

## 2009: A year dominated by the crisis and State efforts to support the economy

### An economic stimulus plan to promote recovery

The 2009 accounts were dominated by the plan to stimulate the economy to benefit the corporate sector and households which was adopted by the State in late 2008 in response to the financial and economic crisis.

The State earmarked a total of € 9.8 billion for the Strategic Investment Fund (FSI) to enable it to fulfil its role of supporting strategic companies engaging in industrial projects which create value and make the economy competitive.

The automotive sector has benefited from a significant level of support, with loans totalling € 6 billion having been awarded to carmakers.

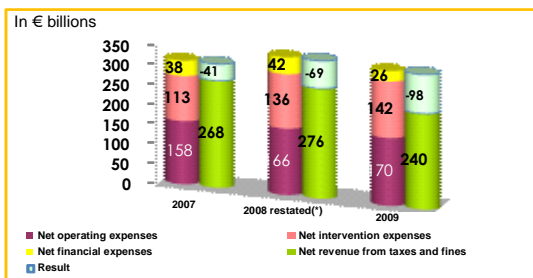
The stimulus plan placed a burden on the year's financial figures. The State stepped up its policy of redistribution in order to sustain growth. Measures to support households totalled € 3 billion.

Transfers to companies amounted to € 2 billion, with € 840 million being used to bolster the intervention capacity of OSEO, the body responsible for guaranteeing loans to SMEs.

The stimulus plan also includes a package of measures designed to benefit local authorities, including an advance payment of € 4 billion from the VAT compensation fund.

### Difficult economic conditions hamper annual results

**Accounting income** totalled – € 97.7 billion as at 31 December 2009, representing a fall of € 28.7 billion as compared with the previous financial year.



The **accounting balance** must be viewed having regard to the specific nature of the State, whose objective is to ensure it can fulfil its public service remit. The accrual accounting balance differs from the budgetary balance, which is calculated using cash accounting.

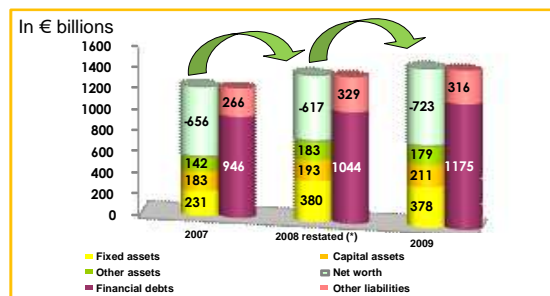
The slowing down of economic activity exacerbated the deterioration in the result for the year.

The main impact stemmed from a significant decline in revenue from corporation tax, which fell by € 20.5 billion. Income (dividends) earned on the State's corporate holdings was also down by € 2 billion.

In 2009 the new active solidarity income scheme was introduced.

Finally, net financial expenses fell mainly due to one-off transactions in 2008 such as the assumption of the debts of various organisations in the amount of € 12.9 billion (FFIPSA, Charbonnages de France and ERAP).

The combination of a deterioration in the economic situation and the measures associated with the economic stimulus plan pushed up borrowing by € 131 billion.



By analysing **net worth** it is possible to measure the extent to which the assets controlled by the State are sufficient to cover its liabilities. However, this balance must be analysed with caution since the State's ability to levy taxes is not included under assets, and pension schemes are not included under liabilities.

### From the budgetary balance to the accrual based income

The **budgetary balance** was – € 137.5 billion as at 31 December 2009 compared with a accrual based income of – € 97.7 billion

**Budgetary accounting** aims to report the State's expenses at the time at which they are paid and the State's income at the time at which it is received.

**Accrual accounting** is designed to reflect the State's net worth by linking the expenses and income applicable to the financial year in which they arose, irrespective of the date of their payment or receipt.

**By way of example**, advance corporation tax payments which represent budgetary income for year N are entered in the accounts and counted towards the result for the year N+1 at the time the corporation tax declaration is submitted.

This unprecedented variance between the budgetary balance and the accounting result can be explained primarily by the following factors:

- Capital expenditure (€ 26.7 billion) is included in the budgetary balance for the financial year despite being posted for the purposes of general accounting as long-term assets which will increase the State's net asset value;
- Advance corporation tax payments (€ 8 billion) (see box).

(\*) The 2008 accounts have been restated to facilitate comparisons.

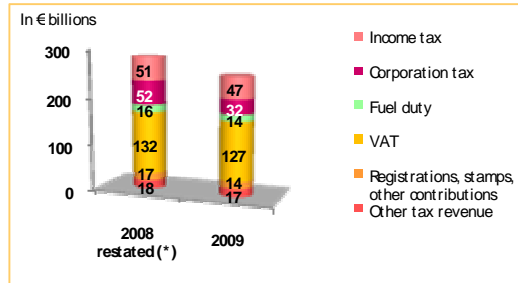


## Result of State activity affected by the economic situation and the economic stimulus measures

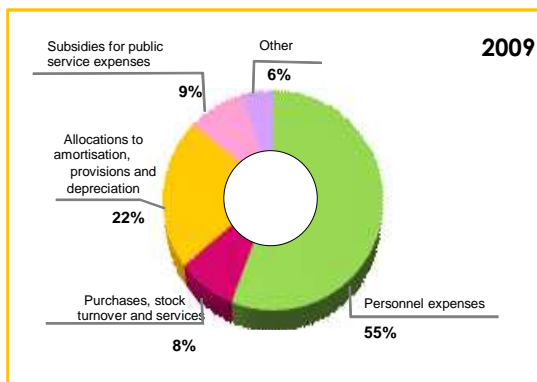
### Major fall in corporation tax income due to deterioration in company results

**Income from taxation** fell substantially during the 2009 financial year (- 12 %) to settle at € 251 billion, or a net amount of € 240 billion after deduction of EU own resources.

This fall is mainly attributable to the considerable reduction in corporation tax revenue, reflecting the drop in companies' taxable income in 2008, on the basis of which the balance of corporation tax payments was paid in 2009.



### The functioning of the State – Personnel expenses continue to dominate



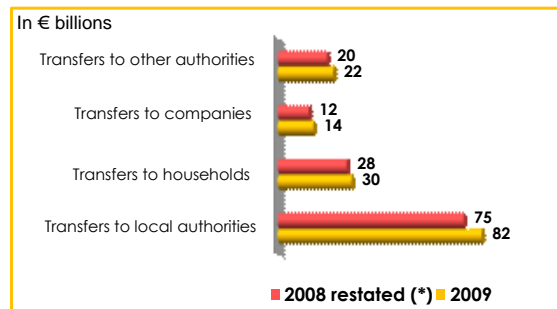
Net operating expenses amounted to € 170 billion, including € 72 billion of operating income. Gross operating expenses (€ 242 billion) can be broken down as follows:

- necessary expenses incurred in relation to fulfilling State activities. 55% of these expenses relates to personnel expenses (including pension costs);
- subsidies for public service expenses in the amount of € 20 billion. These take the form of operating expenses of State-controlled entities which provide a public service.

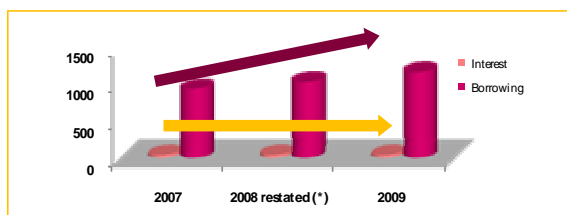
### State's redistribution measures backed up by the economic stimulus plan

The State's redistribution activities totalled € 148 billion in 2009 (as compared with € 135 billion in 2008). These related to transfers benefiting third parties primarily in the form of:

- total operating expenses of local authorities;
- assistance provided to households (educational grants, housing benefits, adult disability benefits, unemployment benefits);
- exemptions and other forms of aid for companies (exemption from social security contributions for apprentices and overseas jobs).



### Interest on borrowing remains stable despite rise in debt levels



Overall, **86 %** of financial expenses relate to **interest payments**, which recorded a slight fall in 2009 despite a rise in borrowing levels. This was due to the fall in interest rates (reduction of 1 % in the relative share of interest rates between 2008 and 2009).

(\*) The 2008 accounts have been restated to facilitate comparisons.



## State's net worth supplemented by assets under concession

### Fixed assets, the scope of which has been extended to include concessions

**Fixed assets** represent a major part of the State's net worth, with a net value of **€ 378 billion** in 2009 (as compared with € 380 billion in 2008).

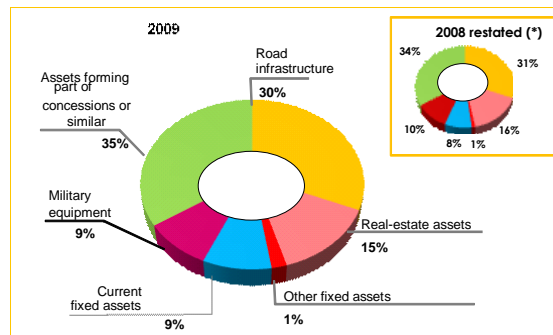
This category now includes **assets under public concessions**, these having been posted in the accounts for the first time at the 2009 year-end. As at 31 December 2009, these assets were valued at € 131.5 billion and related mainly to motorway concessions, but also to concessions awarded in relation to airports, railways and ports. The 2008 accounts have been adjusted accordingly for the purposes of comparison.

**Road infrastructure** accounts for € 115 billion and includes main roads, motorways and associated structures (bridges and tunnels) which have not been made the subject of concessions. The fall of € 1.6 billion as compared with 2008 is mainly due to the valuation of the road network (change in indices).

The State's **real estate assets** (€ 58 billion) include land (€ 3 billion) and buildings (€ 55 billion). Buildings can be divided into those deemed to be "specific", accounting for 15% and mainly comprising prisons, and others described as "non-specific", accounting for 75% and used to house administrative activities. The value of these has declined by € 1.7 billion as compared with 2008 primarily as a result of fluctuating market prices for real estate in 2009.

For the purposes of maintaining its assets and improving the quality of public services, the State makes **investments** every year. Investments made in relation to fixed assets in 2009 totalled approximately **€ 12 billion**.

Since 1 January 2009 the State's real estate portfolio has been managed using "Chorus" software, a new integrated IT tool designed to manage the State's finances, budget and accounting.



**Concessions** are contracts under which the State entrusts a natural or legal person – generally governed by private law – with the task of performing a public service, at that person's own risk, for a limited term and in exchange for the right to levy and collect a charge for use of that public service.

### Investments: The State increases its stake in the FSI

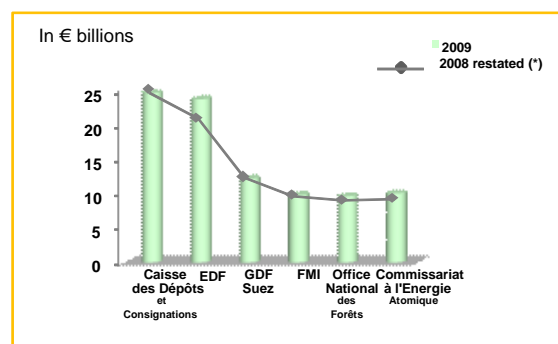
Financial assets mainly comprised **investments** held by the State in almost 1,000 organisations (international institutions, public-sector establishments, companies).

The net value of these investments as at 31 December 2009 was **€ 194 billion** (or 31% of capital assets), representing an increase of € 14 billion as compared with the 2008 year-end.

The main developments in 2009 related to:

- The State's contribution to the capital of the Strategic Investment Fund (FSI):
  - Contribution in kind of stocks worth € 6.9 billion, in exchange for a reduction of € 5.3 billion corresponding to the net book value of the stocks contributed;
  - Subscription to capital increases in cash of € 2.9 billion.

- The improvement in the value of companies (particularly EDF) which led to a reversal of the depreciation previously recorded in the amount of € 4.5 billion.



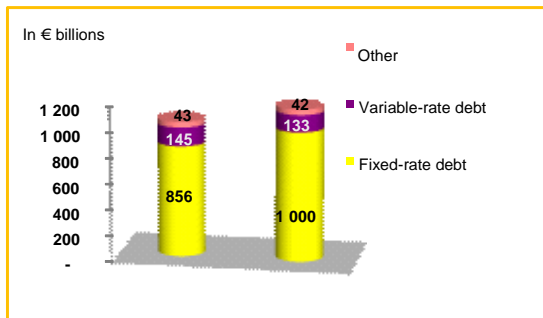
Main investments as at 31 December 2009

(\*) The 2008 accounts have been restated to facilitate comparisons.



## Liabilities assumed in relation to public service measures

### Rise in borrowing in response to economic crisis



The State's **financial debt** totalled **€ 1,175 billion** as at 31 December 2009, 13 % higher than the level recorded as at 31 December 2008.

This rise basically reflects the use of public finances to re-stimulate economic growth.

The issuing of short and medium-term debt instruments benefited from the low level of interest rates.

### Other State liabilities which reflect its redistribution measures

The State's **other liabilities** stood at € 316 billion in 2009 as compared with € 329 billion in 2008 and are made up of State liabilities to:

- State policy stakeholders (CNRS, ONF, CEA)
- households, companies, social security organisations and local authorities in the form of its redistribution measures as part of the exercise of its sovereign tasks.

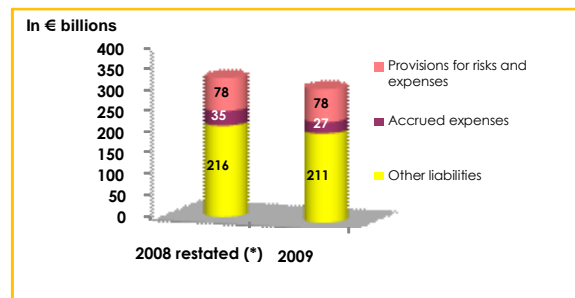
These liabilities are broken down into provisions for expenses, non-financial debts and accrued expenses.

The State also engages in risk provisioning based on the amounts that it could be required to pay in the case of legal proceedings, primarily in relation to tax matters.

The other elements of liabilities include the debt recorded in relation to assets under concessions as well as cash assets deposited by the Treasury correspondent banks.

**The € 13 billion reduction** between 2008 and 2009 is primarily attributable to the fall in the State's debts in relation to:

- VAT credits following the tax measures under the economic stimulus plan aimed at boosting companies' cash situation,
- advance corporation tax payments paid by companies in 2009 following the drop in taxable earnings in 2008.



### Off-balance-sheet liabilities: Pension liabilities and guarantees awarded by the State

**Off-balance-sheet liabilities** owed by the State mainly comprise obligations in relation to pensions for civil servants and public servants covered by special schemes, but also guarantees awarded by the State.

Liabilities relating to civil service pensions were valued at **€ 1,143 billion** as at 31 December 2009.

Furthermore, the financing requirement for the civil service pension scheme was valued at **€ 556 billion**, with the requirement for special schemes

subsidised by the State being valued at **€ 198 billion** as at 31 December 2009.

The guarantees granted in 2008 to banks and financial establishments as part of measures to support the economy's financing capacity appeared in the 2009 accounts in the form of financial income paid in return for these guarantees. This amounted to € 322 million in the case of the SFEF (French economy financing company) and € 152 million in the case of DEXIA.

### Comparability of the accounts now ensured

From 2009 onwards, it will be easier to compare financial years since the 2008 accounts included in the General Accounts of the State take account of the changes to accounting methods and corrections of errors introduced in 2009.

The 2008 accounts have also been adjusted in relation to assets under concession prior to 2006 which were included in the figures for the first time as at the 2009 year-end.

(\*) The 2008 accounts have been restated to facilitate comparisons.