French State as a shareholder

2010 REPORT

Agence des participations de l'État

Foreword

The past year was pivotal for the Government as it continued to support the economy while laying the groundwork for renewed growth. As shareholder, the Government also modernised its investment tools for a newly reaffirmed industrial ambition, to create value and jobs in our economy.

The Government carried on all of the actions undertaken at the worst of the crisis to keep the economy on an even keel. France's automobile plan began to prove its effectiveness. The major publicly-owned groups stepped up their investments, with the backing of the Government as shareholder. And 35 direct investment projects, in high-growth small and medium-sized enterprises (SMEs), mid-sized firms and major groups, representing €1.4 billion for the economy, were initiated by the Strategic Investment Fund (SIF) over its first eighteen months of existence.

The Government also helped form strategic partnerships and build champions capable of competing with global market rivals. La Poste, a public limited company since 28 February 2010, is now in a position to secure the necessary resources for its growth on a market open to competition. The Government also facilitated Areva's disposal of its Transmission and Distribution (T&D) division to refocus the State-controlled group on its core business while substantially reducing its debt. Finally, the combination of GDF Suez and International Power in August heralded the creation of the world's second largest power producer.

Gearing up for recovery, the Government decided to expand and better co-ordinate its action as shareholder, for the benefit of our entire economy. With the appointment of a Commissioner of State Holdings, Jean-Dominique Comolli, the President of the Republic recalled the need for the Government to define and implement a clear, long-range industrial and economic growth strategy for each of its shareholdings, consonant with both its own long-term interests and the specific purpose of each investment.

This new approach stems from the conclusions of the État Généraux de l'Industrie (French Industry Forum), which were presented in March 2010. An ambitious approach, it introduces a number of fundamental changes: strategic reviews at the appropriate ministerial level, conducted jointly by corporate management and the Government as shareholder, like any large shareholder in a private company; better planning of executive appointments in publicly-owned enterprises; regularly scheduled assessments of each entity's contribution to France's industrial growth; and periodic reporting on human resource management policy and measures to prevent psychosocial risks. As in previous years, the Government sought to strike a balance between strong performance by the companies in its portfolio and professional fulfilment for the 1.9 million employees under its responsibility.

Ch Lagarde

Christine Lagarde
Minister for the Economy,
Industry and Employment


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Overview

The 2009-2010 period was punctuated by several operations with a structuring impact on the French economy. La Poste became a public limited company, Renault and Daimler signed a cooperation agreement and, with the planned combination of GDF Suez and International Power, the world's second-largest power producer is forthcoming. Moreover, the Strategic Investment Fund (SIF), owned by the Government and Caisse des Dépôts et Consignations, has invested directly in 35 projects worth €1.4 billion since its establishment.

Reflecting overall downward trends on financial markets, the Government's portfolio of listed shareholdings had a market capitalisation of €88 billion at 1st September 2010, down from €95 billion a year earlier. Its value represented 6.9% of aggregate market capitalisation on the Paris stock exchange, versus 7.6% as of 1 September 2009.

This is the tenth «Government as Shareholder» report, drawn up in compliance with Article 142 of the New Economic Regulations (NRE) Act of 15 May 2001. Part 1 summarises and analyses the combined financial statements of the main State-controlled entities, which are given in extenso in Part 3. This first section also presents the most significant operations having modified the capital of the entities in which the Government holds a stake, for 2009 and since the beginning of 2010. Part 2 gives a detailed presentation of the financial condition and strategy of the main shareholdings.

Overview

Highlights since the previous report

October 2009

SIF sets up the "FSI-PME programme", an equity financing mechanism designed for SMEs and endowed with €1 billion.

November 2009

EDF takes over *SPE* and invests in Constellation Energy.

Most French banks redeem their *SPPE* equity instruments.

December 2009

The bill on the organisation and regulation of rail transport is passed.

The A400M makes its first flight and an agreement on the programme's future is concluded in March 2010.

March 2010

La Poste becomes a public limited company.

April 2010

Renault and Daimler enter into a strategic co-operation agreement.

Parliament passes a law opening online gambling to competition.

May 2010

A merger is announced between Transdev and Veolia Transport, creating a passenger transport group with revenue of more than €8 billion.

June 2010

Areva sells off its transmission and distribution (T&D) division.

The Government as shareholder

The way in which the Government fulfils its shareholding function was entirely revamped in 2010. The appointment, effective 15 September 2010, of a Commissioner of State Holdings reporting directly to the Minister for the Economy, Industry and Employment attests to this major shift in the Government's role as shareholder and the forms of action it deploys to achieve higher efficiency and greater economic and industrial relevance.

Of paramount importance to this new approach is an overarching industrial vision. The entities in which the Government invests are conceived of as part of a clear, long-range industrial and economic growth strategy that reflects both the need to optimise the value of the Government's assets and the specific purpose of each investment.

At every company in which the Government holds a stake, **regular strategic update meetings between the Minister for the Economy, the other ministers involved (Defence, Transport, Industry, Energy or Communication, depending on the circumstances) and the entity's management** are held. There is a consistent policy of appointing a Government representative with industrial expertise to the entity's Board of Directors alongside a representative of the Ministry for the Economy, who is responsible for safeguarding the Government's assets.

The executive appointment, reappointment and succession processes are now handled with greater planning. The appropriate governing body is requested to make the necessary preparations prior to the end of each senior officer's second term.

All companies even partly owned by the Government are required to review on a regular basis the country or regional breakdown of investment, employment, value added and procurement/subcontracting so that **the contribution of each entity to France's industrial growth** can be assessed. This "Government as Shareholder" report shows the main conclusions reached in the 2010 review.

Each company is likewise expected to issue **periodic reports on personnel management policy,** including its efforts to give staff members a clearer sense of their role as well as any arrangements made to detect and prevent potential workplace stress and employee vulnerability.

This plan of action reinforces the Government's role as shareholder with an industrial vision by getting all investees to focus on its three key priorities: contribute to the long-range competitive strength of French industry and the French economy, add value and provide the 1.9 million employees involved with jobs and career development opportunities.

The documents governing the Government Shareholding Agency have been updated to facilitate implementation of this approach, while the resources and staff of the APE and the Treasury Directorate General are still managed on a unified basis within the Ministry for the Economy.

This new policy was announced by the President of the Republic at the États Généraux de l'Industrie (French Industry Forum) on the 4 March 2010.

The Government as shareholder: results in 2009

Highlights of the combined financial statements

Scope of combination and particular features of financial year 2009

The 2009 portfolio of Government holdings comprised 57 entities, up from 55 in 2008. The first change was of a technical nature. The portfolio of combined entities was aligned with the scope of combination set forth in decree 963 of 9 September 2004, which established the Government Shareholding Agency as an agency with nationwide scope. Accordingly, four entities previously included – because they were initially expected to be covered by the decree – were removed from the portfolio in 2009 (real-estate companies in Guadeloupe, Martinique and La Réunion as well as BRGM). The effect was to reduce equity by €0.3 billion.
A further result was that the materiality thresholds were altered and five additional entities were included in the portfolio (Caisse Nationale des Autoroutes, the Port Authority of Paris, La Rochelle and Guadeloupe, and the Basel-Mulhouse Airport). The effect of these changes was to increase equity by €0.8 billion.
Finally, two entities were added to the portfolio of combined entities because they were incorporated only in 2009 (the Montpellier Airport and Sofired), while RFI was removed, as it is now part of Audiovisuel Extérieur de la France (AEF). The effect of these changes was to increase equity by €0.2 billion.

The combined entities themselves also experienced significant portfolio shifts. The main ones were as follows:

- SIF carried out a capital increase, with the Government subscribing on a pro-rata basis (equal to its 49% stake) through a combination of cash consideration and France Telecom, ADP and STX shares. The effect of this contribution was to increase combined equity by €5.4 billion.
- EDF carried out three acquisitions:
  - On 5 January 2009, EDF acquired British Energy following a public tender offer launched on 5 November 2008 by Lake Acquisitions Ltd.

2009 scope of combination

DEFENCE

Fully consolidated
- DCI
- DCNS
- GIAT INDUSTRIES-NEXTER
- SNPE
- SOGEADE
- SOGEPA
- TSA

Equity method
- EADS – 15.06%
- SAFRAN – 39.22%
- THALES – 27.54%

MEDIAS

Fully consolidated
- ARTE FRANCE
- AUDIOVISUEL EXTÉRIEUR DE LA FRANCE (AEF)
- FRANCE TÉLÉVISIONS
- RADIO FRANCE

ENTITIES BEING WOUND UP/ DEFEASANCE

Fully consolidated
- CHARBONNAGES DE FRANCE (CDF)
- ENTREPRISE MINIÈRE ET CHIMIQUE (EMC)
- EPFR
- SGGP
- ERAP

TRANSPORT INFRASTRUCTURE

Fully consolidated
- AÉROPORT DE BORDEAUX-MÉRIGNAC
- AÉROPORTS DE LA CÔTE D'AZUR
- AÉROPORTS DE LYON
- AÉROPORT DE MONTPELLIER-MÉDITERRANÉE
- AÉROPORTS DE PARIS (ADP)
- AÉROPORT DE TOULOUSE-BLAGNAC
- ATMB
- CAISSE NATIONALE DES AUTOROUTES
- SFTRF
- GRAND PORT MARITIME DE BORDEAUX
- GRAND PORT MARITIME DE DUNKERQUE
- PORT AUTONOME DE GUADELOUPE
- GRAND PORT MARITIME DU HAVRE
- GRAND PORT MARITIME DE MARSEILLE
- GRAND PORT MARITIME DE NANTES SAINT-NAZAIRE
- PORT AUTONOME DE PARIS
- PORT AUTONOME DE LA ROCHELLE
- GRAND PORT MARITIME DE ROUEN
- RÉSEAU FERRÉ DE FRANCE (RFF)

Equity method
- AÉROPORT BÂLE-MULHOUSE – 50%

FINANCIAL SERVICES

Fully consolidated
- SPPE

ENERGY

Fully consolidated
- AREVA
- EDF

Equity method
- GDF SUEZ – 36.61%

TRANSPORT

Fully consolidated
- RATP
- SNCF

Equity method
- AIR FRANCE-KLM – 15.95%

SERVICES

Fully consolidated
- LA FRANÇAISE DES JEUX
- LA POSTE

Equity method
- FRANCE TÉLÉCOM – 13.48%

OTHER

Fully consolidated
- IMPRIMERIE NATIONALE
- LFB
- LA MONNAIE DE PARIS

Equity method
- RENAULT – 15.25%

REAL ESTATE

Fully consolidated
- SOFIRED
- SOVAFIM

Equity method
- SEMMARIS – 33.34%

SIF

Equity method
- FSI – 49%

- On 12 November 2009, after gaining the European Commission's approval, EDF acquired Centrica's entire interest in Segebel, which holds a 51% stake in SPE.
- On 6 November 2009, EDF acquired Constellation Nuclear Group after obtaining all the necessary federal, state and local approvals.

• The process initiated by Areva of selling off its Transmission & Distribution division led to exclusive negotiations with the Alstom-Schneider consortium on 30 November 2009, followed by an accord covering the financial and legal details of the agreement on 20 January 2010.

• LFB acquired a controlling interest in GTC Biotherapeutics Inc. by subscribing several issues of shares and convertible debt since October 2006.

Between 31 December 2008 and 31 December 2009, total assets rose by €127 billion, from €533 billion to €660 billion.

This increase is in large part attributable to the transfer of €59 billion from Livret A savings accounts at Caisse Nationale d'Épargne to La Banque Postale. The transfer was carried out in compliance with the Economic Modernisation Act (LME) of 4 August 2008, which provides in Article 145 for competitive marketing of Livret A savings accounts by any credit institution entitled to collect demand deposits from the general public. The rest of the increase can be attributed to the €33 billion in assets acquired by EDF (British Energy, €25 billion; Constellation, €5 billion; and SPE, €3 billion) and the inclusion of Caisse Nationale des Autoroutes in the portfolio (€15 billion).

It should also be noted that the accounting treatment of Areva's T&D division as non-current assets classified as held for sale led to reclassification of a number of items on the combined balance sheet, with €7 billion treated as non-current assets held for sale and €4 billion treated as liabilities associated with assets classified as held for sale.

Total assets were €660 billion, up from €533 billion in 2008

Assets; 2008 figures restated* (in €m)

Assets	31 December 2009	31 December 2008
Goodwill	20,267	13,609
Licences, trademarks and subscriber bases	2,098	1,958
Other intangible assets	7,921	5,220
Property, plant and equipment – operated under concessions	73,701	71,061
Property, plant and equipment – owned	155,125	130,686
Investment property	972	2,360
Investments accounted for under the equity method52,156	43,970	
Non-current financial assets	42,311	40,097
Banking portfolio assets	52,660	55,166
Deferred tax assets	8,889	9,038
Other non-current assets	647	635
Total non-current assets	*416,747*	*373,800*
Inventories	18,256	15,802
Accounts receivable	45,397	46,735
Other receivables	1,231	3,518
Loans and advances – banking	109,035	48,819
Current financial assets	33,528	21,535
Other receivables – banking	6,646	5,208
Cash and cash equivalents	22,454	17,260
Total current assets	*236,547*	*158,877*
Non-current assets classified as held for sale	7,066	193
TOTAL ASSETS	**660,360**	**532,870**

Equity and liabilities; 2008 figures restated* (in €m)C

Equity and liabilities	31 December 2009	31 December 2008
Share capital and capital endowments	45,114	46,246
Share premium	2,389	2,456
Other reserves and retained earnings	39,208	8,904
Profit for the period attributable to APE	7,369	23,749
Equity attributable to APE	*94,080*	*81,355*
Equity attributable to non-controlling interests	5,862	2,708
Total equity	*99,942*	*84,062*
Non-current provisions	59,510	48,268
Pensions and other long-term employee benefits	18,745	17,874
Non-current financial liabilities	123,907	86 639
Other liabilities	29,422	28,213
Deferred tax liabilities	8,773	5,303
Non-current liabilities	*240,358*	*186,297*
Current provisions	7,283	6,536
Short-term employee benefits	1,456	1,354
Current financial liabilities	41,989	49,578
Accounts payable	54,517	56,011
Other liabilities	45,313	42,024
Liabilities – banking	165,325	106,860
Current liabilities	*315,882*	*262,362*
Liabilities associated with assets classified as held for sale	4,180	148
TOTAL EQUITY AND LIABILITIES	**660,360**	**532,870**

Income statement; 2008 figures restated* (in €m)

Income statement	2009	2008
Net banking income (La Poste)	5,011	4,710
Revenue	128,544	147,865
Other revenues	9,661	6,528
Purchases and external expenses	(66,421)	(83,103)
Cost of inventories consumed	(34,953)	(54,334)
External expenses	(31,468)	(28,770)
Personnel expenses	(43,127)	(43,515)
Taxes on income and other taxes	(6,300)	(6,011)
Other income and expense	(13,757)	(3,836)
- Other operating income and expense	(867)	(775)
- Other non-recurring income and expense	(1,734)	(920)
- Depreciation, amortisation and provisions, net of reversals	(11,156)	(2,140)
PROFIT FROM OPERATIONS	**13,611**	**22,638**
FINANCE COSTS, NET	**(5,310)**	**(3,286)**
PROFIT BEFORE TAX	*8,301*	*19,352*
Current tax payable	(2,485)	(3,178)
Deferred tax	36	4,347
Profit from discontinued operations and disposal groups	267	-
PROFIT OF CONSOLIDATED ENTITIES	*6,120*	*20,521*
Share of profits of equity-accounted entities	1,425	3,344
PROFIT OF THE COMBINED ENTITY	*7,545*	*23,865*
Profit attributable to non-controlling interests	(175)	(116)
PROFIT ATTRIBUTABLE TO APE	**7,369**	**23,749**

** Restated for IFRS adjustments to the opening balance sheet.*

July 2010

The Roussely report outlines the future of the French civil nuclear industry.

August 2010

GDF Suez's combination with International Power paves the way for the creation of the world's second largest power producer.

September 2010

A Commissioner of State Holdings is appointed and industrial and human resource strategies are made absolute priorities for the entities in the APE portfolio.

September 2010

Safran enters into an agreement with L-1 ID to acquire the U.S. firm's "identity and biometry" businesses.

September 2010

Renault and *PSA* make early repayments of €1 billion each to the Government.

Leaving aside the changes described above, total assets increased by €20 billion.

Intangible assets showed a €1.9 billion increase, reflecting EDF's acquisition of Aboukir gas fields, higher research costs for mines already operating (Areva Ressources Canada and Katco) or under development (Imouren and Trkkopje) and EPR project development costs in China and the United States.

The increase in property, plant and equipment totalled €10.9 billion, broken down into €2.7 billion for new concessions (following outlays at EDF facilities operated under concession) and €8.2 billion for assets at owned facilities. The value of these asset purchases was relatively even with the previous year (€18.3 billion in 2009 versus €17.7 billion in 2008). The main contributors were EDF (€6.9 billion), SNCF (€3.1 billion), RFF (€3.3 billion), Areva (€1.7 billion) and RATP (€1.2 billion). SNCF recognised an asset impairment charge of €0.9 billion reflecting losses on freight and infrastructure and maintenance business.

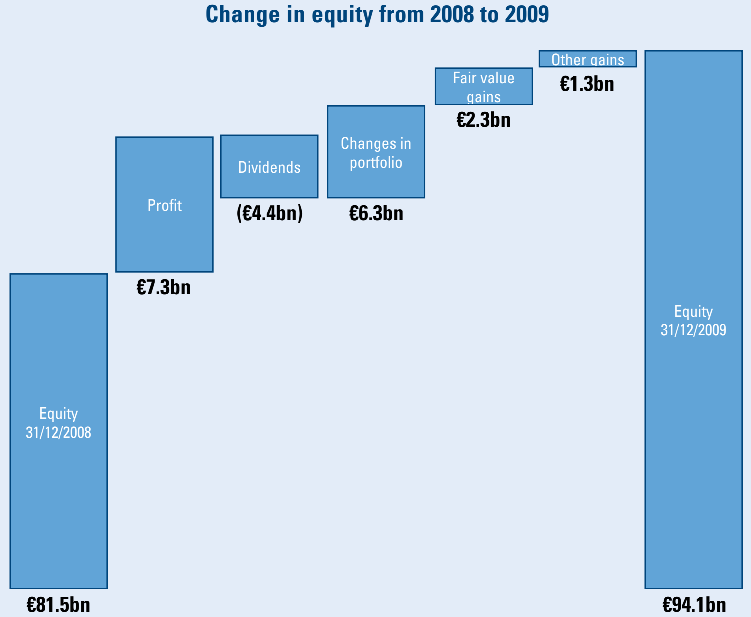
The value of holdings accounted for using the equity method rose €8.2 billion as APE subscribed for the capital increase carried out by SIF in proportion to its previous 49% stake.

Total equity increased €12.8 billion to €94 billion at 31 December 2009. This increase included €5.4 billion in cash and shares contributed to SIF; profit of €7.4 billion for the period; €2.3 billion earned on fair value remeasurement of cash flow hedges and available-for-sale assets; the changes in the portfolio described above, which generated a net gain of €0.8 billion; a €0.5 billion gain on currency translation; and various other gains totalling €0.8 billion (boosted by €0.9 billion from a France Telecom legal dispute with the European Commission). The total was reduced, however, by the €4.4 billion in distributed dividends.

Financial liabilities rose from €136.2 billion in 2008 to €165.9 billion in 2009. This increase of €29.7 billion was due primarily to several bond issues carried out by EDF to finance its strategy and cover part of the early repayment of the bank loan taken out in January 2009 to acquire British Energy. At the same time, Areva, RFF and RATP all took on additional debt, turning to the bond markets to meet funding needs totalling €4.6 billion. For the combined entity, however, a €4.1 billion decrease in debt at SPPE and SNCF practically offset this increase in borrowing.

The net debt to equity ratio, a key measure of balance-sheet strength, was 1.2, showing almost no change from the 1.23 ratio in 2008. A €12.7 billion increase in net debt was offset by an increase in equity.

Change in equity from 2008 to 2009



Off-balance sheet commitments, as shown in the individual entities' annual reports and the consolidation reporting packages provided to APE, totalled €118 billion, down from €123 billion in 2008. The chief components of this €5 billion decrease were a €2 billion reduction in irrevocable purchase commitments by EDF, a €4 billion decrease in financing guarantees for La Poste and a €2 billion increase in other commitments by EDF.

Commitments received rose by €12 billion to a total €43.4 billion at 31 December 2009, up from €31.5 billion at 31 December 2008. The bulk of this increase is attributable to SPPE. In an order of 12 August 2009, the Government extended its guarantee to cover SPPE's debt obligations under its multi-currency commercial paper programme. The amount outstanding increased from €11 billion to €20 billion year-on-year.

Reciprocal commitments totalled €23.8 billion at 31 December 2009, down from €48 billion at 31 December 2008. The main contributor to this decrease was a reduction in commitments to purchase and sell EDF shares, which dropped from €18.7 billion in 2008 to €4.5 billion in 2009.

Profit attributable to APE of €7.4 billion in 2009

The €7.4 billion profit attributable to APE in 2009 should be compared with the amounts for 2008, which were €23.6 billion before restatement and €8.3 billion after restatement for non-recurring items (RFF and CDF).

Revenue decreased by a substantial €19.4 billion from €147.9 billion in 2008 to €128.5 billion in 2009.

The decrease in revenue can be attributed, for €16.9 billion, to the fact that GDF Suez was accounted for using the equity method on a full-year basis, whereas that accounting treatment only applied to half of 2008, and that Areva's T&D division, whose revenue in 2008 totalled €5.1 billion, was reclassified under non-current assets.

The other main changes in revenue were roughly €2 billion added by EDF, €0.3 billion generated by Giat and the €0.5 billion decrease recorded by La Poste. The figure for EDF reflected both the €3.3 billion in revenue booked by British Energy and unfavourable movements in exchange rates compared with the previous year, chiefly in the average exchange rates for the British pound, the zloty and the forint. The lower revenue figure recorded by La Poste resulted in part from a falloff in national and express mail service.

Profit from operations was €13.6 billion in 2009, versus €22.6 billion in 2008. However, the redefinition of public establishment Réseau Ferré de France's business model boosted the 2008 figure by €9.2 billion which, after adjustment for that effect, was €13.4 billion. Profit from operations in 2009 was thus on par with the previous year.

This overall outcome included a number of sharp contrasts:

- In Transport Infrastructure, profit from operations showed a €2 billion increase, much of it generated by RFF following the decision in 2008 to overhaul its subsidies, which was implemented as of 2009. The subsidies previously granted – by the Chambers of Commerce and Industry, for debt reduction, for upgrading – were replaced by a single operating subsidy.
- The €1 billion decrease in Transport was chiefly due to a decline in the SNCF's freight business, to higher operating expenses and to a €1 billion impairment loss on the company's freight and infrastructure division.
- In Energy, profit from operations showed a €1 billion decrease, but this figure did not include the results achieved in the first half of 2008 by GDF, an entity fully consolidated throughout 2008 and accounted for using the equity method as of 2009. Adjusting for this change in accounting policy yields a €2 billion increase in the sector's profit from operations. The key contributors to that increase were ongoing profitable operating activity, the positive impact of reversing a €1.2 billion provision for Transitory Regulated Tariff for Market Adjustment (TaRTAM) recognised in 2008 and a €1 billion increase in the compensation awarded to EDF for fulfilling a public service function in electric power.
- Profit from operations showed a slight improvement in Defence (up €0.1 billion).
- There was a slight falloff in Media (down €0.1 billion).

Financial ratios

Combined entity		2009 target (2010 Budget Bill)	2009	2008 restated	2008
Return on capital employed		**> 6.5%**	**9.5%**	**15.1%**	**14.6%**
	Profit from operations		*13,611*	*22,638*	*22,620*
	Capital employed (a)		*143,903*	*149,891*	*154,426*
Return on equity		**> 10%**	**7.8%**	**29.2%**	**29.0%**
	Profit for the year		*7,369*	*23,758*	*23,659*
	Equity (attributable to APE)		*94,080*	*81,355*	*81,591*
Operating margin		**> 9%**	**10.6%**	**15.3%**	**15.2%**
	Profit from operations		*13,611*	*22,638*	*22,620*
	Revenue		*128,544*	*147,865*	*148,331*
Net debt/EBITDA		**< 5**	**4.6**	**4.1**	**4.1**
	Net debt (b)		*113,193*	*100,492*	*100,514*
	EBITDA		*24,767*	*24,778*	*24,602*
Net debt/equity			**1.20**	**1.24**	**1.23**
	Net debt (b)		*113,193*	*100,492*	*100,514*
	Equity (attributable to APE)		*94,080*	*81,355*	*81,591*

(a) Capital employed includes operating assets and net working capital (= inventories + accounts receivable – accounts payable).

(b) Net debt is gross debt less cash and cash equivalents. Net debt for 2007 stands at €83.409 billion, after recalculation from €84.161 billion due to recognition in cash and cash equivalents of financial assets (transaction hedging instruments) which were previously excluded from the definition of net debt and to recognition of the impact on La Française des Jeux of the switchover to IFRS.

Net finance costs were €5.3 billion, compared to the €3.4 billion figure in 2008, which included a gain of €2.5 billion recognised on the transfer to the Government of the long-term liabilities of Charbonnages de France. Finance costs showed a slight improvement in 2009. The main components in 2009 were interest and financial expense of €6.2 billion (versus €5.3 billion in 2008); €3.4 billion in discounting charges, as in 2008; income from financial assets and net gains on disposal of short-term investments totalling €2.6 billion (versus €2.4 billion in 2008); and other financial income of €1.6 billion, including €1 billion in revenue from SPPE, compared to €3.4 billion in 2008, an amount that included the €2.5 billion gain mentioned above.

In terms of income tax, the combined entity had current tax payable of €2.4 billion, versus a tax benefit of €1.2 billion in 2008. In 2008, RFF recognised deferred tax assets of €3.2 billion. The effective tax rate in 2009 was 29.6%, versus -6.2% in 2008.

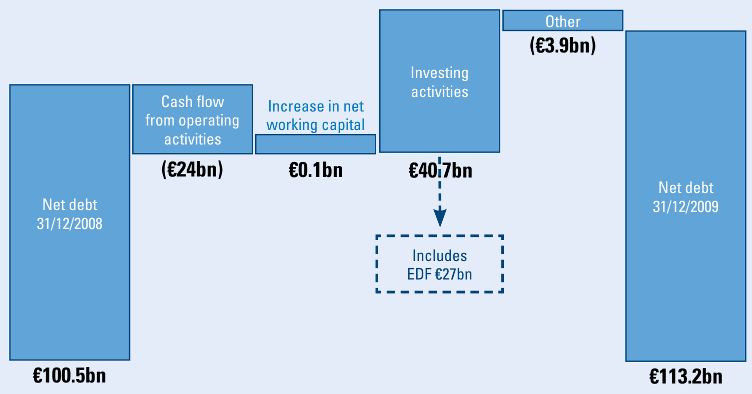
The combined entity's share of the profits of entities accounted for under the equity method was €1.4 billion, down from €3.3 billion in 2008. There were two reasons for this. The profits of those entities decreased by €1 billion, entailing a corresponding decrease in the combined entity's share (with EADS shedding €0.4 billion, FT €0.6 billion, Thales €0.2 billion and Renault €0.6 billion, while Safran added €0.3 billion and GDF Suez €0.6 billion). In addition, the weight of equity-accounted entities in the combined total decreased by €0.9 billion.

Cash flow from operating activities in 2009 totalled €23.9 billion (€20.9 billion in 2008). Although this amount was below the cost of non-financial assets acquired during the year, which was €40.5 billion (€37 billion in 2008), it covered that cost after disposals and subsidies totalling €18.5 billion (€30.6 billion in 2008). The entities acquired recorded negative cash flow of €13.6 billion in 2009, compared to €3.7 billion in 2008. After distribution of €4 billion in dividends and a €15 billion increase in borrowing, net cash at the end of the period stood at €5.9 billion.

The ratio of net debt to EBITDA rose from 4.1 in 2008 to 4.6 in 2009. The lack of change in EBITDA and the higher gearing of the Energy sector were the key explanations for that deterioration. The investments recently carried out are expected to have a positive impact on EBITDA over the next few years.

Those investments include €13 billion for the British Energy buyout (see note 18 to the combined financial statements).

Change in net debt from 2008 to 2009



Breakdown by sector

	Defence		Transport infrastructure		Transport		Energy		Services		Media	
	2009	**2008**	**2009**	**2008 (excl RFF)**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Return on capital employed	**na**	**na**	**6.3%**	**1.1%**	**(0.7%)**	**5.2%**	**20.3%**	**27.4%**	**1.5%**	**14.6%**	**1.9%**	**(21.2%)**
Profit from operations	*385*	*241*	*2,318*	*238*	*(135)*	*1,187*	*10,204*	*11,126*	*826*	*968*	*7*	*(139)*
Capital employed	*(1,448)*	*(1,000)*	*36,924*	*21,353*	*19,971*	*22,658*	*50,290*	*40,596*	*55,839*	*6,644*	*367*	*657*
Return on equity	**6.7%**	**14.0%**	**15.2%**	**9.2%**	**(10.9%)**	**5.4%**	**10.8%**	**13.3%**	**12.5%**	**15.4%**	**(0.6%)**	**(15.3%)**
Profit for the year	*385*	*781*	*647*	*(896)*	*(1,046)*	*586*	*6,089*	*6,725*	*1,020*	*1,734*	*(3)*	*(80)*
Equity attributable to APE	*5,774*	*5,589*	*4,253*	*(9,702)*	*9,623*	*10,867*	*56,372*	*50,462*	*8,188*	*11,263*	*543*	*523*
Operating margin	**9.6%**	**6.3%**	**31.5%**	**3.4%**	**(0.5%)**	**4.0%**	**13.9%**	**12.0%**	**3.8%**	**4.4%**	**0.2%**	**(3.8%)**
Profit from operations	*385*	*241*	*2,318*	*238*	*(135)*	*1,187*	*10,204*	*11,126*	*826*	*968*	*7*	*(139)*
Revenue	*4,029*	*3,851*	*7,352*	*6,991*	*29,204*	*29,396*	*73,344*	*92,519*	*21,726*	*21,863*	*3,841*	*3,636*
Net debt/EBITDA	**na**	**na**	**6.7**	**11.4**	**6.3**	**4.1**	**3.6**	**2.1**	**2.1**	**2.3**	**(0.7)**	**0.6**
Net debt	*(2,678)*	*(1,602)*	*26,655*	*19,088*	*19,616*	*16,351*	*53,936*	*36,305*	*4,102*	*4,191*	*(131)*	*25*
EBITDA	*503*	*106*	*3,962*	*1,670*	*3,105*	*3,969*	*15,090*	*17,123*	*1,913*	*1,856*	*197*	*44*
Net debt/equity (APE)	**na**	**na**	**6.3**	**(2.0)**	**2.0**	**1.5**	**1.0**	**0.7**	**0.5**	**0.4**	**(0.2)**	**0.0**
Net debt	*(2,678)*	*(1,602)*	*26,655*	*19,088*	*19,616*	*16,351*	*53,936*	*36,305*	*4,102*	*4,191*	*(131)*	*25*
Equity attributable to APE	*5,774*	*5,589*	*4,253*	*(9,702)*	*9,623*	*10,867*	*56,372*	*50,462*	*8,188*	*11,263*	*543*	*523*

Methodological guide to ratios and sector-specific indicators

• The aggregates "Revenue", "Profit from operations", "EBITDA" and "Capital employed" are calculated for fully consolidated entities. The aggregates "Profit for the year" and "Equity" additionally include the combined entity's share of the profits of entities accounted for under the equity method.

• Sectors included: the sector-specific breakdown above covers the main sectors of activity in the portfolio.

• Impact of eliminating inter-sector and inter-company balances and transactions: because all inter-sector balances and transactions have been eliminated, the aggregates above do not correspond to the figures given in the notes to the 2009 combined financial statements (which reflect the contribution of each sector to the combined aggregate). For example, "Transport infrastructure" contributed €4,228 million to combined revenue in 2009, whereas this sector alone generated revenue of €7,352 million. The difference is due to the elimination in the combined financial statements of all balances and transactions between RFF and SNCF.

For these reasons, the sum of the above data differs from the data for the combined entity.

• Revenue for the "Services" sector includes the net banking income of La Banque Postale.

Dividend policy

The Government as shareholder is projected to receive €4.2 billion[1] in dividends in 2010, compared to €5.5 billion in 2009[2]. The trend of steadily rising payouts to the Government since 2004 reversed in 2009, reflecting the impact of the economic crisis on companies under partial or full public ownership.

This 23.6% falloff in dividends received by the Government was less pronounced, however, than the 68.8% decrease in profit attributable to APE. The dividend payout ratio on 2009 earnings should be in the vicinity of 57%. This is broadly in line with the ratio observed among non-financial companies listed on the CAC 40 market index (excluding companies in the APE portfolio): the dividends they distribute in 2010 on the basis of 2009 earnings should be down 1.7%, while average profits attributable to parent company equity holders show a 14% decrease, meaning that the shareholders of those companies will be getting a 53% dividend payout ratio (APE estimate).

To shore up their cash position and equity, some companies in the APE portfolio offered their shareholders the option of receiving a portion of their 2008 dividends in newly issued company shares. As a result, during the 2009 financial year, the Government received stock dividends worth €846 million from EDF, worth €625 million from GDF Suez, worth €501 million from ERAP and worth €242 million from France Telecom.

The Government as shareholder and corporate governance

Active Government participation in good corporate governance

Participation of Government representatives in the governing bodies of the entities within its purview is a fundamental aspect of the Government's mission as shareholder. The Agency continually monitors the quality of governance in those entities and has helped raise standards in that respect.

As in previous years, the Government played an active role in the governing bodies and specialised committees of State-owned and semi-public entities. Agency representatives attended 307 meetings of boards of directors or supervisory boards in 2009 and another 223 meetings in the first half of 2010.

Concerning the Government's participation in specialised committees, APE representatives attended meetings of audit committees, which are put in place systematically, on 132 occasions in 2009 and 80 in the first half of 2010. The Agency also sees that strategy, remuneration and other committees are set up where appropriate.

The Agency is responsible for appointing qualified directors to represent the Government. APE representatives must be capable of discharging their duties effectively and of ensuring good governance in the entities in the Agency's portfolio. To that effect, the Agency set up a training programme specifically for Government representatives, collaborating closely with the Economy Ministry's Institute for Public Management and Economic Development (Institut de la Gestion Publique et du Développement Economique - IGPDE) and the French Institute of Directors (Institut Français des Administrateurs - IFA).

The training, now mandatory for APE staff, is also open to other directors representing the Government. The programme is run jointly by professionals, experts and APE officials. Following an initial two-day seminar, two specialised modules concentrate on remuneration governance and on the audit committee.

After completing the course, directors representing the Government share a common body of knowledge and a framework for pooling experience. They acquire the skills and tools they need – in such areas as legal foundations, accountability, risk analysis or market practices – to successfully fulfil their obligations.

By the end of 2010, nearly one hundred directors will have benefited from two seminars, for a combined total of 770 hours of training.

Satisfactory implementation of the Charter governing relations with publicly-owned entities

For the Government Shareholding Agency, putting best governance practices in place in the entities in its portfolio is a top priority. After the Agency was set up, a Charter

Dividends received by the Government as shareholder (in €bn per budget year)

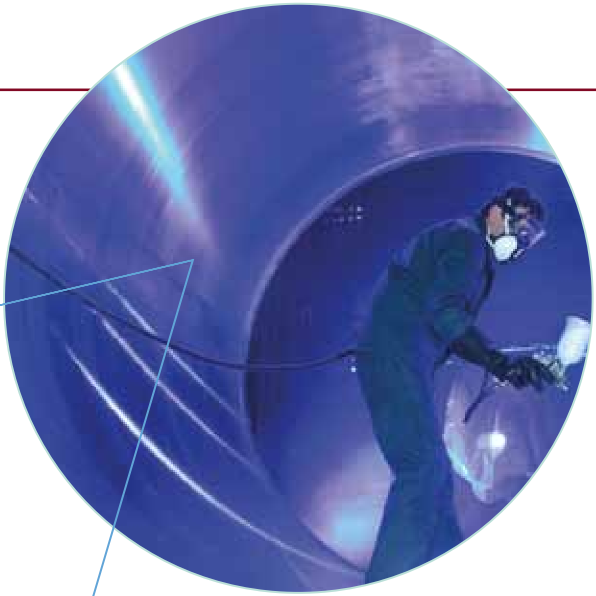
Budget year N	2004	2005	2006	2007 (*)	2008 (*)	2009 (**)	2010 forecast (**)
Cash dividends	1.2	1.4	2.9	4.8	5.6	3.3	4.1
Stock dividends	-	-	-	-	-	2.2	0.1
TOTAL	**1.2**	**1.4**	**2.9**	**4.8**	**5.6**	**5.5**	**4.2**
Profit attributable to APE Financial year N-1	3.9	7.4	12.4	13.2	13.9	23.7	7.4
Dividend payout ratio ***Excl. RFF and CDF impact***	**30.8%**	**18.9%**	**23.4%**	**36.4%**	**40.3%**	**23.21%** ***66%***	**56.76%**

(*) Includes interim dividends.

(**) Includes interim dividends and stock dividends.

1 - Budgetary revenues recognised on line 2116 under Government non-tax revenues from non-financial companies. These include dividends paid in year N in respect of accounting year N-1, together with any interim dividends paid in respect of accounting year N.

2 - Budgetary revenues recognised on line 2116 under Government non-tax revenues from non-financial companies. These include dividends paid in year N in respect of accounting year N-1, together with any interim dividends paid in respect of accounting year N and €2.2 billion in stock dividends.



came into effect in 2004 laying down rules of governance for its relations with those entities. The governance principles set forth in the Charter apply, on the one hand, to the workings of the governing bodies – establishment of specialised committees; role and mission of the board of directors or supervisory board, as well as the specialised committees; bylaws formalising the governing bodies' procedural rules; time limit for transmitting preparatory documents to directors – and, on the other, to relations between APE and the entities in its portfolio – periodic reporting; regular meetings to review progress and prepare for major milestones; and measures to better track the entities' operations.

The Agency makes sure that the entities in its portfolio apply these rules and principles, whereas it adopts a pragmatic approach to the specific challenges they face. Each year since the Charter became effective, its application is reviewed in the «Government as Shareholder» report, on the basis of assessments by Agency-appointed Government representatives on boards of directors and supervisory boards. Overall performance in 2010, rated at 80% of the target score, was satisfactory. Changes in the APE portfolio as well as the survey's methodology and detailed findings are presented opposite.

Application of the Charter governing relations between the Government Shareholder Agency and the entities in the APE portfolio

Methodology

Since 2004, directors from the Agency representing the Government on the boards of directors or supervisory boards of nearly 50 entities in the APE portfolio are interviewed regularly to assess the application of the Charter. In 2010, they were polled once again.

As in previous years, the questionnaire was structured around the same four broad headings as the Charter, namely: Board of Directors or Supervisory Board powers and workings, Audit Committee powers and workings, Strategy Committee powers and workings and relations with the Agency (reporting, regular meetings, etc.). There are thirty questions in all, some of which call for a yes-or-no answer (e.g., existence of a given committee) whereas others entail opinions (e.g., quality of the Board's work). No weighting is applied to the questions, nor are the answers weighted by entity size, to avoid distorting the questionnaire's findings.

Answers are scored on a scale of 1 = poor, 2 = mediocre, 3 = average, 4 = good, 5 = very good, giving a theoretical maximum score of 150 for an entity's answers to the 30 questions. To adjust this theoretical score for questions not applicable to certain entities (in smaller entities, for instance, a strategy committee is irrelevant), a target score was set for each entity corresponding to the maximum score effectively achievable. The target scores and the scores calculated for each entity are added up and compared overall and then for each of the Charter's broad headings. **Performance is measured on the basis of those results.** Listed companies are distinguished from other companies or public establishments of an industrial or commercial nature.

Entities included in 2004 and 2005:

ADIT, ADP, Air France-KLM, Areva, Arte, ATMB, CDF, Cogema (now AREVA NC), CGMF, Civipol, CNP, Dagris, DCI, DCN (DCNS since 2007), EDF, EMC, EPFR, EPRD, ERAP, Française des Jeux, France 3, France Telecom, France Télévisions, Gaz de France, GIAT, Imprimerie Nationale, La Poste, NSRD, RATP, Renault, RFF, Semmaris, SFTRF, SGGP, SNCF, SNCM, Snecma (Safran since 2005), SNPE, Sofréavia, Sogepa and Sogéade (and EADS through their intermediary), Thales, TSA.

Portfolio changes for the 2006 assessment:
- deconsolidated: Alstom, APRR, ASF and Sanef
- newly consolidated: GRT Gaz, RTE, Sovafim
- newly listed on the stock market: ADP, EDF and Gaz de France

Portfolio changes for the 2007 assessment:
- deconsolidated: EMC, Sofreavia
- newly consolidated: Port Autonome de Paris, La Monnaie de Paris, LFB

Portfolio changes for the 2008 assessment:
- deconsolidated: CDF, Dagris
- newly consolidated: Aéroport de Bordeaux-Mérignac, Aéroports de Lyon, Aéroport de Toulouse-Blagnac

Portfolio changes for the 2009 assessment:
- deconsolidated: France 3, GRT Gaz (companies in which APE representatives are no longer board members)
- newly consolidated: Audiovisuel Extérieur de la France (AEF), Dexia, Strategic Investment Fund (SIF), Grand Port Maritime de Dunkerque, Grand Port Maritime de Marseille, Grand Port Maritime de Nantes, Grand Port Maritime du Havre, Corporation for State Equity Holdings (SPPE), STX Cruise

Portfolio changes for the 2010 assessment:
- newly consolidated: Sofired, BPCE.

Summary of questions:

Powers of the Board of Directors: strategic plan review, strategic plan approval, strategy implementation, review of budget execution for year N, review of year N+1 budget, time limits for transmitting documents to the director, existence of bylaws, their content, compliance with bylaws, evaluation of board proceedings.

Audit Committee: existence of an audit committee, composition and remit of the audit committee, existence of bylaws, time limits for transmitting documents to the director, interval between audit committee and board meetings, meeting minutes and report to the Board, evaluation of committee proceedings, use of outside expertise, frequency of meetings.

Strategy Committee: existence of a strategy committee, evaluation of committee proceedings.

Relations with the Agency: existence of reporting, evaluation of reporting, existence of meetings to review progress or exchange views, budget preparation, examination of external growth or disposal plans, examination of financial statements, identification of Agency correspondents, measures to track company operations.

Questionnaire findings (% of target score)

	2004	2005	2006	2007	2008	2009			2010		
	Total	Total	Total	Total	Total	Listed companies	Other entities	Total	Listed companies	Other entities	Total
Powers of the Board	75%	78%	79%	79%	80%	82%	79%	79%	80%	80%	80%
Audit Committee	72%	80%	84%	89%	89%	88%	86%	87%	78%	83%	82%
Strategy Committee	78%	81%	87%	86%	75%	83%	75%	78%	87%	73%	78%
Relations with the Agency	72%	74%	76%	78%	78%	77%	76%	76%	69%	78%	76%
Total	**73%**	**78%**	**80%**	**82%**	**82%**	**83%**	**80%**	**81%**	**79%**	**80%**	**80%**
Number of respondent entities	**43**	**44**	**43**	**46**	**47**	**10**	**44**	**54**	**11**	**45**	**56**

Gender parity on corporate boards

At the initiative of Mrs. Zimmermann, MP for Moselle, the National Assembly adopted a bill on 20 January 2010 calling for more balanced representation of women and men on corporate boards. The bill applies to listed companies, public limited companies and public establishments of an industrial or commercial nature (EPICs) subject to the law on the democratisation of the public sector (DSP) and, finally, EPICs not subject to the DSP law and administrative public establishments (EPAs).

The bill would require at least 40% of corporate boards to be made up of women within six years (or by the day following the second renewal of board members, for companies subject to the DSP law); it also provides for an intermediary quota of 20% within three years; finally, companies and EPAs with no women represented on their boards would have to appoint at least one woman representative within six months of the bill's enactment.

The percentage of women on the boards of State-owned or semi-public entities is currently comparable to that of private companies: women make up 15% of the board members in CAC 40 companies[3], 13% of the directors representing the Government and 15% of employee representatives on boards.

Without waiting for the law to be enacted, the Government has made particular efforts to encourage the move towards gender parity on boards of directors and supervisory boards.

Executive compensation policy

Executive pay in companies in the APE portfolio is an important component of the Government's mission as shareholder, carried out by the Agency in accordance with the relevant legal framework. Executive management performance is naturally a subject of careful scrutiny by shareholders.

(3) - Source: Capitalcom Barometer press release of 30 June 2010..

Number of employees/entity (annual averages)

	2005	2006	2007	2008	2009	
Aéroports de Paris	10,688	10,816	11,429	11,788	12,097	
Aéroport de Bordeaux-Mérignac			182	188	189	a
Aéroports de la Côte d'Azur				562	563	
Aéroports de Lyon			478	489	494	
Aéroport de Toulouse			255	275	287	
Air France-KLM				106,933	104,721	a
Areva	58,760	61,111	65,583	75,414	79,444	a
Arte	524	525	541	544	558	
ATMB	427	436	440	447	434	
Charbonnages de France	2,295	2,295	925	1	0	
DCI	764	656	648	680	602	
DCNS	12,556	12,459	12,831	12,579	12,240	
EADS	113,210	116,805	116,493	118,349	119,506	a
EDF	156,765	155,968	154,033	155,931	164,250	
La Française des Jeux	1,204	1,247	1,231	1,266	1,326	a
France Telecom	196,452	189,028	183,799	182,793	178,400	
France Télévisions	11,400	10,997	11,093	10,900	10,733	
SIF				0	34	
GDF Suez	52,958	50,244	47,560	234,653	242,714	
Giat Industries	5,512	4,267	3,656	3,248	3,093	
Imprimerie Nationale	816	757	593	573	566	
La Poste	306,345	303,401	299,010	295,742	287,174	
LFB	1,273	1,302	1,383	1,531	1,576	
La Monnaie de Paris			619	533	488	a
Grand Port Maritime de Bordeaux	450	428	427	412	400	
Grand Port Maritime de Dunkerque	526	492	482	475	462	b
Grand Port Maritime du Havre	1,510	1,493	1,488	1,465	1,434	
Grand Port Maritime de Marseille	1,457	1,484	1,495	1,485	1,483	
Grand Port Maritime de Nantes St-Nazaire	705	703	710	715	700	
Port Autonome de la Guadeloupe				149	150	
Port Autonome de Paris	193	228	224	227	229	
Grand Port Maritime de La Rochelle		135	139	136	132	b
Grand Port Maritime de Rouen	570	575	577	554	549	
Radio France	4,421	4,466	4,512	4,531	4,539	
RATP	44,860	44,907	45,879	46,409	47,157	a
Renault				129,068	121,422	a
RFF	691	761	843	939	1,166	a
Safran	51,928	57,669	52,515	53,336	54,911	
Semmaris	220	219	215	212	212	
SFTRF	292	301	306	308	301	
SNCF	205,839	201,742	201,545	201,339	200,097	a
SNPE	4,907	4,296	3,620	3,685	3,567	a
SPPE				0	0	
Thales	54,536	52,160	61,195	63,248	64,285	a
Subtotal	**1,305,054**	**1,294,373**	**1,288,954**	**1,724,112**	**1,724,685**	
Aéroports de Montpellier-Méditerranée					89	
Audiovisuel Extérieur de France					1,483	
BPCE				128,170	127,402	a
Dexia				36,760	35,234	a
Subtotal	**1,305,054**	**1,294,373**	**1,288,954**	**1,889,042**	**1,888,893**	
Other entities (Adit, Civipol, CNP Assurances, EMC, Sofired, Sovafim)					3,901	
Total	**1,305,054**	**1,294,373**	**1,288,954**	**1,889,042**	**1,892,794**	

Pas traduit

a - Effectifs fin de période
b - Effectifs payés

The Agency keeps close tabs on the conditions under which executive pay is determined for chairmen, chief executive officers, deputy chief executive officers and management board members in entities in which the Government holds a stake. It ensures that compensation committees are in place wherever appropriate. These committees are responsible for preparing board meetings by submitting opinions and proposals on the various components of executive pay. They are particularly attentive to the ratio between fixed and variable components, the criteria and targets for the variable component and the extent to which actual performance meets those targets.

The Agency makes sure that senior officers' pay is directly linked to their performance and that the variable component creates real incentive, based on criteria and targets that are both quantitative (e.g., operating income, profitability) and qualitative (e.g., governance, strategy formulation and implementation).

In 2010, the Government as shareholder closely monitored the effective implementation of Article 25 of Supplementary 2009 Budget Act 431 of 20 April 2009 and of amended decree 348 of 30 March 2009 in the entities in the APE portfolio.

Appointment of corporate officers

The Government as shareholder was closely involved during the year in the procedures in place for renewing board membership in several entities consolidated in 2008 and 2009, turning where necessary to recruitment professionals.

From a legal perspective, the Constitutional Act of 23 July 2008, modifying Article 13 of the Constitution, established a procedure modifying the conditions under which the President of the Republic's power of appointment is exercised. One notable change concerned the chairmanship of publicly-owned companies that play a particularly important role in the nation's economic and social life. The Presidential power of appointment may only be exercised after public notice issued by the relevant standing committee in each house of Parliament and, should the sum of negative votes in both committees cumulatively represent three fifths of the valid votes, the appointment cannot be made. The constitutional bylaw of 23 July 2010, adopted in application of the new Article 13 of the Constitution, cites in that respect three public establishments (RATP, RFF and SNCF) and seven public limited companies (ADP, EDF, FDJ, France Télévisions, Radio France, AEF and La Poste).

Although the constitutional bylaw was not yet adopted at the time, the Government expressed its intent of abiding by the new procedure. At the end of Pierre Graff's term as chairman and CEO of ADP and Christophe Blanchard-Dignac's term as chairman and CEO of Française des Jeux, and prior to their re-appointment, the parliamentary committees were consulted (but without voting), as provided for by the Constitution. The same procedure was followed for the appointment of Henri Proglio as chairman and CEO of EDF.

In accordance with the guidelines issued by the Council of Ministers on 3 August 2010, executive appointment, re-appointment and succession processes are now handled with greater planning. The appropriate governing body is requested to make the necessary preparations prior to the end of each senior officer's second term.

In practice, most of the members of Agency staff appointed as directors to the boards of listed companies are executives having the rank of Deputy Director or above. Thus, they are not only well acquainted with the financial and strategic issues discussed on those boards but also experienced in the workings of corporate governing bodies.

Redoubled efforts by the Agency to boost the French economy

The Government as shareholder deployed an extensive range of mechanisms to help restore growth in the French economy. First, the Agency maintained the exceptional arrangements put in place in 2008-2009, which included financing for banking institutions via SPPE, loans to the automotive industry and additional investments by publicly-owned companies. Second, it stepped up its contribution to economic recovery by taking determined action in the areas of industrial policy and psychosocial risk prevention.

Exceptional arrangements

Ongoing exceptional financing for distressed banks via SPPE

SPPE, a wholly State-owned public limited company, continued to provide exceptional financing for banking institutions through to November 2009 and thereafter for BPCE, while remaining a shareholder in Dexia. SPPE was created to inject capital in banks, which can then increase their lending to households, professionals and businesses while maintaining a high capital adequacy ratio. These objectives were reached in two recapitalisation tranches for French banks. After coming under public ownership on 30 October 2008, SPPE subscribed €10.5 billion in equity instruments issued by the leading credit institutions under France's plan to ensure financing flows to the economy. A second injection to recapitalise the banks, worth €10.25 billion, was initiated in January 2009. In the two tranches (the first on 11 December 2008 and the second up to the 31 August 2009 cut-off date), SPPE thus subscribed for a total €20.75 billion in equity instruments issued by the banks:

- €9.95 billion in deeply subordinated perpetual notes (TSSDIs)
- €9.8 billion in preference shares
- €1 billion in Dexia ordinary shares

All of the financial institutions (BNPP, Société Générale, Crédit Agricole and Crédit Mutuel) with the exception of BPCE redeemed the equity instruments in October and November 2009. The bonds issues subscribed by SPPE through Caisse de la Dette Publique were all redeemed on 4 December 2009. To pay for that expense, SPPE began issuing short-term commercial paper in November 2009, reaching a total of €7.7 billion at 31 December 2009.

BPCE's improved financial situation enabled the bank to begin redeeming the equity instruments in 2010: on 23 March 2010, €1 billion in TSSDIs and on 6 August 2010, €1.2 billion in preference shares and €0.6 billion in TSSDIs. The bank is expected to redeem preference shares worth another €0.6 billion on 15 October 2010. At 15 September 2010, the Government, via SPPE, still held €2.9 billion in deeply subordinated notes and preference shares issued by BPCE, together with a €1 billion equity interest (historical cost) in Dexia.

SPPE was designed as a lightweight structure generating minimal operating costs. In line with that philosophy and the kinds of missions assigned to it so far, SPPE has no staff and funds its operations from the pooled resources of the APE and the Treasury Directorate General.

SPPE's financial statements for 2009, as approved at a shareholders' meeting on 19 April 2010, showed a balance of €724 million. SPPE was able to pay proceeds of some €800 million to the Government, consisting of €637 million in dividends and €162 million in corporate income tax. SPPE's results for 2010 will, however, be substantially lower than in 2009, due to redemptions by the banks in late 2009 and the first half of 2010.

Implementation of the Automobile Pact

The difficulties experienced throughout the automotive industry in the midst of the financial crisis prompted the Government to launch a very ambitious relief programme. The practical outcome was an Automobile Pact signed on 9 February 2009, following a national auto industry forum, the *Etats Généraux de l'Automobile*, held on 20 January 2009. The Pact's provisions included confirmation of the car-scrapping and bonus-malus schemes; a €3 billion loan each to carmakers Renault and PSA and a €250 million loan to AB Volvo subsidiary Renault Trucks; an additional €1 billion in SFEF funding for the two carmakers' financing divisions; and arrangements to facilitate and finance short-time working schemes. In return, the carmakers pledged to develop technologies and models that significantly raise fuel efficiency while reducing CO2 and pollutant emissions, to establish partnership relations with all suppliers, and to rein in executive pay. The plan also provides for a €600 million endowment to the Automotive Supplier Modernisation Fund *(Fonds de Modernisation des Équipementiers Automobiles - FMEA)* through matching contributions from SIF, PSA and Renault.

To further that effort, the Government Shareholding Agency negotiated with the carmakers over the terms and conditions for receiving government support. The solution took the form of unsubordinated five-year bullet loans paying a fixed 6% interest and a variable interest based on operating income, to give the Government a share in the carmakers' future recovery. In addition, the loans provided for an early repayment option as incentive for the carmakers to pay back their loans as soon as their financial position improves. The agreements with Renault and PSA were signed on 25 March 2009 and, with the publication of the supplementary budget act authorising those loans on 22 April, the funds were made available on 24 April 2009. A €250 million loan agreement was also signed with Renault Trucks on 4 May 2009, with the funds available on 14 May 2009.

The first interest payments, for a total €377 million, were made on those loans in 2010, a year to date after the funds became available. Moreover, the carmakers abided by the terms of the charters signed with the suppliers' representative bodies.

The loans, intended to send a positive signal to financing markets, not only gave the carmakers a stronger liquidity position but enabled them to forge ahead in developing carbon-free vehicles. After the loans were granted, the carmakers' access to credit markets did ease considerably and they requested the Government's authorisation to repay part of the loans as early as 2010, i.e. before the agreed term. The Government consented to a partial early redemption of €1 billion from Renault and PSA, collected on 10 September.

Surge in investments by companies in the APE portfolio

As part of the stimulus plan for the French economy, unveiled by the President of the Republic on 4 December 2008, companies owned wholly or in part by the Government were asked to invest an additional €4 billion to accelerate the pace of economic recovery. The following commitments were announced: €2.5 billion by EDF, €200 million by GDF Suez, €450 million by RATP, €400 million by SNCF and €600 million by La Poste.

SNCF invested €327 million under the government stimulus plan, an implementation rate amounting to 82% of the €400 million commitment and 94.5% of the €346 million committed in late 2009. The investments planned by SNCF as its contribution to the stimulus plan were chiefly: €119 million for renovation and mid-life refurbishment operations on TGV lines; €65 million in diesel locomotive acquisitions; €50 million in video surveillance deployment projects and station modernisation; and €26 million in telecommunications projects.

RATP contributed €450 million, which was invested in full by the end of May 2010. The investments ranged from replacement and addition of rolling stock, particularly on RER commuter line A and in the bus system, to upgraded station accessibility and station renovation and modernisation. The Government pledged to boost RATP's effort by injecting a capital endowment of €150 million, which was effectively paid out on 30 July 2010.

La Poste announced its contribution of €600 million to the stimulus plan at a board meeting in December 2008, consisting of a first tranche of €241 million in 2009 and another €359 million in 2010. Nearly 60% of the total

was earmarked for investment in property and sustainable development and much of the remainder, in IT systems. La Poste met its 2009 targets, with disbursements amounting to €241 million, and should likewise reach its 2010 targets, in that the entire €600 million is already programmed and disbursements have begun on the balance of €359 million. The bulk of its commitments relate to property investments, including renovation and interior improvements in post offices and mail-handling platforms, the construction of new buildings or work to make existing buildings more environmentally efficient. In the final analysis, 70% of the investment projects concern property and sustainable development, given their impact on employment and on growth in the SMEs involved.

EDF Group announced in December 2008 that it would contribute €2.5 billion to the stimulus plan in 2009. That total comprises a €1.1 billion investment for EDF SA power generation facilities; €300 million for power system-related activities in France's island departments and territories; and two €300 million contributions, the first for the transmission system managed by RTE and the second for the distribution networks managed by ERDF. The balance of the contribution breaks down into €200 million to cover the French share of investments in international nuclear energy projects and €300 million for renewable energy-related activities. As of early 2010, the implementation rate of these investments exceeded 92%. In 2009, the Group invested close to €7.1 billion in France for EDF SA, RTE and ERDF activities, as it resumed a strong programme of operating investments, both in maintenance of the centralised generation fleet and transmission and distribution systems and in other major ongoing projects such as Flamanville 3.

Finally, **GDF Suez Group** pledged to invest an additional €200 million in 2009, thereby increasing by some 15% the €1.5 billion in infrastructure investments in France that the Group and its subsidiaries make every year. The additional investments went towards natural gas distribution for €100 million, transmission for €60 million and storage for €40 million. Of the Group's total investment commitment under the stimulus plan, 90% was implemented by the end of 2009 and the remainder in early 2010.

The Strategic Investment Fund in high gear

SIF was established in December 2008 by the Government and the Caisse des Dépôts (CDC), at the request of the President of the Republic. Its purpose is to invest in companies in need of additional capital to spur their growth, help them cope with change during a transition or stabilise their shareholder base.

The fund's two shareholders – CDC for a 51% stake and the Government for 49% – endowed SIF with resources totalling €20 billion, of which €14 billion in equity instruments and €6 billion in cash. The equity securities were contributed in 2009. Of the total cash contribution, SIF has already received €2.4 billion and can call up the balance as needed.

Over the first 18 months of its existence, SIF made 35 direct investments for a total €1,398 million committed. Most of the investments were linked to capital increases and two thirds were in unlisted companies. The fund acquired stakes – on principle, minority interests – valued at from a few million euros to over €200 million, in entities ranging from high-growth SMEs (Led to Lite, 3S Photonics, Meccano) to intermediate companies (Mecachrome, Cegedim, Daher) and major groups (Valéo, Gemalto, Nexans, Technip).

SIF also launched several special-purpose vehicles, in which contributions from other industrial or financial partners considerably expanded the impact of its interventions to support strategic industries or companies hard hit by the crisis:

- **SIF invested €200 million in the Automotive Components Manufacturers Modernisation Fund (FMEA)**, alongside Renault and PSA which contributed €400 million. FMEA was set up on 20 January 2009 to invest in companies of strategic importance to the industry, particularly those capable of consolidating and modernising its leading sectors. SIF additionally launched the rank-2 FMEA in partnership with rank-1 auto component manufacturers. FMEA invested in a total of twelve companies, including Trèves, Michel Thierry, FSD SNOP and Mécaplast, for €204 million.
- **SIF took part in setting up InnoBio** (26 October 2009), a biotechnology fund in which it invested €52 million, along with pharmaceutical companies operating in France whose contributions raised the fund's total capacity to €140 million. To date, the fund has made three investments worth €14 million.
- **SIF contributed to the Timber Fund** (13 November 2009), a joint operation with Crédit Agricole, Eiffage and France's National Forestry Office (ONF). This fund has thus far made three investments worth €5 million.

The three vehicles received €257 million from SIF, in addition to €523 million in endowments from their other partners. As of the end of July 2010, the funds had made a combined total of 23 investments worth €239 million.

Finally, on 5 October 2009, SIF set up a new equity funding mechanism designed for SMEs. The FSI-PME programme was endowed with €1 billion to update, extend and simplify existing mechanisms (€300 million in direct SIF investments in SMEs and €300 million via 179 partner funds for the FSI-France Investissement programme). In addition, the FSI-PME programme created two easily mobilised investment instruments tailored to the practical needs of small businesses:

- OC+ convertible bonds, to which SIF plans to apply €300 million, for companies whose shareholder officers do not have the necessary resources to finance growth but are unwilling, in the short run, to go public. By the end of June 2010, thirteen transactions were completed for a total €32 million.
- the Company Consolidation and Investment Fund (FCDE), in which SIF contributed €95 million out of a total €200 million, alongside banks and insurance companies, for investments in companies

with high growth potential but likely to need credit mediation. This fund has already made 5 investments for €18 million.

By the end of July 2010, SIF had invested €2.3 billion, either directly or via the funds it created.

All of these direct and indirect operations fall under one of the SIF investment strategies:

- capital injections to help companies jump-start expansion through organic growth or acquisitions;
- equity subscriptions in companies that are profitable and promising but experience temporary difficulties, to help them through the transition;
- shareholder stabilisation, if need be by repurchasing existing securities, to support companies that have a strong competitive edge and skills, know-how or technologies important for the country's industrial fabric.

During its first 18 months, SIF undertook to define rules and principles governing its investment activity, under the authority of its Board of Directors and in conjunction with its Strategy Steering Committee. The fund also established relations with sovereign wealth funds such as the United Arab Emirates' Mubadala or China Development Bank as well as other long-term investors to encourage them to invest in France under partnership arrangements. These efforts paved the way for a successful launch in 2009.

Profit attributable to SIF in 2009 was €259 million before asset impairment. However, that level is of limited significance in that the investments made in July 2009 deprived SIF of two thirds of the dividend income that the portfolio would have generated over the full year. Due to the prudential method used by SIF in evaluating its investments, the value of three newly consolidated holdings was adjusted downward by a total €324 million. Based on that approach, the profit attributable to SIF was a negative €65 million. **Nevertheless, on Caisse des Dépôts Group combined financial statements, SIF's contribution was a positive €117 million,** as has been the case right from year one. At 31 December 2009, and notwithstanding the above value adjustments, equity attributable to SIF was already €20.5 billion, approximately €500 million more than the value of its initial endowment. The reasons were the substantial appreciation of the holdings acquired by the SIF and the revaluation of those contributed by its shareholders.

Stepping up industrial policy in companies in the APE portfolio

At the conclusion of the French Industry Forum *(États Généraux de l'Industrie)* on 4 March 2010, the President of the Republic strongly urged the **Government as shareholder to make industrial issues an absolute priority** and highlighted two flagship measures.

First, the President asked that a representative of the Ministry of Industry or another appropriate Ministry systematically join Agency representative at board meetings of industrial companies like Renault or France Telecom. That is now the case in all of the industrial companies in the APE portfolio.

Second, it was decided on that occasion to formalise regular meetings between company chairmen and the relevant Ministries for discussions of strategy, investment and outcomes, just like any significant shareholder in the private sector.

Moreover, on Jean-Dominique Comolli's appointment as Commissioner of State Holdings at the 3 August 2010 meeting of the Council of Ministers, the President of the Republic stressed that the Government must focus on an overarching industrial vision in managing its shareholdings and uphold a clear, far-sighted industrial and economic growth strategy that reflects both the need to optimise the value of the Government's assets and the specific purpose of each investment.

In the same spirit, the Government as shareholder launched a survey of the industrial policies pursued by the companies within its purview. The survey analysed the geographic location of investments, employment, value added and research and development. Twenty-five industrial companies were polled: ADP, Air France-KLM, Areva, ATMB, DCI, DCNS, EADS, EDF, France Telecom, GDF Suez, Giat, Imprimerie Nationale, LFB, la Française des Jeux, La Monnaie de Paris, RATP, RFF, Renault, RTE, Safran, Semmaris, SNCF, SNCM, Thales and La Poste.

Those companies' unaudited responses reveal a number of trends. With regard to the first indicator, we note that between 2008 and 2009, **investment in France rose by more than 2%** but stagnated across the geographic areas taken as a whole. This suggests a shift in 2009 towards «reshoring» of public-sector industrial

Changes in investments, aggregate all entities

	In France 2008-2009	Across geographic areas 2008-2009	In France 2009-2010 (calculated on 2010 forecast)
Average transport	-10.6%	-6.85%	-3.73%
Average transport infrastructure	-2.1%	-22.15%	NA
Average energy	26.5%	29.75%	12.45%
Average defence	-2.16%	-9.30%	NA
Average other sectors	+6.23%	7.6%	34.92%
Average rate, all sectors	**+2.32%**	**+0.19%**	**+14.55%**

Change in value added

	In France 2008-2009	Across geographic areas 2008-2009
Average transport	-5.4%	-7.64%
Average transport infrastructure	+0.15%	+0.15%
Average energy	+3.8%	-5.75%
Average defence	+17.5%	+17.46%
Average other sectors	+3.5%	+0.86%
Average rate, all sectors	**+3.68%**	**+3.32%**

investment. The respondents expected the movement to gain momentum in 2010, with investment in France forecast to rise 14%.

The other indicators of the part companies in the APE portfolio play in France's industrial policy suggest similarly encouraging trends. The survey found that value added located in France rose nearly 4% from 2008 to 2009. Over the same period, research and development located in France increased 19%.

The principle behind this annual survey on the contribution of publicly-owned companies to industrial policy was confirmed at the 3 August meeting of the Council of Ministers.

Prevention of psychosocial risk in publicly-owned enterprises

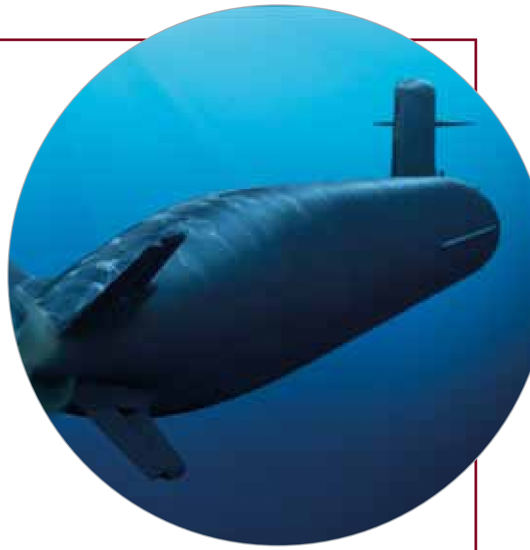
On 26 September 2009, the Minister for the Economy addressed a letter to the entities in the Government's shareholding portfolio requesting that they report on human resource management measures taken. The letter sought chiefly to inquire into their policies on forward-looking career and skills management and arrangements they may have made to detect and prevent employee vulnerability or workplace stress. The Agency made sure not only that they replied but that discussions were held on those issues in their governing bodies.

More generally, companies and their HR divisions were contacted to exchange views on the method, practices and function of a hands-on approach to human resource management. The entities took practical steps to implement action plans for psychosocial risk prevention, adapted to their particular environments and often beginning with assessments and diagnoses.

Prevention plans involve a range of detection tools, with input from occupational medicine, psychologists, employee representatives and HR staff. The entities implemented such measures as toll-free hotlines, guidance and psychological support, management training and awareness-raising or relocation counselling.

As shareholder, the Government ensured that companies employing a workforce of 1,000 or more complied with a request by the Ministry of Labour, whether by making significant progress in negotiations on occupational stress prevention before 1st February 2010 or by implementing a diagnosis and concerted action plan. Headway made in these areas will be monitored periodically.

Human resources play a vital role in the competitive strength of companies and as such are of prime importance to the Government as shareholder. The Agency carefully monitors the way the entities in its portfolio handle human resource issues and, more specifically, the measures they take to prevent psychosocial risks. It also ensures that policies on forward-looking career and skills management in those entities give staff members a clearer sense of their role.



Structural changes in the Agency's shareholding portfolio

Overview by sector

Defence

Two highlights marked the year 2009: Ministry of Defence notification to companies in the APE portfolio of several major procurement contracts under the 2009-2014 Military Planning Act (LPM) approved by Parliament on 29 July 2009; and the Defence component of the economic stimulus plan.

- **DCNS:** Definition of the delivery schedule and orders confirmed for the construction of eleven FREMM frigates (amendment signed on 8 October 2009), along with demand confirmed in the LPM for six SNA Barracuda nuclear attack submarines.
- **Nexter Systems** (GIAT Industries group): An order for 333 VBCI wheeled infantry fighting vehicles in August 2009 is confirmed, bringing total orders under the programme up to the initial target of 630 vehicles. An order for 15 Aravis armoured vehicles is announced on 16 April 2009 as part of the defence component of the economic stimulus plan.
- **Safran:** A new order is announced in November 2009 for 16,454 FELIN integrated equipment suites for the French Army, raising the total number of FELIN systems ordered to 22,588.
- **Thales:** In addition to participating in the FREMM programme (see DCNS above), Thales gained Ministry of Defence approval for tranche 4 of the Rafale programme in November 2009, involving an additional order of 60 aircraft, raising the total order to 180 aircraft.

After months of technical discussions and negotiations with Airbus Military, manager of the A400M development and production programme, and parent company EADS, the Joint Organisation for Armament Cooperation (OCCAR) and the seven launch nations (France, Germany, Spain, the United Kingdom, Turkey, Belgium and Luxembourg) clarified the future of the A400M military airlifter programme in July 2009 and again in March 2010. The initial contract between OCCAR and Airbus Military for 180 aircraft was signed in Bonn on 27 May 2003. Safran and Thales, as Airbus Military suppliers, are also involved in the A400M programme.

In September 2008, Airbus announced that the maiden flight of the A400M would be postponed for an unspecified period of time.This was largely due to the unavailability of the propulsion system, but also to severe difficulties that other major suppliers of mission-critical and systems-integration systems had in meeting the aircraft's demanding technical specifications. During its discussions with OCCAR and the launch customer nations in 2009, EADS successfully restored those countries' confidence in the A400M programme. These discussions addressed various aspects of the programme's future progress, such as the date of the first flight, the certification procedures and the expected first entry into service, along with technical details on the aircraft and the commercial terms of an updated contract scheme. On 24 July 2009, OCCAR and the launch nations announced that they would continue with the A400M programme to allow for more detailed negotiations through to year-end 2009. During that phase, EADS worked out a reliable schedule with its suppliers and partners, including a date for the A400M's inaugural flight, which took place in Seville on 11 December 2009. An important milestone for the programme's future was reached on 5 March 2010 when the seven launch nations and EADS/Airbus Military signed a joint agreement in principle, the «Understanding on the Continuation of the A400M Programme». Under the agreement, the launch nations undertook to:

• Increase the initial contract price by €2 billion (from €20 to €22 billion);

• Waive any claims for liquidated damages arising from the current delays;

• Provide an additional €1.5 billion in exchange for a share in future export sales (Export Levy Facility);

• Accelerate pre-delivery payments in the 2010-2014 period, based on a delivery schedule to be finalised in the updated contract.

A second A400M took its first test flight on 9 April 2010 and a third on 9 July 2010. The first delivery of series aircraft to the Armed Forces is due in early 2013, according to the new delivery schedule approved by Airbus Military and the launch nations.

Transport

In the transport sector, the two key events for the 2009-2010 period were a major railway reform launched with the Act on the organisation and regulation of rail transport (known as the ORTF law), passed in December 2009, and progress with the seaport reform under the Act of July 2008.

The ORTF law transposed into French law both the regulation on public service obligations (PSO) of July 2007 and the set of directives comprising the third railway package. Tranposition of the PSO regulation led to an overhaul of the organisation of public transport in the greater Paris area (Ile-de-France region). A clear distinction was made between the activities of the infrastructure manager and those of the operator. On the one hand, RATP, the Paris public transport operator, was granted an exclusive right over infrastructure management, including extensions and deployment, for an unlimited period. On the other, STIF, the public transport organising authority for the Ile-de-France region, was entitled to call for bids and award new transport services. RATP will retain its monopoly on existing services until 2024, 2029 or 2039, depending on the mode of transport. In anticipation, the law provides for transferring the ownership of assets required for service operation to STIF, while confirming RATP as sole owner of infrastructure. This new regulatory framework will bring about radical changes in RATP's organisational structure and financing arrangements.

With the arrival of competition announced by the ORTF law, RATP launched a new stage in its development, reaching beyond the Ile-de-France region to the rest of France and abroad. In connection with the merger between Transdev and Veolia, RATP sold off its stake in Transdev, recovering assets vital to its growth and tripling its activity outside Paris and the surrounding region.

A new landmark in the liberalisation of rail transport, the third railway package was transposed into French law. The law's first effect was to open the network to international passenger service and to «cabotage» (namely, the right to pick up and drop off passengers at French stations located on an international route, provided such domestic services are incidental to the entire route and do not compromise the economic equilibrium of a public service contract) as of 13 December 2009 – the date on which the 2010 service schedule came into force. Second, to oversee fair competition in network access, the law established the Regulatory Authority for Railway Activities. This independent public authority has the right to regulate the train path allocation process and the charges levied for using the infrastructure to ensure a level playing field among operators.

The law also entailed a series of organisational changes in the two rail companies, SNCF and RFF. A railway traffic management unit was set up within SNCF, charged with meeting the needs of all users of the national rail network. This fully independent body carries out its mission in accordance with the management objectives and on behalf of RFF, which finances its budget. SNCF also created a new unit entrusted with managing and developing its 3,000 passenger train stations.

The creation of the new unit confirmed the relevancy of company management at the level of units operating across the EPIC and subsidiaries. That is why SNCF decided to define appropriate management and oversight rules.

The main changes in the scope of the SNCF Group concerned three divisions: Proximités, with the takeover of Effia by Keolis which gave SNCF a majority stake in the latter; Geodis Freight, with the acquisition of Transports Giraud and the takeover of Ermewa; and Voyages, with the full consolidation of Eurostar. The moves strengthened SNCF's position in these three increasingly competitive markets.

Another objective of the ORTF law was to give RFF – the infrastructure manager – greater flexibility in network management and maintenance by allowing the company to delegate operation of low-traffic freight lines to operators other than SNCF. This provision in effect opens certain services currently run by SNCF to other transport companies or operators (as in the case of short-line networks run by local rail operators).

The seaport reform instituted by the law of 4 July 2008 also moved ahead in 2009. The law's twofold objective was to refocus the major French seaports on their regulatory functions of managing port infrastructure and domain and promoting port and access facilities generally; and to oversee the public interest of those structures by introducing rational, accountable management.

Stemming from the reform, port governance was overhauled. At the head of the new structure are executive committees under the overall control of supervisory boards, each of which has seventeen members, including five Government representatives.

The law also provides for the ports to produce a strategic plan designating the handling equipment to be transferred to the private sector. The terminal transfers are proceeding as prescribed by the law: negotiations with the cargo handling companies, submission of plans to the National Evaluation Commission (CNE), approval by the supervisory boards and signature of the first transfer deeds in June 2010. The transfers will become effective in the second half of 2010, once the terminal operating agreements have been signed. As for personnel transfers, the conditions were set in framework agreement signed on 30 October 2008.

Finally, the reform ushered in major investment plans designed to foster the ports' development in strategic areas. The ports have responsibility for financing the investments – by borrowing and self-financing – but funds are also granted the Government, in particular under the stimulus plan, in addition to subsidies from local authorities.

Under the impact of the crisis, traffic at European ports contracted sharply in 2009. Over the first half of the year, activity at Europe's major ports fell 10 to 30%. Container traffic was especially hard hit as shipping lines faced declining freight rates stemming in part from fleet overcapacities and in part from diminishing cargo volumes. Over the period from January 2008 to September 2009, maritime economic activity dropped nationwide by a quarter. Traffic at major seaports in mainland France shrank by 13% on average. The only ports that ended the year 2009 on a positive note were Rouen and La Rochelle, due to a surge in grain trade.

The port reform law of 4 July 2008 also provided for contracts between the ports and the Government which would set port targets for the 2009-2013 period and trigger the commitment of funds allocation under the port recovery plan, for which a €174 million overall budget was earmarked. The contracts will recapitulate the targets set by the ports in their strategic plans for the effective transfer of port personnel, growth in traffic and modal shift, as well as financial results. The overall budget pledged by the Government will be specified, although how that breaks down by investment will depend on the projected return. Finally, the contracts will define a capital dividend policy. In some ports, the supervisory boards will have to downsize their strategic plans and as a result revise their traffic and income targets to reflect the impact of the crisis. The State/Port contracts are unlikely to be approved until those revisions have been made.

Energy

The energy companies in the APE portfolio – EDF, GDF Suez and Areva – are structurally dependent on changes in their market environment and regulatory framework. Although these three companies have built up substantial strategic positions in many non-European markets that experienced specific fluctuations, the overview presented in this report will be confined to Europe, where the bulk of their activities are concentrated.

■ 2009 witnessed a decline in power and gas consumption in Europe, particularly by industry, accompanied by falling market prices, although an upturn was observed during the first half of 2010.

The crisis led to depressed demand for electricity and gas in Europe. Gross domestic power consumption in 2009 declined nearly 1.6% over 2008, to 486.4 TWh. The brunt of the impact was felt in industry: demand by large industrial consumers connected directly to the grid fell 8.6% in 2009. Power consumption by small businesses and manufacturers also slid by 3%. These declines were partially offset by a 2% rise in consumption by consumers connected to low-voltage networks. Other European countries experienced similar trends, with declines estimated at roughly 7% in the U.K., 5.5% in Germany and 6.7% in Italy.

The sluggish demand pushed down electricity prices in Europe. In France, average spot electricity prices sank by 37.8% for baseload and 36.6% for peakload between 2008 and 2009. The other European markets were affected to varying degrees (a comparable decline in Germany, larger in the U.K. and slightly lower in Italy), but the movement was downward all across Europe.

Moreover, electricity prices, which tend to track spot gas prices on European wholesale markets, were adversely affected by the contraction of natural gas demand in Europe under the impact of the crisis. In France, seasonally-unadjusted natural gas consumption, after rising 3.6% in 2008, dropped 3.6% in 2009. At 497 TWh, consumption was on a par with 2007 levels. After adjustment for seasonal variations, the decline in natural gas consumption was in fact 4.3% in 2009, contrasting with successive increases of 0.3% in 2008 and 0.5% in 2007. Here again, falling demand all over Europe pushed down gas prices on the spot markets.

Beyond the impact of the economic crisis on prices, the global gas market may be undergoing a structural shift due to fast-growing domestic gas production from unconventional sources (primarily shale gas) in the U.S. In the short term, expanding U.S. domestic production amplified the overcapacities of liquefied natural gas, exerting downward pressure on other markets. If the increase in European gas market prices observed since the end of first quarter 2010 continues, thereby driving up electricity prices as well, the signal will be clear. At this stage, the rise can be attributed largely to the falling euro against the dollar and to demand that was more vigorous than projected in Europe and especially Asia.

On the European gas market, European operators like GDF Suez enter into long-term supply contracts with operators in producing countries (notably Russia and Norway) which generate their prices by oil-indexed price formulae (due to gas-oil substitutability). The low gas spot market prices coupled with rising crude prices in 2009 and early 2010 created an unfavourable environment for those operators, who are losing market share to suppliers who buy most of their gas on the spot markets. Moreover, this effect is passed on to the residential sector in France, where gas supplies are purchased under long-term contracts to guarantee supply security. After declining by an average 11% in April 2009, public gas supply tariffs increased nearly 10% in April 2010 and 5% in July 2010, linked to the rising price of crude oil. This situation, which puts operators in a very difficult position given their rising supply costs, led GDF Suez and others to open negotiations with their suppliers in an effort to bring those costs down.

From a financial perspective, these fluctuations in electricity and gas market prices impact energy companies differently depending on both their hedging strategies and public service obligations and their price exposure stemming from their commercial offers or supply contracts. EDF's margin, for example, is far more sensitive to changing market prices in Italy or Germany than in France due to the predominance of regulated sale tariffs over presumably free market prices.

■ The significant consolidation activity in the electricity and gas industry since 2007 was put on hold as of mid-2009, with the exception of several noteworthy transactions concerning networks in particular.

Between 2007 and the outbreak of the crisis, a vast wave of consolidation swept through the European electricity and gas industry. In addition to the plans for a merger of Gaz de France and Suez in 2006, several ambitious pan-European transactions were in the pipeline from 2007 on, some of which were finalised during the crisis.

Italian energy company Enel took over Endesa in two phases. First, in 2007, Enel and its Spanish partner Acciona took over Endesa for an estimated €42.5 billion. Then in 2009, Enel bought out Acciona's stake in exchange for €8.2 billion in cash consideration and €2.9 billion in Endesa generation assets transferred to Acciona. Spain's largest gas company, Gas Natural, acquired Spanish power utility Union Fenosa in 2009 for roughly €16.5 billion. Also in 2009, Sweden's Vattenfall bought Dutch energy company Nuon for €8.5 billion and Germany's RWE acquired another Dutch firm, Essent, for €7.3 billion.

Finally, EDF took over British Energy on 5 January 2009 and then sold a 20% stake in the company to U.K.-based Centrica, bringing EDF's net consideration for the stake in British Energy to €11.1 billion. In the same deal, finalised in November 2009, EDF also acquired Centrica's 51% stake in SPE, a Belgian power generator which sells electricity and gas. After several minority shareholders decided to exercise their put options as authorised in November 2009, EDF increased its stake in SPE to 63.5% in the first half of 2010.

In August 2010, GDF Suez announced its combination with International Power plc. GDF Suez's contribution into International Power was essentially its Energy International Business Areas or, in other word, primarily power generation assets outside Europe. In exchange, GDF Suez took control of New International Power as 70% owner, in accordance with British listing rules. The combination creates the world's largest independent power producer, with 66 GW of gross capacity in operation and projects expected to deliver 22 GW. It also strengthens GDF Suez' position as a gas and power utility: GDF Suez ranks first worldwide by revenue and second in power generation capacity, just behind EDF.

Many players have taken a different route, some launching divestment programmes while others put the priority on paring down their productive investments. In 2009, E.ON announced its intention of undertaking a divestment programme in the neighbourhood of €10 billion, Enel indicated that it planned a comparably large programme and EDF, a €5 billion divestment programme. These divestment programmes have progressed to differing stages but remarkably, all revolve around network activities, due in part to a «regulating pressure» exerted on integrated operators. Two other transactions are particularly worthy of note. First, in power transmission, Electrabel (GDF Suez Group) sold its stake in Elia. Second, in gas infrastructure, GDF Suez completely withdrew from the capital of Fluxys, the Belgium-based natural gas transmission system operator.

■ The French electricity market continue to open to competition.

In France, the bill on the new organisation of the electricity market, currently tabled in Parliament, should profoundly transform the regulatory framework applying to EDF for its power generation and marketing activities in France and give rival operators, including GDF Suez, greater access to the market (see presentation on EDF for a brief description of the reform.

Coinciding with the structural reorganisation of the market, the Government announced in April 2010 its intention of opening bidding on hydroelectric concessions up for renewal to all producers that demonstrate sufficient professional and financial guarantees.

The Government having accepted the principle of early renewal for certain concessions, ten concessions for a combined capacity of 5,300 MW will be renewed by 2015. Calls for tender will be launched, depending on the concession, between 2010 and 2013. Most of the hydroelectric facilities operated as concessions, which generate a total 25,300 MW, are owned by three companies – EDF for a capacity of 20,300 MW, CNR (GDF Suez Group) for 3,500 MW and SHEM (GDF Suez Group) for 900 MW.

■ Energy efficiency and supply security are the focal points of recent regulatory changes at EU level.

A major development in the EU regulatory framework, the «energy and climate package» adopted under the French Presidency of the European Union in the second half of 2008 holds real potential for France's energy groups insofar as the power industry and nuclear facilities in particular will play a central role in the greenhouse gas reduction scheme. Regulatory efforts on energy efficiency also moved forward, with the Directive adopted on 19 May 2010 on Energy Performance of Buildings. In the EU, buildings are responsible for 40% of total energy consumption.

Work to recast existing legislation on emissions from industrial facilities, including power plants, led to the adoption of a new directive. The industrial emissions directive (IED) harmonises operating exemptions granted in the EU for plants with emission levels exceeding limit values established on the basis of best available techniques. The directive seeks to ensure a higher level of environmental protection with regard to industrial pollution, particularly from large combustion plants. More specifically, the European Parliament and Council reached an agreement concerning fossil fuel power stations in June 2010. Under the agreement, which Parliament approved on 7 July 2010, combustion plants closed by the end of 2023 at the latest may be exempted from compliance with emission limit values on condition that they are not operated for more than a total of 17,500 hours per unit from 2014 to 2023. Other plants can only continue operating beyond 2024 if they install suitable abatement equipment to begin reducing sulphur oxide, nitrogen oxide and other pollutant emissions.

In 2009, the European Commission also adopted a proposed regulation on gas supply security in Europe. The proposal's main objectives were to prevent potential disruptions of gas supply and to deal with supply crises affecting the European Union. An explicit concern was the Russia-Ukraine gas dispute in early 2009, in that Russian gas currently accounts for 25% of EU supplies, a share that could double by 2030. The version of the proposal currently examined by Parliament and the Council would impose minimum supply security standards in terms of infrastructure (to guarantee supply even in the event of an infrastructure failure) and natural gas supply (during exceptional cold spells). It would require Member States to have reverse flow capacities at borders, to assess supply disruption risks, to prepare appropriate preventive action plans and to stiffen their emergency plans for dealing with crises. Finally, Member States would have to collaborate more closely, in particular through gas coordination groups and broader intervention powers by the Commission.

■ In 2009 and the first half of 2010, companies in the APE portfolio worked actively on new reactor projects under development and on the feasibility of extending the lifetime of existing reactors beyond 40 years.

In 2009 and into 2010, projects to build advanced nuclear reactors were under way around the world, with an increasing share in Asia. According to the World Nuclear Association (WNA), at 1st July 2010, 59 reactors were under construction worldwide, of which 24 in China. The crisis seems to have had variable impacts on new construction projects, which require substantial capital investment. Whereas projects in Asia apparently continued as planned, in Europe and the United States certain projects directly exposed to the decline in market prices could be postponed, failing adequate public support mechanisms like the Federal loan guarantee in the U.S. or the U.K.'s carbon floor price plan.

European players in the power industry have acquired cutting-edge expertise in the construction of advanced reactors. French companies are currently building four EPR reactors in Olkiluoto, Finland, Flamanville, France and Taishan in China. In Finland, Areva is not only the lead supplier but plays a central role as «architect-engineer» (responsible for project design and coordination). EDF assumes the same function in Flamanville. As for Taishan, the projects will be built and operated by a joint venture held 70% by Chinese operator CGNPC and 30% by EDF.

The major challenge in France, in addition to completing construction of Flamanville 3 and gearing up to build Penly 3, is the extension of reactor operation, particularly beyond a 40 year lifetime. The stakes are not only industrial and financial but safety-related. In 2009, EDF submitted planned safety improvements for operation of its fleet beyond 40 years to the Nuclear Safety Authority (ASN). The feedback EDF receives from operators in the U.S. and elsewhere that have already dealt with service life extension issues is particularly useful. In the U.S., the equivalent of €400 million per tranche was spent to replace major fleet components (steam generators, vessel heads, turbines, electrical generators, etc.). In France, however, the investments cannot be accurately costed until EDF and ASN, assisted by a standing group of experts, have completed their extensive technical review to determine the feasibility of extending the lifetime of existing reactors beyond 40 years.

In 2009, GDF Suez concluded a protocol agreement with the Belgian government on a ten-year extension, from 2015 to 2025, of the lifetime of three of its reactors (Doel 1 and 2 and Tihange 1) following safety inspections. The agreement would provide for nuclear operators to pay an annual contribution estimated at €215 to €245 million from 2010 to 2014. The terms of the agreement have not yet been put before Belgium's Parliament. A €250 million tax on nuclear operators was introduced by the Belgian government in 2008 and 2009.

EDF announced the sale of its British power distribution assets in July 2010.

■ The President of the Republic announced the implementation of strategic decisions in the French nuclear industry.

In October 2009, the President of the Republic commissioned François Roussely, Vice President of Crédit Suisse Europe and Honorary Chairman of EDF, to analyse the future of France's civilian nuclear industry. After delivery of the report, published in summary form, the President of the Republic decided on a number of strategic guidelines for the industry, which he announced on 27 July 2010.

To effectively unite the French nuclear industry around its national champions, a strategic agreement will be concluded between EDF and Areva covering all activities of common interest. At the upstream end of the cycle, the agreement will reinforce fuel supply security at competitive conditions. In the nuclear power plant export business, the two companies will establish an organisation based on EDF's expertise as operator and «architect-engineer» when required by customers' needs. The non-exclusive agreement will not prevent the two companies from continuing to cooperate with other players in the nuclear power industry.

The outstanding level of nuclear reactor safety assures the French industry of a decisive competitive edge. The EPR reactor has very high potential in international markets. Its competitive strengths will be upgraded continuously by pursuing design and construction optimisation while integrating feedback from projects under way. The French nuclear industry will also further diversify its reactor portfolio to meet a broader range of customer requirements. Certification of the ATMEA reactor, in which EDF, GDF Suez and possibly other power utilities will play a part, is also moving forward.

Efforts by the French nuclear industry to step up industrial capacities include a plan for large-scale investments in Areva's various sectors of activity. To raise funds for those investments, up to 15% of Areva's capital will be sold by the end of 2010 to industrial and financial investors, with whom negotiations have already been engaged. As part of the strategic agreement mentioned above, EDF is also considering taking an equity stake in Areva.

To strengthen French capacities in strategic metals supply, industrial partnerships in Areva's mining activity will be considered, including possible equity investments..

Changes in corporate structure

New status of La Poste as a public limited company

Following a consultation process opened in September 2008 – and a report by the Commission led by François Ailleret submitted to France's Prime Minister on 17 December 2008 – the Council of Ministers examined a bill on La Poste and postal activities on 29 July 2009. The bill, debated in Parliament from November 2009 to January 2010, was passed on 12 January 2010 and then approved by the Constitutional Council on 4 February 2010. The implementing decree for Act 123 of 9 February 2010 on state-owned company La Poste and postal activities was then published on 28 February 2010.

Pursuant to the Act, the public corporation was converted into a public limited company from 1st March 2010. The Act reaffirmed La Poste's four public service missions and particularly nationwide coverage (through 17,000 post-office branches), which will continue to be financed by the national postal fund for geographical equalisation. It provided guarantees for La Poste staff, who will retain their status as civil servants or contract employees, together with all of the rights conferred by that status.

The Act transposed EU directive of 20 February 2008 setting 31 December 2010 as the deadline for full opening of postal markets in Europe. La Poste was designated as the universal postal service provider for a period of 15 years, with no change in the content or scope of its universal service. The current uniform postal tariff system is also maintained.

Its status as a public limited company will enable La Poste to rise to the new challenges on its market through ongoing industrial investment to modernise and improve on the efficiency of its various businesses.

On 19 December 2008, the President of the Republic announced a capital increase of La Poste, subscribed by the Government for €1.2 billion and by Caisse des Dépôts et Consignations for €1.5 billion. The possibility of Caisse des Dépôts et Consignations taking a stake in La Poste is under discussion.

Creation of BPCE Group, France's second-largest banking institution

The final stage in the process of creating BPCE Group, second-largest player in the French banking landscape, was approved by Banque Fédérale des Banques Populaires (BFBP), Caisse Nationale des Caisses d'Épargne (CNCE) and BPCE at special shareholders' meetings on 31 July 2009. The central body, BPCE, received the contributions of CNCE and BFBP.

The Government, via SPPE, subscribed preference shares issued by BPCE for €3 billion to finalise its equity contribution in the new group. Between November 2008 and June 2009, SPPE had already subscribed super-subordinated notes (TSSs) issued by Banques Populaires and Caisses d'Épargne for a total €4.05 billion.

BPCE Group combines two autonomous and complementary retail banking networks, those of the 20 Banque Populaire banks and the 17 Caisse d'Epargne banks. The two names, BPCE Group's historical brands, will be retained and developed and Caisse d'Épargne and Banque Populaire customers will continue to be served by the bank in their region. The new group has some 34 million customers, 8,000 branches providing extensive national coverage, 110,000 employees and over 7 million cooperative shareholders. As of mid-2009, BPCE Group had Tier-1 capital of €36.5 billion and accounted for 22% of total deposits held by French banks. It is a major economic and financial player in France, serving individuals, professionals, small and medium-sized businesses and manufacturers, major companies, local governments and the solidarity-based economy.

BPCE, the name given to the central body, was created by Act 715 of 18 June 2009. It replaces the former central bodies of BFBP and CNCE. It was created through partial asset contributions on the part of BFBP and CNCE under the regime applicable to demergers.

BPCE is owned equally by the 17 Caisses d'Épargne and the 20 Banques Populaires. Since its creation, it owns the two groups' retail banking, corporate and investment banking and financial services subsidiaries as well as their production centres (e.g., Natixis, Société Marseillaise de Crédit, Financière Océor, GCE Assurances and CNP Assurances).

The central body, BPCE, was set up as a public limited company with a management and a supervisory board. The Supervisory Board comprises 18 members, including seven from Groupe Banque Populaire and seven from Groupe Caisse d'Epargne. Two representatives of the Government and, as agreed with Groupe Banque Populaire and Groupe Caisse d'Epargne, two other independent member were appointed to BPCE's Supervisory Board by the Minister for the Economy, Industry and Employment.

On 6 August 2010, the group passed a second milestone with the simplification of its corporate governance structure. The entities not brought in when the new central body was created in July 2009 (chiefly Crédit Foncier de France, Foncia, MeilleurTaux, Banca Carige, Banque Palatine and MABanque) were grouped together as BPCE subsidiaries. The Banques Populaires (BP Participations) and Caisses d'Épargne (CE Participations) holding companies were merged with BPCE. And, finally, Caisses d'Épargne will continue to hold its 41% equity interest in Nexity.

T&D sold off by Areva

As part of the Group's financing plan, worked out in early 2009 and announced by its Supervisory Board on 30 June 2009 (see section on Areva, Areva sold off its Transmission & Distribution (T&D) unit.

The sale, in effect a privatisation, was subject to approval under French privatisation laws and, more particularly, to a decree ordered on Holdings and Transfers Committee (CPT) assent, pursuant to Article 20 of Act 912 of 6 August 1986.

Initially, more than 70 industrial or financial candidates were invited to submit bids. Some twenty showed interest in the unit and were invited to submit non-binding offers. At that point they were notified that bids would be assessed on the basis of two sets of criteria: the price and financial terms offered and the potential buyers' industrial and labour projects. Concluding this first round, three non-binding offers – from a consortium led by Toshiba, a consortium led by General Electric and a joint Alstom-Schneider Electric consortium – were submitted on 18 September 2009.

At a meeting on 29 September 2009, Areva's Supervisory Board decided to invite the three consortiums to take part in a second round of bidding. After that round, held in the fall of 2009, the three candidates were invited to put in final firm offers for the acquisition of Areva's T&D unit on the basis of detailed information.

The open and transparent bidding procedure ensured a successful outcome, as evidenced by the exceptional quality of the three final bids.

After detailed examination of the three bids by Areva, its Supervisory Board meeting of 30 November 2009 authorised exclusive negotiations to be opened with the Alstom-Schneider Electric consortium. Its offer would be assessed on the basis of the previously announced criteria, namely, price, the solidity of the industrial project and the labour commitments.

The Alstom-Schneider consortium offered to pay €2.29 billion for the T&D unit, representing €4.09 billion with assumed debt included. This value was four times higher than the price at which Areva acquired the business in early 2004. The consortium's bid did not include any requirement for a seller's warranty.

The industrial project proposed by the consortium laid out optimal conditions for T&D's growth by placing it at the core of the two groups' strategy. Two global specialists in the power industry would be created: upstream business with power generation provided by Alstom (turnkey power plants, turbines and generators), completed by T&D's high and extra-high voltage transmission networks; and downstream business, with Schneider Electric's distribution networks strengthened by T&D's medium voltage activities. Alstom and Schneider Electric opened up opportunities for industrial, commercial and technological synergies: links with power generation, critical size in the medium voltage market, access to wider markets and innovation for the entire power industry. The consortium also pledged to preserve and develop the links between transmission and distribution in all commercial and technological areas.

Finally, the offer included particularly strong commitments for Areva T&D employees, with the pledge that no European sites would be closed for the next three years. To facilitate integration of Areva T&D employees under the best possible conditions, Alstom and Schneider agreed to offer all European employees equivalent positions in their current geographical areas and without loss of grade, seniority or compensation. The two groups also pledged not to implement any mass layoffs other than voluntary departures unless the economic environment deteriorates significantly.

Exclusive negotiations confirmed the broad outlines of the offer submitted by the consortium. Following approval by the relevant competition authorities, information and consultation of the various works councils and the decree ordered on the CPT's assent and published on 4 June, Areva finalised the sale of its T&D unit to Alstom and Schneider Electric on 7 June 2010.

The transaction enabled the group to reduce its debt and refocus on its core nuclear business, in which it has a twofold challenge to meet: preparing for the prospects opened up by the revival of nuclear power and improving its operating performance.

New status of Aix-les-Bains national thermal baths as a public limited company

Pursuant to the Act of 21 July 2009 reforming hospital services and relating to patients, healthcare and the regions (HPST) and to the decree of 29 December 2009 approving the articles of association of Thermes Nationaux d'Aix-les-Bains (TNAB), the thermal baths of Aix-les-Bains, formerly an EPIC, became a public limited company on 1st January 2010. Previously, the public report for 2008 by France's Court of Accounts had recognised the need for Government withdrawal and the adoption of new articles of association authorizing the involvement of private partners. The new legal status should now enable TNAB to raise the necessary capital for its commercial development.

As part of the privatisation process, authorised by a decree of 3 August 2010, the CPT's assent will be required on decisions as to the buyer and price. Moreover, an independent expert was commissioned by the Minister to draw up a report on the terms and conditions and execution of the transaction.

Equity transactions

Strategic Investment Fund (SIF)

SIF received the €20 billion asset endowment pledged by the President of the Republic in his Montrichard speech on 20 November 2008 in three successive stages, from February to November 2009:

• A cash capital increase of €1 billion in February 2009, which enabled SIF to make its first investments;

• A contribution of €14 billion in equity securities held by the Government and Caisse des Dépôts et Consignations (CDC) on 15 July 2009;

• A cash capital increase of €5 billion on 5 November 2009.

The composition of the €14 billion in-kind capital contribution was defined in an asset contribution agreement concluded by CDC, the Government and SIF on 5 July 2009. The assets transferred to SIF under the agreement included:

• Non-controlling interests contributed by the Government in twenty-two listed companies, mainly a 13.5% stake in France Telecom and an 8% stake in Aéroports de Paris (ADP);

• Non-controlling interests contributed by the Government in four unlisted companies, including a 33.3% stake in STX France Cruise;

• Equity interests in portfolio investment companies and equity funds, mainly CDC Entreprises Portefeuille and CDC Entreprises Capital Investissement.

The contributions became effective following approval of the agreement at the SIF shareholder meeting of 15 July 2009.

Significantly, SIF and the Government, which after those contributions retains a 13.49% share of France Telecom and a 52.1% share of ADP, notified their action in concert as shareholders in the two listed companies, under shareholders' agreements defining the terms and conditions of that concerted action in respect of the voting rights they exercise respectively at shareholders' meetings.

Finally, on 5 November 2009, the Government and CDC subscribed a second increase in SIF share capital through a €5 billion cash consideration. The transaction, prorated on the two shareholders' respective 49% and 51% stakes, raised SIF's total equity to €20 billion. SIF received an initial payment of €1.3 billion from the Government and CDC on 17 November 2009, enabling it to pursue its investments projects. SIF will call up the remaining €3.7 billion as needed.

Adit

Since its creation in 1992, ADIT (Agence pour la Diffusion de l'Information Technologique), which specialises in business intelligence consultancy, has played a significant role in developing technological and strategic intelligence across France's business world. In June 2010, the Government opened bidding for the sale of a majority interest in the publicly-owned agency. This was the final stage in a process laid down in a decree signed on 19 December 2001 on the transfer of ADIT's ownership to the private sector. The privatisation process was effectively initiated in 2003, when ADIT became a public limited company, and pursued with the first plan for private investors to acquire a minority stake in 2006, which propelled ADIT to the lead in French competitive and strategic intelligence.

ADIT, although primarily business-oriented, has broadened into support for regional economic development on behalf of local authorities. To bolster that new mission, ADIT bought out Giat Industries' Sofred

Legal framework applicable to disposal transactions

Disposals of equity capital holdings are strictly defined

Pursuant to Article 34 of the Constitution, «the law defines rules concerning [...] transfers of ownership in enterprises from the public to the private sector». In application of that provision, three laws lay down the overall legal framework: Act 793 of 2 July 1986, Act 912 of 6 August 1986 and Act 923 of 19 July 1993. The Acts of 2 July 1986 and 19 July 1993 define the scope of the relevant transactions and the Act of 6 August 1986 defines the procedure applicable to those transactions. Some specific laws have also been passed to adapt that general legal framework, taking into account the specific features of certain transactions (e.g. Crédit Agricole mutualisation-privatisation in 1988 or the Air France privatisation Act in 2003).

In substance, the Act of 6 August 1986 contains a Title II applicable in particular to privatizations of firms in which the government directly owns a majority stake (known as «first-rank» shareholdings) and a Title III applicable to other privatisations, mainly of subsidiaries of publicly-owned enterprises (referred to as «breathing space») and local semi-private enterprises. The procedure under Title II is also applicable to the sale of minority stakes in first-rank companies and to the transfer of government shareholdings in privatized companies to the private sector under Title II, provided that the government directly holds 20% of their capital. Under that threshold, the Economy Ministry alone has authority, pursuant to the Acts of 1948 and 1949 and in compliance with constitutional principles and rules.

Shareholdings in "first-rank" enterprises are sold according to the following four principles:

• The privatisations of the most important enterprises are first approved by law and then ordered by decree. Other transfers are authorized directly by decree.

• The selling price is decided by the Economy Ministry and cannot be below the valuation by the Holdings and Transfers Committee (CPT). For off-market disposals, the Economy Ministry decides on the buyer or buyers and on the disposal terms, with the assent of the CPT.

• Natural persons and employees of the enterprise enjoy specific advantages (reserved shares, bonus shares, terms of payment and, for employees, price discounts).

• When necessary to protect national interests, a «special share» to which specific rights are attached may be introduced in privatised companies *.

The Holdings and Transfers Committee (CPT)

Act 912 of 6 August 1986 established a Privatization Committee responsible for the valuation of privatized enterprises. Without modifying its composition or remit, decree 1054 of 22 November 1988 renamed it the Government Companies Valuation Committee. Act 923 of 19 July 1993 restored its initial name and reinforced its powers both in valuing assets transferred to the private sector and in determining the terms of the disposals. Decree 315 of 27 April 1998 renamed it the Holdings and Transfers Committee (Commission des Participations et des Transferts - CPT). In its 2001 survey, the Council of State held that the CPT was an independent administrative authority.

Concerning valuation of transferred assets, the CPT intervenes to determine the value of enterprises intended for privatisation listed in the annexe to the Act of 18 July 1993, of private-sector equity investments in enterprises in which the government directly holds more than half of the equity capital and of enterprises designated for a «breathing space» operation (disposal of enterprises with over 2,500 employees or revenue in excess of €375 million). Furthermore, should the transferred assets be paid for via an exchange of shares or a contribution in kind, the CPT intervenes under the same conditions to determine the parity or exchange ratio.

The offer or transfer price decided on by the Ministry for the Economy, Industry and Employment cannot be below the CPT's valuation, which is valid one month. The CPT may also be consulted in «breathing space» operations, although this is not mandatory.

Finally, the Economy Ministry refers employee shareholding operations and stock-option plans set up in state-owned or semi-public enterprises to the CPT, except in privatisations and acquisitions of minority stakes. In such cases, the CPT has a right to object, which it can exercise on grounds of non-conformity of such operations with the long-term interests of public corporations.

Concerning the transfer conditions, Act 1041 of 3 July 1993 broadened the CPT's initial consultative capacity in offering procedures by adding the obligation for the Economy Ministry to obtain the CPT's assent on the selection of the buyer or buyers in off-market transactions, as well as on the transfer terms. As originally worded, the Act only provided for an opinion from the CPT which did not bind the Ministry's decision.

The Committee has seven members chosen on the basis of their economic, financial or legal expertise and appointed by decree for a 5-year term. Its members are bound by professional secrecy. By decree of 18 September 2008, the following were appointed members of the CPT: Mr Bertrand Schneiter, Chairman, Mrs. Perrette Rey, Mr Pierre Achard, Mr Philippe Martin, Mr Daniel Deguen, Mr Jean Serisé and Mr Philippe Rouvillois.

** A special share in the capital of Thales exists today, justified by imperatives of national defence, and the Government also owns special shares in the new GDF Suez Group, justified by imperatives of security and continuity of energy supply.*

Main operations by the Government Shareholding Agency since its creation

	DISPOSALS BY THE GOVERNMENT	MAIN CAPITAL INCREASES AND ACQUISITIONS OF STAKES	MERGERS
2003	■ 8.5% of **Renault** ■ Sell-off of residual stake (15.7%) in **Dassault Systèmes** ■ 18% of **Thomson**	■ **France Telecom** in February, March and August (integration of Orange minority interests) ■ Fixed-term subordinated bonds (TSDD and TSDDRA) issued by **Alstom** in September-December	
2004	■ Entire stake in **SNI** (74%) ■ **Snecma** public share offer and disposal of 35% ■ 10% of **France Telecom** ■ 17.7% of **Air France KLM**	■ **France Telecom** in March (integration of Wanadoo minority interests) ■ **Alstom** in July ■ **APRR** in November	■ **Air France-KLM** share exchange in May
2005	■ Residual stake in **Bull** ■ 6% of **France Telecom** ■ **Gaz de France** public share offer ■ **EDF** public share offer	■ **Sanef** in March ■ **Gaz de France** in July ■ **EDF** in November ■ **France Télécom** in September (refinancing of Amena acquisition)	■ **Snecma-Sagem** merger in May, after the successful public tender offer/share exchange offer by Sagem for Snecma (January-February)
2006	■ Sell-off of entire stake in **Sanef, APRR and ASF** ■ Sale of stake in **Alstom** ■ **Aéroports de Paris** public share offer ■ Sale of majority stake in **SNCM** ■ Sale of stake in **Sofreavia**	■ **Aéroports de Paris** in June	
2007	■ **Thales** acquires 25% stake in **DCN** as part of an industrial partnership and the merger of the two groups' naval businesses in France ■ 5% of **France Telecom** ■ 2.5% of **EDF** ■ 33.34% stake in **Semmaris** (manager of the MIN wholesale food market in Rungis)	■ Increase in **Alcatel**'s stake in **Thales** through an asset transfer (transport, security) in January as part of a new industrial partnership	
2008	■ Sell-off of the Government's entire stake (64.7%) in **Dagris**: 51% to Geocoton (February) and the remainder (13.7%) to AFD (French development agency) (May). ■ Sale of 8% stake in **Aéroports de Paris** to finalise the latter's alliance with Schiphol Group, operator of Amsterdam's airport (December 2008)	■ **France Télévisions** (August 2008) ■ **Société de Prise de participation de l'État (SPPE)** (October 2008) ■ **Dexia** (October 2008), via **SPPE** ■ **STX France** (November 2008)	■ **GDF Suez** merger (July 2008
2009	■ Government contribution to **SIF** worth €6.86 billion: • 13.5% of **France Telecom** • 8% of **ADP** • 33.34% of **STX France** (former Chantiers de l'Atlantique)	■ **RFI** capital increase of €16.9 million (February 2009) ■ Government contribution of €490 million to **SIF** as part of a €1 billion capital increase (February 2009) ■ Government subscription for Oceane convertible bonds issued by **Air France–KLM** (June 2009)	
2010		■ **Renault** / Daimler: equity exchange of treasury stock for €60 million as part of a strategic alliance (April 2010) ■ **RATP** capital increase of €150 million (July 2010) ■ **La Poste** capital increase of €2.7 billion (€1.2 billion by the Government and €1.5 billion by Caisse des Dépôts et Consignations) before year-end	

Consultants, a firm which assists companies and local authorities in their regional redevelopment and restructuring projects, in 2007. ADIT now holds a 60% stake in Sofred Consultants.

ADIT and its subsidiary Sofred Consultants, which employ a combined workforce of 120, reported more than €17 million in revenue in 2009.

The privatisation is expected to boost ADIT's growth in France and internationally and give it greater flexibility to keep pace with the fast-changing economic intelligence market. A 65% stake will be transferred to private ownership and the Government will retain the remaining 35%.

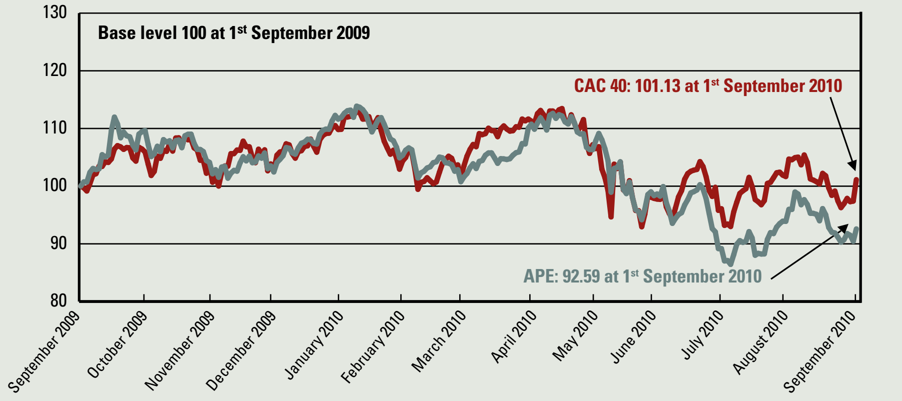
The selection process is based on specifications spelling out the Government's objectives as ADIT's shareholder and setting forth the terms and conditions of the competitive tender. Once the potential investors have been selected, approval for the sale will be decided by the Minister for the Economy, Industry and Employment, on prior assent by the CPT.

Renault

Renault Nissan and Daimler announced the signature of a broad, long-term strategic cooperation agreement on 7 April 2010. The agreement covers the next-generation Smart Fortwo and Renault Twingo, including electric versions, powertrain sharing and co-development on future projects with applications across passenger cars and light commercial vehicles. Additional potential synergies in common purchasing and sharing of best practices could be generated. Other opportunities for cooperation will be envisaged at a later stage.

Through the agreement with Daimler, the Renault-Nissan alliance builds on its unique and successful experience in industrial cooperation. More specifically, Renault will be able to consolidate its competitive position and improve capacity utilisation at the Maubeuge and Cléon plants in France.

COMPARISON OF THE APE PORTFOLIO WITH THE CAC 40 INDEX



An equity exchange on 28 April 2010 formalised the tie-up between the Renault-Nissan alliance and Daimler, giving the former a 3.1% stake in Daimler and the latter a 3.1% stake in both Renault and Nissan. With a view to maintaining its historical 15.01% reference shareholding in Renault, the Government bought a 0.55% stake in the company. With this acquisition, the Government remains Renault's largest shareholder, ahead of Nissan. On 7 October 2010, Renault sold all of its Class B shares (which have lower voting rights) in Volvo AB, representing 14.9% of the share capital and 3.8% of the voting rights. The price tag for the transaction was €3 billion.

Market value of the portfolio of listed companies

The Agency's portfolio of listed companies was worth €87,818 million at 1st September 2010, down from €94,859 million at 1st September 2009, a 7.41% decline year-on-year compared with the 1.13% rise in the CAC 40 index over the same period.

Nevertheless, from a methodological standpoint, this comparison should be put into perspective. The value of the APE portfolio is heavily weighted by the EDF holding, which represents 57% of the total and fell by 11.22% during the period considered. Together with GDF Suez, which fell 11.88% year-on-year, the two energy companies account for 80% of the portfolio. In other words, the trend in market value of listed companies in the APE portfolio compared with the CAC 40 index chiefly reflects the overall decline in the utilities sector worldwide. A more relevant comparison would be with the EuroStoxx Utilities sector index, which fell 12.62%.

Government Shareholding Agency resources

APE, an agency with nationwide scope acting under the authority of the Economy Ministry, is typically staffed by 55 people.

The Agency's total staff was 54 in September 2010, down from 56 in September 2009 due to two unfilled positions. Between September 2009 and August 2010, with six new entrants, staff turnover was approximately 10%, contrasting with the turnover rate of nearly one third for the previous period.

APE avoids leaving positions vacant wherever possible and provides for transition periods when staffing changes occur. Only one position was vacant in September 2010, which will be filled by October.

APE staff members have wide-ranging profiles. When needed, the Agency can and does hire a significant number of contract employees, particularly in its specialised groups, where their expertise is indispensable, but also in operational functions.

The Agency's audit and accounting, finance, legal and human resources groups support sector-specific sections in charge of relations with companies in the APE portfolio. This matrix organisation is a source of strength for the Agency in performing its missions, which demand a high degree of responsiveness and in-depth technical expertise.

In addition to an internal operating budget, the Agency receives appropriations to finance intellectual service contracts with investment banks, law firms, audit and other consulting firms. Such services generally concern not only structuring of transactions and their strategic, legal and financial implications but also valuations. Consultants are hired by the Government according to the relevant legal framework and, wherever possible, through a competitive bidding process. Beyond the financial terms and conditions, the Government especially considers fundamental compliance with confidentiality rules and potential conflict of interest issues.

APE appropriations, modest given the portfolio managed, were raised in 2010 so that the Agency could bring its expertise in on projects not strictly speaking within its scope but viewed by the Government as strategic. In the ever more complex economic, legal and financial environment in which companies operate, the Agency needs to rely increasingly on outside consultants to perform its missions.

APE Resources

Human resources	**Sept. 2004**	**Sept. 2005**	**Sept. 2006**	**Sept. 2007**	**Sept. 2008**	**Sept. 2009**	**Sept. 2010**
Managerial	43	43	38	35	31	36	35
Non-managerial	19	18	19	18	18	17	18
Total workforce	*62*	*61*	*57*	*53*	*49*	*53*	*53*
Current recruitment					6	3	1
Former shareholding department staff	32	20	14	9	4	3	3
Contract employees	11	12	12	9	9	9	7
Average age	39	38	39	38	39	40	41
Male employees	36	35	33	29	23	31	30
Female employees	26	27	24	24	26	22	23
Financial resources *(In € million)*	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Wages and salaries (gross)	3.5	3.6	3.6	3.3	3	3.5	3.7
Consultancy appropriations (new commitments)	4.0	4.3	4.3	4.5	5.7	7	5.8
Operations and administration	0.8	0.5	0.4	0.4	0.4	0.4	0.4
Total	**8,3**	**8,4**	**8,3**	**8,2**	**9,1**	**10,9**	**9,9**

These figures do not include the Agency's installation and operating costs, estimated at an average €0.3 million per year, which are pooled among the MINEIE's departments.

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This annual report was compiled by Government Shareholding Agency staff.

It was completed in September 2010.

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Graphic design:

Graphic Studio of the Communication Department at the Ministry for the Economy, Industry and Employment.

ISSN : 1776–128X