Study on State asset management in the EU

Pillar 4 (Case studies) – Agence des participations de l’État

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Written by KPMG and Bocconi University
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This note discusses the case of the Agence des Participations de l’État (the “Government Shareholding Agency” – APE) established in France in 2004. This agency represents an example of an entity which manages, at a centralised level, Public Sector Holdings (PSHs) belonging to the French central government (i.e. “les Participations du Trésor”). As of June 2017, the APE’s portfolio consists of 81 PSHs belonging to four different macro-sectors (i.e. energy, manufacturing, services and finance, transport).

1. INTRODUCTION

The APE is a national agency created by the French government by the Decree n. 2004-963 of 9th September 2004, as modified by following amendments. The APE is directly attached to the Ministère de l’Économie et des Finances (i.e. Ministry of Economy and Finance) and operates under the responsibility of all French ministries. The APE was established in 2004 to unify the management of the PSHs deemed as “strategic” and owned by the central government. It acts as a shareholder on the behalf of the French central government, by owning and managing those companies, again, labelled as “strategic” by the government itself (e.g. Air France). The list of companies owned by the APE can be found in the Annex of the 2004 Decree, which is periodically updated.

Its main mission is to pursue the patrimonial and financial interests of the French central government. However, a list of financial targets to be achieved by the agency itself (these being established by law or set by the Ministry of Economy and Finance), to our knowledge, is not publicly available; hence making it difficult to calculate some Key Performance Indicators suitable for measuring its performance.

The APE case has been selected as “showcase” of the prevalent ownership and management model in France, which decided to adopt a centralised model regarding its own PSHs. Indeed, since 2004, France have a unique, central body with overall responsibility for the financial assets belonging to the central government, regardless of the core activities of the assets or the sectors of the economy in which they operate. The APE is currently one of the largest bodies managing public shareholdings worldwide, having a portfolio of 81 companies for a value of around 100 EUR Bn, over 460 EUR Bn revenues per year, net debt of approximately 138.5 EUR Bn (as of 31 December 2016) and net profit of 7.3 EUR Bn (as of 31st December 2016). The APE has the duty of ensuring the correct and efficient management of the state assets, even though the ultimate responsibility remains within the different ministries. Indeed, they can be consulted by the APE in order to solve specific issues or to provide the APE with technical advice.

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2 Please note that there is no clear and explicit document or law which identifies the sectors considered as “strategic” for the French economy. Each body responsible for outlining the economic and industrial policy identifies sectors labelled as “strategic” based on its priorities.

3 Source: APE’s annual reports.

2. **Context**

The majority of EU28 countries have decided to adopt a centralised approach, as described in Pillar 3 of this Study. One of the main drawbacks of the decentralised model is that it generally results in a lack of focus on ownership issues and in worse accountability of data provided on PSHs, as compared to a centralised model. In short, the centralised ownership model might be implemented into two different ways:

- through the creation of an advisory body, with the aim of helping the central governance to professionally manage its PSHs, by promoting good governance practices coming from private enterprises and by bringing consistency to PSHs’ governance;
- by establishing an ownership entity.

Although advisory body model can still be found, especially in extra-European countries (e.g. Commercial Operations attached to the Treasury in New Zealand)
6, in recent years it has been replaced by more centralised approaches concentrating PSHs’ ownership in a single authority. It is responsible for overseeing public companies and for exercising all ownership functions on behalf of the state. At the same time the ministry(ies) it sits within are responsible for the policy making. The APE is one of the biggest ownership agencies in Europe (in terms of value of the portfolio).

In detail, the French government policy regarding PSHs is focused on investing in the French companies providing national and local public services. In fact, according to the French government, the state must be participating into the national economy by financing innovation and ensuring the quality of services provided to its citizens, especially in those sectors that can be defined as “strategic” (e.g. energy, transport). In this context, the creation of the APE in 2004 represented the government’s attempt to guarantee the best management conditions for PSHs. In fact, the APE, acting similarly to other asset management funds or agencies, would warrant, in case of either disposal or acquisition of assets, the most attractive conditions for the state.

The results reached by the APE since its creation are remarkable in terms of PSHs it owns and manages. As for the performance registered by the companies in the APE’s portfolio, it is difficult to evaluate potential improvements following the change in management. In fact, analysing the counter-factual is a very difficult exercise, which goes beyond the scope of this case study.

Currently, following the elections in May 2017, the new Ministry of Economy and Finance has set a new investment roadmap for the APE’s. According to this framework, the agency will have to decide how to invest in order to:

- guarantee government shareholding in companies with a “strategic interest” for France;
- contribute to break-through innovation and companies’ consolidation and growth;
- help to reduce public debt through asset disposal programme;
- encourage private sector shareholders to invest in French companies;
- bail out companies in compliance with EU regulations.

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3. Ownership and Management Model

As previously mentioned, the APE owns a portfolio of assets that evolves depending on different opportunities coming up in the French market, as well as on the different, general strategic drivers identified periodically by the French government. The current portfolio (June 2017) is very diverse in terms of: sectors involved, activities carried out by each PSH, stakes of the central government within the companies or existing legal forms of PSHs.

As of June 2017, the APE’s portfolio is composed of 81 PSHs\(^7\): 13 listed companies and 68 unlisted companies (12 listed and 68 unlisted company in January 2018)\(^8\). The portfolio (2017) has a value of around 100 EUR Bn, including more than 66 EUR Bn in listed companies. It mainly covers four sectors of the economy (i.e. transport, energy, services and finance, manufacturing) and it could be subject to changes as disposals or mergers take place. Public limited companies take the lion’s share in the portfolio (around 70%), but it is also worth considering the following: 6 public establishments (e.g. BPIFrance), 3 administrative establishments, 14 public institutions and 4 joint-stock companies. A big slice of the APE’s portfolio market value refers to the energy sector companies (49.5% of the value).

Although widely dispersed in terms of the number and range of companies involved, the portfolio of public holdings is concentrated in terms of value since the top ten represent 80%

Focusing on the listed companies only, the state’s stake is very variable; this also depends on some limits on the public share in some types of businesses (e.g. minimum 50% of public ownership for ADP, minimum 70% for EDF).


\(^8\) For more details please see: https://www.economie.gouv.fr/files/files/directions_services/agence-participations-etat/Documents/Cotees_du_jour/18_01_18.pdf [Accessed 19\(^{th}\) January 2018]. For listed companies, January 2018 data are already available, both in terms of values and percentages of the stake owned by the APE. This is due to the fact that for listed companies, the APE has the duty of providing data to the market more often than for unlisted companies. For guaranteeing data coherence, throughout this case study, we have decided to use data on the overall portfolio as of June 2017, while providing anyway an updated list of companies as of January 2018 (see Table 1).
Table 1 APE’s portfolio: listed companies on CAC40 (January 2018)\(^9\)

<table>
<thead>
<tr>
<th>Sector</th>
<th>APE’s stake (%)</th>
<th>Value of APE’s stake (Mn Eur)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aèroport de Paris (ADP)</td>
<td>50.63%</td>
<td>8,192</td>
</tr>
<tr>
<td>Airbus Group</td>
<td>11.08%</td>
<td>7,760</td>
</tr>
<tr>
<td>Air France - KLM</td>
<td>14.29%</td>
<td>800</td>
</tr>
<tr>
<td>CNP - Assurances</td>
<td>1.11%</td>
<td>156</td>
</tr>
<tr>
<td>Dexia</td>
<td>5.73%</td>
<td>1</td>
</tr>
<tr>
<td>Electricité de France</td>
<td>83.50%</td>
<td>26,705</td>
</tr>
<tr>
<td>ENGIE</td>
<td>24.10%</td>
<td>8,471</td>
</tr>
<tr>
<td>Eramet</td>
<td>25.66%</td>
<td>830</td>
</tr>
<tr>
<td>Orange</td>
<td>13.45%</td>
<td>5,151</td>
</tr>
<tr>
<td>Renault SA</td>
<td>15.01%</td>
<td>3,960</td>
</tr>
<tr>
<td>Safran</td>
<td>14.00%</td>
<td>5,324</td>
</tr>
<tr>
<td>Thalès</td>
<td>25.97%</td>
<td>4,980</td>
</tr>
</tbody>
</table>

Total value of the “Listed portfolio” (EUR Mn) 72,330

Source: KPMG elaborations on APE’s annual reports.
N.B. this list does not include all the listed PSHs in which APE holds a stake. In fact, APE also owns a stake in Orano (former Areva), which operates in Energy & Nuclear sector. Orano is listed on Euronext.

The French government also invests indirectly through BPIFrance, owned by the government itself through APE. BPIFrance is a French investment bank created in 2012 by the joint venture between two public entities (Caisse de Dépots et consignations and EPIC BPI-Group, previously EPIC OSEO). As of 2016 (most recent data available), it supports 86,000 companies by providing them long-term loans; or by providing equity for Small and Medium Enterprises and middle-market companies in France.

According to the estimates of the Court of Auditors (i.e. Cour des comptes), APE is the main public shareholder: in 2015, its portfolio represented about 80% of the total value of the French PSHs (70.4% if Bpifrance is taken into account as shareholder and not as a joint venture between APE and Cdc)\(^{10}\).

As for the strategic decisions to be taken by the APE in relation to its own portfolio (i.e. companies or stakes to be prepared for a disposal or acquired), the agency periodically proposes to the Ministry of Economy and Finance or to other public entities which might be involved, a possible strategy line to be implemented regarding each PSH owned by APE. In doing so, the APE has the responsibility for the following:

- analysing each PSH’s economic and financial situation;
- implementing central government’s decisions (i.e. the main general drivers on the consolidated strategy to be adopted at national level must be decided by

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\(^9\) Ibid.

the central government, which also decides on the budget to be allocated for each initiative);

- signing up contracts among PSHs and the French government in order to formalize the link between the two parties (if needed);
- examining major investments and financing plans for PSHs, potential mergers and acquisitions plans, commercial agreements, or research and development agreements;
- ensuring overall coherence among the positions taken by each central government’s representative who takes part to PSHs decision-making bodies and assemblies. In addition, the APE has consultive power in relation to the appointment or the suspension of the representatives themselves;
- evaluating the management of its PSHs, together with the ministries, by their Chief Executive Officers.

The board of each PSH owned and managed by APE operates according to the French private corporate governance principles set up by the AFEP-MEDEF Code of Corporate Governance\textsuperscript{11} - the set of rules and principles on corporate governance for listed corporations, revised in June 2013. The government, in all those cases in which holds a majority stake, has the duty to appoint members of the board of directors.

APE carries out its activities with a team of 52 staff members. As of 1\textsuperscript{st} July 2017, it had 27 executives and portfolio managers, of which 44% have a corporate background.

**Figure 1** APE, organisational chart


4. **ASSESSMENT OF PERFORMANCE AND PUBLIC FINANCE IMPACTS**

In the following section, the impacts of APE’s activities on the companies in its portfolio, on public finance and other impacts are analysed, using publicly available

\textsuperscript{11} For more details please see: http://www.ecgi.org/codes/documents/afep_medef_code_revision_jun2013_fr.pdf [Accessed 22nd January 2018].
data. It is worth pointing out that only 63 companies belonging to the APE’s portfolio are currently included in the combined financial statements as of 31st December 2016, so the values on financial items reported in the following sections do not include all financial assets belonging to the APE’s portfolio, but only the majority stakes.

- **Target achievement summary**

As already mentioned above, the APE was created with the main aim of guaranteeing the efficiency in the management of state-owned companies and of providing the most efficient levels of services to citizens. However, as already stated, there are no clear targets (e.g. number of PSHs to be owned, percentage of PSHs yearly revenues growth, number of disposals/acquisitions per period), so the impacts in terms of targets achieved by APE are difficult to estimate.

However, the government and the Ministry of Economy and Finance set some targets for APE once every five years (with chances for amendments on the single measures) and reported, since 2006, in the *Projets Annuels de Performances* (Annual Project on Performances - PAP), in order to present objectives and indicators of the programs and to propose a sustainable budget.

The qualitative objectives set when APE was created were several, and they can be considered as partially implemented. In fact, the French government, together with the APE’s investment managers:

- has played, since 2004, the role of active shareholder (i.e. in 2016, around 800 directors were appointed and they attended around 400 boards of directors or supervisory boards);
- significantly augmented its portfolio since 2004 (from 51 PSHs in 2004 to 81 PSHs in 2017);
- contributed to the public interest by including Corporate Social Responsibility (CSR) into the government’s shareholder policy so that CSR should be mandatory for PSHs.

In addition, regarding APE’s disposal program, since 2004, it made disposals for 25 EUR Bn and acquisitions for 20 EUR Bn overall – between 2016 and the first half of 2017, the APE succeeded in making disposals for 5.3 Bn EUR and acquisitions for 3.7 Bn EUR. These may be mainly due to the general revamping of the nuclear sector in France and the support given in the acquisitions and merger deals of some large companies in the portfolio (e.g. Renault), according to the French government strategy.

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12 A combined financial statement presents the financial results and financial positions of at least two affiliated companies.

Table 2 APE’s key figures (2016)

<table>
<thead>
<tr>
<th>Portfolio Management</th>
<th>Value (EUR Bn)</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio</td>
<td>100.0</td>
<td>81</td>
</tr>
<tr>
<td>listed companies</td>
<td>72.3</td>
<td>12</td>
</tr>
<tr>
<td>unlisted companies</td>
<td>27.7</td>
<td>69</td>
</tr>
<tr>
<td>Acquisition completed in the year</td>
<td>0.5</td>
<td>4</td>
</tr>
<tr>
<td>Disposal completed in the year</td>
<td>5.3</td>
<td>6</td>
</tr>
</tbody>
</table>

Financial performance and equity

<table>
<thead>
<tr>
<th>Revenues (combined)</th>
<th>Value (EUR Bn)</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net equity (no minority interests)</td>
<td>92.1</td>
<td>-</td>
</tr>
</tbody>
</table>

Governance and Staff of PSHs

<table>
<thead>
<tr>
<th>Directors appointed</th>
<th>Value (EUR Bn)</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total PSHs headcount</td>
<td>-</td>
<td>1,828,000</td>
</tr>
</tbody>
</table>

Source: KPMG elaborations on APE's annual reports.

(a) Only 63 companies belonging to APE’s portfolio (majority stakes owned) are included in the combined financial statements at 31st December 2016.

- Financial performance

Differently from traditional private asset management funds or agencies, the APE main economic target is not only to gain the greatest returns on investment, but also to allow the French central government to invest in a social and environmentally responsible manner.

As shown in Figure 2, since 2011 the number of PSHs in the APE’s portfolio has grown, while the total amount of revenues generated by the PSHs contained in the portfolio has registered a quite stable trend during the period (the main portion of it coming from the energy sector).

Figure 2 Revenues breakdown by sector (2011 – 2016) EUR Mn

Source: KPMG elaborations on APE’s annual reports.
Despite the level of revenues had remained quite stable during the last 5 year-period as well as its distribution among the different macro-cluster of sectors, the net accounting results of companies in APE portfolio sharply deteriorated, especially for majority-owned companies. After the economic and financial crisis of 2008, which created a break in the results, the slight recovery recorded in 2012 and 2013 break off abruptly in 2014 and 2015. From the first time since the establishment of APE, 2015 shows a negative net result. More in detail, the net result, which exceeded 10 Bn Eur prior to the 2008 economic crisis, dropped to 5.8 Bn EUR in 2011 and became strongly negative in 2015: -10.1 Bn EUR.

The poor performance in 2015 is mainly due to assets write-downs in the SNCF Réseau and SNCF Mobilités, amounting to 11.8 Bn Eur (infrastructure and TGV train park), due to a chronic lack of progitability, and those of EDF amounting to 3.5 Bn EUR.

However, the net profit of APE sharply rose again in 2016, reaching a value of 7.3 Bn EUR.

**Figure 3** Net profit (2011 – 2016), Bn EUR

![Net profit chart](chart.png)

Source: KPMG elaborations on APE's annual reports.

Regarding the leverage of the portfolio as a whole, in the same period the net debt value of the APE increased around 14 Bn EUR.

- **Impacts on public finance**

The French state had to implement a careful investment policy that guarantees the central government a return for the risks incurred. However, despite this “general rule”, it is impossible to detect a uniform dividend policy along all the stocks in the APE’s portfolio, given the variety of sectors represented and the activities done by each enterprise.

Taking into account the impacts of the asset management policy implemented by the APE, starting from 2004, when the APE went full speed, the French government had received dividends for around 48 Bn EUR (41.4 Bn EUR in cash and 6.5 Bn EUR by receiving the equivalent value in new shares of the PSH that had to pay dividends to APE). These gains directly contributed to the state balance, if not reinvested by the APE itself according to the Loi Organique relative aux Lois de Finances (Organic Law
on budget legal framework - LOLF)\textsuperscript{14} and EU regulations. Running a rough check on the Return on Investment (ROI) on the portfolio and comparing it with a portfolio composed of companies listed in the CAC40\textsuperscript{15}, the total returns on the APE’s portfolio\textsuperscript{16} is close to zero, while the CAC40 had total returns for +4.4\% per year on average across the 2006-2016 period.

This can be splitted into dividend yield of 4.2\% on average for the central government’s portfolio of listed shares (compared to 3.7\% for the CAC40) and a capital loss of 4.4\% (whereas the CAC40 reported a capital gain of 0.7\%).

Excluding the energy sector, ROI is in line with and often better than the CAC40, with roughly 30\% in 2015 and 9\% in 2016\textsuperscript{17}.

**Figure 4** Dividends received by the central government from APE’s assets, 2004-2016

![Figure 4](image_url)

*Source: KPMG elaborations on APE’s annual reports.*

(a) Only 63 companies belonging to APE’s portfolio (majority stakes owned) are included in the combined financial statements at 31st December 2016.

(b) With payment through “stocks” to the central government, we refer to the payment of dividends by the payment through new shares.

- **Other impacts**

The analysis of the impacts of APE has to be made by aggregating the impacts it might generally have on citizens (for example, in terms of rise/drop in the prices, holding the quality of services fixed) and on employees of each single PSH within the APE’s portfolio. On one hand, a consolidated database or an analysis of each single business managed by APE would be needed. This kind of analysis, partial by nature, however, is beyond the scope of this case study. On the other hand, the analysis of the impacts on the workforce reveals no significant impacts due to the creation of APE.
in 2004; in fact, the employment policies of those PSHs in which the Public has majority control are still determined by the French Parliament, despite the ownership and management of PSHs has passed to APE.

Another impact which could be assessed is a potential improvement of the monitoring system for PSHs within the central government’s portfolio. In fact, since for the French central government public assets “belong to the French people”18, the greatest level of data transparency needs to be ensured, and information must be updated as frequently as needed. This provision is also formalised by the Law n.2001-420 (15th May 2001) that obliges the central government to release a Report on the State Shareholding (Rapport relative à l’Etat Actionnaire – REA) early in October each year19. The aim of these reports is to inform the French Parliament on the economic situation of majority-owned PSHs (since 2014 under APE’s management) in order for it to implement the State balance and setting the main drivers on PSHs’ commercial strategy and employment policy. Since 2004, with the creation of APE, improvements on these aspects have been registered.

Table 3 provides a synthesis of the major impacts identified above. The results are presented by means of a RAGS (i.e. Red; Amber; Green; Silver) classification. In detail: “Red” stands for a negative impact, “Amber” for no clear patterns for the impacts, “Green” stands for a positive impact/s and “Silver” stands for no data available for the analysis.

**Table 3** Summary table of potential impacts

<table>
<thead>
<tr>
<th>Summary of potential impacts</th>
<th>Scoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target achievement summary</strong></td>
<td>G</td>
</tr>
<tr>
<td>The qualitative targets established with the creation of the APE had been approximately reached. In fact, the value of the state-owned portfolio increased (in terms of both number of companies and values) and the government has succeeded in having an active governance of its own PSHs.</td>
<td></td>
</tr>
<tr>
<td><strong>Financial performance</strong></td>
<td>A</td>
</tr>
<tr>
<td>The revenue level has remained almost the same over 2011-2016 period</td>
<td></td>
</tr>
<tr>
<td>Nevertheless, the portfolio has registered both an increase in the net debt level and a reduction in the net income.</td>
<td></td>
</tr>
<tr>
<td><strong>Fiscal impacts</strong></td>
<td>G</td>
</tr>
<tr>
<td>The French government has received, since the creation of the APE in 2004, the gains due to the dividends paid by its PSHs (in cash or through the acquisition on new</td>
<td></td>
</tr>
</tbody>
</table>

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Study on State asset management in the EU – Pillar 4
Asset management - Agence des participations de l’État

### Summary of potential impacts

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other impacts</td>
<td>Scoring</td>
</tr>
<tr>
<td></td>
<td>G</td>
</tr>
</tbody>
</table>

- The creation of the APE in 2004 has improved the transparency of publicly available data on the central government’s PSHs.

**Legend**

- R = Negative impact
- A = No clear pattern
- G = Positive impact
- S = No data available

**Source:** KPMG elaborations

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### 5. Conclusions and Lessons Learnt

This case study represents an example of an entity managing Public Sector Holdings (PSHs) at a centralised level. The main conclusions and lessons learnt from the analysis of the case study could be summarised as follows:

- a centralised asset management can potentially ensure the central government presence in the sectors which might be identified by the government itself as “strategic” in the economy. In this way, the French government has succeeded in keeping a decision-making role in the board of directors for the majority of these “strategic” assets;

- the creation of the APE has contributed to increase transparency on the portfolio of PSHs;

- the APE has a structure based on four main departments, one for each PSH sector covered (i.e. energy, manufacturing, services and finance, transport), so that specialisation (e.g. in terms of sector skills and knowledge) is ensured;

- as compared to a decentralised ownership, an ownership centralised into a unique body might ensure coherence and consistency of standards applied to PSHs (as a whole or according to sectors).