RÉPUBLIQUE FRANÇAISE

Central Government Accounts

2013

€969 billion
Total **assets** held by the State

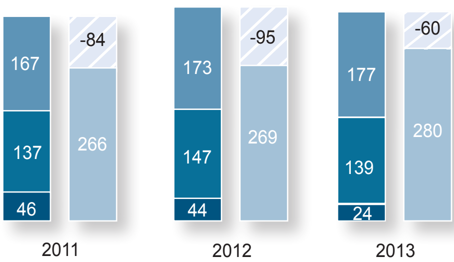
€1,481 billion
Total State **financial debt**

€22,506
Per capita financial debt

- €75 billion
Budgetary deficit for the State (excl. IMF)

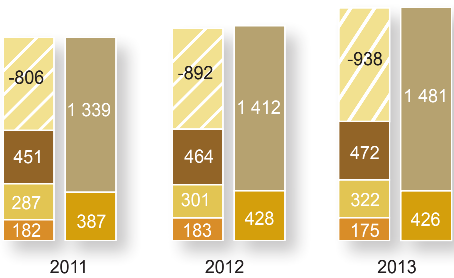
***- €60** billion*
State net income

Income Statement (in billions of euro)



__State net income__ should be analysed in relation to the specific nature of the State, whose objective is to ensure fulfilment of its public sector commitment. The accrual-based accounting balance differs from the budgetary balance, which is calculated using cash accounting.

Balance Sheet (in billions of euro)



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

Highlights of the year

The 2013 budget year was marked by tight control over expenditure, reflecting the Government's exemplary management of the budget. Accordingly, the €3.5 billion underspend by the State compared with the initial expenditure amount authorised by parliament and the growth in revenue enabled an improvement in the budgetary deficit (excluding IMF) to -€74.9 billion (compared with -€87.1 million in 2012).

Despite an unfavourable economic climate, 2013 stands out across all public authorities for a further reduction in the public deficit of 0.6 GDP point (from -4.9% to -4.3%), reflecting the Government's commitment to continue improving the public accounts. Structural efforts, representing the impact of measures implemented to improve the public balance excluding the impact of the economic environment, increased significantly on 2012 (1.6 GDP points compared with 1.2 GDP points in 2012), thanks to mandatory contribution measures voted in 2012 and 2013 and to control over costs in particular health insurance costs (ONDAM). These were €1.4 billion below the level voted in the 2013 Social Security Financing Law (SSFL).

The 2013 accounts were, for their part, impacted by the implementation of major measures included in the National Pact for Growth, Competitiveness and Employment, aimed at supporting companies while continuing measures previously launched to stabilise the economy.

The Public Investment Bank (BPI-Groupe) came into operation on July 12, 2013 following the receipt of capital contributions from the State and the Caisse des dépôts et consignations (CDC). Formed by the regrouping of existing public entities (including the Strategic Investment Fund (SIF) and OSEO SA) and with capital provided by the State, BPI-Groupe has shareholders' equity of €21 billion, held 50% by the State. The creation of BPI-Groupe seeks to rationalise and put in coherence the existing investment and financing measures for companies.

In addition, the State granted guarantees to Crédit Immobilier de France (CIF), UNEDIC and a PSA Group bank to enable them to secure refinancing on the market. The guaranteed outstanding debt of these undertakings at the end of 2013 was €12 billion, €15 billion and €1 billion, respectively.

At European level, 2013 followed previous year trends. France's payment schedule for the European Stability Mechanism (ESM) was respected with payment of the third and fourth capital tranches totalling €6.5 billion, while the total guarantee provided by France to the European Financial Stability Fund (EFSF) was increased to €70.4 billion from €58.1 billion at December 31, 2012.

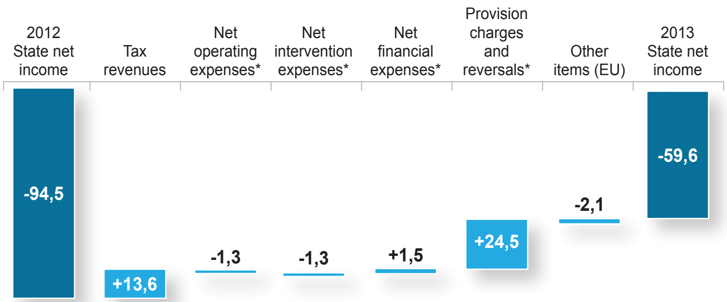
Change in the State net income

State net income is -€60 billion compared with -€95 billion in 2012.

This very significant improvement is due to both a reduction in net expenses of the State (-€23.5 billion, -6%) and an increase in tax revenues and other sovereign income (+€13.6 billion, + 5%), primarily tied to income tax and corporate income tax.

The increase in tax revenues and income from inventory operations on provisions was accompanied by tight control over other expenses.

** The graph over presents trends in provision charges and reversals, apart from net charges.*



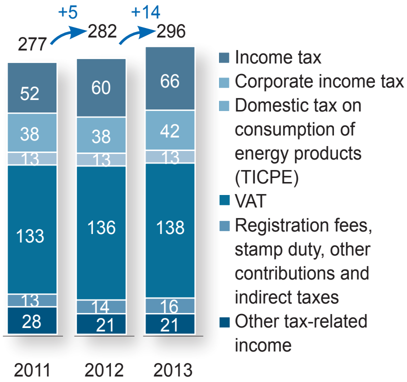
Inventory operations on provisions booked by the State generate an improvement in net income of €25 billion in respect of intervention provisions (primarily due to a decrease in provisions for payments to certain special pension regimes following an increase in discount rates) and financial loss provisions (increase in the value of investments in State-controlled entities).

Change in assets and financial debt

Assets owned by the State increased under the combined effect of a progress in the value of financial assets (+€21 billion, primarily due to the revaluation of its investments) and the acquisition of fixed assets (+€7 billion). State financial debt is €1,481 billion, compared with €1,412 billion in 2012, reflecting a slow-down in the rate of increase on last year.

Result of State activity

Tax revenues (in billions of euro)



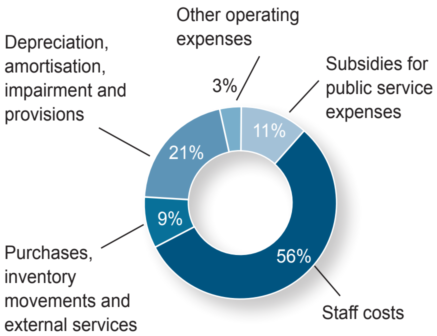
Tax revenues

Net tax revenues totalled €295.5 billion in 2013. This €13.5 billion increase in one year is primarily attributable to:

- income tax (+€5.6 billion, +9%), following, inter alia, the creation of an additional 45% tax rate bracket;
- corporate income tax (+€4.3 billion, +11%), through an amendment to the regime governing corporate income tax instalments for large companies and restrictions on the deductibility of finance costs;
- registration fees, stamp duty, other contributions and indirect taxes (+€2.1 billion, +16%) following increases in the financial transaction tax rate and the duty rate applicable to free of charge transfer tax.

In addition to net tax revenues, fines, deductions and other penalties (stable at €6.5 billion in 2013) and transfer paid to the European Union (€21.9 billion) contributed to sovereign income which totalled €280.1 billion.

Operating expenses

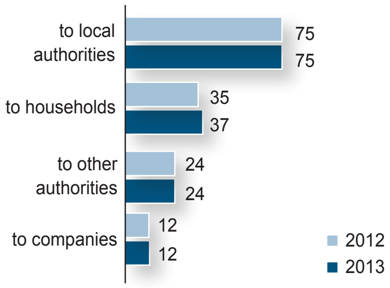


Operating expenses

Net operating expenses of the State (gross operating expenses adjusted for operating income) totalled €176.7 billion in 2013. Excluding depreciations, amortization and provisions, these expenses are stable (€162.3 billion in 2013 compared with €161.0 billion in 2012) and comprised:

- direct expenses (€164.9 billion) relating to State activities and primarily staff costs (including pension costs) of €135.5 billion. Staff costs fell €0.7 billion on 2012, conversely to pension costs which increased €1.3 billion.
- indirect expenses, solely comprising subsidies for public service expenses of €27.7 billion, paid by the State to operators providing a public service.
- operating income of €30.3 billion (primarily pension contributions).

Transfers (in billions of euro)



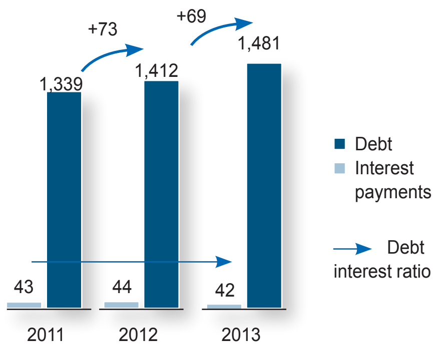
Intervention expenses

As part of its redistribution activity, net intervention expenses of the State totalled €138.6 billion in 2013 and primarily comprised:

- operating costs of local authorities (51% of total transfers), primarily through operating global subsidy (DGF), the VAT Compensation Fund (FCTVA) and other compensation mechanisms;
- assistance to households (25% of total transfers): housing benefits, adult disability benefits, invalidity pensions, solidarity benefits (Active solidarity income (RSA), back-to-work assistance allowances), scholarship and other redistribution measures;
- transfers to other authorities (16% of total transfers): financing of special pension regimes (RATP, SNCF, Miner and Seafarer regimes) and transfers to certain national, european (National Research Agency (ANR), European Space Agency, France Télévisions) and international (UN) organisations, assistance development for foreign countries and back-to-work assistance (assisted contracts);
- supporting companies with assistance measures (8% of total transfers): primarily encompassing rail infrastructure subsidies and support measures for competitiveness and employment.

Excluding provisions and impairment, net intervention expenses are stable year-on-year.

Financing cost (in billions of euro)



Debt interest ratio

Interest payments fell €1.2 billion and represent an annual charge of 2.9% of the debt (compared with 3.1% in 2012).

This decrease was achieved in a context of rising financial debt outstandings (+€69.1 billion) to €1,481.3 billion, while 2013 weighted average rates remained historically low (3.12% for medium-and long-term outstandings and 0.06% for short-term issues).

State Financial Position

Fixed assets

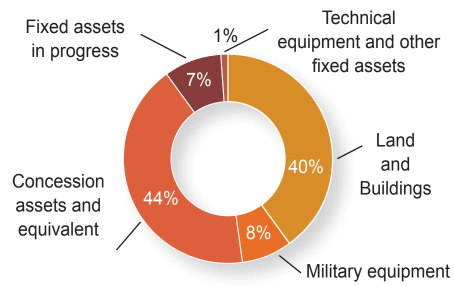
Fixed assets represent the majority of State assets (49%), with a net value of €471.9 billion.

State assets include **land and buildings** with a net value of €190.0 billion, comprising road infrastructures (69%), non-specific property assets (25%) and buildings specific to the State's activities (3%) mainly penitentiary institutions.

Concession assets also represent a substantial percentage of State assets (€205.3 billion) and include motorways, hydraulic structures, tunnels and engineering works, as well as rail and airport installations.

Fixed assets are up €7.4 billion on 2012, mainly due to the commissioning (primarily motorways) and revaluation of concession assets for €4.6 billion and the increase in **fixed assets in progress** (primarily military equipment) for €3.5 billion.

Fixed assets



Concessions are contracts under which the State entrusts a natural person or legal entity – generally governed by private law – with the task of performing a public service, with the concession holder assuming all risk and liability, for a limited term and in exchange for the right to levy and collect a charge from users of the public service.

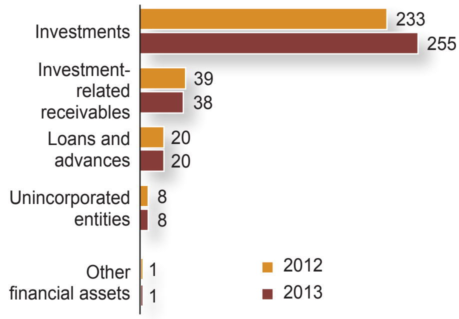
Financial assets

Financial assets mainly comprise investments held by the State in over 1,854 organisations (companies, public-sector establishments, international institutions) including 1,086 entities not controlled and receivables from these investments as well as loans and advances, particularly to foreign States.

At 31 December 2013, financial assets had a net value of €322.3 billion (compared with €300.9 billion in 2012).

This change (+€21.4 billion) is mainly due to the increase in the gross value of investments in the amount of €10.2 billion (including equity contributions by the State to the European Investment Bank (EIB) of €1.6 billion and the International Development Association of €1 billion) and the decrease in impairments of €11.7 billion, almost entirely relating to entities controlled by the State (increase in the equity-accounting valuations of these investments).

Financial assets (in billions of euro)



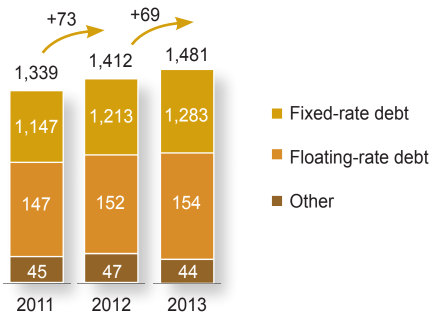
Financial debt

The State's **financial debt** (€1,481.3 billion at 31 December 2013) increased €69.1 billion year-on-year, compared with an increase of €72.9 billion in 2012.

This change primarily relates to **medium-and long-term negotiable debt** which increased €63.0 billion on 2012 to €1,302.4 billion at 31 December 2013. Medium-and long-term debt represents 87.9% of total debt, stable on last year.

Short-term negotiable debt increased €7.2 billion and represents less than 12% of State debt.

Financial debt (in billions of euro)



Other liabilities

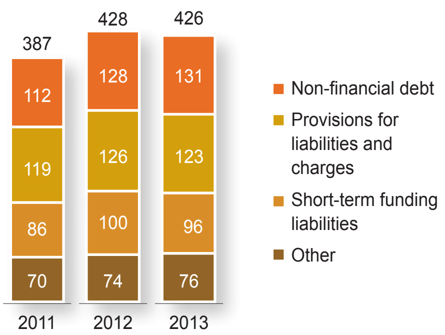
Other liabilities total €425.5 billion at 31 December 2013 and mainly include non-financial debt, provisions and short-term funding liabilities. These items comprise:

- corporate income tax advance payments;
- State commitments to households, companies, social security organisations and local authorities in respect of redistribution activities;
- provisions for charges in respect of State agencies;
- provisions for liabilities that the State could be required to pay in respect of legal proceedings, particularly in relation to tax matters;
- short-term funding liabilities corresponding to cash assets deposited by Treasury's correspondents.

The €2.1 billion decrease in other liabilities in one year mainly stems from two further capital subscriptions to the ESM (-€6.5 billion) and a €3.4 billion decrease in provisions (mainly military invalidity and veteran pensions).

This decrease was partially offset by an increase in accrued expenses in respect of VAT credits and corporate income tax repayments on tax obligations (primarily due to the repayment of research tax credits) (+€3.9 billion) and income tax advance payments in respect of the fixed compulsory tax (+€4.2 billion).

Other liabilities (in billions of euro)



State commitments

State commitments are contingent liabilities corresponding either to potential obligations of the State to third parties, or certain obligations not necessarily leading to an outflow of resources. They are presented in the notes to the central government accounts in off-balance sheet commitments.

The commitments recorded in the notes to the central government accounts are grouped into four categories:

- State pension commitments and equivalent;
- commitments resulting from the State's role as economic and social regulator (subsidies granted to balance special pension regimes, housing benefits, etc.);
- commitments granted under clearly defined agreements (debt guarantee, guarantees relating to general interest activities, liabilities warranties and State financial commitments);
- sundry commitments (resulting from the State responsibility, tax commitments, etc.).

State pension commitments and equivalent

State pension commitments for civil servants and military personnel are valued at €1,302 billion. 67% of commitments concern individuals who have already retired at 31 December 2013.
Pension commitments for La Poste civil servants (€110 billion), some State industrial entities (€35 billion) and State civil servants working for local authorities (€13 billion) are also disclosed in the notes.

Commitments resulting from the State's role as economic and social regulator

Commitments relating to State intervention schemes pursuant to its role as economic and social regulator mainly consist of subsidies to balance subsidised special pension regimes (SNCF, RATP, Miner and Seafarer regimes) in the amount of €200 billion, housing benefits (including APL and ALS) in the amount of €106 billion and adult disability benefits (AAH) in the amount of €21 billion.

Commitments granted under clearly defined agreements

Commitments granted under clearly defined agreements are recorded in the amount of the outstanding guaranteed at the year end.
They mainly consist of guarantees relating to general interest activities, including saver protection guarantees (regulated savings accounts) of €416 billion.
Other commitments granted under clearly defined agreements mainly concern guarantees granted by the State to third parties on liabilities of €203 billion, representing an increase of €40 billion year-on-year, mainly due to guarantees granted by the State to Crédit Immobilier de France, the European Financial Stability Fund, Dexia and UNEDIC.

Sundry other commitments

These commitments mainly concern tax commitments (income tax and corporate income tax losses carried forward, capital gains on securities rolled forward) and future rents under public-private partnership (PPP) arrangements.

Comparison of the Accounts

The Central Government Accounts are comparable year-on-year (over a three-year period) as they include the impact of changes in accounting method and the correction of prior-year errors.

From the budgetary deficit to State net income

The budgetary deficit amounted to -€75 billion in 2013, compared with State net income of -€60 billion.

The difference between the budgetary deficit and the accounting loss mainly reflects:

- a timing difference between the recognition of budget revenue and the recognition of income (-€2.4 billion);
- budget revenue and expenditure recorded in the State's balance sheet (+€20.8 billion), with no impact on State net income, such as investing activities;
- inventory operations impacting State net income (+€0.9 billion)
- other items (-€3.5 billion).

__Budget accounting__ aims to report the State's expenditure at the time it is paid and the State's revenue at the time it is collected.

Under __accrual accounting__, the State's net worth is reflected by linking expenses and income to the financial year in which they arise, irrespective of their date of payment or collection.

__By way of example__, advance payments of corporate income tax that are recorded as budget revenue in year Y are taken to income under accrual accounting in year Y+1 when tax returns are filled by companies.

The Central Government Accounts may be consulted in French at www.performance-publique.budget.gouv.fr