives with the rank of Deputy Director or above. These must be familiar with the financial and strategic issues discussed in the board, as well as being experienced in the workings of undertakings' governing bodies.

Directors representing the Government in the boards of directors, and more generally the staff of the Agency, need to share a sufficiently well developed and uniform basic culture in order to discharge their duties effectively and ensure the proper governance of State-owned undertakings. The Agency runs a large-scale training programme for these representatives, working very closely with the MINEIE's *Institut de la gestion publique et du développement économique* (IGPDE – Institute for Public Management and Economic Development) and the *Institut français des administrateurs* (IFA – French Institute of Directors), designed to focus all concerned on the need for higher standards of governance in publicly-owned firms. This training is also open to other directors representing the Government.

This training programme seeks to spell out the personal and functional duties of directors representing the Government. In addition it is intended to constitute a common body of legal, financial and accounting knowledge for all these directors and those assisting them in their work. Finally, it also serves to examine in depth and develop proficiency in specific areas such as strategic analysis, valuation methods, IFRS standards, key human resources aspects of business management, the European environment, etc. Sixty-eight people attended six one-day training sessions in 2007.

## Application of the charter spelling out relations between State-owned and semi-public undertakings with the State as a Shareholder

At the time of the Government Shareholding Agency's creation in 2004, a charter was established spelling out the rules of governance presiding over relations between the Agency and State-owned and semi-public undertakings, one of the Agency's priorities being the introduction of best governance practice within the entities in its portfolio. The principles of governance enshrined in the charter concern the workings of the governing bodies, with the setting up of specialised committees, the role and mission of the board of directors or supervisory board and of the specialised committees, the formalisation of procedural rules for governing bodies in the shape of a body of internal rules and procedures and deadlines for the transmission of preparatory documents to directors.

These principles of governance also deal with relations between entities and the Government Shareholding Agency, with the introduction of periodic reporting, the organisation of regular meetings to report on progress and prepare for major forthcoming events, together with measures to provide greater information concerning the operations of undertakings.

The Agency pays close attention to ensuring that these rules and principles are applied in the entities in its portfolio, adopting a pragmatic approach, however, having due regard to the specific issues and challenges facing each of the entities concerned. Since its inception in 2004, a review of the charter's application is presented annually in the report on the State as a Shareholder, via the assessments delivered by the Agency's directors representing the State in the boards of directors and supervisory boards of nearly fifty undertakings and public establishments within the Agency's scope of combination; changes in this scope, the methodology and detailed results of this survey are presented opposite.



## The Government on the Board

By virtue of its shareholdings, the Government sits on a large number of boards (of directors and supervisory boards) of public-sector entities. Less well known is that it also sits on the boards of a certain number of private-sector undertakings in which it is either a direct or an indirect shareholder.

This Government presence is materialised via the designation of a specific category of board members known as "Government representatives".

### Where does one find Government representatives?

In the public sector, section 5 of the 25 July 1983 "public sector democratisation" Act (known as the "DSP" Act) states that when the Government directly owns the majority of the capital, there may be up to 6 Government representatives on the board of directors. In the case of subsidiaries of publicly-held undertakings, the 5 December 1996 decree, which is based on section 51 of the 12 April 1996 Act, stipulates the precise number of Government representatives, apportioned by ministry, on a case by case basis for each enterprise concerned.

With regard to undertakings in the private sector, Section 2 of the Statutory Instrument of 30 October 1935 states that in undertakings where the Government directly owns at least 10% of the capital, a number of board seats proportional to its shareholding, not exceeding two thirds, is reserved for it. Section 139 of the New Economic Regulations Act of 15 May 2001 (known as the "NRE" Act) provides that Government representatives may also be appointed in undertakings where the State indirectly holds at least 10% of the capital, either alone or with one of its public establishments.

### Who can be appointed to represent the Government?

Article 3 of the 12 July 1994 decree states that Government representatives are chosen from among Grade A civil service staff or Government contract staff of equivalent grade, either on active service or retired, aged at least 30 or with at least 8 years of public service. They may also be chosen from among the chairmen, chief executives, deputy or assistant chief executives or members of the management board of Government-held public establishments, or of public-sector undertakings in which the Government directly or indirectly owns the majority of the capital.

However, Government representatives to undertakings appointed in virtue of section 139 of the NRE Act can be drawn from a slightly wider pool from that point of view, as provided in the same section.

### How are Government representatives designated?

Government representatives are generally designated by the Government alone. Article 5 of the 12 July 1994 decree stipulates that in undertakings subject to section 11 of the DSP Act, together with other undertakings in which the Government directly owns the majority of the capital, Government representatives are appointed by decree by the Prime Minister, based on a report by the minister concerned. In the other cases, Government representatives are designated by decision of the minister or ministers concerned, except where otherwise stipulated in the articles of association.

However, Government representatives on the boards of directors of undertakings subject to the NRE Act are appointed by the competent body of the enterprise (i.e. in principle by the annual general meeting of shareholders), on the motion of the ministers on whom they are dependent as public civil servants, or of the supervising ministers of the establishment or enterprise of which they are directors, depending on the case.

### What are the rights and obligations of these representatives?

According to article 4 of the 12 July 1994 decree, Government representatives sit (on boards) and act with the same rights and powers as the other members.

### Can they receive directors' fees?

Government representatives on the Boards of publicly-held undertakings subject to section 11 of the DSP Act do so in an unpaid capacity, without prejudice to reimbursement by the enterprise of expenses incurred in the discharge of their duties. The same applies to subsidiaries of publicly-held undertakings in which Government representatives sit in virtue of section 15 of the 12 April 1996 Act. The situation is different, technically, in undertakings subject to the NRE Act, insofar as the appointment is not "unpaid", but all remuneration received by Government representatives is repaid into the general Government budget.

Aggregate performance in 2008 was satisfactory and stable relative to 2007, with a result representing 82% of the target score (defined as the best possible score for the entire sample). Independently of features specific to individual undertakings, this reflects the good overall match achieved between the governance of these undertakings and the principles enshrined in the Government Shareholding Agency Charter. However, deficiencies with respect to strategy committees were identified this year in the portfolio of unquoted companies. It was considered that these committees need to be set up in a number of entities now grappling with the challenges of growth.

Generally speaking, the task of strategy committees is to prepare board discussions of the multi-year strategic plan and the practical execution of undertakings' strategic operations.

While the APE has already contributed to the creation of this type of committee where appropriate, as in the cases of the SNCF, La Poste, RFF, France Télévisions, and La Française des Jeux (where the strategy committee is currently being established), there is still room for progress.

## Application of the Charter on relations between the Government Shareholding Agency and the entities within its scope

### Methodology

Directors from the Agency representing the Government on the Boards of Directors of nearly 50 in which the State is a shareholder, were questioned since 2004 on the application by these undertakings and entities of the Charter governing their relations with the Agency. They were again questioned at the 1<sup>st</sup> half of 2008. The questionnaire used the four broad headings contained in the Charter, namely: powers and functioning of the Board of Directors, powers and functioning of the audit committee, powers and functioning of the strategic committee, and relations with the Agency (reporting, regular meetings, etc), comprising 30 questions in all. Certain questions required a yes/no reply (is there an audit committee or not?), while others required a judgement (concerning the quality of the Board's work, for example). The questions are not weighted, and replies are not weighted according to the size of the enterprise so as not to distort the questionnaire's aim. Answers are scored 1 = poor, 2 = mediocre, 3 = average, 4 = good, 5 = very good, giving a theoretical maximum score of 150 for the 30 questions for each enterprise. Because some questions were not relevant to certain entities (for example, the question concerning a strategic committee does not apply to small companies), this theoretical score was corrected in order to set a target score for each company, constituting the maximum actually achievable.

The target scores and scores for each enterprise were then added together and compared globally and for each of the Charter's broad headings. The resulting scores thus serve as a measure of performance. A distinction is made between quoted companies and other companies or public establishments of an industrial or commercial nature.

**Entities in 2004 and 2005:** ADIT, ADP, Air France-KLM, Areva, Arte, ATMB,CDF, Cogema; CGMF, Civipol, CNP, Dagriss, DCI, DCN (devenue DCNS en 2007), EDF, EMC, EPFR, EPRD, ERAP, Française des Jeux, France 3, France Télécom, France Télévisions, Gaz de France, GIAT, Imprimerie Nationale, La Poste, NSRD, RATP, Renault, RFF, SANEF, Semmaris, SFTRF, SGGP, SNCF, SNCM, Snecma (become Safran in 2005), SNPE, Sofréavia, Sogepa et Sogéade (and by their intermediate, EADS),Thales, TSA.

### Changes in the scope of the evaluation exercise in 2006:

- deconsolidated: Alstom, APRR, ASF and SANEF ;
- first-time consolidation: GRT Gaz, RTE, Sovafim ;
- floated on the stock market: ADP, EDF and Gaz de France.

### Changes in the scope of the evaluation exercise in 2007:

- deconsolidated : EMC, Sofreavia
- first time consolidation : Port autonome de Paris, Monnaie de Paris, LFB.

### Changes in the scope of the evaluation exercise in 2008:

- deconsolidated: CDF, Dagriss ;
- first-time consolidation : Aéroport de Bordeaux-Mérignac, Aéroports de Lyon, Aéroport de Toulouse-Blagnac.

### The questions asked:

**Powers of the Board of Directors:** review of strategic plan, approval of strategic plan, implementation of strategy, review of execution of budget for year y, review of budget for year y+1, time taken to send documents to the director, existence or otherwise of standing rules and procedures, content of standing rules and procedures, compliance with these rules and procedures, quality of the proceedings of the Board.

**Audit committee:** existence or otherwise of an audit committee, membership of the audit committee, audit committee's remit, existence or otherwise of standing rules and procedures, time taken to send documents to the director, time lag in communication between audit committee and Board, minutes and report on the audit committee's proceedings to the Board, quality of the committee's proceedings, recourse to outside expertise, frequency of meetings.

**Strategic committee:** existence or otherwise of a strategic committee, quality of the proceedings of the strategic committee.

**Relations with the Agency:** existence or otherwise of reporting, quality of reporting, existence of meetings to review work or exchanges of views, preparation of budget, review of plans for external growth and disposals, review of the financial statements, identification of Agency correspondents, action taken to understand the workings and activities of the company.

### Results of questionnaire (% of target score)

	2004	2005	2006	2007			2008		
	Total	Total	Total	Quoted companies	Other entities	Total	Quoted companies	Other entities	Total
<b>Powers of the Board</b>	75 %	78 %	79 %	82 %	78 %	79 %	83 %	79 %	80 %
<b>Audit committee</b>	72 %	80 %	84 %	84 %	92 %	89 %	86 %	89 %	89 %
<b>Strategic committee</b>	78 %	81 %	87 %	83 %	90 %	86 %	83 %	70 %	75 %
<b>Relations with the Agency</b>	72 %	74 %	76 %	70 %	79 %	78 %	78 %	78 %	78 %
<b>Total</b>	<b>73%</b>	<b>78 %</b>	<b>80%</b>	<b>80 %</b>	<b>82%</b>	<b>82 %</b>	<b>83%</b>	<b>81 %</b>	<b>82%</b>
<b>Number of respondents</b>	<b>43</b>	<b>44</b>	<b>43</b>	<b>9</b>	<b>37</b>	<b>46</b>	<b>9</b>	<b>38</b>	<b>47</b>

## Setting senior managers' remuneration: an essential feature of the role of the State as a shareholder

The remuneration of the senior managers of entities within the Government Shareholding Agency's portfolio is subject to very close scrutiny. This is an important feature of the role of the State as a shareholder, performed in keeping with the applicable legal framework (see sidebar opposite). This is because the shareholder is naturally interested in the performance of these senior managers in their respective entities.

Consequently, the Agency is seeking to overhaul the procedures for setting the remuneration of senior managers of State-owned and semi-public undertakings, paying particular attention to the wide-scale implementation of remuneration committees wherever applicable. One of the chief missions of this committee is to prepare board proceedings by formulating opinions and proposals regarding the various components of the remuneration of corporate officers (i.e. chairmen, chief executive officers, deputy chief executive officers and members of management boards), notably the salary (both fixed and variable components), the criteria and objectives for the variable portion, together with the appraisal of the performance of senior managements in relation to the objectives set.

In addition, the Agency takes care to ensure that the remuneration of senior managers is directly linked to their performance and that the variable component of their remuneration is truly incentive in character, based on both quantitative and qualitative criteria and objectives. Quantitative criteria embrace balance sheet structure, operational results and profitability, etc., while qualitative criteria include quality of service rendered and successful execution of certain projects, etc.

### The Government Shareholding Agency supports the development strategies of entities within its scope of combination

The objective of optimising the long-term asset value of the Agency's portfolio gives priority to strategic and industrial aspects, in a medium to long-term value creation perspective. For example, the State as a shareholder supports the development strategy – whether through organic growth or acquisitions – of undertakings in which it is a shareholder. Logically, it plays a leading role in industrial combinations involving its shareholders. It unfailingly supports this kind of operation promoted by the managers of undertakings when these are in the interests of the shareholder and the enterprise, paying especially close attention to their financial terms and conditions.

## The GDF-Suez merger

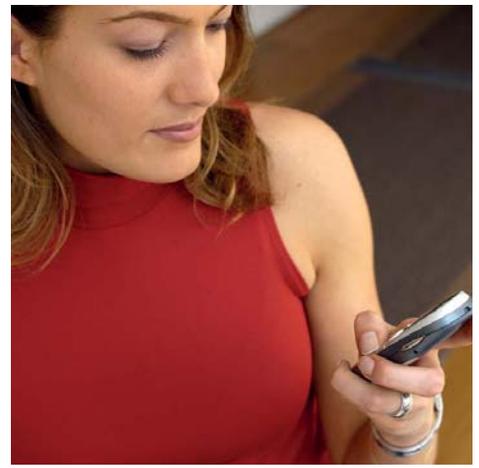
A highlight of 2007 was the announcement during the summer of the new terms of the merger between Gaz de France and Suez, laying the groundwork for completion of the merger in July 2008. The completion of this project promoted by the two undertakings was also made possible thanks to the clear and sustained support of the Government, as majority shareholder of Gaz de France, given the strategic benefits of the merger for the enterprise. In September 2007 the President of the French Republic and the present Government announced the new strategic and industrial terms of the project to combine the two firms, strengthening its rationale by refocusing the group on energy. This entailed the distribution of 65% of the shares of the environmental services division to the shareholders of Suez.

The Gaz de France-Suez combination has created a global energy leader, ranking among the world's top three quoted utilities. The planned merger will answer the strategic needs of Gaz de France by giving it access to large-scale electricity generating capacity and by conferring a resolutely international dimension on it. In addition, it will strengthen the security of energy supply – of gas in particular – for France and beyond Europe.

The combined Gaz de France and Suez group forms the largest energy firm in Europe, by revenue, with first-class positions both in liquefied natural gas (LNG) and nuclear power. GDF Suez is now a European energy sector champion alongside major corporations such as Total and EDF, and will be a front-rank player on the international scene.

### The planned partnership between France Télécom and TeliaSonera

France Télécom confirmed its interest in acquiring the Scandinavian operator TeliaSonera on 15 April 2008, and announced on 5 June 2008 that it made a friendly approach to this enterprise with a view to combining the two groups. The Government Shareholding Agency paid especially close attention to this structurally important project, due to its strong industrial logic and consistency with France Télécom's strategy. At the same time it took steps to ensure that the latter continued to apply the financial discipline it had set itself with regard to external growth. After negotiating, France Télécom considered that the conditions demanded by the Board of Directors of TeliaSonera were incompatible with those laid down by its own Board of Directors in order to proceed with the bid. It decided on 30 June 2008 not to submit a firm tender offer to the shareholders of TeliaSonera.



### The planned partnership between EDF and British Energy

One of EDF's strategic growth objectives is to play an active role in the current revival of electro-nuclear power around the world, particularly in the United States, the United Kingdom, China and South Africa. Within this framework, EDF embarked on discussions with the UK authorities in 2007 on the role it could play in investing, building and operating future nuclear reactors in Britain, primarily based on EPR technology. Following the announcement by the UK Government of its intention to dispose of its interests in British Energy, the main nuclear operator as well as owner of sites earmarked for future reactors, and upon being solicited by the Board of Directors of this firm,

EDF presented, then studied in detail with the APE, the terms and conditions of a tender offer to acquire the entire capital of this operator, putting it in a position to develop new reactors on British soil safely and effectively. With the assent of its Board of Directors, on 24 November 2008 EDF announced that it had submitted a public tender offer, unanimously recommended by the Board of Directors of British Energy, to acquire the entire capital of the company for a price of 774 pence per share, valuing British Energy at £12.4 billion. EDF has secured an irrevocable commitment from the main shareholders of British Energy to present their shares in response to the bid. If successful, this transaction will trigger a series of agreements with the UK Government giving EDF access to sites suitable for the building of four or five EPR reactors. EDF has also announced that it is seeking a partnership with an operator already present on the British market to sell 25% of the acquisition vehicle in exchange for rights to energy produced by British Energy. This operation, the largest ever carried out by EDF, will make it the number one electricity producer in the United Kingdom and the leader in that country's nuclear revival.



### he planned tie-up between Air France-KLM and Alitalia

Alitalia is in severe financial difficulty despite three capital increases since 1998. In September 2007 the company adopted a three-year restructuring plan aimed at returning to operational breakeven in 2010. Alitalia is also seeking potential buyers. As an historical partner of Alitalia, Air France-KLM has expressed its interest. In December 2007, the Board of Directors of Alitalia announced its preference for the candidature of Air France-KLM, which then entered exclusive negotiations with Alitalia. Air France-KLM filed a binding bid in March 2008. This bid was subject to several conditions, including approval by Alitalia's trade unions of an industrial plan and accompanying staff reduction measures. On 21 April 2008, Air France-KLM stated that the contractual undertakings given were no longer valid, since the suspensive conditions that were to have been satisfied prior to the launch of a bid had not been fulfilled. Since then, Italian industrial firms and financiers, under the auspices of the Italian government, have been seeking to arrange a partial buy out of the enterprise.

The Government Shareholding Agency also provides support for the strategic growth and resumption of organic and external investment projects within undertakings for which it is responsible, where appropriate.

Areva's expansion into mining is a good example of this, both through exploration and production in existing mines as well as the launch of new projects, including via external acquisitions where appropriate. By way of illustration, on 13 July 2007 Areva announced the success of a **friendly tender offer launched on 25 June 2007 for Uramin, a mining company** quoted in London and Toronto. Areva's bid valued Uramin at slightly over \$2.5 billion. The deposits identified by this Canadian "junior" in Africa (Namibia, Central African Republic and South Africa) are due to enter operation starting in 2009, producing more than 7,000 tonnes of uranium annually after 2012.

This acquisition forms part of an ambitious programme to expand uranium production, which is part of the enterprise's strategic action plan, aimed at further diversifying Areva's sources of production and securing long-term uranium supplies for its clients. Uramin's projects are currently being integrated into Areva's mining division.

**The acquisition of Geodis by SNCF** is another example. SNCF launched a public tender offer for the entire capital of its subsidiary Geodis, in which it already held 42.4%. The bid was launched on 28 May and completed on 1 July 2008, at a price of 135 euros per share, coupon attached. This gave SNCF control of more than 95% of Geodis and enabled it to set in motion a squeeze out procedure. The deal will serve to adapt the transport and logistics division's industrial organisation by centralising customer relations, as well by improving the administration of "major accounts", and through increased capacity to offer multimodal solutions to clients.

Following on from the Government's role in the **creation of La Banque Postale, the broadening of La Banque Postale's product range** to consumer credit and property and casualty insurance is an example of how the State as a shareholder can provide support for organic growth. While La Poste, and subsequently La Banque Postale, have long drawn the attention of the Government to the benefits and need for it to expand its product range to include consumer credit, it had never previously been thought desirable to extend this product range. However, in view of the successful creation of La Banque Postale and the satisfactory outcome of its first two years of operation, on 20 November 2007 the Minister of the Economy, Industry and Employment announced that La Banque Postale would henceforward be authorised to distribute consumer credit. The Minister stated that La Banque Postale, together with whichever partner it selects to work with in designing and marketing consumer credit products, should be mindful of the need to prevent and tackle over-indebtedness.

After an open and transparent process that took place between December 2007 and July 2008, La Banque Postale selected Société Générale to form a joint venture with it to distribute consumer credit as of the end of 2009.

Similarly, in April 2008 the Minister of the Economy, Industry and Employment authorised La Banque Postale to distribute property and casualty (P&C) insurance. La Banque Postale accordingly embarked on a consultation in June 2008 aimed at selecting a partner with which to start distributing P&C insurance in 2006.

### The Government Shareholding Agency contributed to inter-ministerial consultations on certain structural reforms and to their implementation

The Agency has played a major and proactive role in the recent structural reforms of the public sector in France, including changes of legal status and, where applicable, modernisation of the regulatory framework governing EDF, GDF, ADP, La Monnaie de Paris and the LFB, and the creation of La Banque Postale, the aim being to lay the groundwork for the modernisation and development of the undertakings concerned. It pursued this mission within the framework of the major reforms instigated by the Government.

### Reforms of public broadcasting

Far-reaching reforms of public broadcasting were embarked on in 2007 and 2008, to which Agency contributed in close collaboration with the other government departments involved.

This concerns the reform of France Télévisions (FTV) in the first place, following the announcement by the President of the French Republic on 8 January 2008 of his desire to see the progressive elimination of advertising from the group's television channels.

The “Commission for the new public television” reported to the President on 25 June 2008. The latter described in broad outline the future of development of FTV on that occasion. The reform will take effect starting on 1 January 2009, with the elimination of advertising on public television channels in the evenings, initially, together with reform of FTV’s mode of financing and governance, the creation of a single enterprise, and the assertion of a new ambition for public service broadcasting. To that end, a law on the new public television service will be discussed in Parliament in the autumn, and a new statement of missions and duties for FTV will be adopted, along with a new contract spelling out objectives and means. Against this background of far-reaching change, the Government decided to make FTV a capital grant of €150 million for 2008. After having been notified of this under the rules on State aid, the European Commission decided on 16 August 2008 to authorise this capital grant, which was paid in August 2008. The other reform of public broadcasting now in progress is the reform of French and French speaking public external broadcasting. A holding company called Audiovisuel Extérieur de la France has been set up to bring together all the different external broadcasting bodies (TV5 Monde, RFI and France 24) with a view to instilling fresh impetus and streamlining the instruments of external broadcasting policy. A consistent form of governance has been put in place and many functions are now pooled.

### **Harbour reform**

A law reforming the French ports was enacted in 2008. This law seeks to restore the competitiveness of France’s ports, whose shortcomings had been highlighted in the joint report of the *Inspection générale des Finances* and the *Conseil général des Ports et Chaussées*, submitted in July 2007. In particular, among the causes of this lack of competitiveness the report had emphasised the lack of unity of command in the logistic chain. Indeed in the situation prevailing prior to implementation of this law, port facilities and their operators are managed by the port authorities, whereas the dock workers depend on the freight handling companies.

Following the mission’s recommendations, this reform provides for a transfer of facilities activities to private operators, which will simplify the organisation of handling, and a refocusing of the ports on their sovereign missions, port policing in particular, infrastructures and access structures and their maintenance, together with development of the port premises.

In addition, the governance of the ports is to be modernised along the lines of companies with a supervisory board. The supervisory board will be smaller than the existing boards of directors, with increased representation of central and local government representatives. Finally, this reform will be accompanied by a stimulus plan backed by a proactive investment policy.

The Government Shareholding Agency was one of the Government agencies involved in steering this project, especially at the reform design stage and for the drafting of documents. It intended to support the port authorities in implement this reform.

### **Reform of rail infrastructure pricing**

Rail network pricing is currently a major issue. The sector is experiencing far-reaching upheavals, with the emergence and growth of competition among rail operators, and ambitious plans to regenerate and expand the rail network, notably via public-private partnerships (PPP). These prospects have forced a radical rethink of the network pricing system, aimed notably at sending economically relevant signals to the different actors and at preparing for the advent of competition. To that end, royalties will henceforth be based on marginal use costs, diverging from these for each rail activity where market conditions permit. For example, a royalty for rail traffic ought to cover the variable costs for all activities; an adjustable reservation royalty depending on track, time of use and even the train’s capacity will permit more efficient pricing of infrastructure scarcity; an access royalty – an admission fee for administered activities such as the TER regional trains, the Transilien Paris region trains and the Corail trains – will cover the regional network’s fixed costs – and reveal them to the organising authorities. These problems lie at the intersection of budget, economic and political issues, with significant financial and strategic impacts for undertakings in the sector, especially the publicly-held ones (RFF and SNCF).

### **Securing the long-term liabilities of nuclear plant operators**

The Government Shareholding Agency also takes part in work on the implementation of mechanisms aimed at steering public policy in close consultation with the other ministries concerned. In practical terms, this has given rise to the transparent mechanism adopted to secure financing for the long-term liabilities of nuclear plant operators, Areva and EDF foremost among them. As far back as 2005, the Agency proposed that the liabilities of each nuclear operator arising out of their nuclear plant operating activities and their financing be ensured *ex ante*. Consequently, a special mechanism has been included in the programme law on the sustainable management of radioactive matter aimed at securing the financing of long-term charges arising from nuclear activities (covering plant dismantling and waste management). This is done by required operators to assess these charges conservatively, establish appropriate provisions for them, and to ring-fence sufficient financial assets on operators' balance sheets to cover these provisions. After the passage of the Act on 28 June 2006, the Agency in conjunction with the General Directorate for Energy and Climate (DGEC) and the main undertakings concerned, put forward the necessary regulatory measures to spell out the framework called for in the Act. The 23 February 2007 decree and the decision of 21 March 2007 laid down a uniform classification of the different charges connected with the activities of nuclear plant operators, laid down the methods of conservative evaluation to be completed with, spelled out the different authorised classes of financial assets and the risk limits that must not be breached, provided for a dedicated governance mechanism for the asset portfolio within undertakings, and for its control by the administrative authority under the supervision of a Parliament-appointed commission.

The Government representatives also provided support for the implementation of robust, operational mechanisms within undertakings by initially sitting on the specialised committees of the undertakings' governing bodies. Three years after the launch of this reflection process, the procedure is now in place and controlled by the DGEC. Beyond the need for transparency in this area, especially where the public is concerned, the financial stakes for the sector are very significant, representing assets worth €15 billion for EDF and €5 billion for Areva.

### **Winding up and liquidation of Charbonnages de France, 1 January 2008**

Since 2006, the Government Shareholding Agency, together with all of the Government departments (General Directorate for Energy and the Climate, Budget Directorate, and Directorate for Legal Affairs) and parties concerned, namely Charbonnages de France, ANGDM and the BRGM, have been working on plans for the winding up of Charbonnages de France and the transfer of the public establishment's liabilities, rights and obligations to the appropriate structures. The liquidation was ordered by the decree no. 2007-1806 of 31 December 2007 and took effect from 1 January 2008 for a period of three years. In disposing of the assets by Charbonnages de France, the Agency paid particular attention to monitoring that the financial interests – and ultimately those of the State – were preserved. For the most important of these, as in the case of Sofirem in 2007, it provided technical assistance to Charbonnages de France.



### A heavy caseload of European Community developments relating to undertakings within the Agency's scope of combination in 2007 and 2008

A particular feature of the Government's role as a Shareholder is that its interventions or shareholdings in certain entities are strictly constrained by the Community rules enshrined in the EC Treaty. Consequently some of the major reforms, such as reforms to the funding of the pension schemes of major public operators or the creation of Banque Postale, and operations such as recapitalisations and Government participation in restructuring plans, for example, must receive the prior assent of the European Commission. The latter verifies that these plans are compatible with the Treaty, especially where State aid is concerned (see box opposite).

The Agency is therefore keenly sensitive to Community issues and maintains close working relations with the European Commission, being careful to keep it regularly informed of the different reforms and projects in progress. It pays particular attention to compliance with Community law, both in its relations with the entities of which it is a shareholder, and in the course of the operations it conducts.

The following cases involving the Community featured particularly prominently in the work of the Agency in 2007 and early 2008.

### The Commission approved the plan of Government intervention in the restructuring of SNCM

Discussions have been taking place with the European Commission since mid-2005, following the reversal in June 2005 by the Community courts of the Commission's decision of 9 July 2003 authorising restructuring aid for SNCM, and in the wake of changes in SNCM's shareownership since that date (with a recapitalisation followed by the sale of 38% of the capital to Butler Capital Partners and 28% to Veolia Transport). The Commission handed down its decision on 8 July 2008. This held (i) that the measures relating to the recapitalisation of SNCM prior to its disposal did not constitute State aid and, (ii) concerning the measures already reviewed in its decision of 2003, overturned by the Court of First Instance, it authorised €53.48 million in the form of compensation for the provision of a public service and €15.81 million in the form of restructuring aid. The decision is a positive step and will allow SNCM and its buyers to pursue the company's ongoing turnaround.

### The Commission authorised payment by the Government of a capital grant of €150 million to France Télévisions

In keeping with the recommendations of the *Commission pour la Nouvelle Télévision Publique* (Commission for the New Public Television) and at the request of the President of the French Republic, the Government decided to make a capital grant of €150 million to France Télévisions in 2008. This capital grant is intended to reinforce its balance sheet and enable it to finance its public service missions in the wake of the announcement of the reform of public broadcasting on 8 January 2008.

This intervention was notified to the Commission on 11 June 2008, and the latter decided on 16 July 2008 to authorise it on the grounds that it constituted a compatible form of State aid.

### The Commission authorised the reform of the funding of pensions central government civil servants attached to La Poste

The reform of the mechanism for the financing of pensions central government civil servants attached to La Poste was notified to the European Commission on 23 June 2006. The French authorities took the view that this reform did not contain any State aid, since it was limited to creating a situation of fair competition for La Poste vis-à-vis its competitors with respect to pension liabilities. Following numerous exchanges of views with the Commission and replies to its requests for further details, the Commission approved the reform by decision of 10 October 2007. The approval of this reform, which the Commission considers a compatible form of State aid, was an important milestone for La Poste.

### Procedure concerning the distribution of the “Livret A” savings passbook

After having opened a procedure in June 2006 regarding the method of distribution of the “Livret A” and “Livret Bleu” savings passbooks, on 10 May 2007 the European Commission called on the French authorities to put an end to the special distribution rights enjoyed by La Banque Postale, the Caisses d’Épargne and the Crédit Mutuel, considering these rights to be contrary to the principles of freedom of establishment and the freedom to provide services.

Parallel to the introduction of an application for annulment before the Court of First Instance of the European Communities in July 2007, the French authorities began planning to lift restrictions on the distribution of the “Livret A” passbook. Title IV of the Economic Modernisation Act adopted by Parliament in July 2008 contains a provision permitting all banks to distribute the “Livret A” as from 1 January 2009. However, La Banque Postale will retain its specific mission of providing access to banking services for all citizens, as explicitly acknowledged by the European Commission in its decision of 10 May 2007.

The French authorities will naturally ensure total compliance with the criteria laid down in Community law for compensation in return for public service obligations when determining the specific compensation to be paid to La Banque Postale in respect of its mission to provide banking services for all.

### Procedure pending concerning the presumed State guarantee that La Poste is alleged to receive in virtue of its status as an “EPIC”<sup>\*</sup> or equivalent

In autumn 2006 the European Commission issued a recommendation concerning the presumed State guarantee, which it claims La Poste receives in virtue of its status as an “EPIC” or equivalent, requesting that this supposed guarantee be rescinded as of 31 December 2008.



Notwithstanding the constructive dialogue with the Commission staff on this subject throughout 2007, the Commission decided on 23 October 2007 to institute a formal examination procedure. While continuing to argue that, legally speaking, La Poste’s status as an “EPIC” implies no automatic State guarantee, the French authorities stated their willingness to clarify still further the regulation applicable to La Poste in order to dispel any remaining ambiguity. They also showed that La Poste’s credit rating and cost of funds owed nothing to its legal status.

### Procedure pending concerning the reform of the funding of pensions of RATP personnel

The reform of the method of funding the pensions of RATP personnel was notified to the Commission in June 2006. In the view of the French authorities, this reform does not imply any element of aid since it merely eliminates a disadvantage from which the RATP suffers and its effects are pro-competition. The Commission decided on 10 October 2007 to institute a formal examination procedure of the assumption by the State of specific entitlements and the attachment of the basic entitlement to the French general pension scheme. The French authorities replied to the Commission in January 2008, and then in April 2008 to the comments expressed by the SUD-RATP trade union, the only third party to have submitted observations to the Commission. The European Commission is expected to make known its position on this dossier in the coming months.

### Opening of a Community procedure concerning Sernam

Responding to complaints received by it, the Commission decided on 16 July 2008 to open an investigation into aid that may have been granted to Sernam, the former road and rail subsidiary of SNCF.

The French authorities consider that they provided no new aid in the course of the disposal of Sernam to its management. Moreover, they consider they had fully complied with the 2004 decision of the European Commission demanding recovery from Sernam of €41 million in incompatible State aid. The French authorities will furnish the European Commission with all information required to assure it that this dossier is compliant with Community rules on State aid.

### Opening of a formal examination procedure concerning the reform of the funding of pensions of central government civil servants attached to France Télécom

In the wake, notably, of a complaint filed by a competitor in 2002, the European Commission decided on 20 May 2008 to institute a formal examination procedure concerning the reform of the method of funding the pensions of central government civil servants attached to France Télécom, as organised by the French 26 July 1996 Act. The Commission wants in particular to verify that this reform is compliant with the approach laid down by it in its decision of 10 October 2007 validating a similar reform of the funding of pensions of central government civil servants attached to France Télécom. The reform under examination was designed to eliminate an exceptional arrangement that penalised France Télécom in particular, and to enable it to compete fairly. Since 1 January 1997, France Télécom paid a levy in discharge calculated in such a way as to equalise the level of compulsory payroll-based social security and tax charges between France Télécom and the other companies in the telecommunications sector, which are subject to ordinary law welfare benefits with respect to risks that are common to ordinary-law employees and central government civil servants. Pursuant to this reform, France Télécom paid an exceptional lump-sum contribution of €5.7 billion to the State in 1997. In July 2008 the French authorities submitted their observations to the Commission, enabling the latter to ascertain that the reform in question is fully compliant with Community law.

<sup>\*</sup> “Établissement public à caractère industriel ou commercial”: Public establishment of an industrial or commercial nature

### Community litigation concerning France Télécom

There are several legal cases against France Télécom pending before the Community courts, the French authorities having applied in October 2004 for annulment of the European Commission decisions of 2 August 2004 in which the Commission claimed (i) that the specific business tax regime applicable to France Télécom until 2002 provided the enterprise with a form of aid incompatible with the EC Treaty that must therefore be repaid, and (ii) that the “shareholder’s advance granted to France Télécom in December 2002 in the form of a €9 billion credit line set against the backdrop of Government statements from July 2002” constituted State aid that is incompatible with the European competition rules, but without demanding reimbursement. The European Commission’s decision was contested insofar as it did not demand reimbursement of the alleged aid in respect of the shareholder’s advance of December 2002.

Procedures before the Community court are still in progress, the written procedures proceedings being completed now. In their statements of case, the French authorities and France Télécom have put forward a series of arguments establishing the absence of incompatible State aid in the two dossiers concerned. The oral hearings are scheduled to take place in the coming months. Moreover, pending the final decision of the Community court regarding the special business tax regime, discussions have been held with the Commission regarding the amount of the alleged aid with a view to its possible recovery. Due to the methodological difficulties inherent in this exercise, however, these exchanges have failed to reach a conclusion. The European Commission decided in July 2006 to appeal to the European Court of Justice on grounds of non-compliance. On 18 October 2007, the Court of Justice held that the French authorities were in breach of their obligation to execute the decision of the Commission within the period prescribed.

Following the decision and the ensuing discussions between the Commission and the French authorities, France Télécom placed the sum of €964 million in an escrow account pending a final decision on the substance of the case and without prejudice to the persistent methodological difficulties regarding evaluation of the alleged State aid. The said sum corresponds to the net evaluation by the Commission of the purported incompatible State aid, after allowing for corporation tax and interest on overdue payment calculated as per the Commission Regulation of 21 April 2004. If the Court of First Instance of the European Communities rejects the application for annulment of the Commission’s decision of 2 August 2004, the amount in escrow will be transferred to the State. Otherwise, it will be restored to the full disposition of France Télécom.

### Community proceedings in progress on regulated prices in the energy sector

The European Commission is contesting the French system of regulated prices in the energy sector on two grounds.

On the one hand, on 13 June 2007 the DG Competition instigated a procedure regarding State aid with respect to regulated prices and the prices charged to returning customers which, according to the Commission, constitute State aid because they are deemed to be too low. On the contrary, the French authorities consider that these prices are compliant with Community law since they serve to keep prices charged to consumers at an acceptable level, being based on costs and having due regard to the need for further investment, and not on market prices, which do not appear to be economically relevant in the present case. The French authorities transmitted their observations in that regard to the Commission in summer 2007 and early 2008.

Meanwhile, as regards regulated electricity and gas sale prices, the DG Internal Market and Services gave the French authorities formal notice on 4 April 2006, followed by a reasoned opinion on 12 December 2006, contesting the compatibility of regulated prices with Community directives on the internal electricity and gas market. In their 15 March 2007 reply to the Commission’s reasoned opinion, the French authorities argued that these prices were compatible.



### Community proceedings in progress concerning online gambling

The European Commission opened an infringement procedure against France on 18 October 2006, giving formal notice on grounds of the “restrictive effects of French legislation on the provision and promotion of off-site betting on sporting events”. Following the French response, the Commission issued a reasoned opinion on 29 June 2007. The Government and the Commission then entered into discussions. The Government stated that France was “ready to move towards a controlled opening of its gaming system” and decided on 11 June 2008 to enter into a process of “controlled opening up of betting on sporting and horse racing events and, within a perimeter to be determined, of certain online casino games”

## The other main mission of the Government Agency is to execute capital transactions decided by the Government

The Government Agency is responsible for implementing transactions on the capital of public entities in the best interests of the State, once the Government has decided on these transactions. It also plays an important role in monitoring and analysing developments, and making proposals, regularly recommending transactions on the capital of undertakings within its purview to the Government when it considers them to be beneficial to the patrimonial interests of the State, having due regard to the market value of these undertakings and their medium-term prospects, etc. During the course of 2007 the Government Agency took part, at Government request, in a number of transactions that, strictly speaking, lay outside the scope of its portfolio.

## The Government Agency successfully completed several transactions concerning the capital of State-owned or semi-public undertakings in 2007 and 2008\*

### Sale of 5% of the capital of France Télécom (June 2007)

The Government decided to sell off an additional tranche of its shareholding in this enterprise via an accelerated book building procedure with institutional shareholders. It organised a competition between seventeen banks, which were invited to take part in the placing and to propose a price guarantee. The sale was successfully conducted by the five banks selected on 25 June 2007, yielding net proceeds of €2.63 billion. At the conclusion of the transaction, which took place at a price of €20.40 per share, and after completion of the share offer reserved for employees concerning 0.55% of the capital, the State directly or indirectly held 26.7% of the capital of France Télécom.

### Sale of approximately 2.5% of the capital of EDF (December 2007)

On 3 December 2007, one stock market trading day after the announcement by the President of the French Republic, the Government sold 45 million shares representing 2.5% of the capital of EDF at a price of €82.50 per share. Following this transaction, which yielded a net amount of €3.686 billion, the State holds 84.85% of the capital of EDF. The Government had opted to sell a block of shares exclusively to institutional investors, the sale being guaranteed by a group of banks selected by competitive tender.

Speed of execution is of the essence in this type of operation, which was completed at a particularly awkward time in the stock markets, while raising a considerable amount and safeguarding the interests of the State.

### Sale of a minority shareholding in the capital of Semmaris, operator of the MIN de Rungis (Paris market for fresh foods) (November 2007)

On 9 August 2006 the Government initiated a private treaty procedure with a view to selling off a minority share in the capital of Semmaris. After a wide-ranging call for candidatures that elicited several firm bids, and after consultation of the Commission for Government shareholdings and transfers, the Government selected the bid submitted by the Altarea group. As a result, Altarea has held 33.34% of the capital of Semmaris since 16 November 2007, with the public sector as a whole retaining around 56% of the company's capital (including 32.17% held directly by the State).

The entire sale procedure, and in particular scrutiny of the bids, was carried out under the supervision of Mr. Jean-Luc Lépine, *inspecteur général des Finances*, who was responsible for ensuring the proper conduct of the procedure in his capacity as an independent personality.

### Disposal of the State's shareholding in Dagrif (February 2008)

Dagrif SA (*Développement des agro-industries du Sud*) provides an array of agricultural, industrial and financial engineering services to a variety of players in the cotton and oilseed sectors. It also owns majority and minority stakes in a number of cotton and oilseed producing companies, cotton marketing companies, and providers of logistic services, operating mainly in Africa.

Following an initial privatisation procedure which was halted in summer 2007, on 5 November 2007 the Government announced a new sell-off by the State of 51% of the capital of Dagrif SA, in which the State held 64.7% of the capital overall. At the end of this second procedure and after scrutinising the bids submitted by the candidates, in application of the tender specifications and with the assent of the Commission for Government shareholdings and transfers, the Government selected the best bid, which had been jointly submitted by Advens and CMA CGM via Géocoton Holding.

Advens, which owns 51% of Géocoton Holding, owns interests in industrial, logistics and transport activities in Senegal and Mali. CMA CGM, which owns 49% of Géocoton Holding, is the world's third-largest container shipping company.

The remainder of the State's shareholding (13.7%) was transferred to the *Agence française de développement* (French Development Agency), which will seek to promote the Association of Collective African Investments (*association d'intérêts collectifs africains*) pertaining to Dagrif's sphere of operations, with a view to the acquisition by these investments of a shareholding in the capital of this enterprise.

The privatisation of Dagrif, on 28 February 2008, was part of a wider process of clarifying the roles of the different players in the cotton industry. It is expected to bolster Dagrif's know-how and capacity to undertake ventures in each of the group's businesses, and so enable the company to keep pace with and support the various changes that have taken place in the cotton and oilseed businesses over the past ten years or so. The move will also place Dagrif's contribution to a large number of African economies on a sustainable basis.

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\* Transactions carried out under Title II of the 6 August 1986 Act.

**Main operations carried by the Government Shareholding Agency since its origin**

	<b>Government disposals</b>	<b>Main Capital increases</b>	<b>Mergers</b>
<b>2003</b>	8.5% of Renault in July Sell-off of residual stake in Dassault Systèmes (15.7%) in September 18% of Thomson in November	France Télécom in February, March and August (integration of Orange minority shareholders) Issuance by Alstom in September-December of TSDD and TSDDRA	
<b>2004</b>	Entire stake in SNI (74%) in March Partial sell-off of Snecma and disposal of 35% in June 2004 10% of France Télécom in September 17.7% of Air France-KLM in December	France Télécom in March (integration of Wanadoo minority shareholders) Alstom in July APRR in November	Air France-KLM share exchange in May
<b>2005</b>	Balance outstanding of stake in Bull in March 6% of France Télécom in June IPO of Gaz de France in July IPO of EDF in November	Sanef in March Gaz de France in July EDF in November France Télécom in September (refinancing of acquisition of Amena)	Merger of Snecma and Sagem in May, after successful public tender offer and share exchange offer by Sagem for Snecma (January-February)
<b>2006</b>	Sello-off of entire stake in Sanef, APRR and ASF in February-March Sell-off of stake in Alstom in April IPO of Aéroports de Paris (ADP) in June Sell-off of majority stake in SNCM in May Sell-off of stake in Sofreavia in December	Aéroports de Paris in June	
<b>2007</b>	Acquisition by Thales of 25% stake in DCN in an industrial partnership and combination of the two companies' French shipbuilding activities 5% of France Télécom in June <b>2,5% of EDF in December</b> 33,34% of Semmaris (manager of the Min de Rungis)	Strengthening Alcatel's stake in Thales through transfer of assets (transport and security), in a new industrial partnership in January	
<b>2008</b>	_ Sello-off of entire stake (64,7 %) in <b>Dagris</b> : sell of 51 % to Geocoton (February) and the remainder (13,7 %) to the French Development Agency (May).	_ <b>France Télévisions</b> (August 2008) _ <b>Aker Yards France</b> (Ongoing)	Merger of <b>GDF and Suez</b> (July 2008)

### Merger of GDF and Suez (July 2008)

The merger between Gaz de France and Suez, as decided by the General Meetings of the shareholders of both companies in July 2008, followed the procedures announced on 3 September 2007, i.e.: (i) attribution by Suez of 65% of its now-quoted environmental division's activities to its shareholders, then, concomitantly, (ii) merger of Gaz de France and Suez based on a parity of 21 Gaz de France shares in exchange for 22 Suez shares (i.e. 0.9545 Gaz de France shares for 1 Suez share).

By comparison with the terms announced in February 2006, this operation has enabled the newly merged entity to focus on its energy activities and so create an industry leader, while at the same strengthening the logic of a merger of equals, with a well-balanced project for the two shareholder colleges.

From the point of view of Gaz de France and its public shareholder, this merger meets the entity's strategic needs by giving it access to substantial electricity generating capacity and by conferring a resolutely international dimension on it; it has helped create one of the largest energy players (gas, LNG, electricity and energy services), both in Europe and worldwide, present across the value chain, from production and transport to commercialisation. With a market capitalisation of nearly €80 billion and pro forma 2007 revenues of €74 billion, GDF SUEZ is now a world leader in the energy sector. The merged entity will enhance the security of energy supply, especially gas, for France and Europe; the operation will foster to the emergence of a secure, diversified and flexible energy supply portfolio. Operational synergies arising from the merger are estimated at around €1 billion a year over the medium term.

Following the completion of the operation, the State owns more than 35% of the capital of GDF Suez. With 35.4% of the capital, GDF Suez is the largest shareholder of Suez Environnement, a leading provider of water and waste services in Europe, and has signed a pact with the other main shareholders, e.g. GBL, CDC, Areva, etc., thereby creating a stable core of shareholders with slightly over 48% of the firm's capital. Gérard Mestrallet, Chairman and Chief Executive Officer, manages the new GDF SUEZ group in tandem avec Jean-François Cirelli, Vice-Chairman and President.



### The Government Agency also acted in the acquisition of new shareholdings deemed by the Government to be of strategic value

#### Acquisition by the CEA of an indirect minority shareholding in the capital of STM (February 2008)

On 27 February 2008 the Government announced the purchase from Finmeccanica of 2.86% of the capital of the Franco-Italian STMicroelectronics (STM), the world leader in semi-conductors. The purpose of this transaction is to preserve a well-balanced and evenly-split governance of the company between the French and Italian parties, as provided for in the shareholder pact, particularly regarding equal representation on the Supervisory Board. The French and Italian parties further decided to modify certain terms of the shareholder pact, notably to extend for a further three-year duration, starting on 17 March 2008, the period during which the governance of STM will continue to be exercised on an equal-share basis, on the sole condition that each party hold at least 10.5% of the authorised capital of STMicroelectronics (instead of 9.5% previously). As in earlier agreements, at the end of this period the governance will continue to be exercised on an equal-share basis if the two parties' indirect interests in terms of voting rights in STMicroelectronics are comprised within the range of 47.5% to 52.5%. Failing which, the minority party will have the right to demand the acquisition by STM of shares in STMicroelectronics such as to restore the balance between the two parties' shareholdings. The other aspects of the shareholder pact remain unchanged.

This acquisition was financed by an increase in the capital of FT1CI subscribed by the *Commissariat à l'Energie Atomique* (CEA – French Atomic Energy Commission), which thus became a minority shareholder of FT1CI alongside Areva and signed up to the STM shareholder pact. As a result of this agreement, FT1CI, Finmeccanica and Cassa Depositi e Prestiti respectively held 13.77% (including 10.91% representing Areva's indirect shareholding and 2.86% representing the CEA's indirect shareholding), 3.70% and 10.07% of the authorised capital of STM via STMicroelectronics Holding N.V. (STH).

#### Agreement providing for the acquisition by the State of a shareholding in Aker Yards France (formerly Chantiers de l'Atlantique)

On 12 June 2008 the Government announced the signature of an industrial agreement with the Korean STX group concerning the former Chantiers de l'Atlantique. Subject to approval of the operation by the Board of Directors of Aker Yards, now STX Europe following the bid launched in the summer by STX for the capital of Aker Yards, STX and Government have agreed on the acquisition by the State of a 9% interest in the capital of Aker Yards France.

This shareholding, when added to the 25% held by Alstom, will make France a key partner in the industrial development strategy proposed by STX. It also carries rights to secure the company's strategic decisions relating to its strategy, jobs, changes in its activities or in its capital.

## The State as a Shareholder and the constitutional bylaw on budget acts (LOLF)

The "Government shareholdings special account" is the successor to the privatisation account created by the additional 1986 Budget Act. This mechanism is strictly defined by Section 21 of the 2001 constitutional bylaw on budget acts and Section 48 of the 2006 Budget Act. The account enables budgetary flows associated with Government shareholdings to be managed on a consolidated basis. In practice, it serves to ensure that the proceeds of disposals are not allocated to any specific area of activity; priority is thus given to using them for investment purposes rather than to cover current expenditures.

This account serves to carry out transactions relating to the capital of entities, including subscribing to capital increases, purchasing shareholdings, etc., and for the reduction of central government debt and that of its public establishments. It is subject to approval by Parliament, which votes on an estimate of revenues and expenditures. The revenues provided for in the Initial Budget Act do not constitute a mandatory target, but no expenditure is authorised in the absence of proceeds from the total or partial sell-off of shares in State-owned companies.

### Review of operations in 2007

Revenues totalled €7.725 billion in 2007, which is €2.725 billion more than revenue estimates contained in the Initial Budget Act for 2007. A credit for the same amount was opened by decision of 27 March 2008, pursuant to section 21.II, para. 3 of the constitutional bylaw on budget acts.

The main sources of revenue were:

- disposal by the State of 25% of the capital of DCNS to Thales in March 2007 (€569 million);
- disposal by the State of 5% of the capital of France Télécom in June 2007 (€2.6 billion);
- disposal by the State of 2.5 % of the capital EDF in December (€3.686 billion);
- reversal by Autoroute de France of a portion of the proceeds of the disposal of the motorway companies in 2006 (€46 million);
- reduction of the capital of SGGP (€86 million);
- Sale of a minority shareholding in the capital of Semmaris (€43.4 million)
- Reimbursement of the balance outstanding of the shareholder's advance to SNPE (€75 million)
- Returns on investments by venture capital funds (€23 million)
- The proceeds of deferred revenues arising from extended payment times accorded within the framework of share offerings reserved for employees of France Télécom, EDF, GDF, ADP, Air France KLM and Safran (€335 million).



### APPLICATION OF THE PROCEEDS OF DISPOSALS SINCE 1986

Aggregate proceeds from asset disposals since 1986 total nearly €106 billion, in current euros. Between 1986 and 2007, €23,1 billion of these proceeds served to finance the reduction of public debt, €1.6 billion was paid into the Pension Reserve Fund, while more than €78 billion served to recapitalise public-sector firms, reduce public entities' debt (State not included), or for investment purposes	1986	0,6
	1987	10,2
	1988	2,0
	1989	0,2
	1990	0,1
	1991	0,3
	1992	1,3
	1993	7,1
	1994	9,3
	1995	3,1
	1996	2,0
	1997	8,4
	1998	7,4
	1999	3,0
This table is based on net proceeds recognised by the Government since 1986, i.e. after deduction of commissions and related costs incurred in the conduct of transactions (fees paid to banks in respect of placements, advertising campaigns, etc.). The figures do not include proceeds corresponding to repayments of capital contributions and dividend payments since they are not privatisation proceeds, strictly speaking.	2000	1,5
	2001	1,0
	2002	6,1
	2003	2,5
	2004	5,6
	2005	10,0
	2006	17,1
	2007	7,6
These figures should be interpreted with care, since the amounts are not restated at constant prices or in constant euros. They do not include the value or the cost of maintaining assets within the public sector (compensation paid on the occasion of nationalisations, the historical cost of capital, etc.) <sup>14</sup> .	<b>TOTAL</b>	<b>106,4</b>
	<b>TOTAL</b> (with Erap 2004 and 2005)	<b>111,8</b>

<sup>14</sup>

Between 1996 and 2005 proceeds were recognised in a single account, the special account no. 902-24. Since 1st January 2006 these proceeds have been recognised in a special account known as the "Government shareholdings account", the details of whose mission are spelled out in the constitutional by-law on budget acts, practical details of which are spelled out in Section 21 I § 2 of the constitutional by-law on budget acts of 1 August 2001 and Section 48 of the 2006 Budget Act.

Total expenditures from this account in 2007 amounted to €4.038 billion, split between programme 732 "Reduction of central government and State-held public establishments' debt" (€3.526 billion), and programme 731 "Capital transactions affecting State financial shareholdings" (€512.4 million).

The €3.686 billion balance on this account, corresponding to the net proceeds from the sale of EDF shares in December 2007, was the subject of a credit carry forward from 2007 to 2008 by decision of 27 March 2008. The corresponding credits will serve to finance "Operation Campus", announced by the President of the French Republic at the end of 2007. Ten public-private partnership (PPP) university projects were selected on the basis of letters of intent in the course of 2008 (six at the end of May and four in early July). The selected projects are currently being examined in order to clarify their scope and their mode of financing. The mechanism will be implemented operational in compliance with the asset and financial management rules applicable to the "Government shareholdings special account", i.e. instead of being consumed, the credits will be invested and will yield income serving to pay dividends to the PPP.

### Utilisation of revenues for 2008

Revenues totalled €801 million at 1 September 2008, of which €408 million derived from deferred settlement of share offerings reserved for employees, €334 million from Autoroute de France, €46 million from the disposal of shares held in Dagrís and Enercal, and €7 million from the reimbursement by Oséo Innovation of interest earned in 2007 on the shareholder advance granted by the State to the All.

These revenues served to provide €260.3 million to the CEA to enable it to acquire an indirect 2.86% shareholding in the capital of STMicroelectronics in order to restore the balance between the shareholdings of the French and Italian parties. They are also served to make a capital grant of €150 million to France Télévisions in order to bolster its balance sheet at a time when its business model is changing; this State intervention received the prior assent of the European Commission (see above). Meanwhile, Erap received a grant of €141 million to enable it to complete a €4 billion bond redemption falling due in April 2008.

Proceeds of direct sales	7 463
Products of indirect sales	47
Reimbursements of endowments	88
Reimbursements of shareholder's cash advances	104
Reimbursements of other claims	23
<b>TOTAL REVENUES</b>	<b>7 725</b>

<b>PROGRAM 731</b>	
Action1 (Shareholder opérations)	464
Action 3 (Stock purchases)	0
Action 4 (other investments)	3
Action 5 (commissions)	45
<b>TOTAL EXPENDITURES</b>	<b>512</b>

<b>PROGRAM 732</b>	
Action1 (reduction of public debt)	3 526
<b>TOTAL EXPENDITURES</b>	<b>3 526</b>
<b>TOTAL EXPENDITURES (731 ET 732)</b>	<b>4 038</b>

<b>PROGRAMME 731 - ACTION 1</b>	
Shareholder opérations	
All	300
DCNS (ex DCN)	150
ADOMA (ex SONACOTRA)	12
CGMF	1
Others	0,3

<b>PROGRAMME 732 - ACTION 1</b>	
Reduction of public debt	
ERAP	3 386
CDP (Caisse de la dette publique)	100
CDF	40

## The constitutional bylaw on budget acts serves to assess how efficiently the Government is performing in its role as a Shareholder

The “Government shareholdings special account” is the “budgetary vehicle” for Government action in its capacity as a shareholder. The doctrine presiding over its use was spelled out in the 2006 report (page 26).

The Annual Performance Plan associated with each programme now serves as the reference document for action by it and is required to translate commitments into results, in return for the treatment of means on a global basis. It spells out the strategy for acting more effectively, together with objectives pursued and the indicators required to measure results. Here we focus on the objectives and performance aspects of the Plan. For other aspects, see the Annual Performance Plan for the 2009 Draft Budget Act (15).



Beyond seeking the “best possible value enhancement of Government financial shareholdings”, which is the core activity of the State as a shareholder, the two “Government shareholdings special account” programmes assign the following aims to the Government in its role as a Shareholder:

- increasing the value of financial shareholdings;
- successfully disposing of financial shareholdings;
- contributing to the reduction of central government debt and the debt of Government-held public-sector entities.

### Increasing the value of financial shareholdings

As noted above, the Annual Performance Plans and annual performance reports of the “Government shareholdings special account” provide only a partial view of the Agency’s activity and of the policies pursued by the Government in its role as a Shareholder. Consequently, the prime aim of the programme is more economic than budgetary, being concerned with the proper management of the undertakings in question. In financial terms, the key variable for an investor is the change in the value of the enterprise in which he or she owns shares. The performance of his or her portfolio, in other the words the change in value of his or her patrimonial interests, therefore corresponds to the value created in the course of a given period, generally the last completed financial year.

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15 – This Annual Performance Plan can be consulted at: <http://www.performance-publique.gouv.fr> Path: “LE BUDGET 2009” (2009 BUDGET) – “LE PROJET DE LOI DE FINANCES” (DRAFT BUDGET ACT) – “PLF/PAP” (lefthand column) – “Les comptes spéciaux” (special accounts) (budget appendices) – Document (.pdf format): “Projet de loi de finances 2009 - comptes spéciaux” (Draft 2009 Budget Act-special accounts) – “participations financières de l’État: programme 731, programme 732” (Government financial shareholdings: programme 731, programme 732).

The Annual Performance Plan also spells out the content of the actions contained in each programme.

The State as a shareholder seeks to ensure that undertakings entering within its purview create value and not destroy it, obviously. A comprehensive review is conducted on the basis of the combined financial statements; the five indicators serving to measure the overall performance of financial shareholdings are:

- operating return on capital employed measures the ratio between operating profit, resulting from the business activities of the shareholdings, and assets (property, plant and equipment, and working capital requirement) that were used to develop this activity;
- return on equity is the ratio of profit (operating profit + net financial gain or charge) to capital and reserves, which are mainly those invested by the State as a shareholder;
- operating margin measures the ratio between the operating profit and the revenues of these shareholdings;
- a measurement of debt sustainability establishes the ratio of the entities' net debt (current and non-current financial liabilities less available cash and available-for-sale securities) and their EBITDA (a proxy for the French concept of *excédent brut d'exploitation* or gross operating profit): this measures the number of years of EBITDA that would be required to reduce debt to zero, all other things being equal;
- gross dividend payout establishes the ratio between total dividends received by the State and combined profit. The total amount of dividends received by the State for a given financial year is also presented.

## Successfully disposing of financial shareholdings

Achievement of this second objective mainly depends on optimisation of the proceeds from disposals of shareholdings. This in turn depends on the answer to the question: did the disposals take place in the best patrimonial and cost conditions with regard to the interests of the State? The search for the best possible valuation is especially important for the most significant transactions; this can be analysed according to a series of criteria, particularly ones based on objective elements such as enterprise value, as established by an independent commission (the Commission on shareholdings and transfers), and its stock market value. Details of the terms of sale of shareholdings are provided in Part 1 of this report.

To secure the best conditions in terms of cost, the Government selects the advisers it wishes to retain in order to conduct its transaction by means of a transparent competitive bidding process. The precise means employed to achieve this objective, for transactions on quoted shareholdings, depends on whether the disposal is to take place via an accelerated book building procedure, or by means of a more traditional placing with institutional investors or the public.

The success of disposals also depends on the degree of investor interest they manage to attract, especially among the public. State sell-offs are a very important source of equity market activity, helping to boost their attractiveness, as well as helping to steer household savings into equities.

## Contributing to the reduction of central government debt and the debt of Government-held public-sector entities

Government-held public-sector entities, within the meaning of national and European accounting methods, mainly encompass the central government and certain public establishments. Some entities comprised among financial shareholdings, such as the *Établissement public de financement et de restructuration* (Public sector financing and restructuring establishment), Charbonnages de France (CDF) and *Entreprise minière et chimique* (EMC), which are "Public establishments of an industrial or commercial nature" now in the process of liquidation, exist to manage partially "non-performing" assets of public establishments, or to oversee this management process. These are included in the debt of Government-held public-sector entities within the meaning of the Treaty of the European Union and the Stability and Growth Pact. The current programme in some cases finances the debt associated with these assets, thereby leading to the reduction or amortisation of this debt.

This restructuring of the Government's financial liabilities can be speeded either by disposal of the assets so financed, or by a Government contribution financed out of the proceeds of disposals of financial shareholdings. The Government can also conduct this type of transaction on its own account via the *Caisse de la dette publique* (Government Debt Fund).

These two indicators serve to measure the contribution made by programme grants to the reduction in the net debt and net interest charge of Government-held public-sector entities, whether of the Government directly or of other shareholdings within the scope of these Government-held public-sector entities. In aggregate, and excluding deferrals, the "Government shareholdings special account" contributed €3.526 billion to debt reduction in 2007, out of the total of €4.039 billion in revenues utilised, clearly reflecting the priority given to debt reduction in recent years.