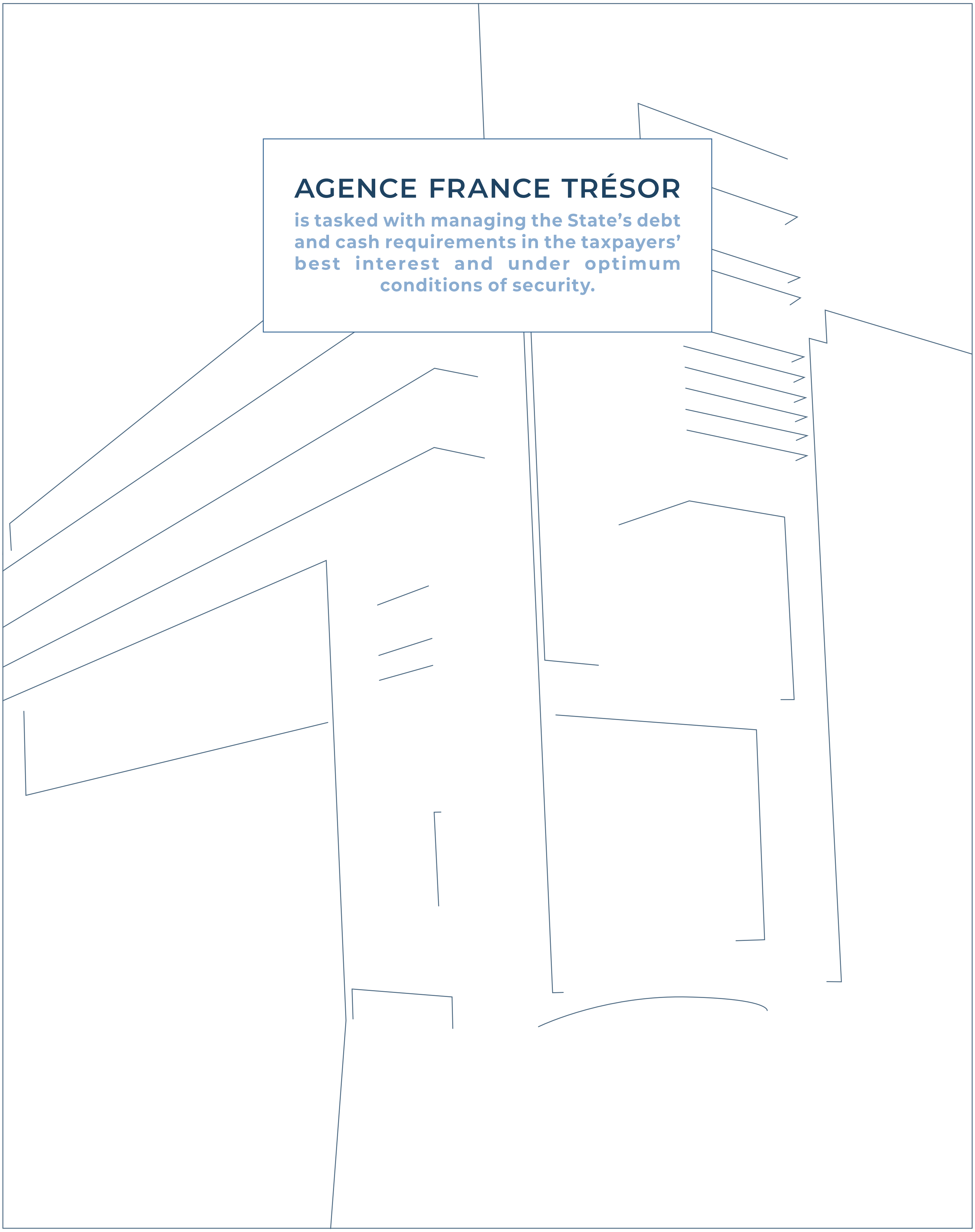
ANNUAL REPORT

2018

Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

AGENCE FRANCE TRÉSOR



AGENCE FRANCE TRÉSOR

is tasked with managing the State's debt and cash requirements in the taxpayers' best interest and under optimum conditions of security.

CONTENTS

ECONOMIC SITUATION
FRANCE'S SOVEREIGN RATING UPDATES IN 2019

> The appeal of France's economy has continued to increase, as shown by national and international players' favourable reception of the government's road map for modernisation set out in 2017

Odile Renaud-Basso

Director General of the Treasury and Chairwoman of Agence France Trésor

In 2018, the French economy contended with an international environment featuring growing geopolitical, economic and financial uncertainty. This affected expectations about global growth and about economic policy responses, thereby contributing to the volatility of capital markets.

Despite the less favourable context, the external sector recovered and made a significant contribution to growth, accounting for 0.7 points of the 1.7% growth seen in 2018.

The reforms continued in 2018, in line with the modernisation strategy that the government outlined in the third quarter of 2017. Many projects were initiated in 2018, including the Business Growth and Transformation Bill, reform of apprenticeships and in-service training, the new Railway Pact and the reform of the Baccalaureate and university admissions.

This means that the appeal of France's economy continues to increase, adding to the structural advantages that it has traditionally developed and promoted, such as its extensive high quality infrastructure, its highly educated work force, and its traditions of excellence in innovation and R&D.

The continuation of these reforms has been incorporated into the framework defined by France's European fiscal commitments. For the second year in a row, the government deficit has been contained at less than 3% of GDP. This result testifies to the steady fiscal consolidation efforts made since 2010 to provide the headroom necessary for sustainable growth and to maintain equity between generations.

In addition, monetary conditions remained favourable, the European Central Bank (ECB) maintained its accommodative policy despite a decrease in the monthly volume of asset purchases from €60 billion to €30 billion in January 2018, followed by €15 billion in October 2018 and then a halt to net asset purchasing at the end of the year. The ECB maintained low interest rates and favourable liquidity conditions and committed to continuing its reinvestment policy in the long run and for as long as necessary, following an uptick in its key interest rates.

This monetary policy stance ensured continued favourable financing terms for corporate issuers, as well as for sovereign euro area issuers, including France. Under the circumstances, the government's commitment to modernise France's economy and achieve fiscal consolidation is intended to strengthen the macroeconomic fundamentals that underpin France's creditworthiness, as recognised by the rating agencies and international investors.

FOR THE FRENCH GOVERNMENT, 2018 WAS ANOTHER YEAR OF BORROWING AT VERY LOW YIELDS, WHICH STRENGTHENS THE FUTURE SUSTAINABILITY OF ITS DEBT TRAJECTORY

Anthony Requin

Chief Executive of Agence France Trésor

> Exceptionally low yields on government debt [...] provide a unique opportunity to chart a downward trajectory for the debt-to-GDP ratio.

In 2018, Agence France Trésor executed a historic €195-billion financing programme under excellent conditions in terms of yields and security.

In 2018, the financing cost of medium- and long-term debt issuance stood at an average yield of 0.53% for the year as a whole, compared to 0.65% in 2017 and 0.37% in 2016. For short-term debt, the financing cost for BTFs stood at -0.60%, nearly matching the record low of -0.62% in 2017, which was lower than the ECB deposit rate. France's economy grew by 1.7% in real terms and by 2.5% in nominal terms in 2018. In this context, exceptionally low yields on government debt and an average maturity of 10 years for debt securities issued in 2018 provide a unique opportunity to chart a downward trajectory for the debt-to-GDP ratio.

A few more years of honest fiscal policy should lead to the start of a natural decrease in the debt-to-GDP ratio, facilitated by on-going structural reforms and the promise they hold of a higher potential growth rate.

France is standing at the threshold of this virtuous circle and investors who buy French debt securities can see that. That is why they have confidence in France's creditworthiness.

The favourable financing terms that France enjoys are of course, largely due to the current monetary environment.

> Management quality is a large part of what makes French debt attractive.

The ECB's Asset Purchase Programme makes a significant contribution. But France also enjoys the indirect benefits of looser monetary policies initiated by other leading central banks, including the Japanese central bank, which crushed yields on Japanese government securities, making euro-area debt securities appealing to Japanese investors. French government debt was a major beneficiary of these investment flows in 2018, which were boosted by favourable developments in euro/yen/dollar currency swaps.

But management quality is a large part of what makes French debt attractive. The rating agencies unanimously cite this quality as one of the strengths underpinning France's creditworthiness. The financial flexibility that the government has for borrowing on capital markets at a low cost and the protection provided by long maturities in a scenario where yields are likely to rise contribute to French debt's standing as a "defensive investment".

There is some debate about how long the extremely low yields we now enjoy will last (they may last longer that initially thought when the active phase of the Asset Purchase Programme was ended), but some effects will persist. One of them is the commitment that all AFT staff members have made to defending France's creditworthiness to investors the world over, relying on the analytical resources provided to AFT by the Directorate General of the Treasury. Another is the debt issuance model, which has proven its resilience. This model provides liquid debt securities with multiple entry points, since maturities range from three months to 50 years. This gives investors from all over the world a tool for investing, hedging on the real yield curve or on the nominal yield curve. It features innovative debt management, such as the development of a green bond, when such management is favourable for taxpayers and consistent with AFT's approach, which relies on an issuance model based on transparency, predictability and flexibility.

GOVERNMENT CASH FLOWS IN 2018 AND 2019

(€ BILLION)	2018	2019
Borrowing requirement		
Medium- and long-term debt redemption	116.6	130.2
Of which medium- and long-term debt redemption (par value)	115.9	128.9
Of which index-linking supplements paid at maturity	0.7	1.3
Redemption of other debts	0.0	0.0
Deficit to be financed	76.0	107.7
Other cash requirements	-0.6	-1.3
Total	**191.9**	**236.6**
Funding sources		
Medium- and long-term debt issuance net of buybacks	195.0	200.0
Funds allocated to the Caisse de la Dette Publique to reduce debt	0.0	2.0
Net change in outstanding short-term government securities	-13.6	15.0
Change in correspondents' deposits	9.8	11.0
Change in cash available in the Treasury's account	-11.1	5.1
Other cash sources	11.8	3.5
Total	**191.9**	**236.6**

Source: 2019 Budget Act 2018-1317 of 28 December 2018.

At the end of 2018, AFT had 47 staff members with 17 women and 30 men, broken down into 18 contract employees and 29 civil servants. AFT's staff members are notable for the diversity of their educational backgrounds and career paths. They share the same values as those of the Directorate General of the Treasury, namely commitment, loyalty, openness and team spirit. All staff members adhere to strict commitments with regard to professional ethics.

TASKS AND FUNCTIONS

TASKS

MANAGING THE STATE'S CASH REQUIREMENTS

Agence France Trésor (AFT) manages the State's cash requirements so that it can meet its financial commitments at all times, whatever the circumstances.

This management role covers the year as a whole, as well as day-to-day developments: forecasts of the receipts and disbursements of the State and Treasury Correspondents are updated constantly; flows into and out of the account are monitored in order to be able to meet any temporary cash requirements.

MANAGING THE STATE'S DEBT

AFT is tasked with managing debt in the taxpayers' best interest. Its strategy takes a long-term view, while tracking the market closely. This strategy promotes liquidity across the full range of AFT's debt securities, while maintaining full transparency and a commitment to combining innovation and security.

AN AUTONOMOUS, ACCOUNTABLE AGENCY WITH NATIONAL SCOPE

AFT is an agency with national scope (SCN) that reports to the Ministry for the Economy and Finance and the Director General of the Treasury. AFT has the required visibility and resources to carry out its activities, particularly as regards navigating complex financial markets and maintaining close relations with all financial stakeholders.

The fact that AFT reports to the French Ministry for the Economy and Finance means that it has access to the full range of information it needs to carry out its strictly defined tasks. It often works closely with the other structures of the Directorate General of the Treasury or the Ministry, such as the Budget Directorate and the Public Finances Directorate General.

AFT is staffed by civil servants who are fully conversant with the government's financial procedures and by market professionals under contract with the government. Staff members serve in operational functions (cash management, market transactions, risk management and Post-Trade procedures, information technology), and analytical functions (modelling, economics and legal), as well as communication functions.

FUNCTIONS

To fulfil its State debt and cash management duties, AFT has the following units.

1 · CASH UNIT:

- cash forecasts
- relations with the Banque de France as the Treasury's banker
- relations with government authorising officers and accountants
- cash management transactions: loans and deposits, repos of government securities

2 · DEBT UNIT:

- auctions, syndicated issues, buybacks
- relations with the primary dealers
- proactive debt management transactions
- promotion of Treasury securities to investors

3 · POST-TRADE OPERATIONS UNIT:

- recording and monitoring AFT transactions up to settlement
- reporting all this information to the Ministerial Budget and Accounting Control Department (SCBCM), which makes payments and books transactions
- risk monitoring

4 · OPERATIONAL RESEARCH UNIT:

- transaction analysis
- modelling proposals and verifying their appropriateness, developing requirements for optimal results
- monitoring international working groups

5 · MACROECONOMIC UNIT:

- assessing the impact on the fixed income markets of the macroeconomic and financial climate, fiscal and monetary policies and discussions on structural policies
- talking with French and foreign investors and market stakeholders
- relations with rating agencies

6 · COMMUNICATION UNIT:

- external communication: reporting on AFT's work and assignments and promoting events to the financial community and the media
- internal communication: monitoring and gathering information, creating communication tools
- digital communication: website management and deploying AFT's digital presence

7 · IT UNIT:

- administering and operating the information system to provide the information technology tools necessary for AFT's tasks
- leading projects to implement new software and services
- monitoring and applying the information system security policy and maintaining information technology resources under the business continuity plan

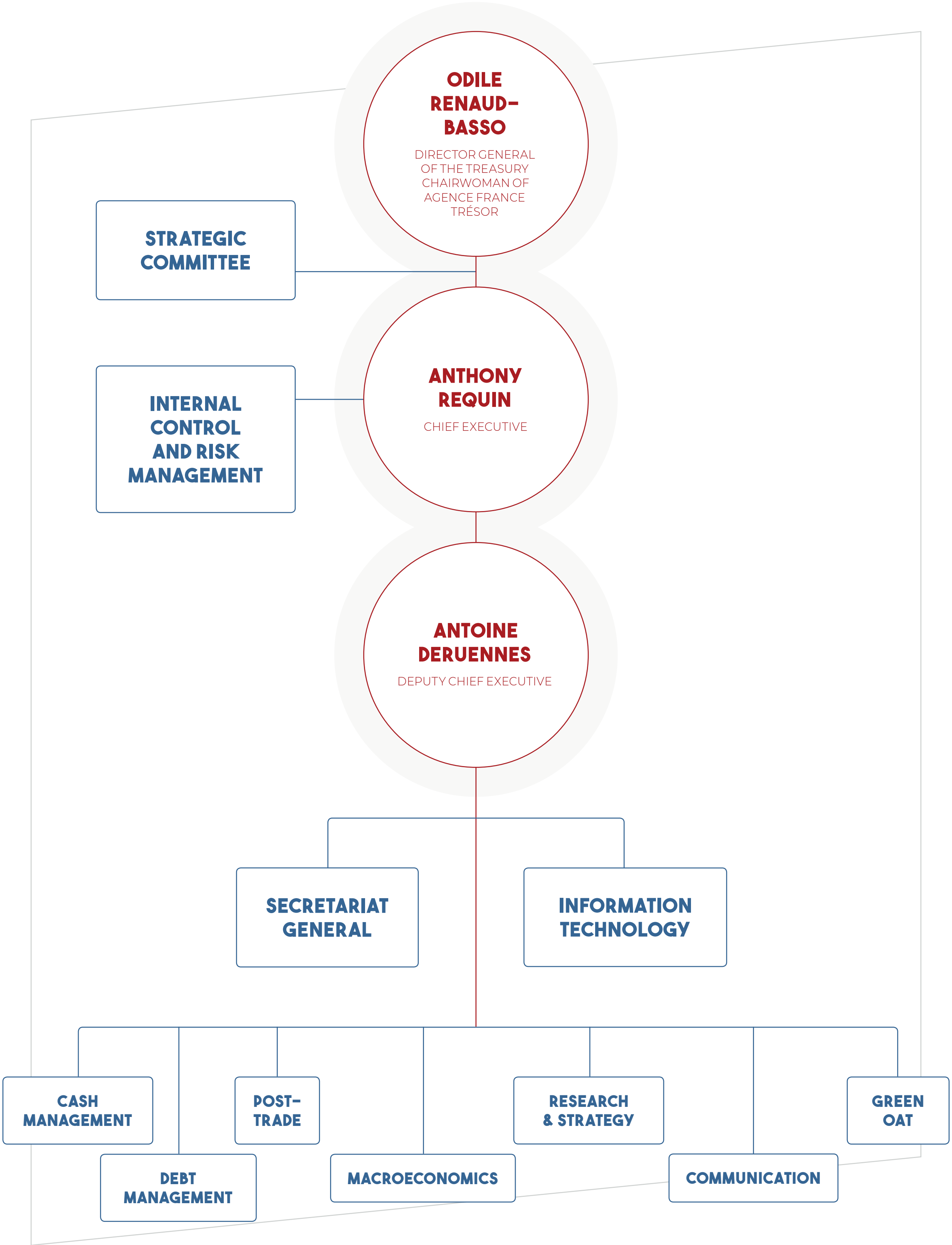
8 · INTERNAL CONTROL AND RISK MANAGEMENT UNIT:

- coordinating various audits
- defining risk policy and managing legal and compliance risks
- drawing up the general activity framework, risk mapping, management of ethical rules within AFT

9 · "GREEN OAT" UNIT:

- coordinating the interministerial process to select Eligible Green Expenditure for the Green OAT
- tracking the allocation of Green Expenditure and production of the Allocation and Performance Report
- contributing to the promotion and reach of the Green OAT.

ORGANISATION CHART



BRINGING AFT AND CADES STAFF UNDER THE SAME ROOF, A FURTHER STEP IN BUILDING A CENTRE OF EXCELLENCE FOR ISSUANCE OF FRENCH GOVERNMENT SECURITIES AT THE MINISTRY FOR THE ECONOMY AND FINANCE

Following the operational alliance formed between the Social Security Debt Repayment Fund (CADES) and AFT staff in 2017, the two teams were brought together under the same roof at the Ministry for the Economy and Finance on 10 September 2018 so that they can pool their expertise on a daily basis.

This move serves two objectives:

CREATING A CENTRE OF EXCELLENCE FOR THE ISSUANCE OF FRENCH GOVERNMENT SECURITIES

CADES has given AFT operational responsibility for its financing activities. AFT will be in charge of carrying out the CADES issuance programme. This means that AFT will act in the name of and on behalf of CADES, relying on CADES staff members seconded to AFT.

The AFT and CADES staff have been brought together under the same roof and under the same management. This makes it possible to develop operational synergy that will promote the advent of a pool of expertise in managing issuance of government securities.

REDUCED OPERATIONAL RISK AND NEW OPPORTUNITIES FOR CADES STAFF

In addition to enhancing skills by pooling the respective teams' expertise, the alliance is also aimed at reducing operational risk as the date for winding down CADES approaches. The fund is currently programmed to be eliminated in 2024. The expansion of the staff responsible for this enables CADES to ensure the continuity of its business under all circumstances.

CADES and AFT remain separate and independent legal entities under the terms of the operational alliance. Consequently, the debts and financing programmes of the State and CADES continue with no changes. CADES has a board of directors, chaired by Jean-Louis Rey, that oversees the tasks that AFT performs as the authorised agent of CADES along with a supervisory board.

The Caisse d'Amortissement de la Dette Sociale (CADES) is an administrative government-funded institution. It operates under the joint authority of the Minister for the Economy and Finance and the Ministers responsible for social security, who appoint the executive bodies and monitor its activity very closely. Its task is to finance and extinguish the debt that the general Social Security Fund accumulated from 1994 to 2008.

STRATEGIC COMMITTEE

The Strategic Committee assists Agence France Trésor in the performance of its tasks. The Committee, along with the primary dealers, advises AFT on the main facets of the State's issuance policy. The Committee acts in an advisory capacity to help Agence France Trésor apply its issuance policy principles. The Committee members are leading French and international figures whose careers, experience, and in-depth knowledge of how financial markets work provide Agence France Trésor with a broad range of skills and expertise.

More specifically, the Strategic Committee's role is to give its opinion on the principles governing the State's issuance policy and cash management. More generally, its role is to advise on any matter related to AFT's business and on areas for improvement.

The Strategic Committee meets twice a year. The meetings are an opportunity to report on AFT's past activity and to set this activity against economic developments and present the assumptions that will underlie AFT's work in the future.

MEMBERS OF THE STRATEGIC COMMITTEE

CHAIRMAN

Jacques de LAROSIÈRE
Former Governor of the Banque de France, former Managing Director of the International Monetary Fund, Chairman of Eurofi

MEMBERS

Marc-Antoine AUTHEMAN
Chairman of the Board of Directors of Euroclear

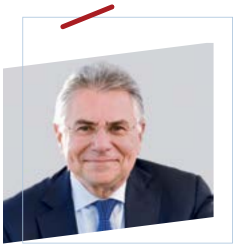
Laurence BOONE
Chief Economist at the OECD

Günther BRAÜNIG
Member of the Board of Directors of KfW

Satu HUBER
CEO of Elo Mutual Pension Insurance Company

Assaad J. JABRE
Corporate Adviser
Former Vice-President of the International Finance Corporation (World Bank Group)

René KARSENTI
Chairman of the International Capital Market Association (ICMA)



Hongyan LI
CEO and CIO, State Administration of Foreign Exchange (SAFE), Central Bank of China

Chow-Kiat LIM
CEO of Government of Singapore Investment Corporation (GIC)

Dino KOS
Head of Global Regulatory Affairs of CLS

Bertrand de MAZIÈRES
Director General of Finance at the European Investment Bank (EIB)

Working session of the AFT Strategic Committee. Jacques de Larosière, Chairman of the Strategic Committee, is seated in the centre on the left side.

BANQUE DE FRANCE

All the State's financial flows (expenditure and revenue), along with the Treasury Correspondents' flows, are centralised and processed in real time through a single account held with the Banque de France and managed by AFT. The single account records all of the financial movements executed by more than 5,000 public accountants, who each use one or more transaction accounts.

This structure enables the Banque de France to provide AFT with a centralised, real-time view of the Treasury's single account so that AFT can make medium-term and long-term forecasts of expenditure and financing in order to optimise the State's cash management.

Agence France Trésor also relies on Banque de France staff for the practical organisation of Treasury security auctions and oversight of the settlement process for the securities sold.

Acting as an intermediary between AFT and primary dealers, the Banque de France receives the primary dealers' bids and then compiles an anonymous summary of the orders and presents it to AFT, which uses it to allocate each security.

The Banque de France has developed a computer system to perform this task successfully. It is a dedicated and highly secure remote bidding system for Treasury auctions called TELSAT (*Système de Télétransmission des soumissions aux adjudications du Trésor*). Primary dealers use the system to submit their bids and AFT uses it to allocate Treasury securities.

The Banque de France provides this service under the terms of separate agreements with AFT and each primary dealer.

PRIMARY DEALERS

Primary dealers are AFT's close counterparties for all of its market operations.

They advise and assist AFT with its issuance policy and debt management, and more generally, with any matter concerning the smooth operation of markets.

The members of the primary dealers' group have changed over time. Their ranks grew from 13 in 1987 to 22 soon after 2000. The latest selection numbered 15 (see page 18). Today's group of primary dealers represents the diversity of institutions active on the French government debt market: major retail banks, specialised institutions and French and foreign institutions.

As of 31 December 2018, the group of primary dealers was made up of 15 institutions from diverse areas of the world, including four French institutions, two German institutions, five North American institutions and one Japanese institution. This diversity underlines the central role and appeal of French Treasury securities on the euro debt market.

It is the primary dealers' responsibility to participate in auctions, place Treasury securities and ensure the liquidity of the secondary market.

AFT deals with them as necessary for them to perform their duties:

- overseeing the proper functioning of primary issues
- ensuring the liquidity of the secondary market in French Treasury securities and upholding their status as one of the euro area's most liquid securities
- promoting the market for Treasury securities
- providing constant and highly pertinent advice to AFT on issuance policy, debt management, promoting the State's creditworthiness, hedging the State's financial risks and the workings of the fixed-income markets

These duties are set out in a charter* that governs the relations between AFT and the primary dealers, who have signed the charter and pledged to comply with it. They also undertake to act ethically and comply with best marketplace practices when carrying out their transactions.

* https://www.aft.gouv.fr/fr/node/54

2018 LEAGUE
TABLE OF PRIMARY DEALERS

Since 1999, Agence France Trésor has published an annual ranking of the most active primary dealers. The assessment of primary dealers' activity considers all of their tasks: bidding at auctions, dealing on the secondary market, qualitative aspects of the relationship between the primary dealers and AFT (operational quality, quality of advice, and the closeness and stability of the relationship with AFT).

GENERAL RANKING
OF THE 10 BEST INSTITUTIONS

1 BNP PARIBAS

2 HSBC

3 CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

3 ex. SOCIETE GENERALE Corporate & Investment Banking

5 J.P.Morgan

6 BARCLAYS

7 citi

8 NatWest Markets

9 Goldman Sachs

10 NATIXIS BEYOND BANKING

PARTNERS

PRIMARY MARKET: RANKING OF THE 10 BEST INSTITUTIONS FOR PARTICIPATION IN AUCTIONS AND BUYBACKS

1. BNP PARIBAS
2. HSBC
3. CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
4. SOCIETE GENERALE Corporate & Investment Banking
5. J.P.Morgan
6. NatWest Markets
7. citi
8. BARCLAYS
9. Goldman Sachs
10. NATIXIS BEYOND BANKING

SECONDARY MARKET: RANKING OF THE 10 BEST INSTITUTIONS FOR SECONDARY MARKET-MAKING

1. J.P.Morgan
2. BNP PARIBAS
3. SOCIETE GENERALE Corporate & Investment Banking
4. HSBC
5. CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
6. BARCLAYS
7. citi
8. NatWest Markets
9. NOMURA
10. Goldman Sachs

RANKING OF THE 10 BEST INSTITUTIONS FOR SERVICE QUALITY

1 SOCIETE GENERALE Corporate & Investment Banking

2 BNP PARIBAS

3 CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

4 HSBC

5 NATIXIS BEYOND BANKING

ex. 5 BARCLAYS

7 Goldman Sachs

8 J.P.Morgan

9 Deutsche Bank

10 citi

SELECTION COMMITTEE

The selection process started in October 2018 and ended with the renewal of the primary dealers for a three-year term on 18 December 2018. The decision was made by Mr Bruno Le Maire, the Minister for the Economy and Finance, acting on a proposal from the Director General of the Treasury, having heard the opinion of a committee that selected the banks applying for primary dealer status.

The Selection Committee met in November to interview the applicant institutions under the chairmanship of Mr Christian Noyer, Honorary Governor of the Banque de France.

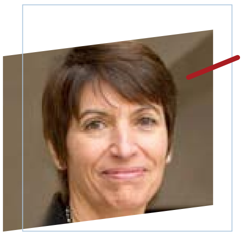
MEMBERS OF THE SELECTION COMMITTEE

Christian NOYER

Honorary Governor of the Banque de France
Chairman of the Selection Committee

Dominique DAVID

Member of Parliament, Member of the National Assembly General Economy and Budget Control Commission and Special Appropriations Co-Rapporteur of the Government Financial Liabilities Mission



Nathalie AUFAUVRE

Director General for Financial Stability and Transactions at the Banque de France, representing the Governor of the Banque de France

Thierry BERT

General Inspector of Finance

Benoît DE JUVIGNY

Secretary General of the Autorité des Marchés Financiers

Alexandra GIVRY

Director responsible for the Autorité des Marchés Financiers Market Supervision Division, representing the Chairman of the Autorité des Marchés Financiers

Sylvain DE FORGES

former Director General of Agence France Trésor, in his capacity as a qualified individual

Fifteen banks (see page 15) had applied for a new three-year term for the period 2019-2021, proving that the primary dealer "label" remains an attractive attribute. Their term will run until 31 December 2021, in keeping with the provisions of the Primary Dealer Charter.

THE COMMITTEE MEMBERS SHARE THEIR EXPERIENCES

Christian NOYER

The diversity of the primary dealers and their devotion to their role are testimony to the quality of France's debt, which is one of the safest and most liquid in the world. France was a European pioneer 30 years ago for the modernisation of sovereign debt and hedging instruments. Today France is making every effort to strengthen the preeminent position of the Paris financial market, which is the most active in the 27 EU countries.

Sylvain DE FORGES

As a former Chief Executive of AFT, my membership of the Committee has made me appreciate how much this business has been able to adapt to a new economic, financial and legal environment since 2007 and one that is rapidly changing. Two points stand out:

- all the primary dealers form a group that is both very homogenous and close to AFT and, simultaneously, very diverse. That is one of the group's very great qualities.
- the transparency of the discussions between AFT and the teams from the institutions applying for selection, particularly about major on-going or coming changes, including those potentially resulting from Brexit.

Alexandra GIVRY

The Selection Committee members have deep discussions with the applicant institutions about their models and their ambitions. This experience has been particularly enriching in the current context of economic and political uncertainty in the run-up to Brexit and the changes wrought in bond markets by new regulations and technological advances.

Benoît DE JUVIGNY

Of all of the bond markets supervised by the Autorité des Marchés Financiers, France's sovereign debt market stands out for its strong liquidity: trading volumes on the secondary market for sovereign bonds are five times greater than for corporate bonds. The sovereign bond market is resilient during times of stress.

Thierry BERT

Three points really stood out for me during the Committee's intense discussions. The first was the very high level of the people delegated to represent the applicants from the very top ranks of financial institutions. This is testimony to the importance they attach to dealing in French debt. The second was the extremely frank nature of the discussions with some applicants about the difficulties they have with specific market segments. The third point was the unanimous conviction that the demand for "green" products will grow steadily, which can only sustain governments' efforts in their energy transition policies.

Nathalie AUFAUVRE

The Banque de France is in daily contact with primary dealers in the performance of its tasks, be it as part of its asset purchasing programme for quantitative easing or for the organisation of auctions of government securities on behalf of Agence France Trésor. This made it particularly valuable to understand the primary dealers' view of developments on the French and European sovereign debt market and to see the diversity of their strategic approaches and business models. The creditworthiness of France's sovereign debt makes it a natural investment choice, but primary dealers play a major role in optimising the placement of this debt on the primary market, ensuring a liquid secondary market and fostering innovation.

INVESTOR RELATIONS

INVESTOR RELATIONS ARE A PRIORITY

In 2018, as was the case in previous years, AFT prioritised a high standard of investor relations. AFT held regular meetings with investors throughout the year to both maintain and forge long-term relationships. It used these meetings to promote government securities. There were meetings with 206 investors (investment managers, portfolio managers, economists, etc.) both in France and abroad.

These meetings provide an opportunity to outline the State's issuance strategy, the technical strengths of its debt management and to promote a better understanding of France's and Europe's economic situations, economic and fiscal policy and the structural reforms under way. Investors can use these meetings to give their opinion of France and its debt market, thus providing vital feedback for policy-makers. This regular groundwork helps maintain the investors' positive image of our country. The State debt investor base is diversified both in terms of geography and categories.

French investors held 47.4% of French State debt on 31 December 2018 and non-resident investors, including a large share from the euro area, held 52.6%. The investors are central banks, sovereign wealth funds, asset managers, banks, insurance companies and pension funds. This diversity is an important factor for the security of French debt that optimises the State's borrowing costs in all market situations. The French State's extremely favourable borrowing terms in 2018, with a historically low weighted average yield of 0.53% on medium- and long-term debt, reflect investor confidence in France's creditworthiness and the technical quality of its debt.

ROADSHOWS IN 2018

AFT made 36 trips to 31 countries to promote France's Treasury securities and creditworthiness in 2018: Germany, Saudi Arabia, Austria, Belgium, China, South Korea, United Arab Emirates, Spain, United States, Finland, France, Hong Kong, India, Indonesia, Italy, Japan, Luxembourg, Malaysia, Norway, Netherlands, Philippines, Portugal, United Kingdom, Russia, Singapore, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand and Vietnam.

SURVEY CONDUCTED BY IEM FRANCE

Agence France Trésor has conducted an investor survey every year since 2002 to assess their opinion of French debt.

IEM Finance conducted the 16th online survey of primary dealers' customers between 18 September and 26 October 2018. The survey considered the quality of business relationships and the services primary dealers render to their customers, along with the customers' assessment of how well the French debt market works. In 2018, 246 investors filled in the questionnaire. The respondents represented most of the major asset managers and insurers, along with many government-funded institutions that trade in French debt.

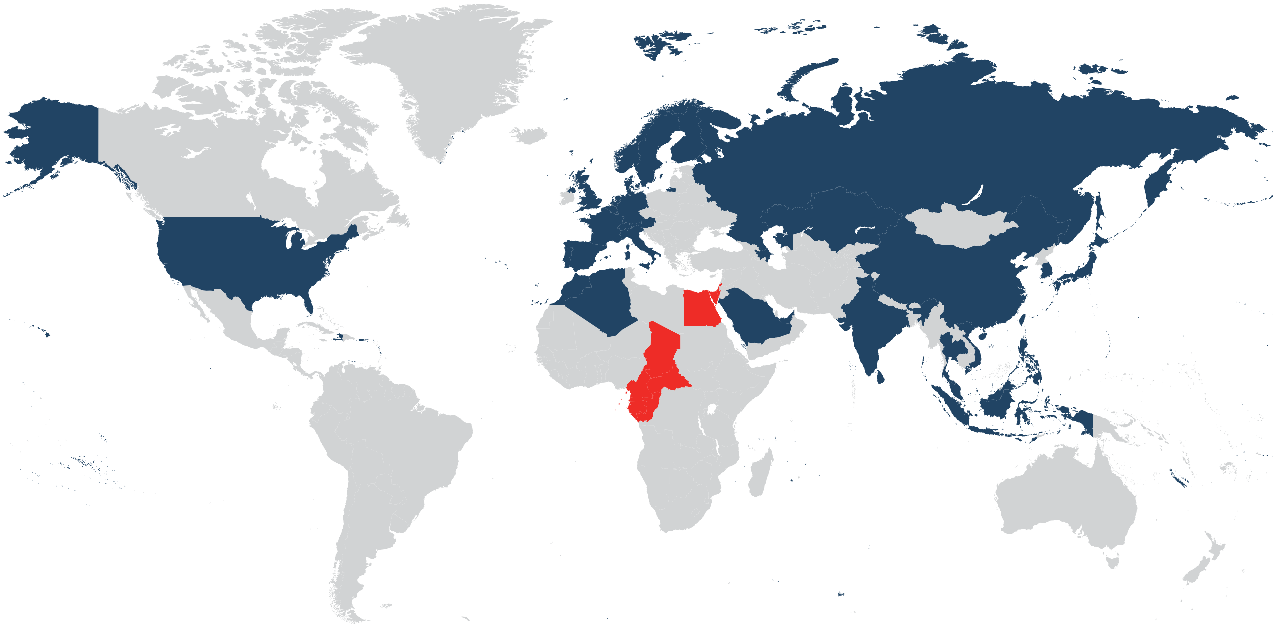
Investor satisfaction with the functioning of the French government debt market remained high and continued to improve over the previous year. In 2018, 100% of French investors and 97% of all investors reported that they were "very satisfied" or "satisfied", compared to 100% and 95.7% in 2017 and 98% and 92.9% in 2016.

Investors greatly appreciate the liquidity of French government debt: virtually all of them continue to report their satisfaction, with 97.5% "very satisfied" or "satisfied" with OATs. Investor satisfaction with index-linked securities dipped slightly in 2018: 74.6% of investors reported that they were "very satisfied" or "satisfied", compared to 77.1% in 2017 and 64.2% in 2016. With regard to BTFs, 86.0% of investors reported that they were "very satisfied" or "satisfied", compared to 92.0% in 2017 and 87.8% in 2016. It should be noted that 37% of those polled did not express an opinion about index-linked bonds and 36% said nothing about BTFs.

With regard to transparency, and in addition to the information disseminated by AFT, a majority of investors reported that they were "satisfied" with the economic and fiscal policy information they receive from French public institutions. The proportion of satisfied investors rose from 91% in 2017 to 94% in 2018.

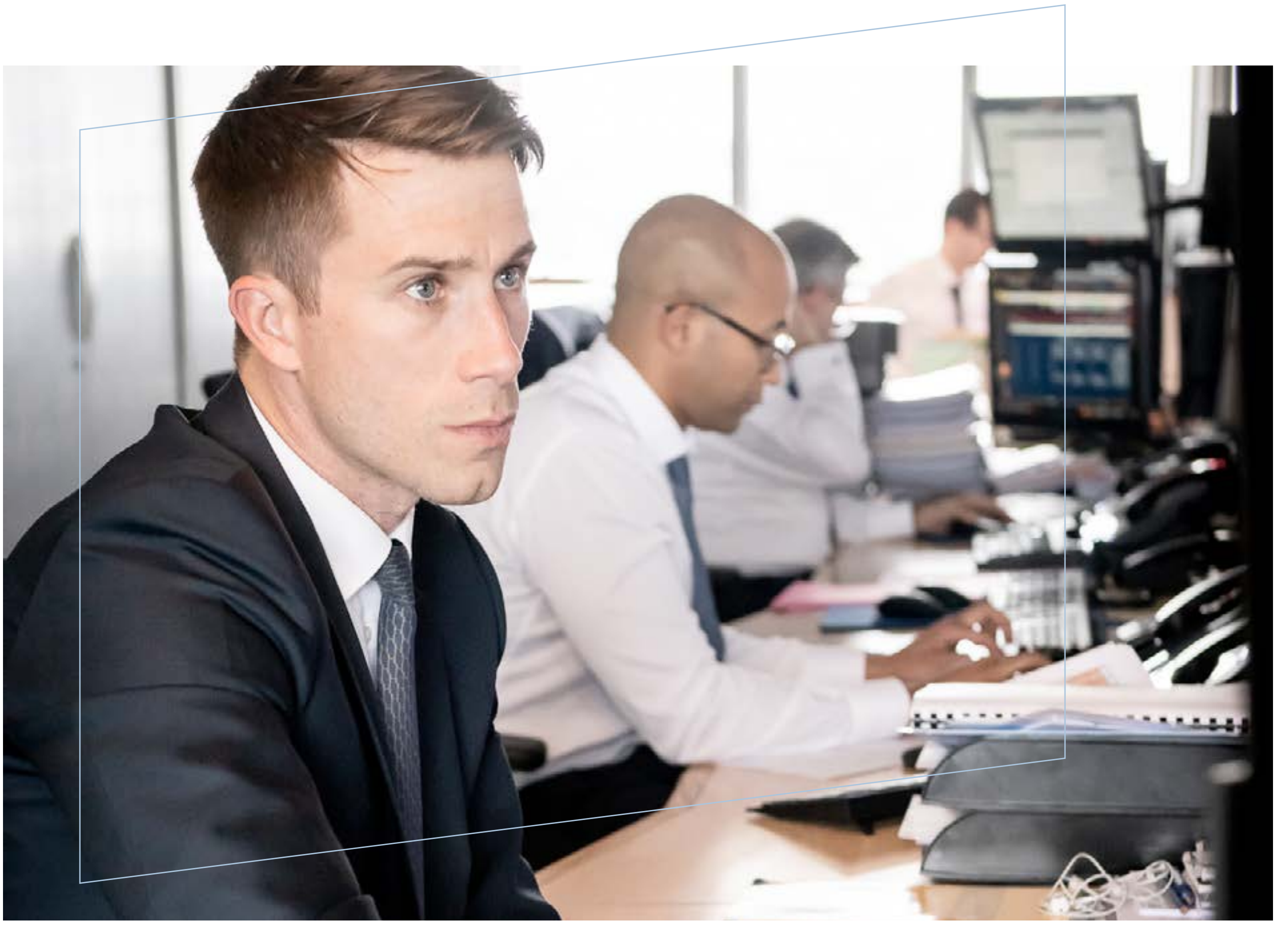
Furthermore, the vast majority of investors, or 97.4% were "very satisfied" or "fairly satisfied" with AFT's flexibility in its choice of securities to issue, including auctions of "off-the-run" securities, compared to 94.4% in 2017.

In 2018, 31% of the respondents reported that they had purchased the Green OAT 1.75% 25 June 2039, either as part of a syndicate, for 72% of the investors and/or on the secondary market for 64%. Of these investors, 65% reported that they had bought the bond specifically because of its "green" credentials.



Key

- Countries visited
- Home countries of investors met other than at roadshows



INTERNATIONAL PUBLIC DEBT AND CASH MANAGEMENT WORKING GROUPS

AFT represents France as a member of various debt and cash management working groups, including the Economic and Financial Committee (EFC) Sub-Committee on EU Sovereign Debt Markets (ESDM), the Working Party on Public Debt Management (WPDM) at the Organisation for Economic Co-operation and Development (OECD), and the IMF's Public Debt Management Forum.

ESDM (EUROPEAN UNION)

The EFC Sub-Committee on EU Sovereign Debt Markets is a sub-group of the Economic and Financial Committee of the Council of the European Union. It is responsible for coordinating issuance policy (timetable and amounts as provided for in the 2012 regulations), preparing common positions for the various Member States on regulatory matters and technical aspects relating to the sovereign debt market. It also ensures that the information disseminated about the different Member States' debt issues is harmonised.
In 2012, this Sub-Committee was responsible for drafting collective action clauses (CAC) for euro area sovereign debt.
The group meets at least three times a year, usually in Brussels.
Website: **http://europa.eu/efc/about-sub-committee/**

WORKING PARTY ON PUBLIC DEBT MANAGEMENT (OCDE)

The OECD Working Party on Public Debt Management (WPDM) provides a forum for sovereign debt managers to meet and discuss their views, experiences and policies. It publishes standardised statistics and reports comparing the management approaches adopted in different countries. The group meets twice a year, usually in Paris.
Website: **http://www.oecd.org/finance/public-debt/**

IMF PUBLIC DEBT MANAGEMENT FORUM

The forum meets once every year, alternating between Washington and a host country. It is attended by public debt managers and private sector representatives, international institutions and market regulators. The aim of the forum is to discuss current public debt management affairs within the economic and regulatory environment.
Working closely with the World Bank, this group helped to review the Guidelines for Public Debt Management, an initiative undertaken by the G20 in 2013. The 2014 forum was organised jointly with AFT in Paris.
Website: **http://www.imf.org/external/np/seminars/eng/2014/pdmf/**

GOVERNMENT BORROWERS' FORUM

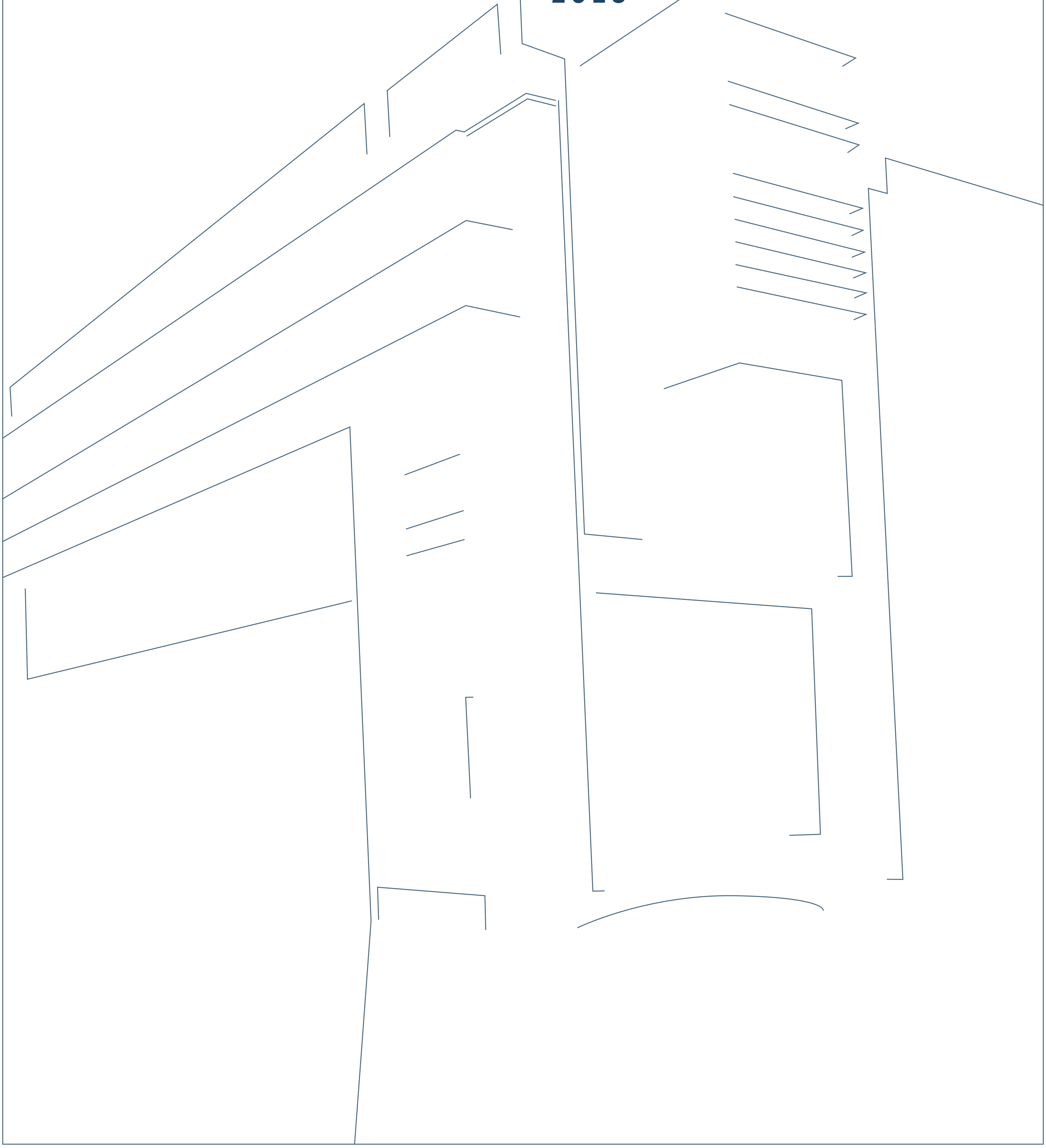
AFT also takes part in the World Bank's Government Borrowers' Forum, which is an annual event that brings together senior civil servants from countries issuing securities on international capital markets and the treasurers of supranational organisations to share their debt management experience and discuss their views on issues of common interest on financial markets. Approximately one hundred senior debt managers from some forty countries attend the forum. The World Bank Treasury provides the secretariat for the forum. A different country hosts the Forum each year. The 2016 Government Borrowers Forum took place on 2, 3 and 4 May at the French Ministry for the Economy and Finance in Paris and was hosted by AFT.
Website: **http://www.banquemondiale.org/**

PUBLIC SECTOR ISSUER FORUM

AFT also takes part in the European Public Sector Issuer Forum. The International Capital Market Association provides the secretariat for the Forum. The aim of the Forum's meetings is to discuss issuers' practices and issues facing the ecosystem that they belong to.
Website: **https://www.icmagroup.org**

MANAGEMENT
REPORT

2018



AFT AT WORK
2018 HIGHLIGHTS

12 JANUARY

Creation of the OAT 0.00% 25 February 2021, a new 3-year benchmark bond.

24 JANUARY

The amount of Eligible Green Expenditure in 2018 to be funded by potential issuance of the Green OAT 1.75% 25 June 2039 was announced at €8 billion.

26 JANUARY

Creation of the OAT 1.25% 25 May 2034, a new 15-year benchmark bond.

26 JUNE

Syndicated tap issue of the Green OAT 1.75% 25 June 2039 for €4 billion.

6 SEPTEMBER

AFT once again wins the Euromoney/GlobalCapital title for the Most Impressive Government Agency Green Bond Issuer.

24 SEPTEMBER

AFT announced its €195 billion financing programme for 2019 as part of the 2019 Budget Bill.

8 OCTOBER

Start of the selection process for primary dealers for 2019-2021.

18 OCTOBER

To enhance support for investors, the AFT website is modernised with security fact sheets that can be used to track a security from creation to redemption.

9 NOVEMBER

Findings of the sixteenth survey of primary dealers' customers conducted by IEM Finance: investor satisfaction with the way the French government debt market works remained high and continues to improve, with 100% of French investors and 97% of all investors reporting that they were "very satisfied" or "satisfied" in 2018.

20 FEBRUARY

Publication of the 2017 league table of primary dealers (SVT).

21 MARCH

The inaugural issue of the Green OAT 1.75% 25 June 2039 won several awards from Climate Bonds Initiative, including Largest Single Bond to a Trillion Market in 2017.

28 MARCH

Syndicated launch of the OAT€i 0.10% 25 July 2036. Total demand reached €11.5 billion a record-breaking amount for a syndicated launch of a bond linked to European inflation. The amount allotted was €3.5 billion with a real yield at issue of -0.361%, which was the lowest real yield at issue ever recorded during similar syndicated launches by AFT.

4 APRIL

Update of the second opinion on the Green OAT by the independent expert Vigeo Eiris on the responsible investment credentials of the Green OAT 1.75% 25 June 2039, with a view to the first tap issue of the bond in 2018.

15 JUNE

Creation of the OAT 0.00% 25 March 2024, a new 5-year benchmark bond.

20 JUNE

Publication of the first Allocation and Performance Report on green bond expenditure in 2017, in keeping with the transparency commitments made when the bond was launched.

29 NOVEMBER

Publication of the first impact report under the auspices of the independent evaluation council and devoted to one of the main environmental measures associated with the Green OAT: the energy transition tax credit (CITE).

18 DECEMBER

Announcement of the final selection of the group of banks to be primary dealers from 2019 to 2021

20 DECEMBER

AFT announces its indicative financing programme for 2019. The Programme ultimately calls for €200 billion in issuance of medium- and long-term debt net of buybacks as a consequence of the measures to support households' purchasing power passed by Parliament in December.

KEY FIGURES FOR 2018

WEIGHTED AVERAGE YIELD OF MEDIUM- AND LONG-TERM FIXED-RATE SECURITIES

0.53%

AVERAGE RESIDUAL MATURITY OF DEBT AT 31 DECEMBER 2018

7 YEARS 336 DAYS

OUTSTANDING INTEREST-RATE SWAPS AT 31 DECEMBER 2018

€1 BILLION

NEGOTIABLE DEBT OUTSTANDING AT 31 DECEMBER 2018

€1,756 BILLION

NON-RESIDENTS' HOLDINGS OF NEGOTIABLE DEBT SECURITIES AT 31.12.2018 AT MARKET VALUE

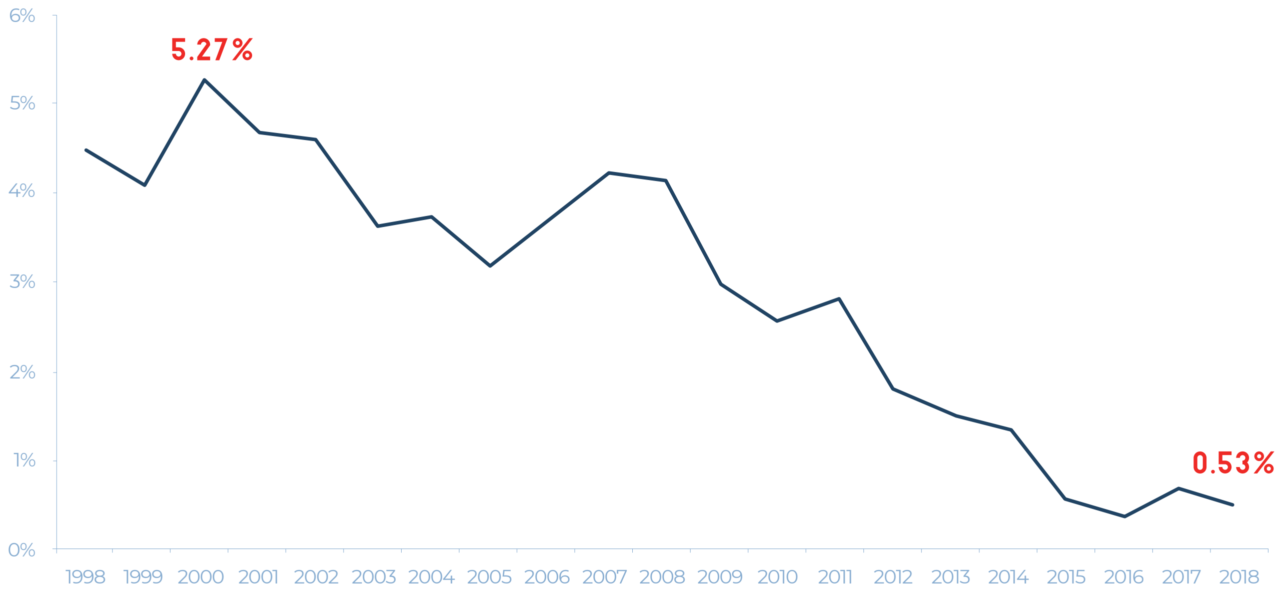
52.6%

YIELDS

WEIGHTED AVERAGE YIELD ON MEDIUM- AND LONG-TERM DEBT ISSUES

Yields from 1998 to 2018

Weighted average yield on medium- and long-term debt issues



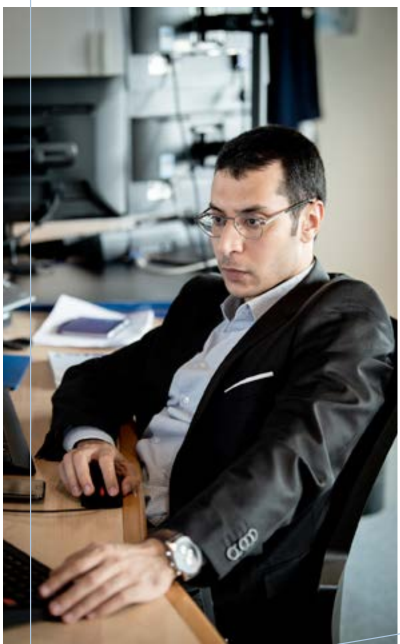
Source: Agence France Trésor

France continued to enjoy extremely favourable conditions for financing its public debt in 2018.

The gross nominal value of medium- and long-term debt issuance in 2018 stood at €225.4 billion, consisting of €203.0 billion in fixed-rate bonds (OATs) and €22.4 billion in index-linked bonds (OATis, and OAT€is).

The average yield on medium-term and long-term debt issues came to 0.53% in 2018, compared to 0.65% in 2017, following the historic low of 0.37% in 2016. The average yield for the period from 1998 to 2008 was 4.15%, followed by 1.95% for the period from 2009 to 2015.




ECONOMIC AND FINANCIAL ENVIRONMENT

A MORE VOLATILE MACROECONOMIC ENVIRONMENT CAUSED BY POLITICAL AND ECONOMIC UNCERTAINTY HAMPERING GLOBAL GROWTH

A high degree of uncertainty reigned in 2018 with regard to (i) trade disputes and the impact of the second round of protectionist measures on international value chains, (ii) a new balance on oil markets highlighting the ability of the main producers to reduce excess production, (iii) central banks' intentions and room for manoeuvre for normalising monetary policy, (iv) outlook for China's economy with slowing domestic growth as public-sector and private-sector debt is paid down.

These underlying trends came on top of idiosyncratic tensions in some emerging economies, such as Turkey and Argentina, and even in Europe with Brexit, changing economic and fiscal policy stances, and political transitions in some major countries.

The accumulation of these uncertainties over 2018 as a whole fuelled volatility on capital markets and penalised the riskier markets, including equities and credit, while benefitting sovereign bond markets. There were two market corrections in 2018, one in February and the other in October-December. Market participants were reacting to the pace of the Fed's normalisation of monetary policy in the first correction and to the risks for global growth stemming from international trade tensions, particularly between China and the United States in the second correction.

The changing portfolio allocations were characteristic of a risk averse market. Investors were driven to revise their allocations and focus on safe assets. This movement benefited the markets for bonds issued by the core euro area countries like France, which are deemed to be defensive investments.

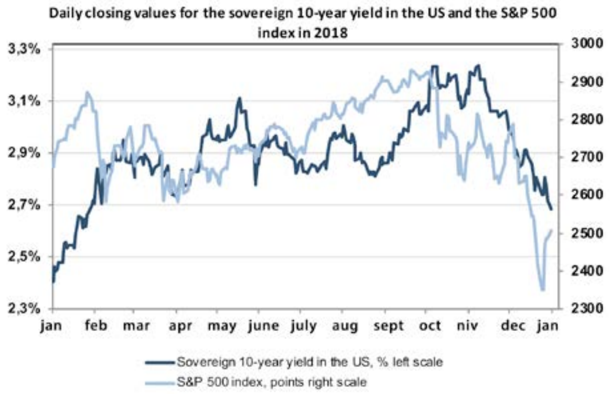
Global growth was strong in 2018, matching the 3.7% growth seen in 2017. Among the advanced economies, growth accelerated in the United States on the strength of fiscal stimulus. On the other hand, growth slowed in the United Kingdom, Japan and the euro area. Among emerging economies, growth was slower in China and slowed more severely in Turkey. In contrast, growth picked up in India and remained moderate in Russia and Brazil.

After posting much faster growth of 5.8% in 2017, which was the highest rate since 2011, **world trade growth dropped significantly throughout 2018**. However, the growth rate over the year as a whole was firm at 4.5%.

In the euro area, growth slowed from 2.5% in 2017 to 1.8% in 2018. It was hampered by slower growth of export demand and the past appreciation of the euro, along with the auto industry's difficulties in coping with the new environmental standards. The euro area also suffered from constrained investment and consumption in the face of deep uncertainty about policies and trade.

DAILY CLOSING VALUES FOR THE SOVEREIGN 10-YEAR YIELD IN THE US AND THE S&P 500 INDEX IN 2018

UNITED STATES



Source: Bloomberg

IN EUROPE

Source: Bloomberg

THE ECB MAINTAINED AN ACCOMMODATIVE STANCE IN 2018, AS GROWTH SLOWED AND INFLATION REMAINED WEAK IN THE EURO AREA

Changes in the aggregate euro area inflation rate were primarily driven by oil price fluctuations. Prices rose more vigorously in the first half of the year, and then showed signs of running out of steam in the last quarter of 2018, as oil prices eased. On the other hand, the underlying euro area inflation rate was stable and low overall in 2018, standing at an annual average of 1.0%, in line with the 2017 average.

Given the circumstances, the ECB maintained its prudent stance, while starting a gradual normalisation of monetary policy by means of gradual stabilisation of its portfolio of assets acquired as part of quantitative easing. It cut the monthly volume of its asset purchases, net of reinvestment, from €60 billion to €30 billion in January 2018, and then to €15 billion in October before announcing on 13 December that asset purchases would stop at the end of 2018.

The ECB showed confidence that the inflation rate would gradually converge on its medium-term target, but it still considered it necessary to maintain an "ample degree of accommodation", relying in part on accommodative forward guidance. For this purpose the ECB committed to maintaining, as long as necessary, (i) the policy of reinvesting the principal payments received from maturing securities purchased under the Asset Purchasing Programme (past the date when the key rates started to rise) and (ii) the current low interest rates, as the first rate increases should not come until the fourth quarter of 2019[1]. This commitment anchored market expectations regarding short-term rates, making it possible to ensure favourable financing and refinancing terms for corporate and sovereign issuers in Europe, including France.

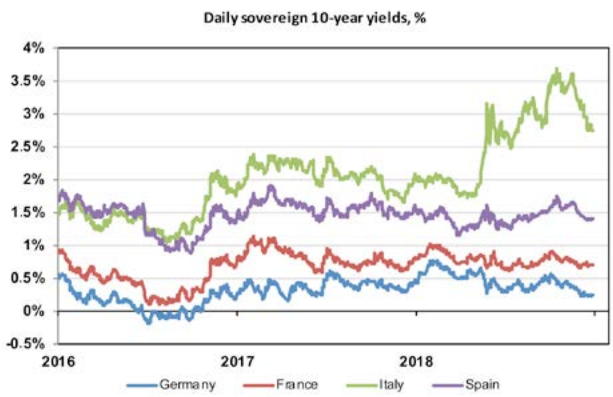
The ECB's key rates have been kept at historic low levels since March 2016, with the marginal lending facility rate at 0.25%, the rate on the main refinancing operations at 0% and the deposit facility rate at -0.40%. Maintaining the status quo for short-term rates has led to a favourable liquidity environment that has benefited the euro area debt markets. However, the spillover from the rise in American interest rates did exert some brief upward pressure on euro area interest rates.

[1] *Since then, the ECB announced in June 2019 that it would not change its rates until the end of the first quarter of 2020.*

THIS ENVIRONMENT OF LOW INTEREST RATES MEANT THAT BORROWING TERMS REMAINED FAVOURABLE FOR CORPORATE AND SOVEREIGN ISSUERS

In this environment, sovereign yields in some euro area countries were driven by country-specific factors fuelling risk aversion. This development benefited debt markets in the core euro area countries, including France. The favourable movement in currency swaps promoted the flow of Asian investment into the euro area rather than into the United States. Consequently, sovereign yields remained at historic lows throughout the euro area in 2018, except in Italy, where a new government took power in the second quarter with a fiscal policy seen as uncertain, leading market players to increase the risk premium on Italian debt. Ultimately, France's 10-year yield stood at 0.71% at the end of 2018, little changed from the prevailing yield at the end of 2017.

YIELDS ON 10-YEAR SOVEREIGN SECURITIES IN THE EURO AREA IN 2018



Source: Bloomberg

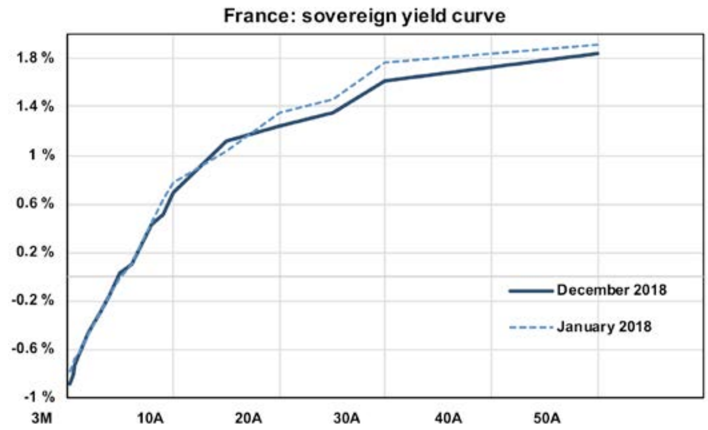
France's sovereign bond market, in particular, saw two major developments in 2018.

(i) In the second and third quarters, uncertainty about the goals of Italy's economic and fiscal policy led to heightened risk aversion that benefited the debt of the core euro area countries, like German bonds and, to a lesser extent, French bonds. Under the circumstances, the French debt market was resilient, with small intraday movements, on the strength of the creditworthiness of France's sovereign debt and the liquidity of its secondary market. However, the 10-year yield spread between France and Germany widened slightly to hover around 30 basis points during this tense episode, which primarily benefited Germany.

(ii) At the end of the year, there was renewed pressure on the French spread stemming from the social movements that led to the announcement of measures to support households' purchasing power. During the last month of the year, the French spread reached its widest point since the beginning of May 2017, standing at 48 basis points in December 2018.

The transmission of monetary policy to the real economy once again resulted mainly in favourable borrowing terms for private-sector agents, especially small and medium-sized enterprises. France's sovereign yields remained in negative territory up to maturities of four years. In addition, the average annual interest rate on loans of one year or more to non-financial enterprises in the euro area stood at a historic low of nearly 2.1% and the annual average interest rate on new homebuyer loans stood at 1.8%.

FRANCE'S SOVEREIGN YIELD CURVE IN 2018, COMPARISON BETWEEN THE BEGINNING AND THE END OF THE YEAR



Source: Bloomberg

STABLE EURO AND VOLATILE OIL PRICES IN 2018

The main parities showed the euro on a declining trend against the dollar starting in February 2018, when the parity hovered near €1 = USD1.20. This decline stems primarily from the strength of American economic indicators and the markets' perception of a potentially persistent decoupling of American and euro area monetary policy, since the Fed was much closer to normalising its monetary policy than the ECB was. This underlying trend in the policy rates differential was compounded by two more marked corrections in 2018, with a first dip in the euro in May and a second in September, against the background of uncertainty about Italy's economic and fiscal policy. Since then, the euro-dollar parity found a new balance, closing the year at €1 = USD1.15.

The sterling-euro parity fluctuated in a relatively narrow range throughout 2018, varying between €1 = GBP0.86 and GBP0.91. Downward pressure stemming from uncertainty about the outcome of negotiations between the United Kingdom and the European Union affected sterling in the second and third quarters. This pressure eased slightly after the Bank of England raised its key rate in August and then abated more markedly after the convergence of British and European views on a technical withdrawal agreement in mid-November. This agreement allayed, at least temporarily, markets' concerns about the negotiations, which remained blocked until the fourth quarter, and fears that the two parties were heading towards a no-deal Brexit. These concerns came back briefly at the end of the year after the British Parliament's final vote on the technical agreement, but they did not trigger any significant movements in the value of sterling.

The euro lost a bit of ground to the yen, since the latter is benefiting from its status as a defensive investment in all likelihood. With the market seized by uncertainty, particularly about the Chinese-American trade dispute, the spillover from brief pressures on the dollar and the renminbi boosted the yen. As is usually the case when tensions push market players to make defensive investments in safe assets, the yen gained 7% against the euro to stand at €1 = JPY125.8 and 3% against the dollar to stand at USD1 = JPY 110.0.

In contrast, the euro was sustained by the weakening of the Turkish and Russian currencies, and certain emerging countries' currencies. All in all, the nominal effective exchange rate of the euro was virtually unchanged in 2018. However, the annual average exchange rate rose in 2018, as a result of the increase posted in the middle of 2017.

In other developments, the sharp increase in oil prices that started in mid-2017 continued through the first three quarters of 2018, on the strength of persistently vigorous global growth, as well as the impact of geopolitical tensions (American sanctions on Iran and geopolitical tension in the Middle East) and the drop in daily oil production. The production cut resulted from the so-called Vienna agreement under which OPEC and its allies agreed to cut production quotas from the start of 2017 and then expanded and extended the cut in 2018. After hitting a peak of USD86 in early October, the price of Brent crude declined sharply as a result of concerns about oil demand as the global economic situation became less favourable and oil supplies were still abundant following the easing of American sanctions on Iran's oil exports.

Despite the falling prices at the end of the year, the annual average price in euros for Brent crude rose by 25% over its level in 2017.

THESE INTERNATIONAL DEVELOPMENTS CONTRIBUTED TO SLOWER GROWTH IN FRANCE

As was the case for the euro area, France's growth was slowed by less favourable external factors, such as weaker growth of export demand and higher oil prices, which had sustained growth in 2017. There was also the fading impact of some specific temporary factors that had boosted growth in 2017, such as a big jump in property transactions and a resurgence of tourism following the terrorist attacks.

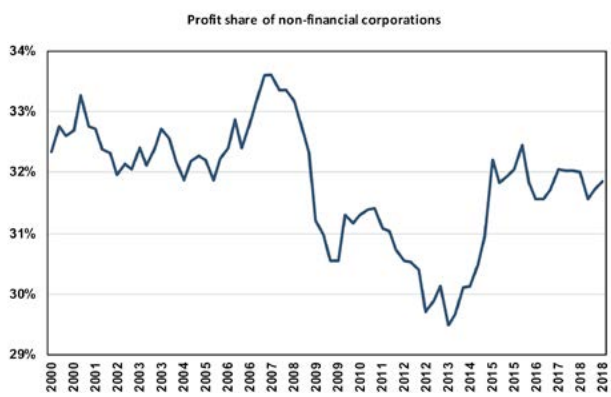
However, France's economy withstood this less favourable international environment better than some of its European partners, thanks in part to the resilience of business investment. This investment continued to post strong growth, despite looming uncertainty and slower economic growth, and despite the new environmental standards for vehicles that came into force in the fourth quarter and their impact on investment in transport equipment.

Foreign trade also made a major contribution to France's growth, accounting for 0.7 points of the 1.7% growth seen in 2018, with brisk export growth and moderate import growth. The good foreign trade results come from aeronautical engineering, chemicals, textiles and computer services.

The measures aimed at reducing labour costs, such as the Responsibility Pact and the Competitiveness and Employment Tax Credit, introduced in 2013 have contained increases in labour costs. These costs rose more slowly in France than in the euro area and enabled businesses to improve their profitability. The profit share of non-financial corporations[2] has improved by nearly two percentage points since 2013 and returned to a level that is close to that prevailing before the crisis.

Inward foreign direct investment in 2018 showed strong growth and testified to the consolidation of France's appeal. Total inflows from all over the world came to some €31.6 billion in 2018, marking an increase of €5 billion compared to 2017, when inflows came to €26.4 billion.

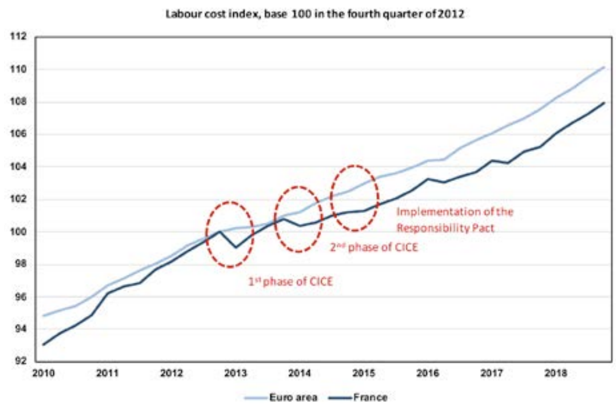
PROFIT SHARE OF FRENCH NON-FINANCIAL CORPORATIONS



Source: INSEE
Gross operating surplus/value added in % - seasonally and working-day adjusted data

[2] *The profit share of non-financial corporations is defined as gross operating surplus divided by gross value added at current prices.*

COMPARATIVE LABOUR COSTS IN THE EURO AREA AND IN FRANCE



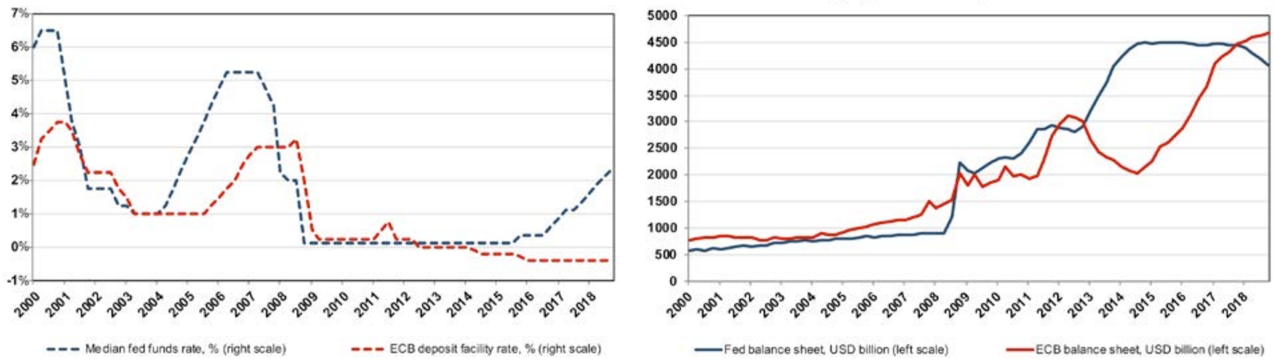
Source: INSEE, DG Trésor
Industry, construction and services

PERSISTENT DECOUPLING OF MONETARY POLICY DUE TO THE CYCLICAL GAP

The Federal Reserve continued to normalise its monetary policy by simultaneously (i) continuing the hikes in the Fed funds rate target range that started in December 2015, and (ii) continuing the reduction of its balance sheet running on autopilot that started in the fourth quarter of 2017. The further rises in the fed funds rate were justified by inflation hovering close to the medium-term target of 2% and continuing strong economic growth in the United States. Consequently, the Federal Reserve increased the fed funds rate four times in 2018, with the target range standing at 2.25%-2.50% at the end of the year. At the same time, the Federal Reserve started to shrink its balance sheet with a view to meeting the pace of reduction announced in the third quarter of 2017. This announcement called for the Fed to reduce its holdings of US Treasuries by USD30 billion per month and its agency debt and mortgage backed securities by USD20 billion per month, for a total monthly reduction of USD50 billion.

Continuing monetary tightening and a bright outlook for growth in the United States led to an increase of 28 basis points in the 10-year yield, which finished the year at 2.68%, declining by 2 basis points at the end of the year after having broken through the symbolic 3% threshold between September and November 2018. The dip in American yields at the end of the year was related to the statements made by America's central bankers, who are more prudent with regard to the pace of normalising monetary policy, and the constructive ambiguity defended by the Fed Chairman, Jerome Powell, at the December 2018 meeting of the Federal Open Market Committee, against the backdrop of market turmoil and expectations of a global economic slowdown.

BALANCE SHEETS AND POLICY RATES OF THE EUROPEAN CENTRAL BANK AND THE FEDERAL RESERVE



Source: Bloomberg

The Bank of England raised its key rate by 25 basis points to 0.75% in August 2018, its highest level since 2009. The rate hike came against the backdrop of political uncertainty and the economic impact of Brexit. The Bank of England explained this unanimous monetary decision by (i) higher inflation, which has continuously exceeded the 2% target since 2017, and (ii) the resumption of growth after a dip deemed to be temporary in the first quarter. The Monetary Policy Committee considered a tightening of the labour market to be a factor sustaining pressure on wages and prices, and justification for its second rate hike in ten years, following the hike in November 2017. The Bank of England also continued to reinvest the proceeds of maturing securities, maintaining its target of keeping GBP435 billion in sovereign bonds and GBP10 billion in corporate bonds on its balance sheet.

The Bank of Japan maintained its ultra-accommodative policy in 2018. At the end of the year, the Governor stated that, given the modest inflation rate, which falls short of the medium-term target, there was no plan to end the policy, or even discuss an exit strategy. The Bank of Japan upheld its strategy of targeting a sovereign 10-year yield of 0%, but it introduced a bit more flexibility in mid-2018, when it decided that yields could fluctuate freely around the target. For the first time since it embarked upon its balance sheet policy, the Bank of Japan also introduced some elements of forward guidance in the policy statements given after Policy Board meetings. The objective is to maintain low yields on the short and long ends of the yield curve over a long period. The Bank of Japan's key policy rate remained in negative territory for the third year in a row, standing at -0.1%.

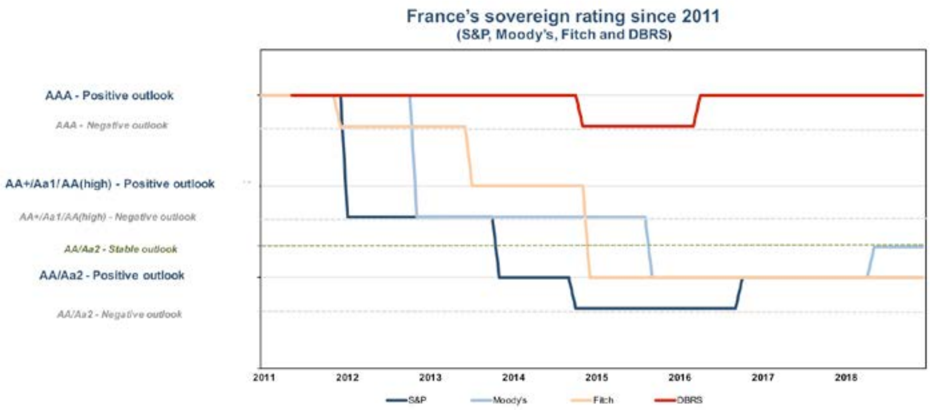
The Swiss National Bank (SNB) left its "expansionary monetary policy unchanged"[3], in keeping with the strategy it adopted in 2017 in a fragile foreign exchange environment. The SNB's macro-financial outlook showed no change overall in 2018: it still described the Swiss franc as highly valued and inflation as moderate. Therefore, the SNB sight deposit rates remained at -0.75% and the target range for the three-month Libor remained at -1.25% to -0.25%.

[3] *Swiss National Bank Press Release dated 13 December 2018.*

FRANCE'S SOVEREIGN RATING

France's ratings from the four leading agencies were unchanged in 2018, with AA from Fitch and Standard & Poor's, Aa2 from Moody's and AAA from DBRS. **The outlooks associated with the ratings were also stable, with the exception of Moody's, which upgraded its outlook to "positive"**. The key drivers of this change were (i) the government's bold reform programme, which should make the economy more competitive and improve growth prospects over the medium term, and (ii) the government's commitment to fiscal consolidation, which relies on reducing expenditure on a structural basis and should lead to a decrease in the public debt ratio.

FRANCE'S SOVEREIGN RATING



Sources: Rating agencies, AFT.

RATING TABLE AS OF 31 DECEMBER 2018*

	LONG-TERM	SHORT TERM	OUTLOOK
Moody's	Aa2	/	Positive
Standard & Poor's	AA	A-1+	Stable
Fitch	AA	F1+	Stable
DBRS	AAA	R-1 (high)	Stable

FRANCE'S SOVEREIGN RATING UPDATES IN 2019

AGENCY	DATE
DBRS	26 April 2019 25 October 2019
Standard & Poor's	5 April 2019 4 October 2019
Moody's	3 May 2019 25 October 2019
Fitch	18 January 2019 14 June 2019 13 December 2019

** France's sovereign ratings from other agencies were as follows:*

Scope: AA, outlook stable
R&I: AAA, outlook stable
JCRA: AAA, outlook stable
Creditreform: AA, outlook stable

THE STATE'S CASH MANAGEMENT STRATEGY

Ensuring financial continuity: maintaining a credit balance on the State's single account every day.

THE STATE'S SINGLE ACCOUNT IS CLOSELY MONITORED

The State's cash holdings are centralised in a single account, called the "Treasury Account" that is used to record the balance of all of the transactions executed by approximately 5,000 government accountants, who each manage one or more transaction accounts.

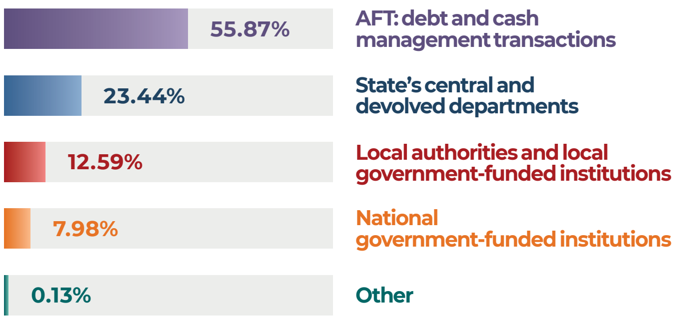
At 31 December 2018, there were 5,548 such transaction accounts.

In its capacity as the State's banker, the Banque de France centralises these transactions in real time.

The transactions posted to the State's account correspond to:

- State budget transactions, such as revenue and expenditure,
- Treasury correspondents' transactions, meaning the transactions of entities that deposit their funds in the Treasury Account, including local authorities, local and national government-funded institutions and other depositors,
- AFT's transactions (redemption of bonds at maturity, interest payments, investments, margin calls, etc.)

TREASURY ACCOUNT CREDITS AND DEBITS IN 2018



Source: Agence France Trésor

AFT ensures that the State's cash position is always adequate to settle the financial transactions posted to the Treasury Account under the most secure conditions. For this purpose, AFT monitors the execution of flows into and out of the Treasury Account with the Banque de France in real time. The average daily volume of these flows came to €19.0 billion in 2018.

PROACTIVE CASH MANAGEMENT HAS BEEN ADAPTED TO THE ENVIRONMENT OF PERSISTENTLY LOW YIELDS IN THE EURO AREA

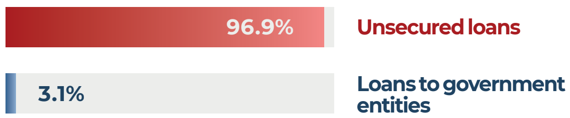
AFT's cash management relies on daily forecasts. These forecasts are used to assess the amounts needed to fund upcoming transactions to be posted to the Treasury Account.

AFT provides proactive management of the State's cash resources to ensure sound stewardship of public monies. Temporary cash surpluses may be invested on the interbank market, if the return offered and the counterparty's risk profile compare favourably to the terms offered by the Banque de France for holding the cash. These transactions take the form of deposits or repurchase agreements involving government securities.

Given the current accommodative monetary policy stance, abundant cash on the European interbank market means that banks are less attracted to the loans offered by AFT. This environment had already affected AFT's investment activity back in 2017, with average volume of €6.5 billion in some 500 annual transactions with counterparties.

The cash glut continued throughout 2018. This had an impact on AFT's investment activity. The average amount invested stood at €10.4 billion in the first half of the year and at €9.1 billion in the second half. A total of 660 transactions were carried out during the year.

INVESTMENT OF SURPLUS CASH IN 2018 – BREAKDOWN BY NATURE OF CASH INVESTMENT (EXCLUDING BALANCE ON THE BANQUE DE FRANCE ACCOUNT)



Source: Agence France Trésor

THE DECREASE IN OUTSTANDING SHORT-TERM DEBT REDUCED EXPOSURE TO INTEREST RATE RISK

Low yields meant that auctions of medium-term and long-term debt securities produced issue premiums (see page 94 "Issue premiums and discounts").

AFT adapted its strategy to the circumstances. Additional cash resources from issue premiums made it possible to reduce short-term debt by €13.6 billion from the end of one year to the next, thereby reducing the State's exposure to interest rate risk.

TREASURY CORRESPONDENTS' DEPOSITS PROVIDE A STABLE SOURCE OF FUNDING

Entities that are required[1] or authorised to deposit their cash holdings on the Treasury Account are called Treasury correspondents. The amounts deposited on 31 December 2018, excluding "Invest for the Future" accounts, stood at €116.9 billion. These funds are a cash resource for the Government.

Transactions made on Treasury correspondents' accounts have a direct impact on the Treasury Account. AFT oversees daily reporting of advance notifications of cash transactions from Treasury correspondents, which enables it to determine the settlement dates and amounts of transaction flows posted to the Treasury Account as accurately as possible. More specifically, local authorities and government-funded institutions are required to notify AFT of any financial transaction amounting to more than €1 million by 4pm on the previous day. In 2018, the percentages of large value transactions notified in advance stood at 99.1% for local authorities and government-funded institutions. These results are slightly better than the performance targets set out in the 2018 Budget Act.

The "super-validation" system was introduced in 2011. It enhances the security of the State's cash management. The system allows the AFT to delay debits initiated by Treasury correspondents until the following day if the debits are more than €1 million and were not notified the previous day. However, AFT may authorise an immediate debit, despite the failure to comply with the notification rules, if the transaction does not entail any risk for the balance on the Treasury Account. The transaction is said to be "super-validated" in this case. In 2018, 126 transactions were "super-validated" which represents only a tiny fraction of total flows and proves that government entities are highly disciplined.

[1] Under the terms of the decree on government budget and accounting management of 7 November 2012, most public sector entities are required to deposit their funds with the Treasury. This requirement applies in particular to local authorities, government-funded institutions and hospitals. The Decree came into force on 30 June 2014.

THE STATE'S DEBT MANAGEMENT STRATEGY

PERFORMANCE

AFT is tasked with raising sufficient funds on the markets to finance the State while keeping the debt burden to taxpayers down to a minimum under optimum conditions of security. AFT bases its financing policy on the consistency and transparency of its issuance and announces the issuance schedule on a yearly basis. It regularly taps every segment of France's debt curve and ensures that the market is as deep and liquid as possible to keep issuance costs to a minimum.

NET MEDIUM- AND LONG-TERM ISSUANCE CAME TO €195.0 BILLION IN 2018

This amount was the result of:

- €225.4 billion of medium- and long-term borrowing, including €22.4 billion of securities linked to French and euro area inflation (OATi and OAT€i)
- less €30.4 billion in buybacks of securities set to be redeemed in 2019 (€19.8 billion) and in 2020 (€10.6 billion)

Issuance costs in 2018 remained very low, averaging 0.53% for medium- and long-term issues, excluding index-linked securities. This is down slightly from the costs recorded in 2017 (see table below).

REGULAR AND TRANSPARENT AUCTIONS STILL LIE AT THE HEART OF THE STATE FINANCING STRATEGY

AFT published its indicative financing programme on 14 December 2017, setting the main guidelines for 2018. In accordance with the auction schedule:

- Issuance of long-term OATs, meaning bonds with a residual maturity of more than eight years, took place on the first Thursday of each month
- Issuance of medium-term OATs, with a residual maturity of between two and eight years, and index-linked bonds took place on the third Thursday of the month
- Except in August and December, when only one auction was held

CHANGE IN FINANCING CONDITIONS

WEIGHTED AVERAGE YIELDS		1998-2008 average	2009-2015 average	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018
SHORT TERM	**All BTFs**	**3.15%**	**0.28%**	**-0.53%**	**-0.62%**	**-0.60%**	**-0.59%**	**-0.58%**	**-0.56%**	**-0.67%**
	of which 3-month BTFs	3.10%	0.24%	-0.54%	-0.63%	-0.60%	-0.60%	-0.58%	-0.56%	-0.70%
MEDIUM AND LONG TERM	**Fixed-rate issues with maturities of more than one year (excluding index-linked securities)**	**4.15 %**	**1.95%**	**0.37%**	**0.65%**	**0.53%**	**0.57%**	**0.46%**	**0.59%**	**0.50%**
	Of which fixed-rate issues with maturities of ten years (excluding index-linked securities)	4.44%	2.57%	0.48%	0.83%	0.81%	0.87%	0.81%	0.69%	0.84%

AFT CONTINUED ITS FLEXIBLE ISSUANCE POLICY TO BEST MEET CHANGING MARKET DEMAND

A major cutback in the Eurosystem asset purchasing programme had an impact in 2018. Monthly purchases were cut from €60 billion in January to €15 billion in December. Investors saw this as favouring a rate increase, but it did not lead to any worsening of the State's financing conditions, which remained very favourable all year long. However, AFT spotted a small shift in market demand towards shorter maturities and endeavoured to meet this shift by increasing the size of its auctions of medium-term securities.

AFT also continued its efforts to maintain excellent liquidity for all of its securities. Many different means were used for this purpose.

- As it does every year, AFT consulted systematically with primary dealers before holding the auctions so that the selection of securities to be issued was tailored to meet final investor demand.
- To ensure uniform liquidity in every segment of the yield curve for government bonds, AFT continued to tap "off-the-run" issues in 2018, in addition to tapping benchmark bonds. The aggregate amount of such issuance was €54.3 billion, or 26.8% of total issuance, excluding index-linked bonds.
- The optional August and December auctions were both held to enhance the regularity with which Treasury bonds are tapped in the course of the year. This meant that AFT held 32 auctions of medium-term and long-term fixed-rate bonds and index-linked bonds in 2018.
- Lastly, AFT bought back €30.4 billion in short-term securities to smooth out debt redemption over several years. This enabled AFT to provide a liquid market for securities maturing in 2019 and 2020, some of which are not eligible for the ECB asset purchase programme.

FOUR NEW BENCHMARK FIXED-RATE OATS WERE CREATED IN ACCORDANCE WITH THE INDICATIVE STATE FINANCING PROGRAMME

With negative yields persisting, AFT decided to extend the maturity of its 2-year benchmark bond, as it has done since 2015. The new maturity is set at 25 February 2021. AFT also issued a new 5-year OAT, maturing on 25 March 2024. These two new OATs featured negative or near-zero yields when they were first issued and have zero coupons.

At the long end of the yield curve, AFT created a new 10-year bond maturing on 25 November 2028 and a new 15-year bond maturing on 25 May 2034. The coupons on the new bonds pay 0.75% and 1.25% respectively, reflecting the prevailing yields when they were first issued.

AFT also launched a syndicated issue of new bond linked to the European inflation index, the OAT€i 25 July 2036 (see page 44).

DEMAND FOR LONG MATURITIES REMAINED STRONG IN 2018, BUT THE AVERAGE MATURITY OF ISSUES DECREASED FOR THE FIRST TIME SINCE 2011

As yields remained at historic lows, investors continued to buy large amounts of long-dated securities with more attractive yields in 2018.

This meant that the average maturity at issue of medium- and long-term OATs, which reflects final investor demand on the market for Treasury securities, remained very long in 2018 at 10.4 years. Issues with maturities of more than eight years accounted for more than 50% of the AFT issuance programme, excluding index-linked securities.

Nonetheless, this represents a decrease compared to 2017, when it reached a historic 11.8 years, which shows that investors are starting to shift their positions as they perceive a context that is favourable for a rise in yields. For example, issues with maturities up to five years accounted for 40% of AFT's issuance programme in 2018, compared to 33% in 2017 and 31% in 2016.

GROSS ISSUANCE BY AGENCE FRANCE TRÉSOR IN 2018 (€ BILLION)

	JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEP.	OCT.	NOV.	DEC.	2018 Total
2 years	4.2	3.8		3.6	6.3	2.5	4.0		3.8	3.0			**31.3**
3-4 years			5.9			2.1					2.4		**10.3**
5 years	3.5	4.2	2.1	3.2	3.1	5.1	4.2		4.1	3.8	6.3	0.9	**40.4**
6-8 years	1.7	2.0	1.5	1.0					1.4	2.2		3.1	**12.7**
10 years	6.5	3.6	5.8	5.1	7.1	6.7	5.3	3.0	3.3	4.6	8.6		**59.7**
15-20 years	1.6	3.3	0.9	2.2	1.2	8.6	4.7	4.9	3.9	1.4	2.5		**35.2**
30-50 years	2.0	2.3	1.3	1.3	2.3				1.5	2.8			**13.4**
i/€i	2.2	2.5	5.4	1.7	2.0	1.9	2.0		1.7	1.9	1.0		**22.4**
Gross issuance	**21.7**	**21.7**	**22.7**	**18.1**	**22.0**	**26.8**	**20.2**	**8.0**	**19.8**	**19.7**	**20.8**	**4.0**	**225.4**

AFT CONFIRMED ITS STATUS AS A BENCHMARK ISSUER OF INFLATION-LINKED BONDS WITH THE CREATION OF A NEW BENCHMARK OAT LINKED TO THE EUROPEAN INFLATION INDEX

The amount of index-linked bonds issued in 2018 came to €22.4 billion, marking a slight increase over 2017. Such issuance accounted for 9.9% of the medium-term and long-term issuance programme in 2018, in keeping with AFT's commitment to devote some 10% of its issuance to this segment.

In addition to tapping existing index linked bonds, AFT created a new index-linked bond on 29 March 2018. The new 18-year bond is linked to euro area inflation. It is the OAT€i 0.1% 25 July 2036 (see below). The new bond fills a gap in the yield curve. The creation of a new 10-year bond linked to euro area inflation was also announced as an option in the annual financing programme, but it was postponed.

DEMAND FOR BTFS REMAINED VERY FIRM, EVEN THOUGH THE AMOUNTS OUTSTANDING DECREASED FOR THE FOURTH YEAR IN A ROW

The outstanding amount of short-term securitie s (BTFs) fell by €13.6 billion, from €126.5 billion at the end of 2017 to €112.9 billion at the end of 2018, accounting for 6.4% of total negotiable debt. This proportion stood at a level that had not been seen since 1999, after dropping gradually from a peak of 18.6% in 2009 (see chart below).

As a general rule, three benchmark securities (3-month, 6-month and 1-year maturities) were sold at weekly BTF auctions and they encountered strong demand. Minor use was made of the ability to tap off-the-run securities to ensure liquidity for BTFs of all maturities and meet investor demand transmitted by primary dealers.

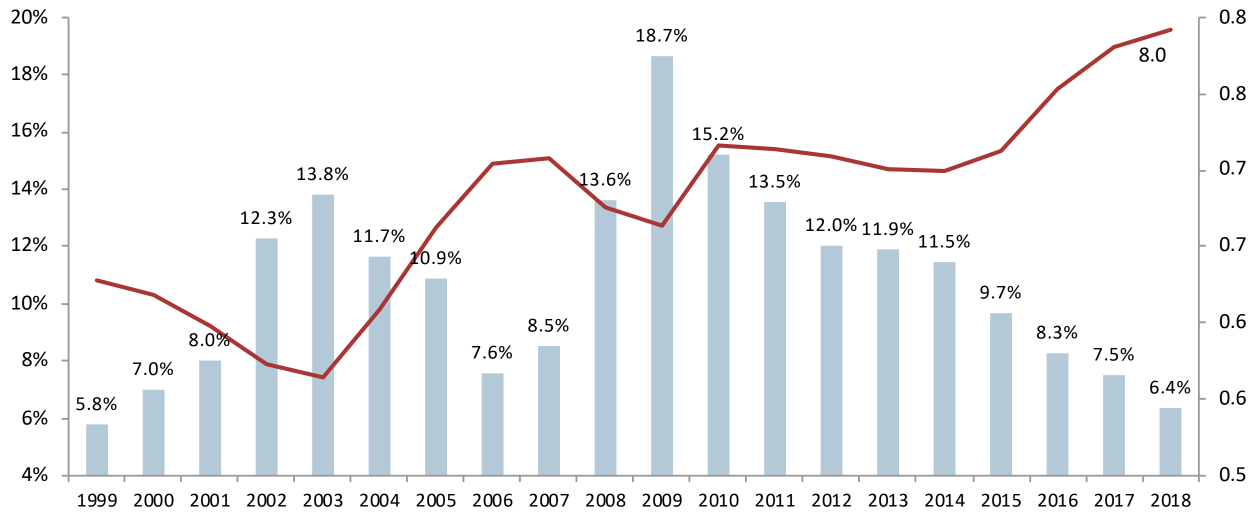
BTF auctions produced an average yield of -0.59% over the year as a whole, within the context of the ECB's negative interest rate policy. These yield conditions were very similar to those seen in 2017, when a record low of -0.62% was reached. Very strong demand for highly creditworthy collateral enabled AFT to auction its BTFs with yields below the ECB's -0.40% deposit facility rate throughout 2018. The rarity of such collateral towards the year-end even led to a record low yield at issue of -0.765% for 3 months on 29 October 2018.

AVERAGE RESIDUAL MATURITY OF FRENCH DEBT SETS A NEW RECORD

The average residual maturity of French sovereign debt stood at 7.92 years at the end of 2018. This represents an increase of 0.11 years over 2017. It was the highest figure recorded since the creation of AFT. The slight decline in average maturity at issue was more than offset by bigger buybacks of OATs, which were up from €29.1 billion in 2017 to €30.4 billion in 2018, and, more importantly, by the decline in the outstanding amount of BTFs.

Maintaining a long average residual maturity for France's debt means that debt service is more resilient to a potential increase in interest rates.

SHARE OF BTFS IN DEBT OUTSTANDING



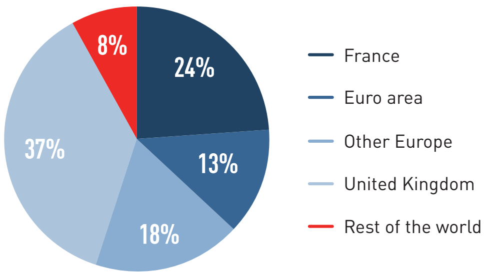
Share of BTFs in debt outstanding
Average debt maturity

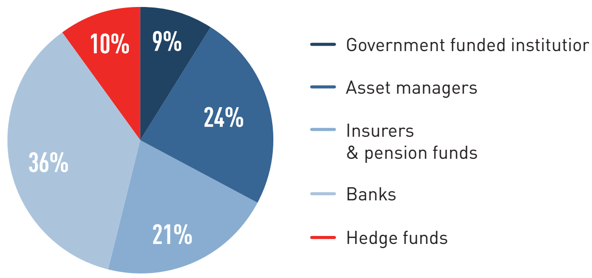
LAUNCH OF A NEW 15-20-YEAR BENCHMARK OAT LINKED TO THE EUROPEAN INFLATION INDEX

On 29 March 2018, AFT conducted the syndicated launch of the OAT€i 0.10% 25 July 2036. When the book-building process was completed, total demand stood at €11.5 billion, with €3.5 billion allocated. This was the largest order book AFT has ever recorded in one of its syndicated launches of bonds linked to the European inflation index.

The bond was issued with a real yield of -0.361%, which was the lowest real yield at issue ever recorded during similar syndicated launches by AFT. The implied breakeven inflation rate when the new OAT€i 0.10% 25 July 2036 was issued stood at 1.6%.

The allocation reflected the diversity of the investor base for the bond (see charts below). The bond was also tapped at an auction in 2018, bringing the outstanding amount up to €4 billion.





HSBC

"AFT received orders for €11.5 billion for the syndicated launch of its new OAT€i 2036, which is a record for an OAT€i. The orders came from more than 100 final investors. This strong demand is testimony to international investors' appetite for French debt and confirms AFT's role as a leader on the euro linkers market. HSBC is delighted to have played its part in this major market success."

BARCLAYS

"In spite of volatile market conditions, AFT chose a particularly good window as the 2036 linker gathered an order book of €11.5 billion (a record amount for an inflation-linked bond) regardless of a historically low real yield. AFT has been the first ever sovereign in the Euro area to issue linkers and these bonds remain eagerly sought after, in particular due to their better liquidity."

BNP PARIBAS

"International investors have once again demonstrated their commitment to French government bonds linked to inflation: the issue of €3.5 billion attracted the largest demand for a syndicated OAT€i launch (€11.5 billion) with the lowest real yield at issue ever seen for a syndicated French benchmark bond (-0.361%)."

J.P.Morgan

"The launch of the new OAT€i 0.10% 25 July 2036, with issuance of €3.5 billion in March 2018, represented the longest-dated syndicated sovereign bond linked to the European inflation index since the creation of the OAT€i 2047 in 2016. The great success of the issue once again confirms that investors' enthusiasm for OAT€i is at the long end of the yield curve. All of us at J.P. Morgan are proud of our work alongside AFT on this strategic deal."

NatWest Markets

"NatWest Markets was proud to participate in the successful launch of the new OAT linked to European inflation and maturing in 2036, which establishes another benchmark point in the French curve. The re-offer yield established a new record low in terms of real yield (-0.361%) at issuance for a syndicated AFT issue. This deal reflected NatWest Markets' expertise in inflation products and its close relationship with AFT as a primary dealer over the years. It also demonstrates and strengthens AFT's leadership in European linkers space."

GREEN OAT, A BENCHMARK SOVEREIGN GREEN BOND

On 24 January 2017, Agence France Trésor launched its first sovereign green bond, the Green OAT 1.75% 25 June 2039, with an issue amount of €7 billion. At the end of 2017, the bond amount outstanding reached €9.7 billion. At the end of 2018, the figure was €14.8 billion. With a green bond of this size, France has confirmed its role as a driving force for implementation of the goals set out in the December 2015 Paris Climate Agreement.

The funds raised by the green bond are devoted to financing a set of projects set out in France's budget or in the Invest for the Future Programme (PIA) that have favourable environmental effects. The various ministries select the potentially eligible expenditures in their budgets. Each year, this selection is submitted for validation by an interministerial steering committee working under the aegis of the Prime Minister.

The benchmark for the expenditure selection is the Energy and Ecological Transition for the Climate label (TEEC), which was created in 2015. The selected expenditures must contribute to mitigating climate change, preparing for climate-change induced risks, preserving biodiversity or fighting pollution.

The funds raised are handled like funds from a conventional OAT and managed in compliance with the general budget rule. However, they are matched to an equivalent amount of Eligible Green Expenditure and the aggregate of such expenditure in a given year sets the limit for Green OAT issuance. The green bond was tapped twice in 2018: once at an auction in early April, when €1.1 billion was issued, and again by a syndicated tap issue at the end of June, which raised €4.0 billion (see page 46). This brought the outstanding amount up to €14.8 billion.

The distinctive characteristic of the Green OAT is the tracking of the expenditures it finances, which ensures they are green, in keeping with the commitments France made when the bond was first issued. For this purpose, the first full evaluation cycle was completed in 2018, in accordance with the Green OAT Framework Document. The first Allocation and Performance Report was published in June 2018. It dealt with the expenditures financed by the 2017 issuance (see page 47). The first environmental evaluation of Eligible Green Expenditure was published in November 2018. It focused on the Energy Transition Tax Credit (CITE) (see page 49).

These evaluations contribute to effective steering of public policy and constitute one of the contributions that the Green OAT makes to France's action in favour of the environment. The Green OAT also contributes to deepening the market for green bonds. It is a liquid, risk-free asset that enables managers in this market segment to diversify their portfolios and potentially acquire higher-risk green investments.

SYNDICATED TAP ISSUE OF THE GREEN OAT 1.75% 25 JUNE 2039, THE FIRST BENCHMARK SOVEREIGN GREEN BOND IS NOW THE LARGEST GREEN BOND ISSUE

The first sovereign green bond from Agence France Trésor was created on 24 January 2017, with an issuance of €7 billion in a syndicated launch that booked orders amounting to more than €23 billion. The green bond was then tapped at auction three times (twice in June and December 2017 and once in April 2018), bringing the outstanding amount up to €3.8 billion.

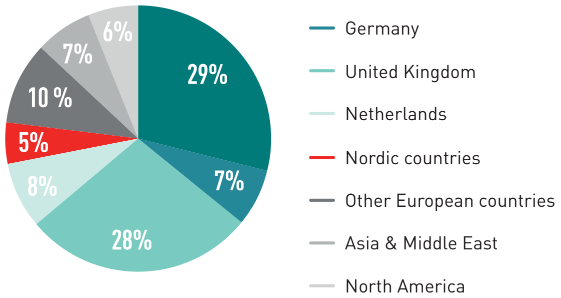
AFT tapped the bond with a syndicated issue on 26 June 2018. When the book-building process was completed, total demand stood at €13.75 billion, with €4 billion allocated and a yield at issue of 1.462%.

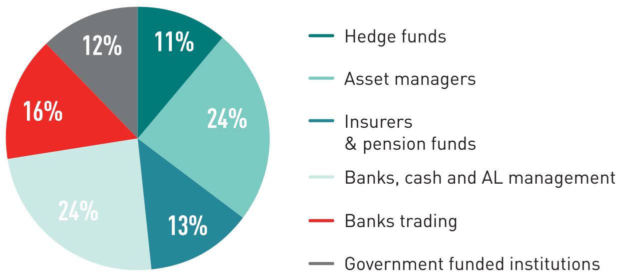
This deal, coming shortly after publication of the first Allocation and Performance Report, enabled France to reassert the importance it attaches to financing energy transition. At the end of 2018, the outstanding amount of the Green OAT 1.75% 25 June 2039 stood at €14.8 billion euros, strengthening France's position as the leading sovereign issuer on the green finance market.

The syndicated tap issue once again showed that the Green OAT 1.75% 25 June 2039 has a very diversified investor base, both in terms of geography and investor profiles (see charts below). Nearly 140 final investors bought the tap issue. As was the case for the launch of the issue, some of them announced their investment publicly[1], thereby signalling their support for this product, which represents an innovation on both the Treasury securities market and the green bond market.

[1] *The following investors wished to make their participation in the deal public:*

Achmea Investment Management BV, AG2R La Mondiale, Axa IM, Bankhaus Lampe, Barclays Treasury, CASA, Candriam, CIC, Deutsche Apo, Donner & Reuschel, ERAFP, Generali France, HSBC AM, MAIF, Mutuelle d'Ivry, Nordea IM, PGGM Vermogensbeheer BV, ProBTP, Sparkasse Pforzheim, Swedish AP2, Triodos.





CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

"The syndicated tap issue of the Green OAT marked a major first for AFT, which systematically relies on auctions to tap OATs. This issuance technique was fully warranted by the different nature of the targeted ESG investors. The €4-billion tap issue increased the outstanding amount to €14.8 billion, upholding the liquidity of the bond in accordance with the commitment AFT made when the bond was launched and reaffirming the Green OAT as the largest green bond issue available on the financial markets."

NATIXIS BEYOND BANKING

"The syndicated tap of the Green OAT imparted a new dynamic to the French yield curve. It satisfied growing worldwide demand for responsible assets, especially those backed by France. With this new deal, which was another great success, AFT confirms its role as a key player of international repute on the green bond market. Natixis is very committed to this market and honoured to be associated with the enhanced influence that AFT and its team have given France in the field of green finance, particularly with the quality of its reporting and constant innovation."

BNP PARIBAS

"This tap of the Green OAT reaffirms France's role as a driving force on the sovereign green bond market, ensuring genuine liquidity for the Green OAT. BNP Paribas was honoured to continue participating in the development of this market alongside AFT."

SOCIETE GENERALE Corporate & Investment Banking

"We are proud of our role as joint lead bank for this emblematic deal. The syndicated tap issue of the Green OAT was a first in the world for a sovereign issuer. The deal incorporates important values for Société Générale that are perfectly reflected in the day-to-day action of Agence France Trésor: innovation, financing for energy transition and continuity of commitment. The tap issue closely followed the publication of the first Allocation and Performance Report on the Green OAT by AFT. It enabled SRI investors to show their strong support for France's action on the green financing market. The success of the deal brought the outstanding amount of the Green OAT up to €14.8 billion, which will be used to finance energy transition."

citi

"Demand for green assets encouraged investors to take part in the deal. The success of the deal testifies to France's steadfast commitment to financing energy transition and strengthening its position in this rapidly growing market."

COMPREHENSIVE TRACKING OF EXPENDITURES FINANCED BY THE GREEN OAT

A first annual report detailed the allocation of the funds raised by the Green OAT and the performance of the programmes funded. The report was published in June 2018 and is available on the Agence France Trésor website (https://www.aft.gouv.fr/files/medias-aft/3_Dette/2017_fr_rapport_allocation_oat_verte.pdf). It details all the expenditures funded by issuance in 2017, which totalled €9.7 billion.

Independent third-party audits verified the expenditures and their green credentials. Based on the procedures performed, KPMG was able to provide limited assurance about the allocation of funds, the appropriateness of the Green OAT Framework Document and its proper implementation. In addition, Vigeo Eiris renewed its "reasonable" assurance, its highest level of assurance, about the green credentials of the expenditures funded by issuance in 2017.

The allocation report reviews the financing granted to the various eligible programmes. The amounts allocated to each programme were prorated according to their expenditure amounts. In 2017, 96.2% of the eligible expenditures were financed by funds raised with the Green OAT. These eligible expenditures were measured ex-post based on (i) the performance reports appended to the Budget Review Act for fiscal expenditures, (ii) data from tax information systems on tax expenditures, and (iii) data from the information systems used to manage the Invest for the Future programme.

The presentation of the allocation of funds comes with a general performance evaluation of the programmes carried out. The evaluation is based on fiscal performance indicators, along with indicators of emissions of atmospheric pollutants. The report also focuses on the various expenditures funded sector by sector, highlighting their relevance to the objectives set out in the Green OAT Framework Document, which are in turn aligned with several of the UN's Sustainable Development Goals.

GREEN OAT WINS AWARDS FROM MARKET PROFESSIONALS

The Green OAT won two awards in 2018:

- On 20 March 2018, the Climate Bonds Initiative awarded the launch of the Green OAT the Green Bond Pioneer Award for the Largest Single Bond to a Trillion Market in 2017.
- On 4 September 2018, on the occasion of the annual Sustainable and Responsible Capital Markets forum, Euromoney and GlobalCapital once again attributed the award for the Most Impressive Government Agency to AFT, as they did in 2017.

THE GREEN OAT CAN BE USED FOR ENVIRONMENTAL EVALUATION OF PUBLIC POLICIES

In addition to the Allocation and Performance Report, expenditures funded by the Green OAT are evaluated ex-post for their environmental effects, in accordance with the commitments France made when the Green OAT was first issued. No schedule has been set for these evaluations: they are to be performed and made public as appropriate. The impact studies are overseen by an independent Evaluation Council, which defines the methodology and monitors their production.

The Council members are qualified individuals of international standing. The Chairman is Manuel Pulgar-Vidal, Peru's former Minister for the Environment and the WWF Global Climate and Energy Practice Leader. The six other members are:

- Mats Andersson, ViceChairman of the Global Challenges Foundation and former CEO of AP4, Sweden's fourth national pension fund
- Nathalie Girouard, Head of the Environmental Performance and Information Division of the Environment Directorate at the OECD
- Ma Jun, Director of the Center for Finance and Development and Special Adviser to the Governor of the People's Bank of China
- Karin Kemper, Senior Director for the Environment and Natural Resources Global Practice at the World Bank
- Thomas Sterner, Professor of Environmental Economics at the University of Goteborg
- Eric Usher, Head of the Secretariat of the United Nations Environment Programme Finance Initiative

The Council also includes two observers:

- Sean Kidney, co-founder and CEO of the Climate Bond Initiative
- Nicholas Pfaff, Managing Director, Market Practice and Regulatory Policy at the International Capital Market Association.

The Council held two meetings in Paris in 2018, one in July and one in November. The Council performs its environmental evaluation of the expenditures funded by the Green OAT by analysing different programmes in turn. Its initial work focused on the Energy Transition Tax Credit and resulted in the publication of the first Green OAT Evaluation Report at the end of November. The report is available on the Agence France Trésor website (https://www.aft.gouv.fr/files/medias-aft/3_Dette/3.2_OATMLT/3.2.2_OATVerte/FR_rapport%20d'impact%20CITE.pdf). To ensure the transparency of the report and compliance with academic standards, the Council called on two independent peer reviewers, Philippe Quirion (CNRS) and Louis-Gaëtan Giraudet (CIRED).

The Energy Transition Tax Credit is granted to households for work to improve the energy performance of their homes. The credit applies to tax in the year following the completion of the work. Financing for the tax credit accounted for approximately a third of the expenditure funded by the Green OAT in 2017, meaning that an evaluation of its environmental impact was an important step. The evaluation confirmed and quantified the beneficial effects for the environment. The report showed that:

- the Energy Transition Tax Credit was used to improve the energy performance of an additional 75,000 homes in 2015 and 2016, representing a 16% increase in annual investment in improving energy performance
- the work funded by the Tax Credit in 2015 and 2016 should lead to a cumulative reduction in energy consumption and carbon emissions by the housing sector of approximately 7% from their 2015 levels over the period from 2015 to 2050.

Working session of the Green OAT Evaluation Council

RISK MANAGEMENT
& POST-TRADE PROCEDURES

ASSESSMENTS

Internal Control and Risk Management Unit.

A BROAD CONTROL FRAMEWORK

AFT must comply with stringent control criteria. The Agency is legally required to answer parliamentary questions, especially concerning the groundwork for budget acts. AFT is also subject to a number of audits, including by the Government Audit Office (two audits per year for accounting matters and one for the Budget Outturn Report).

These controls also include action by specialised audit firms to validate the quality and probity of accounting information, to issue opinions on the monitoring of prudential measures or to conduct annual internal audits.

TASKS OF THE INTERNAL CONTROL AND RISK MANAGEMENT UNIT

AFT has an Internal Control and Risk Management Unit, as specified in the Order creating AFT. This Unit is independent from the line functions of the Agency. The Unit manages AFT's internal control system, organises control of its activities, and manages the risks associated with financial transactions and with the selection of counterparties, including legal and compliance risks. It ensures the validity of the contracts signed by AFT, tracks regulatory changes and ensures compliance with ethical rules. The Unit coordinates the various control and audit tasks in these areas.

The scope of this control and risk management has widened because of the diversity of AFT's transactions, the payment circuits used and the growing number of international counterparties.

Together with the other units, the Internal Control and Risk Management Unit regularly updates AFT's general activity framework which sets management, organisation and control standards and which is approved by the Director General of the Treasury. The Unit is also responsible for monitoring AFT's business continuity plan.

PERFORMANCE INDICATORS

AFT has elected to comply with the applicable obligations stipulated in the Order of 3 November 2014 on the internal control of businesses in the banking sector. In addition, the legislation governing AFT requires it to submit an annual audit report to Parliament on financial risk management and the prudential procedures implemented.

All these measures mean that AFT has permanent mechanisms for assessing and controlling all the risks generated by market and cash transactions.

In recent years, AFT has relied on the expertise of a specialised external audit firm to conduct the audit. In accordance with the performance indicators put before Parliament when the budget act is being drawn up (see page 89), the audit firm focuses more particularly on the quality of AFT's internal control system by considering five aspects:

- transaction and internal procedures supervision system
- accounting organisation and information processing
- risk and result measurement systems
- risk supervision and management systems
- documentation and reporting systems

The assessment gives ratings ranging from one to four:

- one: the existing mechanism satisfactorily covers identified risks generated by AFT's transactions
- two: the existing mechanism needs to be extended to cover identified risks
- three: the existing mechanism has substantial shortcomings requiring immediate corrective action to cover the identified risks
- four: the existing mechanism does not cover the identified risks generated by AFT's transactions

	UNIT	2016 Actual	2017 Actual	2018 APP forecast 2018	2018 Actual	2019 APP target 2018
Incidents or violations of the general activity framework	Number of occurrences	0	0	0	0	0
External rating of the internal control function: - transaction and internal procedures supervision system	Rating between 1 and 4	2	2	1	2	1
External rating of the internal control function: - accounting organisation and information processing	Rating between 1 and 4	1	1	1	1	1
External rating of the internal control function: - risk and result measurement systems	Rating between 1 and 4	1	1	1	1	1
External rating of the internal control function: - risk supervision and management systems	Rating between 1 and 4	1	1	1	1	1
External rating of the internal control function: - documentation and reporting systems	Rating between 1 and 4	1	1	1	1	1

A WORD ABOUT OUR METHODOLOGY

Number of incidents or violations of the general activity framework.

This qualitative and quantitative sub-indicator tracks different incidents, which are classified under the following three categories:

- violations of powers of signature
- violations of risk limits
- violations of transaction procedures

This sub-indicator is an internal quality measurement of AFT's organisation and compliance with requirements.

A second set of indicators (see page 97) measures the number of execution incidents occurring in AFT's transactions to ensure rapid detection of problems or incidents that could disrupt the proper execution of debt and cash transactions. None of the incidents recorded in 2018 had an impact on the financial continuity of the government.

	UNIT	2016 Actual	2017 Actual	2018 APP forecast 2018	2018 Actual	2019 APP target 2019
Incidents that decreased the balance at the Banque de France	Number	2	1	0	**1**	0
Incidents that did not decrease or could even increase the balance at the Banque de France	Number	9	11	0	**6**	0
Other incidents that have no impact on the balance at the Banque de France	Number	39	55	0	**43**	0

Source: Agence France Trésor

A WORD ABOUT OUR METHODOLOGY

The indicator relies on day-to-day recording of execution incidents affecting debt or cash management transactions.

The "Other incidents" item records incidents that have no impact on the balance at the Banque de France. This item mainly records incidents relating to internal and external information systems used to manage transactions.

The recording process has improved significantly in recent years with more comprehensive supervision and the use of more refined risk indicators, resulting in steady improvements in the quality of external and internal operations.

It should also be noted that in most cases, the origin of the incidents lies in external bodies and service providers and that AFT has no direct control over their occurrence.

AFT'S SUPERVISORY DUTIES

Goal: maintain risk management quality standards and minimise incidents.

The internal audit and risk management system must comply with market standards with regard to negotiable debt, cash, derivatives and trades on behalf of third parties. The system should spot problems and incidents that could disrupt debt and cash transactions as early as possible, mitigate them and assess their impact. The system's scope is also heightened by the diversity of AFT's transactions, the payment circuits used and the growing number of international counterparties.

Under the terms of the Budget Act and the performance indicators submitted to Parliament, AFT states its goal as "achieving a constant quality of risk management that minimises the occurrence of incidents."

Several sets of indicators have been developed to assess whether or not this goal is achieved.

QUALITY INDICATORS RELATING TO AFT'S AUDIT SYSTEM

- The first indicator lists the number of incidents or breaches of AFT's internal rules under its general activity framework (risk limits, authorisations or internal controls breached).
- Five other indicators are assessed by an external auditor (KPMG for 2018) based on a verification of the adequacy of AFT's procedures, given its activities and related risks. The Order of 3 November 2014 relating to internal control in the banking sector has been the benchmark for AFT since 2015.

INDICATORS TRACKING DEBT AND CASH TRANSACTION EXECUTION INCIDENTS

- First indicator: the number of incidents that have an adverse impact on the Banque de France account balance.
- Second indicator: the number of incidents that have no impact or a positive impact on the account balance.
- Third indicator: the number of incidents with no impact on the account balance that relate to the information systems used to manage transactions, compliance incidents, or other types of incidents such as non-compliance with internal operating procedures.

MANAGING
POST-TRADE OPERATIONS

The post-trade management function includes managing and monitoring limits, and post-trade settlement of all of the transactions that AFT initiates on capital markets. The Post-Trade Operations Unit's task is to ensure the proper execution of all market trades in order to ensure AFT's performance of its overall mission, which is to manage the State's debt and cash requirements in the taxpayers' best interests and under optimum conditions of security. The Post-Trade Operations Unit monitors and processes trades through the complete cycle from orders to settlement. It manages all of AFT's own trades and trades executed on behalf of others, such as other ministries or other departments of the Directorate General of the Treasury, which have given AFT an executive mandate. The Post-Trade Operations Unit also represents AFT within the securities industry trade association and takes part in European projects and initiatives relating to market infrastructure.

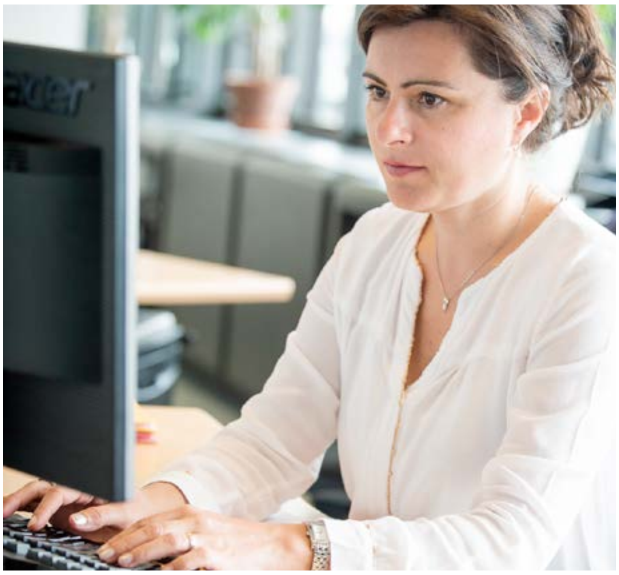
Post-Trade activities are organised around the three main tasks:

- **1 settlement (or *back office*):** Post-Trade functions include monitoring and settling financial transactions initiated by the "Cash" and "Debt" units, and reporting all of the information necessary to record them in the accounts to the Budget and Accounting Control Unit (SCBCM) of the Ministry for the Economy and Finance. It also provides post-auction processing for auctions of greenhouse gas emission allowances allocated to France under the European Union exchange system.
- **2 risk management and monitoring:** The Post-Trade Operations Unit, working with the Internal Control Unit and Senior Management, regularly tracks the main market risks that AFT monitors: credit risk, exposure concentration, commitment risk, settlement risk and counterparty risk. It also monitors compliance with limits on a daily basis. The Unit constantly reviews risk-monitoring techniques to keep pace with changes in the financial environment and AFT's evolving needs.
- **3 management of margin calls:** all forward trades, derivatives and repurchase agreements are governed by bilateral contracts that establish mechanisms to mitigate AFT's exposure to counterparty risk in the performance of its tasks. The Post-Trade Operations Unit handles the margin calls for all of these transactions to reduce AFT's residual counterparty risk exposure.

In 2018, the Post-Trade Operations Unit handled settlement of:

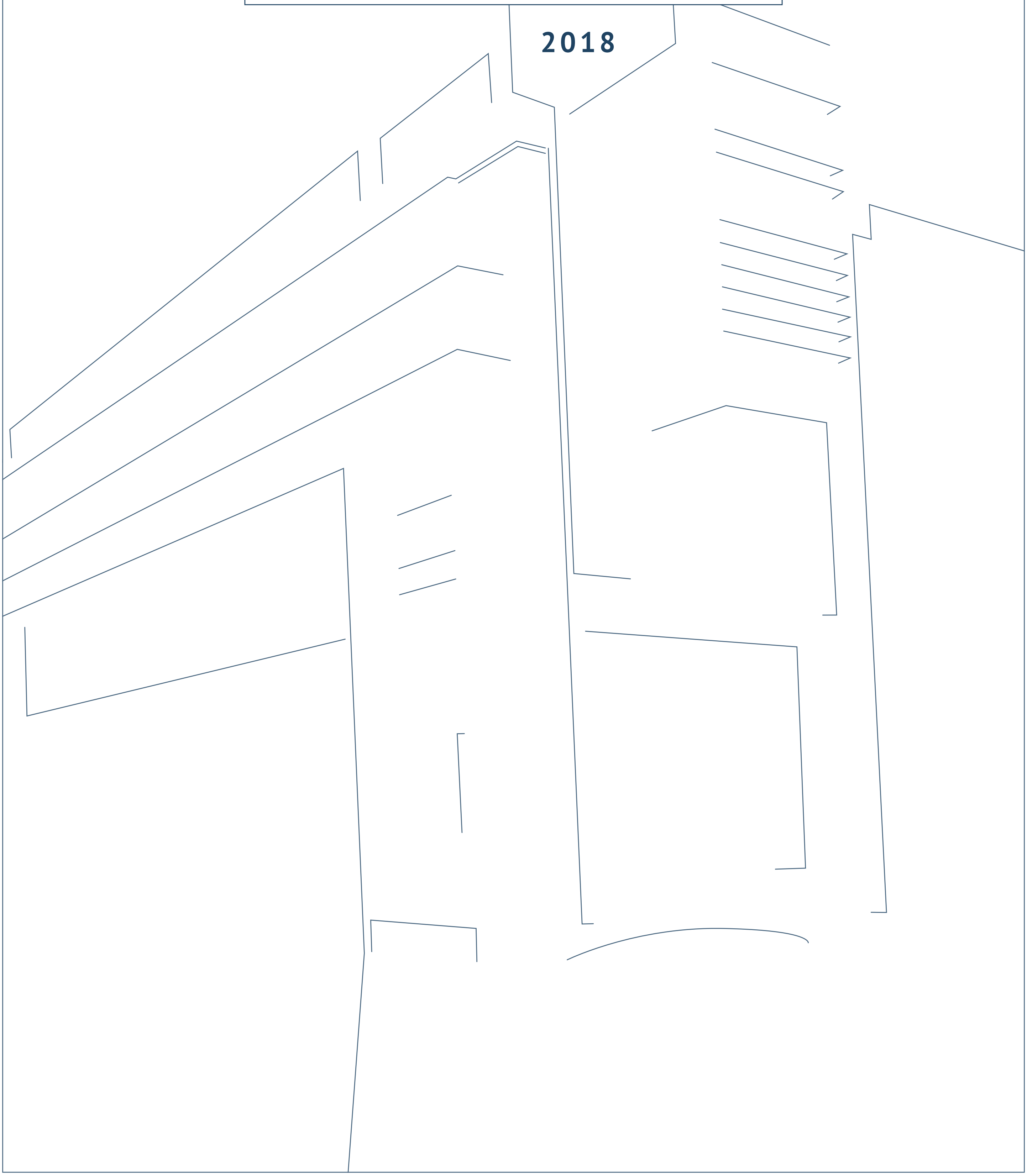
- more than 680 financing transactions through the national securities depository, Euroclear France
- more than 690 transactions to invest surplus cash on the money market in the form of unsecured deposits and several dozen transactions conducted on behalf of other Ministries or government bodies

The Post-Trade Operations Unit also provided support in 2018 for the changes arising from the reorganisation of primary dealers that were affected by the United Kingdom's activation of Article 50 of the Treaty on European Union in order to ensure the business continuity of all primary dealers on the French debt market. The Unit provided surveillance of delivery fails on the secondary market throughout the year to ensure the smooth operation and liquidity of the market.



KEY
FIGURES

2018



FINANCIAL STATEMENTS OF AGENCE FRANCE TRÉSOR

on the management of negotiable debt securities and cash, hedging the State's financial risks and managing the debts transferred to the State

FOR THE PERIOD ENDING ON 31 DECEMBER 2018

FINANCIAL STATEMENTS

BALANCE SHEET ITEMS

ASSETS	NOTES	AMOUNTS (IN € MILLION)		
		31.12.2018	31.12.2017	*CHANGE*
CURRENT ASSETS (excluding cash)	**1**			
Prepaid expenses - financial debts	**1.2**	**9,028.48**	**9,471.30**	***-442.82***
Discounts on OATs		9,028.48	9,471.30	***-442.82***
Expense on financial debt		**134.19**	**129.45**	***4.74***
Issuance costs on OATs		134.19	129.45	***4.74***
Other claims	**1.7**	**0.01**	**-**	***0.01***
Margin calls provided for repurchase agreements		-	-	-
Accrued interest		-	-	-
Margin calls provided for forward financial instruments		-	-	-
Accrued interest		0.01	-	***0.01***
CASH MANAGEMENT	**2**			
Bank funds		**-10.25**	**-8.67**	***-1.58***
Accrued interest on the State's account with Banque de France		-10.25	-8.67	***-1.58***
Other cash items	**2.2**	**9,900.00**	**11,200.00**	***-1,300.00***
Unsecured loans on the interbank market		9,900.00	11,200.00	***-1,300.00***
Accrued interest		-	-	-
Repurchase agreements		-	-	-
Accrued interest		-	-	-
Investment securities	**2.1**	**4,499.81**	**2,434.90**	***2,064.91***
Securities purchases		4,500.00	2,435.00	***2,065.00***
Prepaid interest		-0.19	-0.10	***-0.09***
ACCRUALS AND DEFERRED EXPENSES	**3**			
Deferred income – off-balance sheet commitments		**15.91**	**15.93**	***-0.02***
Interest payable on interest rate swaps for macro-hedging	3.2	5.30	5.32	***-0.01***
Interest payable on interest rate swaps for micro-hedging	3.3	10.61	10.61	***-0.00***
Interest on currency swaps		-	-	-

LIABILITIES	NOTES	AMOUNTS (IN € MILLION)		
		31.12.2018	31.12.2017	*CHANGE*
FINANCIAL DEBTS	**1**			
Negotiable debt securities		**1,773,621.03**	**1,703,459.35**	***70,161.68***
Treasury Bonds (OATs)	**1.1**	**1,660,543.77**	**1,576,766.12**	***83,777.65***
Par value		1,618,659.73	1,539,542.23	***79,117.50***
Capitalised interest		36.88	32.98	***3.90***
Index-linking supplements		24,823.23	20,084.23	***4,739.00***
Accrued coupons at issue		282.53	265.93	***16.60***
Accrued interest		16,741.41	16,840.75	***-99.34***
Treasury notes with annual coupons (BTANs)	**1.1**	-	-	**-**
Par value		-	-	**-**
Discount Treasury bills (BTFs)	**1.3**	**113,077.26**	**126,693.23**	***-13,615.97***
Par value		112,900.00	126,473.00	***-13,573.00***
Prepaid interest		177.26	220.23	***-42.97***
Other loans	**1.6**	**1,448.91**	**1,448.90**	***0.01***
SNCF loans assumed via the CDP		1,407.07	1,407.07	***0.00***
Accrued interest		41.83	41.83	***0.00***
NON-FINANCIAL DEBTS	**1**			
Prepaid income on financial debts	**1.2**	**73,127.08**	**69,518.89**	***3,608.19***
Issue premiums on OATs		73,127.08	69,518.89	***3,608.19***
Other debts	**1.7**	**121.33**	**123.13**	***-1.80***
Margin calls received on repurchase agreements		-	-	**-**
Accrued interest		-	-	**-**
Margin calls received on forward financial instruments		121.13	123.11	***-1.98***
Accrued interest		0.02	0.02	***-0.00***
Accounts payable		**0.18**	**-**	***0.18***
CASH MANAGEMENT	**2**			
Other cash items	**2.2**	**0.39**	**0.49**	***-0.10***
Unsecured loans		-	-	**-**
Accrued interest		0.39	0.49	***-0.10***
Repurchase agreements		-	-	**-**
Accrued interest		-	-	**-**
	3			
ACCRUALS AND DEFERRED EXPENSES		**0.71**	**0.72**	***-0.01***
Payables - off balance sheet liabilities	3.2	0.71	0.72	***-0.01***
Interest payable on interest rate swaps for macro-hedging	3.3	-	-	**-**
Interest payable on interest rate swaps for micro-hedging		-	-	**-**

INCOME STATEMENT

TABLE OF NET EXPENSES	NOTES	AMOUNTS (IN € MILLION)		
		31.12.2018	31.12.2017	CHANGE
FINANCIAL DEBTS				
Interest	**4.1**	**-36,904.32**	**-37,741.48**	***837.16***
Interest expense on OATs		-37,669.80	-38,460.86	***791.06***
Interest expense on BTANs		-	-151.12	***151.12***
Net interest expense or net interest income on BTFs		765.48	870.50	***-105.02***
Amortisation of premiums and discounts	4.1	7,283.10	6,777.87	***505.23***
Amortisation expense for discounts on securities issued		-1,287.58	-1,388.59	101.01
Amortisation income from premiums on securities issued		8,570.67	8,166.46	404.21
Index-linking of OATs and BTANs	**4.1**	**-4,440.75**	**-2,535.19**	**-1,905.56**
Net index-linking expenses		-4,440.75	-2,535.19	-1,905.56
Buybacks or swaps		**-539.00**	**-901.55**	***362.55***
Net expense		-539.00	-901.55	362.55
Commission and fees related to debt management	4.2	-11.85	-11.16	***-0.69***
Net expense		-11.85	-11.16	-0.69
Net financial expense on financial debts		**-34,612.83**	**-34,411.51**	**-201.32**
OTHER FINANCIAL DEBTS				
Loans and forward financial instruments assumed for third parties				
SNCF loans assumed via the CDP		**-79.39**	**-79.54**	***0.15***
Interest expense on borrowing		-98.63	-98.63	0.00
Interest expense on forward financial instruments		-	-	-
Interest income on forward financial instruments		19.24	19.09	0.15
Expense related to the revaluation of contracts in foreign currencies		-	-	-
Income related to the revaluation of contracts in foreign currencies		-	-	-
Net financial expense on other financial debts		**-79.39**	**-79.54**	**0.15**
FORWARD FINANCIAL INSTRUMENTS				
Interest expense on forward financial instruments		-3.77	-3.63	-0.14
Other net income on forward financial instruments		0.08	0.19	-0.11
Interest income on forward financial instruments		28.52	28.38	0.14
Net interest income on forward financial instruments		**24.83**	**24.94**	**-0.11**
CASH MANAGEMENT				
Interest expense		**-190.17**	**-171.86**	**-18.31**
Net interest expense on bank liquidity	**4.3**	-152.94	-146.23	-6.71
Interest expense on unsecured lending and borrowing on the interbank market		-35.10	-25.09	-10.01
Interest expense on unsecured lending and borrowing – other euro area States		-	-	-
Interest expense on margin calls for repurchase agreements		-	-	-
Net interest expense on repurchase agreements		-	-	-
Interest expense on bond purchases		-2.14	-0.54	-1.60
Interest income		**-**	**0.01**	**-0.01**
Net interest income on bank liquidity	4.3	-	-	-
Interest income on unsecure d lending and borrowing on the interbank market		-	0.01	-0.01
Interest income on unsecure d lending and borrowing – other euro area States		-	-	-
Interest income on margin calls for repurchase agreements		-	-	-
Net interest on repurchase agreements		-	-	-
Interest income on bond purchases		-	-	-
Net financial expense on cash management transactions		**-190.17**	**-171.85**	**-18.32**
NET EXPENSE		**-34,857.56**	**-34,637.96**	**-219.60**

OFF-BALANCE SHEET ITEMS

COMMITMENTS UNDER THE TERMS OF CLEARLY SPECIFIED AGREEMENTS	NOTES	AMOUNTS (IN € MILLION)	
		31.12.2018	31.12.2017
FORWARD FINANCIAL INSTRUMENTS	**3**		
Interest-rate swaps			
Macro-hedging	3.2	1,000.00	1,000.00
Micro-hedging	3.3	500.00	500.00
Forward currency contracts	**3.4**	**701.45**	**560.97**
Currency swaps		-	-
Oil swaps*	**3.5**	**133.72**	**21.91**
OTHER LIABILITIES			
Credit lines	***2.3***	***6,000.00***	***6,000.00***

** The transactions arising from oil swaps are carried out by the Finance Ministry Accounts Department on behalf of the Armed Forces Fuel Department. They are recorded as off-balance sheet transactions (see Note 3.5).*

II – APPENDIX: NOTES

II.1 – OVERVIEW

Agence France Trésor was created by the Order of 8 February 2001 as an agency with national scope reporting to the Directorate General of the Treasury. Its task is to manage the State's debt and cash holdings under optimum security conditions and at the lowest long-term cost for taxpayers.

Since 2006, Agence France Trésor has also been responsible for hedging certain financial risks on behalf of other Ministries or other departments of the Ministry for the Economy and Finance.

Therefore, in addition to managing the government's debt and cash positions, it also carries out ancillary industrial and commercial transactions.

Budget transactions relating to AFT's management tasks are recorded in two trading accounts:

- budget transactions arising from management of the State's debt and cash holdings are recorded in Trading Account 903 "State Debt and Cash Management", which was opened under the terms of Article 22 of Constitutional Bylaw 2001-692 on Budget Acts of 1 August 2001
- transactions other than those recorded in Trading Account 903 - are recorded in Trading Account 910 "Hedging the State's Financial Risks", which was opened under the terms of Article 54 of the 2006 Budget Act 2005-1719 of 30 December 2005

This means that all of the transactions conducted by Agence France Trésor are recorded in the State's accounts and finalised in the State's general account.

AFT's financial statements are derived directly from the State's general account. They present the balance sheet and income statement relating to AFT's transactions:

- the balance sheet items from the State's general account for transactions relating to the management of the State's negotiable debt and cash holdings
- the income statement items that show the impact of AFT's transactions on debt service
- along with a summary of off-balance sheet commitments relating to hedging the State's financial risks

However, the financial statements presented here do not include transactions on Treasury correspondents' accounts or transactions relating to non-negotiable debt, even though these transactions are part of Trading Account 903 in budgetary terms.

II.2 – HIGHLIGHTS OF 2018

AFT continued to enjoy favourable financing terms in 2018. The average yield on its medium-term and long-term issuance stood at 0.53%, compared to 0.65% in 2017. The cost of short-term issuance remained negative throughout 2018, standing at -0.60% on average, compared to -0.62% in 2017.

The European Central Bank (ECB) shifted its monetary policy stance, but it remained accommodative. The ECB phased out its asset purchases, which ended at the end of December 2018. However, the proceeds of maturing securities will still be reinvested, which will sustain the central bank's demand for sovereign securities. The ECB's key rates remained at historic lows, with the refinancing rate at 0.0% and the deposit facility rate at -0.40%.

There were two syndicated bond issues in 2018. The end of March saw the first issue of the OAT€i bond (linked to the euro area inflation index) maturing in July 2036. The amount allocated was €3.5 billion for orders totalling €11.5 billion. At the end of June, a syndicated tap issue of the Green OAT raised €4 billion, with orders of €13.75 billion.

II.3 – ACCOUNTING PRINCIPLES AND METHODS

1 – ACCOUNTING PRINCIPLES

The key accounting principles underpinning the State accounting standards and used for these financial statements are outlined below.

The **lawfulness** principle states that the accounts comply with the rules and procedures in force.

The **probity** principle states that the rules and procedures in force have been applied to present a true and fair view of the situation and the materiality of the events recorded.

The **true and fair view** principle states that the information provided is sufficient in all material aspects and gives the reader satisfactory knowledge. This principle means that supplementary information must be provided in the notes to the financial statements when the application of an accounting rule is not adequate to provide a true and fair view.

The **accrual** principle states that expense and income must be attached to an accounting period and must be reported in that period only.

The **going concern** principle states that the State will continue to conduct its activities for the foreseeable future.

The **consistency** principle ensures the continuity of accounting methods and the consistency of accounting information over successive periods. This is necessary for comparing periods. Changes to accounting policies and methods should only be made if they help give a truer and fairer presentation of the financial statements. Any change that has a material impact on the results should be explained in the notes to the financial statements (see the provisions of Standard 14 – "Changes in accounting methods, changes in accounting estimates and adjustments").

The **full disclosure** principle states that the financial statements must be intelligible, material and accurate.

2 – ACCOUNTING STANDARDS

The accounting standards are set out in the State Accounting Standards Manual (RNCE) that was adopted by the Order of 21 May 2004, and last amended by the Order of 28 November 2016, as amended.

Standards 10 – "Cash items" and 11 – "Financial debts and forward financial instruments" are of particular relevance for AFT's transactions. The latest amendment to these standards was introduced by the Order of 23 September 2015, published in the Official Journal on 25 September 2015, which implemented the relevant Notices 2015-06 and 2015-07 with immediate effect.

These standards apply to balance sheet items and the expense and income arising from the transactions are covered by Standard 2 "Expense and Standard 4 – "operating income, trading income and financial income".

3 – RECOGNITION AND MEASUREMENT PROCEDURES

3.1 – RULES AND METHODS APPLYING TO BALANCE SHEET ITEMS

3.1.1 – Cash management

Assets and liabilities are first recognised at their acquisition cost, excluding ancillary charges. Various ancillary assets and liabilities are attached to each asset and liability item.

<u>Cash position:</u> the cash position refers to all assets that are by nature immediately convertible to cash at their par value. The cash position is recognised in the financial statements for the accounting period in which the corresponding assets are acquired:

- transfers received and automatic credits and debits are recognised when they are posted to the bank account
- transfers sent and in transit are recognised when the transfer order is issued

The cash position may generate positive and/or negative returns, but accrued interest is recognised for the net amount, which may be negative, and attached to the relevant asset.

The cash position in foreign currencies is converted to euros at the end of the accounting period on the basis of the last spot exchange rates of the period. Currency translation adjustments are recognised in the income statement for the period.

<u>Investment securities:</u> these are the financial instruments defined in the Monetary and Financial Code (Articles L.211-1 and L.211-2).

They are recognised during the accounting period when they were acquired and ancillary acquisition costs are recognised as an expense.

At the end of the accounting period, the difference between the inventory value (represented by the market value) and the cost may show unrealised capital gains or losses. Unrealised capital losses are recognised as impairment of assets and they are not offset against unrealised capital gains.

In the case of securities with prepaid interest, the difference between the purchase price and the par value of the securities corresponds to the financial income recognised in the income statement.

Securities may generate positive and/or negative returns, and the net amount of accrued interest, which may be negative or positive, is attached to the relevant asset.

Other cash items: these are securities that can be realised in the very short-term with no risk of a change in value, such as:

- claims arising from repurchase agreements in State securities or equivalents or from unsecured lending and borrowing
- debts arising from reverse repurchase agreements in State securities or equivalents or from unsecured lending and borrowing
- debts arising from the use of overdraft facilities

These claims and debts are recognised when the funds are transferred and for the amount transferred.

Claims and debts arising from unsecured lending and borrowing are recognised for the nominal amount deposited.

Liabilities arising from lines of credit are recognised for the proportion of the authorised amounts actually drawn. Any drawing on a line of credit will have an impact on the financial commitment received in the off-balance sheet.

3.1.2 - Financial and non-financial debts

3.1.2.1 - Negotiable debt securities

The government's financial debts are recognised in the accounts:

- if they constitute a definite debt
- if they can be measured reliably

Financial debts are recognised in the financial statements for the period in which the securities were issued or the loans were contracted and the corresponding funds were received or taken over on behalf of third parties.

The debts are recognised at their redemption value, which generally corresponds to their par value.

Negotiable government securities include the various instruments listed below.

Capitalisation OATs: the counterpart to the annual interest payments is recognised as part of the financial debt payable at the end of the accounting period.

Index-linked securities (OATi and OAT€i, linked to the index of consumer prices): are recognised at their redemption value, which corresponds to their index-linked par value at the time of issue, at the end of each accounting period and at maturity.

If the par value of an index-linked security is guaranteed to be the redemption value, the liability recognised cannot be less than 100% of the par value.

The index-linking supplement at the time of the issue of index-linked securities is recognised as either a gain corresponding to the portion of the index-linking supplement collected by the State, or as a loss corresponding to the proportion of the index-linking supplement paid by the State. This supplement is recognised in a separate liability account from the par value.

The index-linking supplements calculated over the life of the securities are recognised as financial expenses if the index rises or as financial income if the index falls.

Since the last BTAN was redeemed in July 2017, AFT has issued medium- and long-term securities only in the form of OATs, OATis and OAT€is.

Fixed-rate discount Treasury bills (BTFs): the difference between the issue price and the par value is recognised as a financial expense in the income statement.

Securities may generate positive and/or negative yields, and the net amount of accrued interest, which may be negative or positive, is recognised as a liability.

Securities with annual coupons (OATs): accrued interest is recognised in the income statement at the end of the accounting period.

3.1.2.2 - Premiums, discounts, related expenses and accrued interest at the time of issue

Premiums and discounts: new issues of fungible securities are attached to the existing securities and the price of the new tranches is adjusted to suit market conditions. The difference between the issue price and the par value is a premium or a discount that reduces or increases the State's financial expense.

Premiums are recognised as prepaid income under non-financial debt on the liability side of the balance sheet and discounts are recognised as prepaid expenses under current assets on the asset side of the balance sheet.

Premiums and discounts are recognised in the income statement at the end of the accounting period using the actuarial valuation method over the life of the security.

Premiums and discounts that have not been amortised must be recognised in the income statement on the redemption date.

Extraordinary premium and discount payments are recognised for securities buybacks, using the "first-in-first-out" method.

Issuance expense: this expense includes commissions paid to financial intermediaries (underwriting commissions on OAT auctions for retail investors, syndication commissions on syndicated bonds).

They are initially recognised as prepaid expenses on the asset side of the balance sheet. They are amortised in the income statement using the straight-line method over the life of the relevant issues. Straight-line amortisation is used because it does not produce significantly different values in the income statement from those obtained using the actuarial valuation method.

Accrued interest at issue: if the issue date of a security is different from the coupon date of the tranche, the subscriber pays the interest accruing between the annual coupon payment date and the date of issue.

The interest accruing between the coupon payment date and the issue date is received and recognised as an account payable on the liability side of the balance sheet.

3.1.2.3 - Securities buybacks

When a security buyback occurs, the difference between the buyback value and the par value, which may be index-linked, including the unamortised portion of the premium or discount as of the buyback date, is recognised as a financial expense or income in the income statement.

3.1.2.4 - Debts assumed for third parties

Debts assumed for third parties are recorded on the balance sheet as the counterpart to a financial expense equal to the redemption value of the loan, plus, as appropriate, ancillary items, such as accrued interest on the date the debt was assumed.

3.1.2.5 - Borrowings in foreign currencies

Borrowing is recognised at the par value on the date the funds are received using the exchange rate of that day. At the end of the accounting period, the par value of the borrowing is recognised using the exchange rate of that day and currency translation adjustments are recognised as an unrealised gain or loss in the income statement.

Accrued interest in foreign currencies is recognised at the current exchange rate and recorded in the income statement at the end of the accounting period.

Accrued interest at maturity is recognised in the income statement at the exchange rate on the payment date.

3.1.2.6 – Adjustments

No adjustments were made to the starting balance for 2018.

3.1.3 - Forward financial instruments

Forward financial instruments are contracts under which one of the counterparties undertakes vis-à-vis the second to deliver or take delivery of an underlying asset, or to pay or receive a price differential on or before a given expiry date.

The notional amounts of the contracts are not recognised on the balance sheet, regardless of whether they are to be paid at maturity. However, they are reported in a note to the financial statements.

The accounting treatment depends on whether the transaction is classified as a hedging contract.

3.1.3.1 - Hedging transactions

A hedging transaction consists of matching an asset or liability and a hedging instrument to mitigate the risk of an adverse impact on the State's future income or financial flows.

Recognition of a forward financial instrument used in a hedging operation is symmetrical to the hedged asset or liability on the balance sheet and in the income statement.

Realised and unrealised income and expense, along with the cash settlements are recognised in the income statement symmetrically to the recognition of income and expense on the hedged asset or liability.

Changes in the value of hedging instruments are not recognised on the balance sheet, unless partial or full recognition of the changes ensures symmetrical recognition of the hedged asset or liability.

The different hedging strategies are listed below.

Macro-hedging swaps: the State implements this management strategy over the entire life of financial debt to reduce the average interest expense in the long run, in exchange for an average increase in the variability of this expense in the short term.

Forward currency purchases and oil hedging contracts: AFT hedges foreign currencies and oil on behalf of other departments of the Ministry for the Economy and Finance or other Ministries.

These transactions are classified as hedging transactions in the State's general account and the impact of the hedging is recognised symmetrically in the income statement for the hedged asset or liability.

Since AFT does not manage the hedged assets and liabilities, the impact of the forward financial instruments is not recorded in its own financial statements. The notes to the financial statements report only contracts with external counterparties and their market value, along with the transactions conducted during the accounting period and their result.

3.1.3.2 - Transactions that cannot be classified as hedging transactions

When a transaction cannot be shown to be a hedging transaction, it is recognised as an isolated open position. Changes in the value of the relevant forward financial instrument are recognised on the balance sheet as a counterpart to an item under net financial expense in the income statement.

3.1.3.3 – Margin calls paid and/or received on forward financial instruments

Margin calls are made to secure repurchase agreements and forward financial instrument transactions to hedge against counterparty risk.

A margin call is paid or received, depending on whether the value of the instrument rises or falls.

Margin calls are recognised as claims or debts since the State or the counterparty must repay them. They are recognised for the amount corresponding to the change in the value of the instruments, up to a limit set by contract.

These sums bear interest.

3.2 - RULES AND METHODS APPLYING TO INCOME STATEMENT ITEMS

3.2.1 - Recognition criterion

3.2.1.1 – Expense

Financial expense is generated by financial debt, forward financial instruments and cash.

In the case of ***interest*** recognised as a financial expense, the prorated interest accruing to the third party is recognised.

Losses recorded as financial expense are recognised when they are realised, except in the case of losses on forward financial instruments used for hedging, which are recorded when the income on the hedged liability or asset is recognised, starting on the expiry date of the contract.

For ***discounts*** recorded as financial expense, the portion of the discount for the period calculated using the actuarial valuation method is recognised.

3.2.1.2 – Income

Financial income is earned on financial debt, forward financial instruments and cash.

It does not include currency translation gains from transactions other than those related to the State's financing and cash management.

The income from such gains is recognised in the period when it accrues to the State, provided that the income for the period or the income from the transaction can be measured accurately.

For financial income in the form of ***interest***: the prorated interest accruing to the State during the period is recognised.

Currency translation gains arising from financial debts and forward financial instruments denominated in foreign currencies:

- are recognised when the gains are realised in the case of financial debt, cash and forward financial instrument transactions that are not classified as hedging transactions
- gains on forward financial instruments used for hedging are recognised when the expense on the hedged liability or asset is recognised, starting on the expiry date of the contract

The ***amortised portion of premiums*** calculated for the period using the actuarial valuation method is recognised.

II.4 - NOTES

1 - FINANCIAL AND NON-FINANCIAL DEBTS

1.1 - CHANGE IN MEDIUM- AND LONG-TERM NEGOTIABLE FINANCIAL DEBT

At 31 December 2018, financial debt stood at €1,660,543.77 million, compared to €1,576,766.12 million in 2017, marking an increase of €83,777.65 million.

CHANGES IN MEDIUM- AND LONG-TERM NEGOTIABLE DEBT SECURITIES IN 2018: (IN € MILLION)	OAT			TOTAL LONG-TERM SECURITIES
	Fixed-rate OAT	Variable-rate OAT	*TOTAL*	
LONG- AND MEDIUM-TERM NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2017	**1,373,757.59**	**203,008.54**	**1,576,766.12**	**1,576,766.12**
of which par value	1,357,884.58	181,657.64	*1,539,542.23*	***1,539,542.23***
of which index-linking supplement, interest, accrued coupons and similar debt	15,873.00	21,350.89	*37,223.90*	***37,223.90***
CHANGE IN PAR VALUE (1)	**66,014.00**	**13,103.50**	**79,117.50**	**79,117.50**
Increases	**203,007.00**	**22,377.00**	***225,384.00***	***225,384.00***
of which auctions	199,007.00	18,877.00	*217,884.00*	***217,884.00***
of which syndicated issues	4,000.00	3,500.00	*7,500.00*	***7,500.00***
Reductions	**136,993.00**	**9,273.50**	***146,266.50***	**146,266.50**
of which redemptions	106,659.00	9,223.50	*115,882.50*	**115,882.50**
of which buybacks	30,334.00	50.00	*30,384.00*	**30,384.00**
CHANGE IN ACCRUED INTEREST AND SIMILAR DEBT (2)	**-164.09**	**4,824.24**	**4,660.15**	**4,660.15**
Increases	**15,675.93**	**6,789.74**	**22,465.68**	**22,465.68**
of which index-linking supplement	-	5,437.84	*5,437.84*	*5,437.84*
of which accrued and capitalised interest	15,402.19	1,343.11	*16,745.31*	*16,745.31*
of which accrued coupons	273.74	8.79	*282.53*	*282.53*
Reductions	**15,840.02**	**1,965.50**	***17,805.53***	***17,805.53***
of which index-linking supplement	-	698.84	*698.84*	*698.84*
of which accrued interest	15,585.96	1,254.79	*16,840.75*	*16,840.75*
of which accrued coupons	*254.07*	11.87	*265.93*	*265.93*
CHANGE IN LONG- AND MEDIUM-TERM NEGOTIABLE DEBT SECURITIES (1) + (2)	**65,849.91**	**17,927.74**	**83,777.65**	**83,777.65**
Long- and medium-term negotiable debt securities at 31 December 2018	**1,439,607.50**	**220,936.28**	**1,660,543.77**	***1,660,543.77***
of which par value	*1,423,898.58*	194,761.14	*1,618,659.73*	***1,618,659.73***
of which index-linking supplement, interest, accrued coupons and similar debt	15,708.91	26,175.13	*41,884.05*	***41,884.05***

1.2 - PREMIUMS AND DISCOUNTS ON OATs

Premiums are recorded as liabilities on the balance sheet and discounts as assets in the form of prepaid income or expenses to be amortised over the life of the security.

AMORTISATION OF PREMIUMS AND DISCOUNTS ON OATs AND BTANS (IN € MILLION)					
PREMIUMS	**ITEMS FROM "PREPAID INCOME"**	**AT 31 DECEMBER 2017 (1)**	**ISSUE PREMIUMS (2)**	**AMORTISATION OF ISSUE PREMIUMS (3)**	**AT 31 DECEMBER 2018 (1)+(2)-(3)**
	Fixed-rate OATs	59,120	9,056	7,096	61,080
	Variable-rate OATs	10,399	3,123	1,475	12,047
	Total premiums	**69,519**	**12,179**	**8,571**	**73,127**
DISCOUNTS	**ITEMS FROM "PREPAID INCOME"**	**AT 31 DECEMBER 2017 (1)**	**ISSUE DISCOUNTS (2)**	**AMORTISATION EXPENSE FOR DISCOUNTS (3)**	**AT 31 DECEMBER 2018 (1)+(2)-(3)**
	Fixed-rate OATs	8,821	845	1,198	8,467
	Variable-rate OATs	651	-	89	561
	Total discounts	**9,471**	**845**	**1,288**	**9,028**

1.3 - SHORT-TERM NEGOTIABLE DEBT SECURITIES

Fixed-rate Treasury bills (BTFs) are the instruments used for short-term borrowing.

At 31 December 2018, BTFs represented debt of €112,900 million, down by more than 12% or €13,573 million compared to 2017.

CHANGE IN THE PAR VALUE OF SHORT-TERM NEGOTIABLE SECURITIES IN 2018 (IN € MILLION)	
SHORT-TERM NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2017	**126,473.00**
Increases	**288,279.00**
of which auctions	288,279.00
Reductions	**301,852.00**
of which buybacks	-
of which redemptions	**301,852.00**
Change in the par value	***-13,573.00***
SHORT-TERM NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2018	**112,900.00**

1.4 - MATURITY STRUCTURE OF NEGOTIABLE DEBT SECURITIES

PAR VALUE OF NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2018 (IN € MILLION)		BREAKDOWN BY MATURITY			
		LESS THAN 1 YEAR (IN € MILLION)	1 YEAR TO 2 YEARS (IN € MILLION)	2 YEARS TO 5 YEARS (IN € MILLION)	MORE THAN 5 YEARS (IN € MILLION)
Long- and medium-term negotiable debt securities	**1,618,659.73**	**128,901.09**	**161,004.00**	**419,129.14**	**909,625.51**
Fixed-rate OATs	1,423,898.58	117,211.09	140,694.00	368,345.14	797,648.36
Variable-rate OATs	194,761.14	11,690.00	20,310.00	50,784.00	111,977.14
Fixed-rate BTAN	-	-	-	-	-
Variable-rate BTAN	-	-	-	-	-
Short-term negotiable debt securities BTFs	**112,900.00**	**112,900.00**	**-**	**-**	**-**
BTFs	112,900.00	112,900.00	-	-	-
Total negotiable debt securities	**1,731,559.73**	**241,801.09**	**161,004.00**	**419,129.14**	**909,625.51**

1.5 - MARKET VALUE OF NEGOTIABLE DEBT SECURITIES

MARKET VALUE OF NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2018 (IN € MILLION)			
SECURITIES	**VALUE EXCLUDING ACCRUED INTEREST**	**ACCRUED INTEREST**	**TOTAL VALUE**
OATs	1,881,212	17,024	**1,898,236**
BTFs	113,120	-	**113,120**
Total	**1,994,332**	**17,024**	**2,011,356**

1.6 - DEBTS ASSUMED FOR THIRD PARTIES

The 2007 Supplementary Budget Act authorised the assumption of the SNCF's debt in the special debt account (SAAD), through contracts with the Public Debt Fund (Caisse de la Dette Publique). This debt comprised euro-denominated loans (€6,346 million) and foreign-currency loans (€1,515 million) hedged with forward financial instruments.

The debts assumed stood at €1,407.07 million on 31 December 2018, with no change from 2017.

The balance of the outstanding positions at 31 December 2018 corresponds to the debts presented below:

BREAKDOWN OF SNCF DEBT AND FORWARD FINANCIAL INSTRUMENTS ASSUMED THROUGH THE PUBLIC DEBT FUND AT 31 DECEMBER 2018 (IN € MILLION)				
BONDS OR FORWARD FINANCIAL INSTRUMENTS	**MATURITY DATES**	**AMOUNTS**	**AMOUNTS BY MATURITY 1 TO 5 YEARS**	**ACCRUED INTEREST**
Borrowings	3 June 2020	500.00	500.00	10.53
	11 August 2023	907.07	907.07	31.30
TOTAL		**1,407.07**		**41.83**

1.7 – MARGIN CALLS

The net amount of deposits received as a result of margin calls stood at €121.13 million at 31 December 2018.

2 - CASH MANAGEMENT

2.1 - INVESTMENT SECURITIES

At 31 December 2018, these securities consisted of commercial paper purchased from ACOSS for €4.5 billion.

In 2018, the State purchased €25.45 billion in interest-bearing commercial paper, including €4.5 billion contracted in December 2019 and repaid in January 2018.

2.2 - OTHER CASH ITEMS

The bulk of these items are short-term investments made to optimise cash management, including €9.9 billion in deposits on the interbank market, which were down by €1.3 billion. These investments consist of very-short-term lending.

2.3 - CASH LINES OF CREDIT

AFT has lines of credit with primary dealers worth a total of €6 billion that it may use for the purpose of securing the balance on the Treasury's current account with the Banque de France.

3 - FORWARD FINANCIAL INSTRUMENTS

3.1 - MARKET VALUE OF FORWARD FINANCIAL INSTRUMENTS

MARKET VALUE OF FORWARD FINANCIAL INSTRUMENTS (IN € MILLION)		
FORWARD FINANCIAL INSTRUMENTS	**PAR VALUE**	**MARKET VALUE**
Interest-rate swaps		
Macro-hedging	1,000	75
Micro-hedging	500	38
Forward currency contracts	701	40
Oil swaps	134	18

3.2 - PROACTIVE DEBT AND CASH MANAGEMENT (MACRO-HEDGING)

Since September 2002, the programme to reduce the average life of debt through interest-rate swaps has been suspended due to market conditions, in particular low long-term interest rates. Consequently, no transactions were conducted in 2018 that increased the portfolio of swaps.

3.3 - MICRO-HEDGING INTEREST-RATE SWAPS

The amounts relate to interest-rate swaps for the assumed SNCF debt.

At 31 December 2018, only the €500-million debt was hedged by means of an interest-rate swap.

3.4 - FOREIGN EXCHANGE HEDGING

This item relates to forward exchange transactions consisting of purchases or sales of foreign currencies at exchange rates that are fixed from the outset and where the period between the trade date and the settlement date is longer than the usual two days.

AFT conducts such transactions on behalf of others and they do not have any impact on these financial statements.

In 2018, forward purchases of foreign currencies for euros settled for a total value of €658.10 million against a total of USD753.67 million and CHF34.60 million.

The table below shows the amounts of foreign exchange transactions outstanding at the end of the accounting period:

DATE	**EUROS** PAYABLE TO PRIMARY DEALERS IN EXCHANGE FOR FOREIGN CURRENCY RECEIVABLES (IN €M)	**US DOLLARS** RECEIVABLE FROM PRIMARY DEALERS AND PAYABLE TO FINAL BENEFICIARIES (IN $M)	**CHF** RECEIVABLE FROM PRIMARY DEALERS AND PAYABLE TO FINAL BENEFICIARIES (IN CHFM)	SPOT MARKET VALUE IN **€M**	**UNREALISED FOREIGN EXCHANGE GAINS IN €M**
31.12.2017	560.97	644.37	34.60	567.07	6.10
31.12.2018	701.45	838.44	35.00	762.96	61.51

3.5 - OIL SWAPS

Oil swap contracts are recognised as off-balance sheet items by the department requesting the hedge and the financial transfers are carried out by the Finance Ministry Accounts Department. Therefore, they have no impact on these financial statements and are mentioned for informational purposes only.

AFT hedges oil supplies for the Military Fuel Unit (SEA) at the Ministry of Defence.

Since 2012, commodity swaps have been used for hedging, instead of the call options previously used. The swap contracts used as a hedge against oil price fluctuations exchange a fixed price set out in the contract against a variable price corresponding to the average market price over one month.

New trades totalled €133.73 million in 2018.

4 - FINANCIAL EXPENSE AND INCOME

4.1 - FINANCIAL EXPENSE ON NEGOTIABLE DEBT SECURITIES

Three elements make up the financial cost of the State's negotiable debt securities: interest payments, amortisation of issue discounts and premiums and index-linking supplements.

a Interest is prepaid at the time of issue for BTFs, or paid on the annual coupon dates for OATs.

The total interest expense on negotiable securities stood at €36,904.32 million in 2018. It was €837.16 million less than in 2017. The variation stems primarily from falling coupon yields on medium- and long-term bonds in recent years. This decrease more than offsets the increase in the debt volume.

b The issue discount or premium, which is the difference between the issue price and the par value, is the result of the difference in the coupon yield of the bond and the yield demanded at the time of issue. Amortisation of the premium or discount is recognised in the income statement over the life of the bond. The total financial expense (amortisation and coupon payments) corresponds to the yield demanded at the time of issue (see 3.1.2.2 Accounting principles and methods).

Amortisation of premiums and discounts resulted in net financial income of €7,283.10 million in 2018. This marks an increase of €505.23 million compared to the equivalent income in 2017. The increase results in part from the large issue premiums recorded in recent years, which increased the stock of premiums to be amortised.

c The index-linking income or expense corresponds to the variation in the principal amount to be redeemed, which depends on changes in an index. The two indices used for government bonds are the French Index of Consumer Prices excluding tobacco and the euro area index of consumer prices. NB: Index linking means that the yields at issue of such bonds are lower than those of other bonds. Index-linked yields are "real" yields that do not include the inflation premium of nominal yields.

Net index-linking expense came to €4,440.75 million in 2018, representing an increase of €1,905.56 million as inflation picked up again in 2018.

4.2 - COMMISSION AND FEES RELATED TO DEBT MANAGEMENT

This item records syndication commissions paid to the primary dealers that are members of syndicates. This commission is amortised over the life of syndicated bonds. This item also includes fees charged by Euroclear, which is the depositary for the securities issued by the State, and communication expenses directly related to debt management.

4.3 - INTEREST INCOME AND INTEREST EXPENSE ON THE CURRENT ACCOUNT WITH THE BANQUE DE FRANCE

The State holds a single account with the Banque de France, which is broken down into different operating accounts. The Banque de France pays the State interest on the daily balance on the current account.

The ECB's Decision (ECB/2014/23) and Guideline (ECB/2014/22) of 5 June 2014 introduced the following new rules for the remuneration of government central bank deposits:

- below a jointly defined threshold, the rate of remuneration for overnight deposits is the uncollateralised overnight market rate (EONIA – Euro Overnight Index Average)
- deposits in excess of a jointly defined threshold not exceeding 0.04% of GDP are remunerated at zero per cent on any day in the year. If the deposit facility rate is negative, it will be applied to these deposits

Since 1 December 2014, the daily balance earned the EONIA up to a threshold of €550 million. As of 1 July 2018, this threshold was raised to €614 million. The net expense relating to interest on the Banque de France account stood at €152.94 million in 2018.

II.5 - EVENTS SINCE CLOSING

None.

STATISTICAL REPORT

NEGOTIABLE GOVERNMENT DEBT

NEGOTIABLE GOVERNMENT DEBT – NON-RESIDENT HOLDINGS

IN % AT YEAR-END	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL SECURITIES	**64.1%**	**67.8%**	**67.0%**	**64.0%**	**61.9%**	**63.5%**	**63.6%**	**61.9%**	**58.7%**	**55.1%**	**52.6%**
Medium- and long-term issuances (BTANs & OATs)	63.5%	66.2%	64.2%	61.8%	60.7%	61.5%	61.6%	60.0%	56.5%	52.7%	50.5%
Short-term issuances (BTFs)	68.2%	75.3%	83.9%	79.6%	72.0%	79.9%	82.1%	82.8%	88.6%	89.9%	89.2%

Source: Banque de France

OUTSTANDING, MATURITY AND NON-RESIDENT HOLDINGS

VALUE AT YEAR-END	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
OUTSTANDING DEBT (IN € MILLION)	**1,016,645**	**1,147,985**	**1,228,971**	**1,312,980**	**1,386,154**	**1,457,220**	**1,527,562**	**1,576,372**	**1,620,597**	**1,686,112**	**1,756,400**
Medium- and long-term issuances (BTANs & OATs)	878,364	933,865	104,833	1,135,184	1,219,554	1,283,377	1,352,277	1,423,699	1,486,672	1,559,639	1,643,500
index-linked securities (1)	152,411	147,831	159,433	165,914	173,030	173,660	189,258	190,390	199,528	201,742	219,584
Short-term issuances (BTFs)	138,281	214,120	187,138	177,796	166,600	173,843	175,285	152,673	133,925	126,473	112,900
OUTSTANDING SWAPS (IN €M)	**28,362**	**20,362**	**15,562**	**12,500**	**10,450**	**6,900**	**5,800**	**5,800**	**1,000**	**1,000**	**1,000**
Maturity (before swaps)	6 years 292 days	6 years 246 days	7 years 68 days	7 years 57 days	7 years 37 days	7 years 5 days	6 years 363 days	7 years 47 days	7 years 195 days	7 years 296 days	7 years 336 days
Maturity (after swaps)	6 years 276 days	6 years 233 days	7 years 60 days	7 years 52 days	7 years 34 days	7 years 2 days	6 years 362 days	7 years 47 days	7 years 195 days	7 years 296 days	7 years 336 days

Sources: Agence France Trésor, Banque de France

(1) For these securities, the government's actual commitment on a given date is equal to the par value multiplied by the index-linking coefficient for that date; at end-2018, the index-linking commitment stood at €24.8 billion.

NEGOTIABLE GOVERNMENT DEBT DATA

NEGOTIABLE DEBT OUTSTANDING

Valeur nominale : **€1,731.6 billion** at end-2018 (up by €65.5 billion compared with end-2017)

par value with index-linking: **€1,756.4 billion** at end-2018 (up by €70.3 billion compared with end-2017) including:

- €1,559.6 billion medium- and long-term debt (OATs
- €112.9 billion short-term debt (BTFs)

RENEWAL OF MEDIUM- AND LONG-TERM DEBT

Renewal in 2018 of **9.5%** of the debt outstanding at end-2017 (**€146 billion** redeemed or bought back out of €1,540 billion outstanding at end-2017)

AVERAGE MATURITY

7 years and 336 days at end-2018

SWAPS

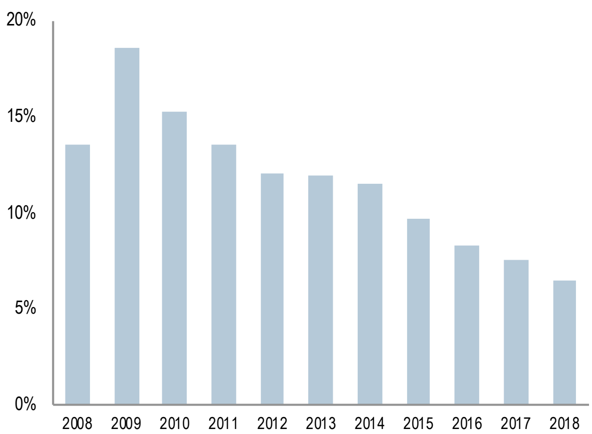
€1 billion outstanding at end-2018
the swaps programme was still suspended.

NON-RESIDENT HOLDINGS

52.6% at end-2018

BTF'S AS A SHARE OF OUTSTANDING NEGOTIABLE STATE DEBT

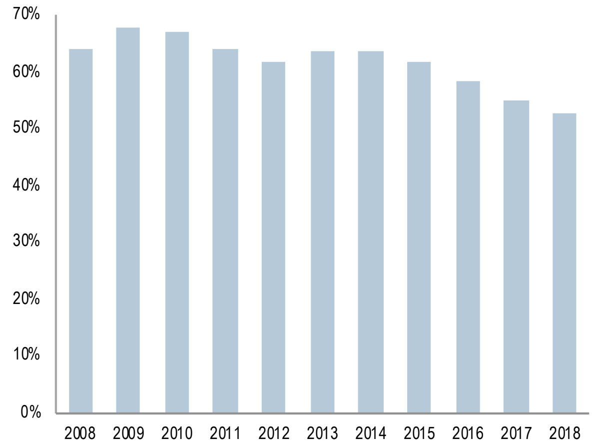
Residual maturity in years and share in % at year-end



Source: Agence France Trésor.

NON-RESIDENT HOLDINGS OF NEGOTIABLE DEBT SECURITIES

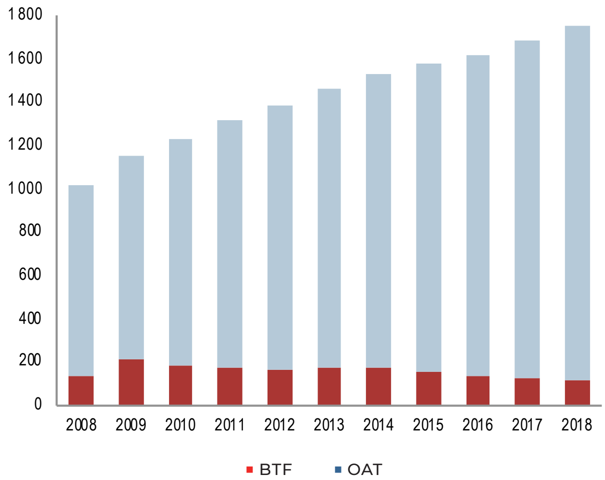
in % at year-end



Source: Banque de France.

BTFS AND OATS OUTSTANDING

Outstanding in € billion at year-end



Source: Agence France Trésor.

MEDIUM- AND LONG-TERM DEBT

MEDIUM- AND LONG-TERM DEBT DATA

REDEMPTIONS IN 2018

Fixed-rate securities: **€106.7 billion** in redemptions (par value)

Index-linked securities: **€9.2 billion + €0.7 billion** in index linking supplements

ISSUANCE IN 2018

32 auctions in 2018

2 syndicated issues (launch of the OAT€i 0.10% 25 July 2036 in March 2018 and tap issue of the Green OAT 25 June 2039 in June 2018)

fixed-rate securities: **€203.0 billion** (par value)

index-linked securities **€22.4 billion** (par value)

average bid-to-cover ratio*: **2.07**

**Bid amount to amount auctioned before non-competitive tenders*

BUYBACKS IN 2018

€30.4 billion (par value)

NEW ISSUANCES IN 2018

2 NEW FIXED-RATE MEDIUM-TERM OATS	
2 years	OAT 0.00% 25 February 2021
5 years	OAT 0.00% 25 March 2024

2 NEW FIXED-RATE LONG-TERM OATS	
10 years	OAT 0.75% 25 November 2028
15 years	OAT 1.25% 25 May 2034

1 NEW INDEX-LINKED BOND	
France	OAT€i 0.10% 25 July 2036

AVERAGE YIELD AT ISSUE OF FIXED-RATE SECURITIES		
	AGGREGATE	O/W 10-YEAR
2018	**0.53%**	**0.81%**
2017	0.65%	0.83%
2016	0.37%	0.48%
2015	0.63%	0.93%
2009-2014 average	*2.17%*	*2.84%*
1998-2008 average	*4.15%*	*4.44%*

OUTSTANDING AMOUNTS AND FLOWS OF MEDIUM- AND LONG-TERM DEBT

in € million

	PAR VALUE		
	FIXED-RATE SECURITIES	INDEX-LINKED SECURITIES	TOTAL
OUTSTANDING AT END-2017 (1)	**1,357,885**	**181,658**	**1,539,542**
Issues	203,007	22,377	225,384
auctions	199,007	18,877	217,884
syndicated issues	4,000	3,500	7,500
Buybacks (2)	30,334	50	30,384
over the counter	30,334	50	30,384
reverse auctions	–	–	–
ISSUANCE NET OF BUYBACKS	**172,673**	**22,327**	**195,000**
Redemptions	106,659	9,224	115,883
NET FLOWS	**66,014**	**13,104**	**79,118**
OUTSTANDING AT END-2018 (1)	**1,423,899**	**194,761**	**1,618,660**

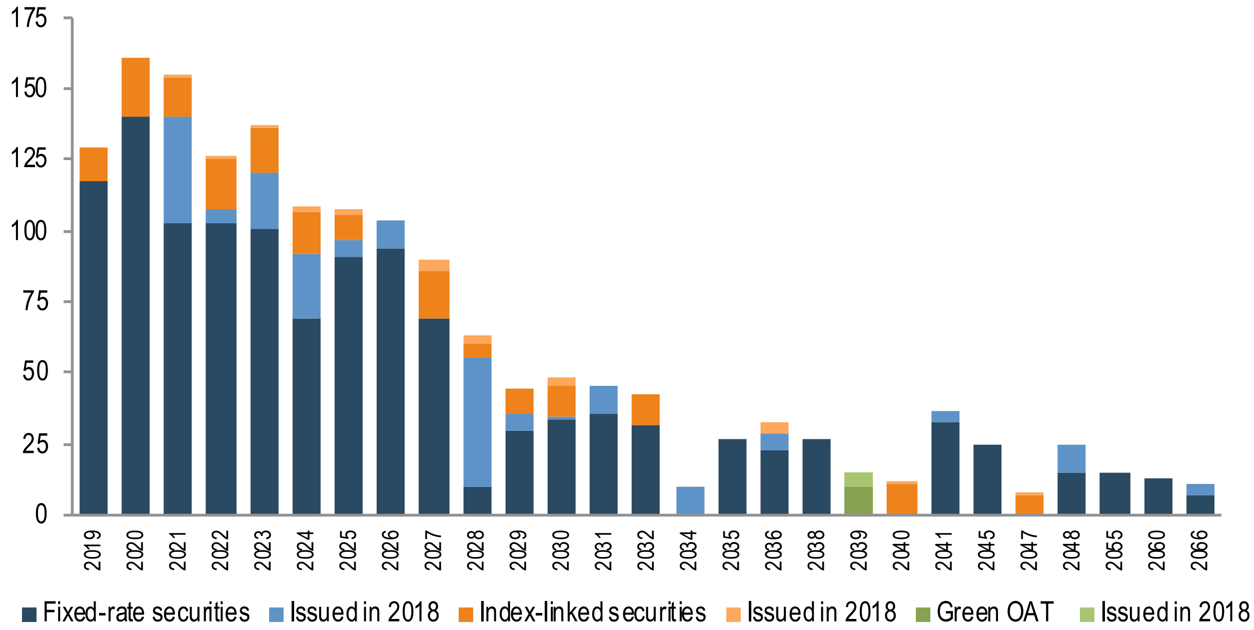
Source: Agence France Trésor

(1) Outstanding par value issued, not including index-linking supplements, unlike the outstanding amounts shown in other tables.

(2) Excluding buybacks of securities maturing during the year, which are recognised as redemptions.

BREAKDOWN OF MEDIUM AND LONG-TERM DEBT AS OF 31 DECEMBER 2018

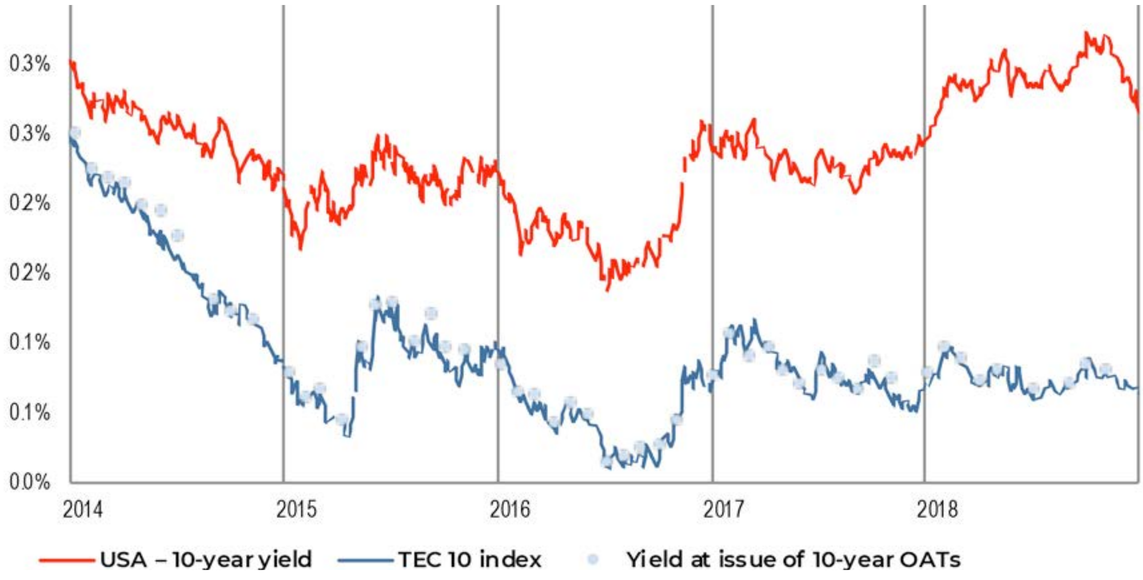
Par value (in € billion)



Source: Agence France Trésor

LONG-TERM YIELDS

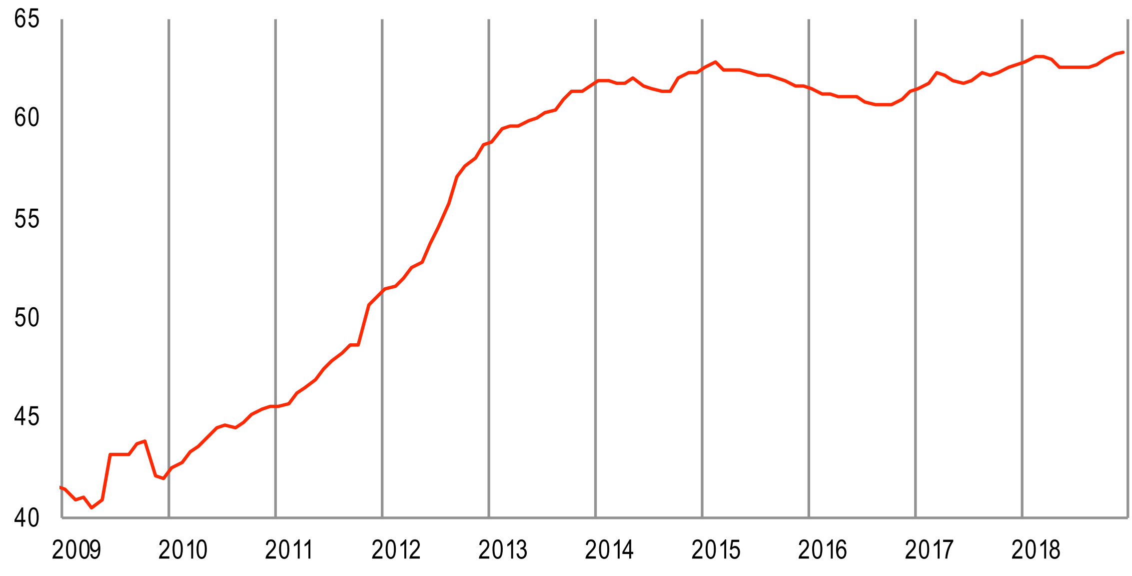
In %



Sources: US Treasury, Banque de France, Agence France Trésor

STRIPS OUTSTANDING

In € billion



Source: Euroclear

DETAILS OF MEDIUM- AND LONG-TERM OUTSTANDING

In € million

	OUTSTANDING END-2017	ISSUANCE 2018	BUYBACKS 2018	OUTSTANDING END-2018
OAT 0.00% 25 February 2019	16,680	–	8,200	8,480
OAT 4.25% 25 April 2019	30,648	–	1,375	29,273
OAT 1.00% 25 May 2019	18,980	–	3,245	15,735
OATi 1.30% 25 July 2019	11,740	–	50	11,690
OAT 3.75% 25 October 2019	33,075	–	380	32,695
OAT 0.50% 25 November 2019	28,737	–	6,560	22,177
OAT 0.00% 25 February 2020	28,009	–	5,674	22,335
OAT 3.50% 25 April 2020	38,946	–	1,700	37,246
OAT 0.00% 25 May 2020	22,969	–	2,000	20,969
OAT 2.5% 25 October 2020	36,562	–	1,200	35,362
OAT 0.00% 25 February 2021	–	31,275	–	31,275
OAT€i 0.10% 01 March 2021	6,422	1,144	–	7,566
OAT 0.00% 25 May 2021	23,653	5,851	–	29,504
OAT 3.0% 25 April 2022	44,359	2,063	–	46,422
OAT 0.00% 25 May 2022	25,105	2,352	–	27,457
OAT€i 1.10% 25 July 2022	17,929	1,084	–	19,013
OAT 0.00% 25 March 2023	9,851	19,208	–	29,059
OAT 1.75% 25 May 2023	35,237	935	–	36,172
OATi 2.10% 25 July 2023	15,695	710	–	16,405
OAT 0.00% 25 March 2024	–	20,296	–	20,296
OAT 2.25% 25 May 2024	33,135	1,675	–	34,810
OAT€i 0.25% 25 July 2024	14,585	1,989	–	16,574
OAT 1.75% 25 November 2024	36,026	999	–	37,025
OATi 0.10% 01 March 2025	8,635	1,622	–	10,257
OAT 0.50% 25 May 2025	34,702	2,364	–	37,066
OAT 6.00% 25 October 2025	27,609	1,985	–	29,594
OAT 1.00% 25 November 2025	28,307	2,166	–	30,473
OAT 3.50% 25 April 2026	35,814	1,053	–	36,867
OAT 0.50% 25 May 2026	27,522	5,752	–	33,274
OAT 0.25% 25 November 2026	30,214	2,910	–	33,124
OAT€i 1.85% 25 July 2027	17,114	3,707	–	20,821
OATi 0.10% 01 March 2028	4,461	3,214	–	7,675
OAT 0.75% 25 May 2028	9,587	23,685	–	33,272
OAT 0.75% 25 November 2028	–	22,300	–	22,300
OAT 5.50% 25 April 2029	30,034	5,611	–	35,645
OAT 2.50% 25 May 2030	33,208	1,911	–	35,119
OAT€i 0.70% 25 July 2030	10,117	2,883	–	13,000
OAT 1.50% 25 May 2031	35,834	10,114	–	45,948
OAT 1.25% 25 May 2034	–	10,054	–	10,054
OAT 1.25% 25 May 2036	22,657	6,569	–	29,226
OAT€i 0.10% 25 July 2036	–	3,916	–	3,916
OAT 1.75% 25 June 2039	9,697	5,096	–	14,793
OAT€i 1.80% 25 July 2040	11,473	474	–	11,947
OAT 4.50% 25 April 2041	32,780	3,372	–	36,152
OAT€i 0.10% 25 July 2047	6,834	1,634	–	8,468
OAT 2.00% 25 May 2048	15,140	9,675	–	24,815
OAT 1.75% 25 May 2066	6,845	3,736	–	10,581
AGGREGATE		**225,384**	**30,384**	
non-index-linked securities		203,007	30,334	
index-linked securities		22,377	50	

Source: Agence France Trésor

GOVERNMENT BORROWING

BORROWING REQUIREMENT

€192.0 billion in 2018 including:

- **€116.6 billion** in redemptions of OATs (including index-linking supplements)
- **€76.1 billion** in deficit financing (excluding future expense)

FUNDING SOURCES

€195.0 billion in OAT issuance in 2018 (net of buybacks)

-€3.0 billion in other funding sources in 2018 including:

- **€9.9 billion** increase in Treasury Correspondents'' deposits (excluding appropriations for the Invest for the Future programme)
- **€11.8 billion** in other funding sources (mainly issue premiums net of discounts)
- **less €13.6 billion** from a decrease in BTFs outstanding
- **less €11.1 billion** from an increase in the cash position (negative contribution to funding sources)

GOVERNMENT CASH FLOWS

In € billion

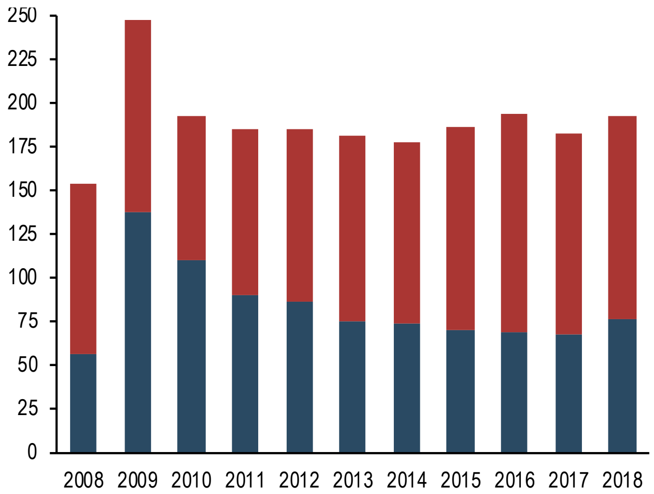
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
BORROWING REQUIREMENT	**160.3**	**246.4**	**196.8**	**185.6**	**187.0**	**185.5**	**179.1**	**189.1**	**194.1**	**183.1**	**192.0**
Redemption of medium- and long-term debt	**97.6**	**110.1**	**82.9**	**94.9**	**97.9**	**106.7**	**103.8**	**116.4**	**124.9**	**115.2**	**116.6**
par value	97.6	107.7	82.2	93.0	95.3	103.8	103.8	114.1	124.5	112.8	115.9
index-linking supplements paid at maturity	–	2.5	0.8	1.8	2.7	2.8	–	2.3	0.4	2.4	0.7
Redemption of other debts	10.3	1.6	4.1	0.6	1.3	6.1	0.2	0.1	–	–	–
Deficit to be financed	56.3	138.0	110.1	90.7	87.2	74.9	73.6	70.5	69.1	67.7	76.1
Other cash requirements	-3.9	-3.4	-0.4	-0.6	0.6	-2.2	1.5	2.0	0.1	0.3	-0.7
FUNDING SOURCES	**160.3**	**246.4**	**196.8**	**185.6**	**187.0**	**185.5**	**179.1**	**189.1**	**194.1**	**183.1**	**192.0**
Medium- and long-term issues net of buybacks	128.5	165.0	188.0	184.0	178.0	168.8	172.0	187.0	187.0	185.0	195.0
Funds allocated to the Caisse de la Dette Publique to reduce debt	–	–	–	–	–	–	1.5	0.8	–	–	–
Change in outstanding short-term government securities	59.8	75.8	-27.0	-9.3	-11.2	7.2	1.4	-22.6	-18.7	-7.5	-13.6
Change in correspondents' deposits	-1.6	0.8	6.0	13.4	13.4	-4.2	-1.3	6.7	1.6	4.7	9.9
Change in cash position (1)	-25.3	-0.5	22.1	-3.9	-2.0	7.9	-1.4	-5.2	4.6	-9.2	-11.1
Other net cash sources	-1.2	5.3	7.7	1.5	8.9	5.7	6.9	22.4	19.7	10.0	11.8

Source: Agence France Trésor; DGFiP

(1) Including short-term investment; a plus sign indicates a reduction in the amount outstanding.

GOVERNMENT BORROWING REQUIREMENT

In € billion



■ Redemption of medium- and long-term debt

■ Deficit financing (excluding appropriations for the Invest for the Future programme)*

Sources: Agence France Trésor, DGFiP

GOVERNMENT BORROWING

DEBT SERVICE DATA

CASH BASIS ACCOUNTING

€41.5 billion net cost charged to “cost of government debt service and cash management” programme in 2018, including:

- **€40.5 billion** for negotiable government debt
- **€0.3 billion** increase compared to the Initial Budget Act (€41.2 billion)
- **€0.2 billion** decrease compared to the 2017 outturn (€41.7 billion euros)

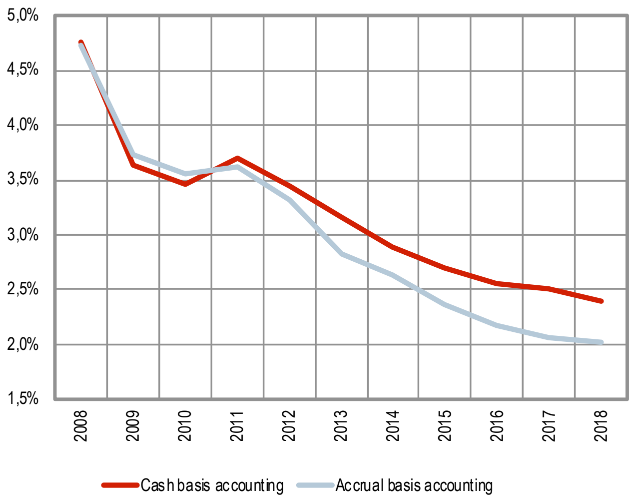
ACCRUAL BASIS ACCOUNTING

Net expense of **€34.1 billion** in 2018 for negotiable State debt alone (excluding cash and assumed debt), including:

- **€37.7 billion** accrued interest on OATs and BTANs
- €4.4 billion index-linking expenses
- -€7.3 billion issue premiums and discounts (reduction in debt service costs)
- -€0.8 billion interest on BTFs

COST OF NEGOTIABLE DEBT SERVICE (OATS AND BTFS)

Implied yield (cost for the year as a % of the outstanding debt at the beginning of the year)



Source: Agence France Trésor

COST OF GOVERNMENT DEBT SERVICE AND CASH MANAGEMENT – CASH BASIS ACCOUNTING

In € million

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NEGOTIABLE DEBT - NET COST (1)	**43,796**	**36,895**	**39,801**	**45,502**	**45,182**	**43,778**	**42,193**	**41,094**	**40,301**	**40,541**	**40,378**
OATs and BTANs - net interest payments	34,785	35,128	36,505	39,924	41,339	41,849	41,118	40,896	41,041	39,087	37,753
Interest paid	36,855	37,923	39,330	42,897	43,958	43,735	43,339	42,702	42,195	40,291	38,764
Revenue from accrued interest at issuance (-)	2,070	2,795	2,825	2,973	2,620	1,887	2,221	1,806	1,154	1,205	1,011
OATs and BTANs - index-linking cost	4,615	84	2,267	3,967	3,638	1,772	932	499	13	2,309	3,348
BTFs - interest paid	4,396	1,682	1,029	1,611	206	158	142	-301	-753	-855	-723
Other expenses and income											
Debt assumed - net cost	626	504	412	265	231	180	83	81	80	80	79
Non-negotiable debt	14	2	1	1	1	1	0	0	0	0	0
Invest for the Future - interest on funds	–	–	165	408	645	667	688	751	754	750	752
Cash management - net cost	14	204	104	66	234	242	181	204	282	297	316
Expenses	751	540	248	365	309	253	205	205	282	297	316
Income	736	336	144	300	75	11	24	1	0	0	0
Other	13	20	20	14	9	17	14	6	30	31	16
TOTAL COST OF DEBT AND CASH MANAGEMENT	**44,464**	**37,625**	**40,503**	**46,256**	**46,303**	**44,886**	**43,159**	**42,136**	**41,447**	**41,697**	**41,541**
Interest-rate swaps - net gain	156	140	386	322	307	208	134	145	145	25	25
Income	1,912	1,210	800	619	488	290	185	155	155	28	29
Expenses	1,757	1,070	414	297	181	82	51	10	10	4	4

Sources: Agence France Trésor, DGFiP

(1) Excluding fees and commissions; excluding gains/losses on buybacks.

COST OF NEGOTIABLE GOVERNMENT DEBT – ACCRUAL BASIS ACCOUNTING

In € million

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NEGOTIABLE DEBT - NET COST (1)	**43,523**	**37,855**	**40,762**	**44,529**	**43,588**	**39,207**	**38,305**	**36,126**	**34,365**	**33,498**	**34,062**
OATs and BTANs - interest and similar expenses	35,252	35,831	37,006	38,507	39,411	37,993	37,450	36,135	34,038	31,834	30,387
Accrued interest	34,944	35,736	38,176	40,285	41,690	41,016	40,667	40,687	40,222	38,612	37,670
Amortisation of issue discounts (+)	1,417	1,457	1,234	1,372	1,491	1,400	1,530	1,621	1,474	1,388	1,287
Amortisation of issue premiums (-)	1,109	1,362	2,404	3,149	3,771	4,423	4,747	6,173	7,658	8,166	8,570
OATs and BTANs - index-linking cost (2)	4,094	-338	2,642	4,412	3,618	1,106	648	170	955	2,535	4,440
BTFs - accrued interest	4,176	2,362	1,114	1,610	559	109	208	-179	-628	-871	-765

Sources : Agence France Trésor, DGFiP

(1) Excluding fees and commissions; excluding gains/losses on buybacks.

(2) The decrease in prices means that a gain was recorded in 2009 (counted negatively as a reduction in expenses).

SHORT-TERM DEBT

SHORT-TERM DEBT DATA

BTFS OUTSTANDING

Outstanding at end-2018 **€112.9 billion**

€13.6 billion less in 2018

BTF ISSUANCE

50 auctions in 2018

€5.8 billion issued per auction on average

Average bid-to-cover ratio* in 2018: **2.86**

**Bid amount to amount auctioned before non-competitive tenders*

EUROPEAN CENTRAL BANK (ECB) REFINANCING RATE

End-2017 : **0.00%**

End-2018 : **0.00%**

AVERAGE YIELD AT ISSUE

	AGGREGATE	O/W 3 MONTHS
2018	**-0.60%**	**-0.60%**
2017	-0.62%	-0.63%
2016	-0.53%	-0.54%
2015	-0.19%	-0.19%
2009-2014 average	*0.36%*	*0.31%*
1998-2008 average	*3.15%*	*3.10%*

Source: Agence France Trésor

BTF OUTSTANDING AND FLOWS

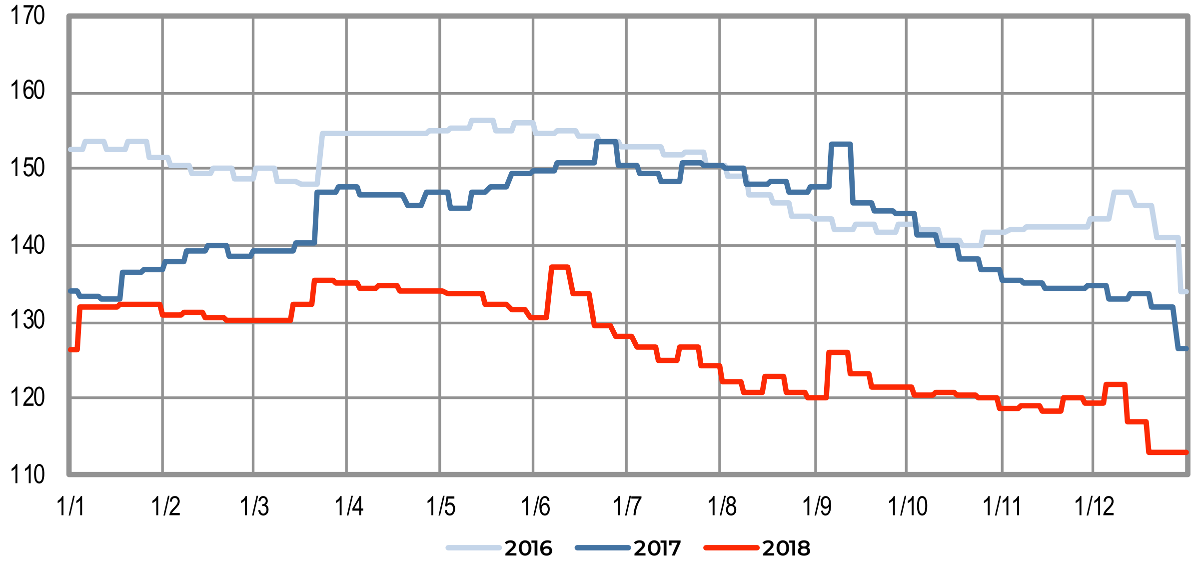
In € million

OUTSTANDING AT END-2017	**126,473**
ISSUANCE IN 2018	**288,279**
<2-month BTFs	—
3-month BTFs	166,649
4-to-5-month BTFs	—
6-month BTFs	64,637
7-to-11-month BTFs	418
12-month BTFs	56,575
REDEMPTIONS IN 2018	**301,852**
<2-month BTFs	636
3-month BTFs	169,622
4-to-5-month BTFs	—
6-month BTFs	71,078
7-to-11-month BTFs	531
12-month BTFs	59,985
OUTSTANDING AT END-2018	**112,900**

Source: Agence France Trésor

PROFILE OF BTFS OUTSTANDING

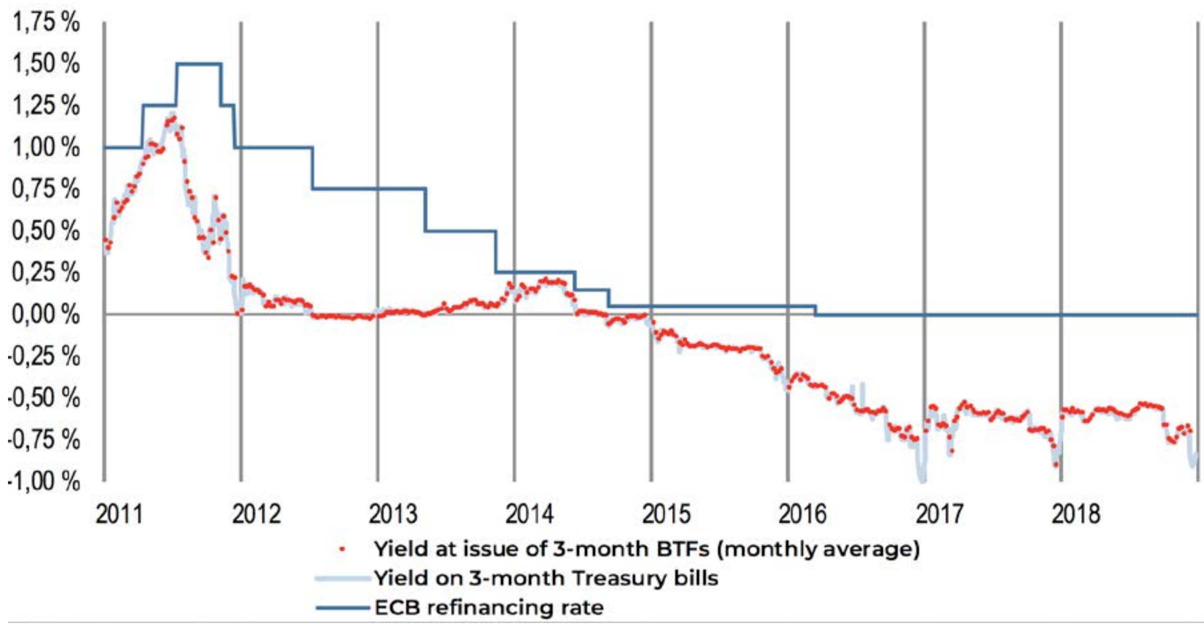
In € billion



Source: Agence France Trésor

YIELDS

In %



Source: Banque de France; Agence France Trésor

OVER-THE-COUNTER BUYBACKS OF OATS

In € million

BY MONTH OF BUYBACK	AMOUNT BOUGHT BACK*
January 2018	2,465
February 2018	9,225
March 2018	6,820
April 2018	–
May 2018	–
June 2018	–
July 2018	1,250
August 2018	4,975
September 2018	400
October 2018	2,100
November 2018	1,425
December 2018	1,724

**Excluding securities maturing in the current year.*

BY BOND BOUGHT BACK	AMOUNT BOUGHT BACK*
OAT 0% 25 February 2019	8,200
OAT 4.25% 25 April 2019	1,375
OAT 1% 25 May 2019	3,245
OATi 1.3% 25 July 2019	50
OAT 3.75% 25 October 2019	380
OAT 0.5% 25 November 2019	6,560
OAT 0% 25 February 2020	5,674
OAT 3.5% 25 April 2020	1,700
OAT 0% 25 May 2020	2,000
OAT 2.5% 25 October 2020	1,200

**Excluding securities maturing in the current year.*

TOTAL BUYBACKS	30,384
Maturing 2018	19,810
Maturing 2019	10,574
Fixed-rate securities	30,334
Index-linked securities	50

BREAKDOWN OF NEGOTIABLE GOVERNMENT DEBT AT 31 DECEMBER 2018

SHORT-TERM DEBT

In euros

ISIN CODE	MATURITY	OUTSTANDING (€)
FR0124747561	BTFs 4 January 2019	5,257,000,000
FR0125218158	BTFs 9 January 2019	9,507,000,000
FR0125064859	BTFs 16 January 2019	5,380,000,000
FR0125218166	BTFs 23 January 2019	5,473,000,000
FR0124747579	BTFs 30 January 2019	6,145,000,000
FR0125218174	BTFs 6 February 2019	6,252,000,000
FR0125064867	BTFs 13 February 2019	4,559,000,000
FR0125218182	BTFs 20 February 2019	6,918,000,000
FR0124747587	BTFs 27 February 2019	5,540,000,000
FR0125218190	BTFs 6 March 2019	5,944,000,000
FR0125218208	BTFs 13 March 2019	4,835,000,000
FR0124909641	BTFs 27 March 2019	4,755,000,000
FR0125218224	BTFs 10 April 2019	4,844,000,000
FR0124909658	BTFs 25 April 2019	4,890,000,000
FR0125218232	BTFs 8 May 2019	3,370,000,000
FR0124909666	BTFs 22 May 2019	4,752,000,000
FR0124909674	BTFs 19 June 2019	3,745,000,000
FR0125064875	BTFs 17 July 2019	4,369,000,000
FR0125064883	BTFs 14 August 2019	4,235,000,000
FR0125064891	BTFs 11 September 2019	3,926,000,000
FR0125218257	BTFs 9 October 2019	4,405,000,000
FR0125218265	BTFs 6 November 2019	3,799,000,000
TOTAL BTFs	**OUTSTANDING**	**112,900,000,000**
	MATURITY (DAYS)	**95**

MEDIUM AND LONG-TERM DEBT (MATURING 2019-2025)

In euros

ISIN CODE	TITLE	OUTSTANDING (€)		INDEXATION COEFFICIENTS	OUTSTANDING (PAR VALUE) (€)	STRIPPED BONDS (€)	CAC
	MATURING 2019	**130,133,383,011**					
FR0013101466	OAT 0.00% 25 February 2019	8,480,000,000				0	×
FR0000189151	OAT 4.25% 25 April 2019	29,273,000,000				0	
FR0011708080	OAT 1.00% 25 May 2019	15,735,000,000				0	×
FR0010850032	OATi 1.30% 25 July 2019	12,885,419,400	(1)	1.10226	11,690,000,000	0	
FR0000570921	OAT 8.50% 25 October 2019	8,844,392,893				5,610,585,100	
FR0010776161	OAT 3.75% 25 October 2019	32,695,000,000				0	
FR0011993179	OAT 0.50% 25 November 2019	22,177,000,000				5,000,000	×
FR0000570954	OAT cap. 9.82% 31 December 2019	43,570,718	(2)		6,692,154	–	
	MATURING 2020	**166,491,152,700**					
FR0013232485	OAT 0.00% 25 February 2020	22,335,000,000				0	×
FR0010854182	OAT 3.50% 25 April 2020	37,246,000,000				0	
FR0012557957	OAT 0.00% 25 May 2020	20,969,000,000				0	×
FR0010050559	OAT€i 2.25% 25 July 2020	25,797,152,700	(1)	1.27017	20,310,000,000	0	
FR0010949651	OAT 2.50% 25 October 2020	35,362,000,000				0	
FR0012968337	OAT 0.25% 25 November 2020	24,782,000,000				0	×
	MATURING 2021	**156,042,361,500**					
FR0013311016	OAT 0.00% 25 February 2021	31,275,000,000				0	×
FR0013140035	OAT€i 0.10% 1 March 2021	7,878,097,500	(1)	1.04125	7,566,000,000	0	×
FR0010192997	OAT 3.75% 25 April 2021	39,352,000,000				0	
FR0013157096	OAT 0.00% 25 May 2021	29,504,000,000				0	×
FR0011347046	OATi 0.10% 25 July 2021	8,142,264,000	(1)	1.04388	7,800,000,000	0	
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000				0	
	MATURING 2022	**129,036,468,940**					
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990				508,888,400	
FR0011196856	OAT 3.00% 25 April 2022	46,422,000,000				0	
FR0013219177	OAT 0.00% 25 May 2022	27,457,000,000				0	×
FR0010899765	OAT€i 1.10% 25 July 2022	21,468,528,950	(1)	1.12915	19,013,000,000	0	
FR0011337880	OAT 2.25% 25 October 2022	32,445,000,000				0	
	MATURING 2023	**139,382,417,203**					
FR0013283686	OAT 0.00% 25 March 2023	29,059,000,000				0	×
FR0000571085	OAT 8.50% 25 April 2023	10,606,195,903				5,377,565,200	
FR0011486067	OAT 1.75% 25 May 2023	36,172,000,000				0	×
FR0010585901	OATi 2.10% 25 July 2023	18,627,221,300	(1)	1.13546	16,405,000,000	0	
FR0010466938	OAT 4.25% 25 October 2023	44,918,000,000				432,085,000	
	MATURING 2024	**109,656,347,600**					
FR0013344751	OAT 0.00% 25 March 2024	20,296,000,000				0	×
FR0011619436	OAT 2.25% 25 May 2024	34,810,000,000				0	×
FR0011427848	OAT€i 0.25% 25 July 2024	17,525,347,600	(1)	1.05740	16,574,000,000	0	×
FR0011962398	OAT 1.75% 25 November 2024	37,025,000,000				51,000,000	×
	MATURING 2025	**107,748,615,408**					
FR0012558310	OATi 0.10% 1 March 2025	10,615,687,290	(1)	1.03497	10,257,000,000	0	×
FR0012517027	OAT 0.50% 25 May 2025	37,066,000,000				0	×
FR0000571150	OAT 6.00% 25 October 2025	29,593,928,118				2,851,064,400	
FR0012938116	OAT 1.00% 25 November 2025	30,473,000,000				0	×

** Like all euro area bonds, the bonds issued after 1 January 2013 have collective action clauses (CACs), which means that they are not fungible with bonds issued prior to this date.*

(1) Par value x indexation coefficients (par value if coefficient is less than 1)
(2) Including capitalised interest as at 31 December 2018; not available for subscription

MEDIUM AND LONG-TERM DEBT (MATURING IN 2026 AND LATER)

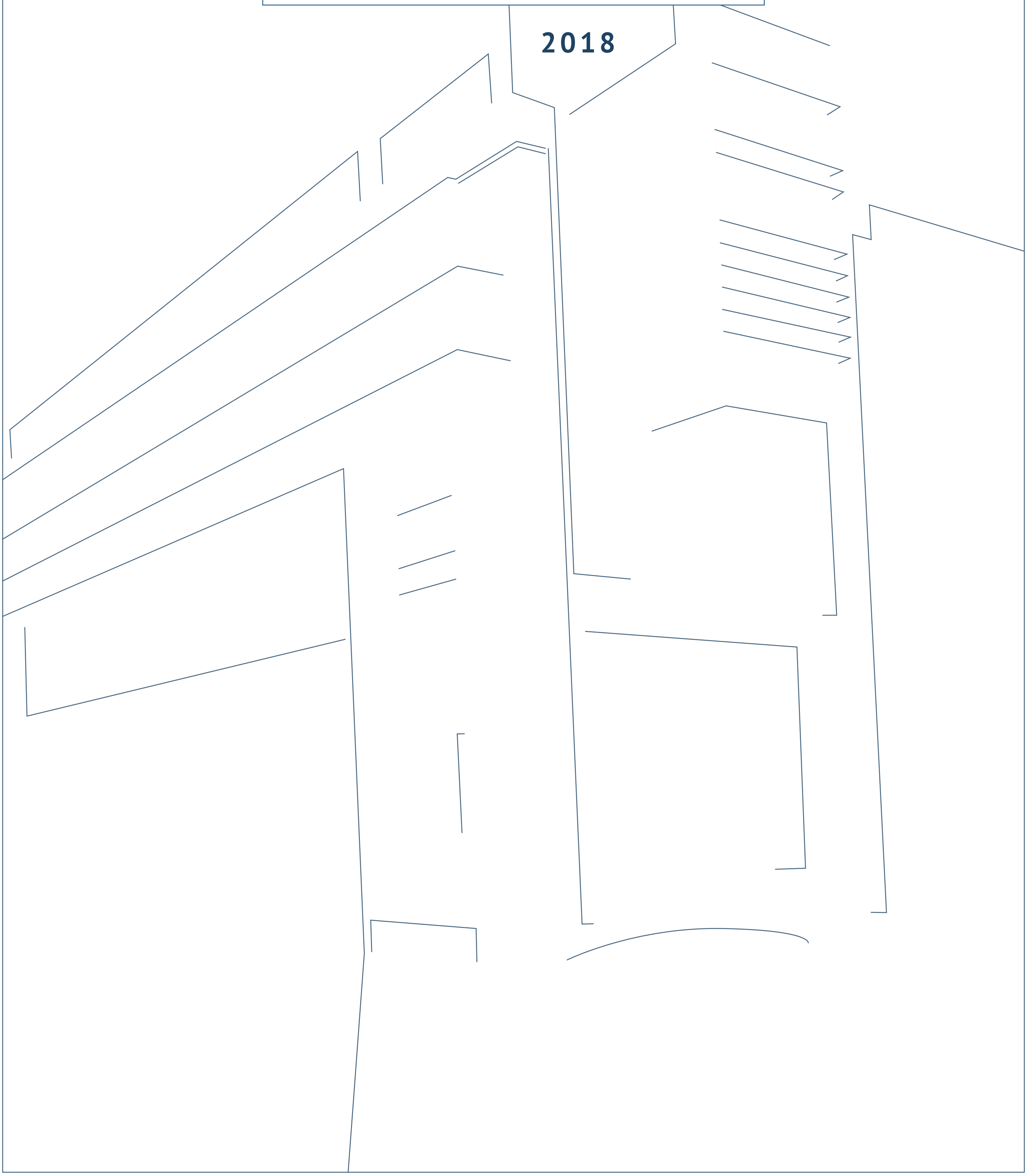
In euros

ISIN CODE	TITLE	OUTSTANDING (€)		INDEXATION COEFFICIENTS	OUTSTANDING (PAR VALUE) (€)	STRIPPED BONDS (€)	CAC*
	MATURING 2026	**103,265,000,000**					
FR0010916924	OAT 3.50% 25 April 2026	36,867,000,000				0	
FR0013131877	OAT 0.50% 25 May 2026	33,274,000,000				0	×
FR0013200813	OAT 0.25% 25 November 2026	33,124,000,000				0	×
	MATURING 2027	**92,073,151,330**					
FR0013250560	OAT 1.00% 25 May 2027	31,451,000,000				0	×
FR0011008705	OAT€i 1.85% 25 July 2027	23,168,151,330	(1)	1.11273	20,821,000,000	0	
FR0011317783	OAT 2.75% 25 October 2027	37,454,000,000				82,343,600	
	MATURING 2028	**63,528,793,364**					
FR0013238268	OATi 0.10% 1 March 2028	7,930,193,750	(1)	1.03325	7,675,000,000	0	×
FR0000571226	OAT zero coupon 28 March 2028	26,599,614	(2)		46,232,603	–	
FR0013286192	OAT 0.75% 25 May 2028	33,272,000,000				0	×
FR0013341682	OAT 0.75% 25 November 2028	22,300,000,000				0	×
	MATURING 2029	**46,950,705,817**					
FR0000571218	OAT 5.50% 25 April 2029	35,644,880,458				2,937,446,100	
FR0000186413	OATi 3.40% 25 July 2029	11,305,825,359	(1)	1.29444	8,734,144,000	0	
	MATURING 2030	**48,688,530,000**					
FR0011883966	OAT 2.50% 25 May 2030	35,119,000,000				0	×
FR0011982776	OAT€i 0.70% 25 July 2030	13,569,530,000	(1)	1.04381	13,000,000,000	0	×
	MATURING 2031	**45,948,000,000**					
FR0012993103	OAT 1.50% 25 May 2031	45,948,000,000				61,500,000	×
	MATURING 2032	**45,784,582,500**					
FR0000188799	OAT€i 3.15% 25 July 2032	13,622,259,900	(1)	1.28694	10,585,000,000	0	
FR0000187635	OAT 5.75% 25 October 2032	32,162,322,600				11,286,157,400	
	MATURING 2033 OR LATER	**258,770,694,280**					
FR0013313582	OAT 1.25% 25 May 2034	10,054,000,000				0	×
FR0010070060	OAT 475% 25 April 2035	26,678,000,000				4,886,337,000	
FR0013154044	OAT 1.25% 25 May 2036	29,226,000,000				0	×
FR0013327491	OAT€i 0.10% 25 July 2036	4,009,200,800	(1)	1.02380	3,916,000,000	0	×
FR0010371401	OAT 4.00% 25 October 2038	26,534,000,000				4,753,931,400	
FR0013234333	OAT 1.75% 25 June 2039	14,793,000,000				0	×
FR0010447367	OAT€i 1.80% 25 July 2040	14,242,257,640	(1)	1.19212	11,947,000,000	0	
FR0010773192	OAT 4.50% 25 April 2041	36,152,000,000				6,833,999,000	
FR0011461037	OAT 3.25% 25 May 2045	24,908,000,000				1,231,710,000	×
FR0013209871	OAT€i 0.10% 25 July 2047	8,797,235,840	(1)	1.03888	8,468,000,000	0	×
FR0013257524	OAT 2.00% 25 May 2048	24,815,000,000				730,100,000	×
FR0010171975	OAT 4.00% 25 April 2055	14,926,000,000				7,740,118,000	
FR0010870956	OAT 4.00% 25 April 2060	13,055,000,000				7,208,804,100	
FR0013154028	OAT 1.75% 25 May 2066	10,581,000,000				642,900,000	×
TOTAL MEDIUM AND LONG-TERM DEBT	**OUTSTANDING (PRESENT VALUE)**	**1,643,500,203,653**					
	OUTSTANDING (PAR VALUE)	**1,618,659,728,719**					
	STRIPPED BONDS OUTSTANDING (PAR VALUE)	**63,231,534,700**					
	STRIPPABLE BONDS OUTSTANDING (PAR VALUE)	**1,618,606,803,962**					
	MATURITY (DAYS)	**3,083**	**8 years and 163 days**				
TOTAL DEBT	**OUTSTANDING (PRESENT VALUE)**	**1,756,400,203,653**					
	OUTSTANDING (PAR VALUE)	**1,731,559,728,719**					
	MATURITY (DAYS)	**2,891**	**7 years and 336 days**				

** Like all euro area bonds, the bonds issued after 1 January 2013 have collective action clauses (CACs), which means that they are not fungible with bonds issued prior to this date.*
(1) Par value x indexation coefficients (par value if coefficient is less than 1)
(2) ncluding capitalised interest as at 31 December 2018; not available for subscription

FACT SHEETS

2018



ISSUANCE TECHNIQUES

The principal method of issuing French government securities since 1985 has been the "bid price system" (called "à la hollandaise" in France). Nowadays, bank syndicates are used only in special circumstances.

BID PRICE AUCTIONS

Participants compete in the auction on an equal footing through a transparent system of open bidding according to a planned issuance programme. The bid price system consists of supplying securities at the bid price or the effective bid rate as opposed to the marginal price or rate. This type of auction is known as an "auction with several prices and sealed prices". The highest bids are served first, followed by lower bids and so on, up to AFT's target amount. Participants pay different prices that are equal to their different bid prices.

PROCEDURES:

- Auction announcements: for BTF auctions, AFT announces one business day prior to the auction the upper and lower limits on the amounts it intends to issue of each security designated in the quarterly calendar for BTF issues. For OAT auctions, AFT announces four days prior to auction the securities concerned and an upper and lower limit.
- The running of auctions: bids from participants (primary dealers) may be sent to the Banque de France up to the auction cut-off time (10.50am for auctions of medium- and long-term OATs, 11.50am for auctions of inflation-indexed securities, 2.50pm for auctions of BTFs). The Banque de France delivers the bids to AFT withholding the names of the bidders. AFT then determines the amount bid. AFT serves all of the bids over the price limit in OAT auctions or all of the bids under the yield limit in BTF auctions. It may reduce bids at the price limit or yield limit proportionately.
- Publication of prices: auction results are immediately announced to the bidders, displayed on the specialised agencies' screens and posted to the AFT website. These disclosures report the quantities requested, the quantities served, the marginal price for each security (or marginal rate for BTFs) and the weighted average rate for the various securities auctioned.

SYNDICATED ISSUES

Bought deals, which are another issuance technique, are usually conducted by syndication. This is a specific commitment between banks (bidders forming a banking syndicate) and the issuer to buy securities for an agreed price.

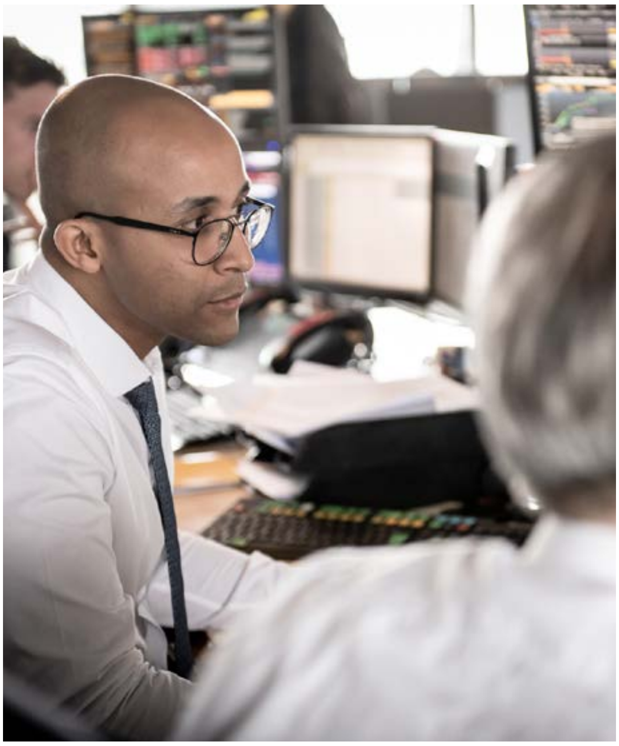
This technique is used to issue innovative securities or securities on less deep market segments, particularly on the long end of the yield curve (15 years and more).

LIST OF SYNDICATED BOND ISSUES SINCE 2010:

- 26 June 2018: syndicated issue of the OAT 2.0% 25 June 2039 (Green OAT)
- 28 March 2018: syndicated issue of the OAT€i 0.10% 25 July 2036
- 16 May 2017: syndicated issue of the OAT 1.75% 25 May 2048
- 24 January 2017: syndicated issue of the OAT 2.00% 25 June 2039 (Green OAT)
- 28 September 2016: syndicated issue of the OAT€i 0.10% 25 July 2047
- 12 April 2016: syndicated issue of the OAT 1.25% 25 May 2036 and the OAT 1.75% 25 May 2066
- 11 June 2014: syndicated issue of the OAT€i 0.70% 25 July 2030
- 26 March 2013: syndicated issue of the OAT 3.25% 25 May 2045
- 9 February 2011: syndicated issue of the OAT€i 1.85% 25 July 2027
- 10 March 2010: syndicated issue of the OAT 4.00% 25 April 2060

PROACTIVE DEBT MANAGEMENT

AFT can intervene on the secondary markets in several ways.



BUYBACKS

AFT can carry out over-the-counter (OTC) buybacks and reverse auctions to pre-finance future issuance programmes and spread the amounts to be issued over time. AFT factors in market conditions when doing so: buying back securities on the market depends on their liquidity and price. AFT publishes a monthly report on the amounts of each security bought back during the month.

In 2018, AFT bought back €30.4 billion in securities maturing in 2019 and 2020.

SECURITIES SWAPS

The goal is to replace the oldest securities, which are often the least liquid, with securities with stronger market demand. Such swaps are conducted via auctions or syndicated deals by offering newly issued securities in exchange for older securities that are then retired.

The last swap was held on 4 December 2008. It entailed swapping OATs 4% 25 October 2038 for OATs 5.75% 25 October 2032. A total of €1.367 billion in OATs 2038 were issued and €1.129 billion in OATs 2032 were bought back.

INTEREST-RATE SWAPS

Since 2001, AFT has managed the average residual maturity of debt. This maturity has been fairly long as a natural result of the requirement that each issue be liquid, growing demand from investors for very long maturities and refinancing risk management. When the yield curve is clearly normal, with higher yields on the longer maturities and lower but more volatile yields on the shorter ones, reducing average maturity should help reduce the cost of debt service in the long run, all else being equal. On the other hand, this cost will be more variable.

The aim of reducing the average residual maturity of debt is to strike a balance between lower interest expense and greater variability of this expense. Such a reduction should be implemented gradually over one economic cycle or longer, since interest rates vary according to economic conditions.

The cumulative gains from the interest-rate swaps programme came to €3.9 billion between 2002 and the end of 2018.

At end-2018, this strategy was still suspended. The interest-rate swaps programme may nevertheless be revived if warranted by market conditions.

BTFs

Fixed-rate discount Treasury bills (BTFs) are similar to short-term Treasury bonds. They have an initial maturity of up to one year.

MARKET OVERVIEW

The maturity of BTFs is expressed in weeks. The most frequently issued maturities are 13, 26 and 52 weeks. Bills with maturities of 20-24 weeks may be issued as half-year bills and bills with maturities of 48-52 weeks may be issued as one-year bills.

BTFs have a par value of €1 and are issued every week by auction according to a quarterly schedule published by AFT in advance. This schedule specifies the maturities of the bills that will be auctioned during the quarter. Unscheduled issuance of certain BTFs with shorter than standard maturities may take place to meet the State's cash requirements. Generally speaking, a quarterly BTF, a half-year BTF and a one-year BTF are normally issued each week.

On 31 December 2018, total outstanding BTFs stood at €112,900 million.

To ensure the fungibility of new and existing issues, the maturities of new bills are aligned on those of previously issued bills. In 2018, the market featured between 22 and 25 different BTFs at any time.

AUCTIONS

Every Friday at 11am, AFT announces the BTFs that will be auctioned the following Monday. The announcement includes the amounts to be auctioned with an upper and lower limit for each BTF to ensure that there is sufficient flexibility to meet demand.

Bids of at least one million euros are expressed as a money-market straight-line yield to three decimal places, with ticks of 0.5 basis points, and as the exact number of days out of 360 (ACT/360). BTFs are discounted Treasury bills. The pro-rated discount is applied to the par value of the bill when the bill is issued. Therefore no coupon payments are made.

As of Monday 6 October 2014, settlement of BTF auctions has been at T+2 to bring primary market settlement dates into line with secondary market settlement dates.

TRADING

BTF purchases on the secondary market are governed by the same rules that govern primary market purchases. Trades are based on a money-market straight-line yield to three decimal places, with ticks of 0.5 basis points, and the exact number of days out of 360 (ACT/360). Since 2 April 2012, the settlement date for BTFs on the secondary market is T+2, instead of T+1 as before.

OATs

OATs are fungible medium- and long-term Treasury bonds with a maturity of 2-50 years.

For the sake of simplicity, as of 1 January 2013, new benchmark medium-term securities (2-year and 5-year maturities), formerly issued as BTANs, have been issued as OATs, as have long-term securities with 8-year maturities or longer in 2018.

OATs are now the only form of medium-term and long-term State borrowing. They were formerly used solely for long-term borrowing between 1985 and 2012. OATs are fungible securities with maturities at issue of 2 to 50 years. They are usually issued by auction. New issues are generally associated with existing issues. This enables the State to issue new bonds at a price in line with the latest market prices but identical in every other way to the initial issue. As a result, the State avoids issuing too many bonds with different characteristics and ensures the liquidity of those already issued.

OATs have a par value of €1. The value of the accrued coupon is calculated on the basis of the exact number of days over the exact number of days (ACT/ACT). The maturity dates and coupon dates of OATs are either the 1st or 25th of the month. OAT trades are settled by national and international central securities depositories.

OAT AUCTIONS

On the Friday preceding an auction, AFT announces the bonds to be auctioned on the following Thursday and the upper and lower limits of the total amount to be auctioned. Auctions of long-term OATs (maturities of 8 years or more in 2018) are held on the first Thursday of the month at 10.50am while auctions of medium-term OATs (maturities of 2-8 years in 2018) are held on the third Thursday of the month at 10.50am. Bids of at least one million euros are expressed on the basis of price as a percentage of par value net of accrued interest to two decimal places. Since 6 October 2014, OAT auctions have been settled at T+2, i.e. the following Monday.

INDEX-LINKED OATs

The State issued the first OAT linked to the French consumer price index (OATi) on 15 September 1998. This innovation was followed in October 2001 by the very first issue of an OAT linked to the euro-area consumer price index (OAT€i).

Since then, AFT has issued index-linked securities on a regular and transparent basis, thus creating two real yield curves, one linked to French inflation and the other to euro-area inflation. Such securities account for around 10% of AFT's annual issuance programme, net of buybacks: 9.9% in 2013, 10.3% in 2014, 9.5% in 2015, 10.9% in 2016, 10.8% in 2017 and 11.5% in 2018.

Since 2004, OATi and OAT€i auctions are held on a regular basis on the same day as auctions for medium-term OATs, but during a separate session held at 11.50am. As of 2016, the optional August and December auctions may include issuance of index-linked securities. In this case, the auction is held on the first Thursday at 11.50 am. OATi and OAT€i are designed for all types of investors looking to protect the purchasing power of their investments, improve their asset-liability management or diversify their investment portfolio. They are intended for resident or non-resident institutional investors, such as insurance companies, pension and social welfare funds, asset managers and banks, as well as retail investors.

On 31 December 2018, the par value of outstanding OATi issues totalled €62,561 million and OAT€i €132,200 million.

OATi GENERAL CHARACTERISTICS

They have a par value of €1 and the real coupon yield is calculated as a fixed percentage of the index-linked principal. It is established at the time of issue and remains fixed to maturity. The coupon is paid annually and calculated as follows: real coupon yield x par value x indexation coefficient. The indexation coefficient is equal to the daily inflation benchmark of the day divided by the basic benchmark. The daily benchmark is calculated by linear interpolation between the consumer price index excluding tobacco (CPI) for the month M-3 and the CPI for the month M-2, and the basic benchmark is the daily benchmark used to calculate changes in the price index. The benchmark index is the CPI, the consumer price index excluding tobacco for all French households published every month by INSEE.

AFT calculates and publishes the daily inflation benchmarks and indexation coefficients on its website.

OAT redemption is based on the following formula: par value x indexation coefficient. If the daily inflation index at maturity is lower than the basic benchmark, redemption at par is guaranteed.
For more information see:
https://www.aft.gouv.fr/fr/oati-presentation

OAT€i GENERAL CHARACTERISTICS

OAT€i are identical to OATi apart from the benchmark index, which is the Harmonised Index of Consumer Prices (HICP) excluding tobacco for the euro area. This index is published by Eurostat on a monthly basis.

For more information see:
https://www.aft.gouv.fr/fr/oateuroi-presentation

(1) The dated date for an OAT is the starting date for calculating the first coupon for the said OAT, i.e. the coupon date immediately prior to the first date of issue for the OAT in question. For example, an OAT issued for the first time on 1 April of year Y, with a coupon date of 25 May, will have a dated date of 25 May of year Y-1.

THE OAT MARKET
FOR RETAIL INVESTORS

AFT, in partnership with Euronext and the primary dealers, has established a secondary market where retail investors can easily buy and sell OATs, which are bonds issued by the French Republic that are backed by the full faith and credit of the State. Retail investors can purchase fixed-rate OATs with maturities ranging from 2 to 50 years. These bonds have annual coupons and are redeemable at maturity. Retail investors may also buy index-linked OATs.

Anyone can access the OAT market. OATs offer private individuals numerous advantages, including a regular income, protection against inflation, a source of capital to supplement their pension or finance a project in the future, or a means of diversifying their assets.

AN ORGANISED SECONDARY MARKET

Like any other negotiable security, OATs can be sold on the stock exchange at any time for the market price. The Government took steps to modernise the OAT market in 2005 to ensure that it met retail investors' needs. The retail OAT market is managed by Euronext. It operates under the stock market regulations in force and complies with transparency and disclosure rules. This market provides:

- **liquidity:** OATs are highly liquid. Financial institutions acting as market makers ensure the market, overseen by Euronext, remains liquid
- **acceptance of orders:** orders can be placed through traditional or online financial intermediaries.

TAX TREATMENT OF OATs

Article 28 of Act 2017-1837 of 30 December 2017 (2018 Budget Act) has altered the taxation of capital gains and investment income. Since 1 January 2018, capital gains and investment income have automatically been subject to personal income tax at a flat rate of 12.8% under the terms of Article 200 A (1) of the General Tax Code (CGI), in addition to social security contributions at an aggregate rate of 17.2%. Nevertheless, the taxpayer has the option of electing to have these gains and income taxed at the rate corresponding to their personal income tax bracket. This irrevocable option applies to all such gains and income and must be chosen when declaring aggregate income, in accordance with the provisions of Article 200 A (2) of the General Tax Code.

Interest on OATs and government bonds received by individuals domiciled in France for tax purposes has been, with some exceptions, liable to a flat tax or progressive income tax in the year following its receipt after being subject, in the year of receipt, to a withholding ("advance payment") of 12.8% (plus social contributions totalling 17.2% on investment income). This mandatory withholding is applied against the personal income tax liability for the year in which it was made. If the amount withheld is greater than the tax liability, the difference is reimbursed in accordance with the provisions of Article 125 A (V, 1) of the General Tax Code.

STRIPPED OATS

Bond stripping separates coupon payments and bond principal redemption payments, thus creating the same number of zero-coupon bonds and a series of coupons. This technique makes it possible to trade the bond principal and interest payments separately.

France was the first European sovereign debt issuer to authorise bond stripping in 1991. It has since become the euro area benchmark for stripped bonds.

On 31 December 2018, outstanding fixed-rate OAT strips totalled €63.3 billion, equivalent to 4.4% of outstanding fixed-rate strippable bonds.

THE MARKET

The market for stripped OATs enjoys the same liquidity and security guarantees as the market for other Government securities. Stripping and unstripping are managed by an economic interest group comprising Euroclear France and primary dealers. This group establishes the rules for dealing in bonds of this kind. AFT acts in an advisory capacity.

Primary dealers act as market makers. OAT bonds are listed on the Euronext Paris exchange and traded on the basis of a discount rate expressed as an annual percentage calculated on the basis of 365 or 366 days (ACT/ACT). The price is rounded up to the fourth decimal place as a percentage of the par value.

FUNGIBILITY RULES

At the end of 2009, AFT introduced new rules for stripping and unstripping trades on fixed-rate OATs in response to market demand. The new rules introduced a new type of bond that makes no distinction between principal and interest: a "fungible zero-coupon bond".

When stripped, OATs are now divided into a number of these bonds with the same par value (€0.01) but different maturities, modelled on cash flows attached to the original OAT. All same-maturity bonds are fungible. They may also be unstripped to reconstitute the original bond or a synthetic bond composed of bonds from different OAT issues. Coupons from different OATs are mutually fungible if they have the same maturity.

Like all euro area bonds, the bonds issued after 1 January 2013 have collective action clauses (CACs), which means that they are not fungible with bonds issued prior to this date.

AFT'S MANAGEMENT OF CASH FLOWS

All of the State's cash flows (expenditure and receipts), along with those of local and regional authorities and government-funded institutions (known as "Treasury Correspondents"), are centralised in a single account with the Banque de France. Agence France Trésor is responsible for the day-to-day management of this account.

ENSURING THE CONTINUITY OF STATE FINANCES, IN ACCORDANCE WITH FRANCE'S EUROPEAN COMMITMENTS

Agence France Trésor is responsible for managing the Government's cash holdings. This means ensuring that the Government has the financial resources necessary to meet its commitments at all times, regardless of the circumstances.

This imperative stems from Article 123 of the Treaty on the Functioning of the European Union (TFEU). Under the terms of this Article, the Banque de France, which holds the State's account, is prohibited from granting the State overdrafts. This means that the Treasury Account must show a credit balance at the end of each day.

CASH MANAGEMENT THAT MEETS THE HIGHEST INTERNATIONAL STANDARDS

France has introduced a pooling arrangement called "centralisation" to optimise public cash management. Centralisation of public cash holdings is a best practice recommended by international institutions, including the World Bank and the IMF. France has a highly developed system based on the Treasury Account.

In addition to the State, the vast majority of French public sector entities, including local authorities, local and national government-funded institutions and hospitals, are required to deposit their cash holdings with the Treasury. Some entities also deposit some or all of their cash with the Treasury under the terms of agreements. This is the case for the European Union, which deposits some of its funds with the French Treasury. All of the entities that deposit their cash with the Treasury are called "Treasury Correspondents".

The Treasury Correspondents' deposits are a cash resource for the State. These deposits reduce the State's borrowing requirement.

PROMOTING CENTRALISATION OF PUBLIC SECTOR CASH HOLDINGS

Centralisation prevents the build-up of cash and reduces the overall debt of general government. This has a favourable impact on the yields France obtains on the market and reduces the State's reliance on market financing.

Centralisation is more than a boon for public finances; it also offers benefits to Treasury Correspondents, such as absolute security for their deposits.

USING CASH HOLDINGS IN THE TAXPAYERS' BEST INTEREST

AFT optimises the cost of cash holdings for taxpayers by ensuring that an appropriate cash balance, including a safety cushion, is on hand to meet expected expenditures.

For this purpose, AFT constantly updates its forecasts of cash flows for the coming year. At the end of each day, it forecasts the cash flows for the next day. All day long, AFT monitors expenditures and receipts in real time.

Centralisation enables AFT to oversee both the State's financial flows and those arising from the financial activities of each Treasury Correspondent. It relies on a dedicated information system that identifies each flow.

The cash management strategy, designed to produce optimum security for payment execution, means that the Treasury Account generally shows a surplus. AFT invests this surplus on the interbank market every day to reduce the cost of the cash surplus. These investments may take the form of unsecured loans or securities repurchase agreements. AFT offers investments to its counterparties several times a day, depending on market demand.

ISSUE PREMIUMS AND DISCOUNTS

Securities issuance gives rise to issue premiums and discounts when there is a difference between the coupon yield and the yield demanded by the market at the time of issue.

Premiums and discounts adjust for the difference between the coupon payments and the market yield at the time of issue over the life of the security.

If the coupon yield is greater than the market yield at the time of issue, the price subscribers pay at the time of issue is greater than the "par" value they will receive when the security is redeemed at maturity. In this case, a cash inflow corresponding to an "issue premium" is recognised. In the opposite case, an "issue discount" occurs and the State receives less than the par value of the security at the time of issue. Issue premiums and discounts affect both new issues and issues of off-the-run securities.

In the case of new issues, the differential between the market yield and the coupon yield is determined by two factors. First of all, the coupon yields of new non-index linked securities are rounded to the nearest quarter of a percentage point (increments of 0.25%). Generally this means that the coupon yield is different from the market yield. Secondly, the coupon yield is always positive or zero. This means that negative yields at the time of issue result in an issue premium.

The difference in the case of off-the-run issues stems from the fact that the market yield at the time of issue rarely matches the original coupon yield, which was set when the security was created and applies for its entire life. On one hand, yields vary and, on the other, the residual maturity of the off-the-run security is shorter than the original maturity.

The downward trend in yields in recent years means that the State has recorded more issue premiums than issue discounts. A growing segment of the French yield curve for new issues shows negative yields, which automatically generate issue premiums. The yields at issue for off-the-run securities are most often lower than the original coupon yields on average. The expected upturn in yields is likely to lead to re-issuance of bonds that less frequently produce premiums and more frequently produce discounts. The amounts involved will depend on the bonds issued.

The State's financial accounts record the premiums and discounts on the balance sheet. They are shown as receipts or expenditure in the State cash flow statement.

The debt service recognised in budgetary cash-basis accounting shows only the coupon payments made (issue premiums and discounts have no impact). On the other hand, the State's financial accounts and Maastricht accounts amortise issue premiums and discounts over the life the securities in question. This means that the effective financial expense recognised under both accounting systems corresponds to the market yield at the time of issuance, regardless of the amount of the actual coupon payments.

AFT'S SUPERVISORY DUTIES

Goal: maintain risk management quality standards and minimise incidents.

The internal audit and risk management system must comply with market standards with regard to negotiable debt, cash, derivatives and trades on behalf of third parties. The system should spot problems and incidents that could disrupt debt and cash transactions as early as possible, mitigate them and assess their impact. The system's scope is also broadened due to the diversity of AFT's transactions, the payment circuits used and the growing number of international counterparties.

Under the terms of the Budget Act and the performance indicators submitted to Parliament, AFT states its goal as "achieving a constant quality of risk control that minimises the occurrence of incidents."

Several sets of indicators have been developed to assess whether or not this goal is achieved.

QUALITY INDICATORS RELATING TO AFT'S AUDIT SYSTEM

- The first indicator lists the number of incidents or breaches of AFT's internal rules under its general activity framework (risk limits, authorisations or internal controls breached).
- Five other indicators are assessed by an external auditor (KPMG for 2018) based on a verification of the adequacy of AFT's procedures, given its activities and related risks. The Order of 3 November 2014 relating to internal control in the banking sector has been the benchmark for AFT since 2015.

INDICATORS TRACKING DEBT AND CASH TRANSACTION EXECUTION INCIDENTS

- First indicator: the number of incidents that have an adverse impact on the Banque de France account balance.
- Second indicator: the number of incidents that have a zero or a positive impact on the Banque de France account balance.
- Third indicator: the number of incidents with no impact on the Banque de France account balance that relate to the information systems used to manage transactions, compliance incidents, or other types of incidents such as non-compliance with internal operating procedures.

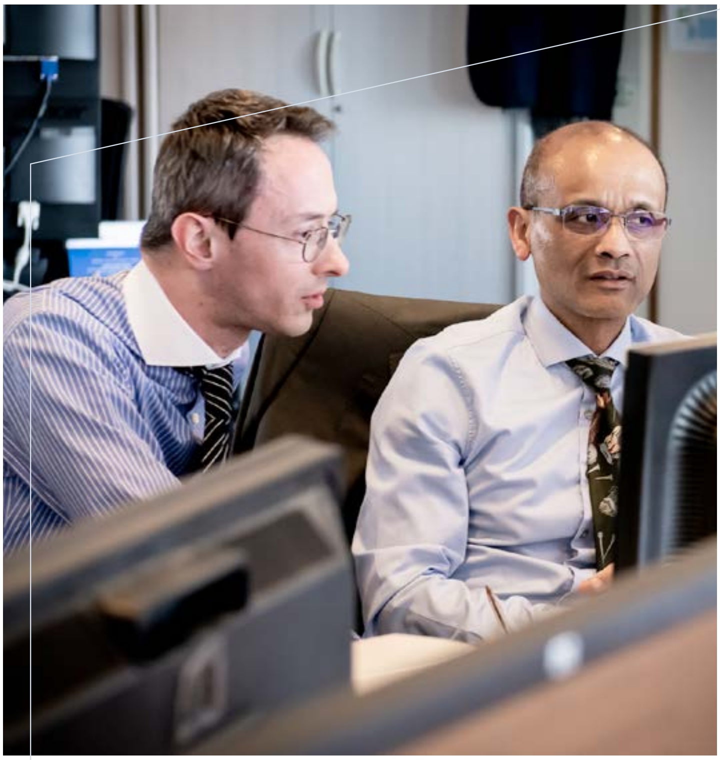
INFORMATION SYSTEM SECURITY POLICY

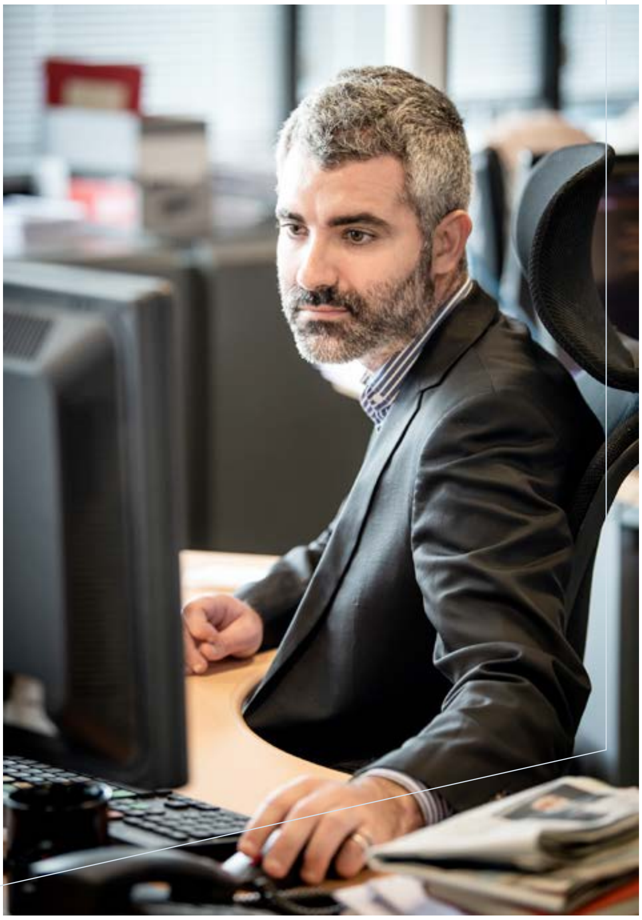
Agence France Trésor’s information system is the mainstay of its operational activity. Consequently, it must provide staff with a high level of security with regard to:

- timely availability of information
- data integrity by preventing any deterioration of the data entered in the long term
- the level of confidentiality appropriate to the information handled

Regular audits by the French Government Audit Office or external audit firms necessarily include an audit of the information system. This part of the audit ensures that the system access policies are compliant with the general framework for AFT's operation regarding the segregation of activities and the procedures for granting and rescinding individual access rights.

Cyber threats create an additional specific need for a more technical audit. These audits are performed by the staff of the Senior Defence and Security Official of the Economy and Finance Ministries (SHFDS) or by the National Information System Security Agency (ANSSI). The purpose of the audits is to verify the hardware and software configuration to ensure that they meet state-of-the-art security standards.





GLOSSARY

BOND
A bond is a recognition of debt. The State, some public sector entities and major corporations issue bonds. The borrowers, promise to pay annual interest until the bonds mature.

COLLECTION
Occurs when a creditor is paid back the sum borrowed. Assess for collection: ask for a receivable to be paid.

CORPORATE ACTIONS
This term covers all actions carried out during a security's lifetime. For bonds, this mainly concerns coupon payments, i.e. the interest on the securities owned. For equities, this concerns paying dividends or stock splits, for example. Both bonds and equities may be exchanged for another type of security.

COUPON
In the past, a coupon was a piece of paper that would be detached from the security in return for payment of interest accrued, a dividend or during another transaction (to prove that the bearer had traded in the coupon). Now that securities are paperless, the coupon refers to bond interest or share dividends. Coupon payment: payment of interest or dividend.

DEBT
Any sum of money borrowed by an individual or legal entity (debtor) that must be paid back to another individual or legal entity (creditor). Until the debt matures, the debtor will pay the creditor interest (coupon) at an agreed rate every year on an agreed date.

DEBT AMORTISATION
Payment of amounts due when a security reaches maturity.
Synonyms: redemption; for the creditor: collection.

DELIVERY
Delivery consists of handing over securities to the buyer following a financial transaction or trade.

DEPOSITORY
A financial institution with authorised as a bank where bearers deposit their securities. The depository must know at any time who owns what, the status of securities (unrestricted, loaned, borrowed or pledged), and where the securities are held. Since the move to paperless transactions, depositories for securities have been digitised; they are secure and backed up on a regular basis. Handling electronic securities is immeasurably faster, more flexible and cheaper than handling paper securities was.

INTEREST RATE
Percentage used to calculate the bond coupon, expressed as a percentage. The interest rate is established when the bond or loan contract is issued. It can be fixed or variable. If excessive, it is deemed "usurious".
Interest: sum paid annually to a bondholder by the issuer up to maturity.

LEAD BOOK RUNNER
When a syndicated bond is being issued, the banks that prepare the bond, collect orders, allocate the bond based on supply and demand and set the price are known as lead book runners. There are also co-lead book runners, who have fewer responsibilities, and other members of the syndicate. They participate in the bond issue, but to a lesser extent.

LEGAL TENDER
Currency is legal tender if it can be used in exchange for goods or services, or to pay taxes and duties in a certain geographic area. The euro is legal tender in 19 European countries and Montenegro.

LIQUIDITY
A financial instrument or market is said to be liquid when buy and sell transactions can be carried out without triggering excessive variations in price.

LOAN
Sum of money lent by a creditor temporarily to a debtor.
Synonyms: borrowings, credit; from the lender's viewpoint: receivable, asset; from the borrower's point of view: debt, liability.

MARKET MAKER
Market makers are spot market operators who supply a price whenever they are contacted, regardless of the market situation.

MATURITY
Redemption date established when a loan agreement is signed.
Synonym: redemption date.

OPTIONS
A call option gives the holder the right to buy an asset at a fixed price at a point in the future up to a certain date. A put option gives the holder the right to sell the same asset under the same conditions. Tradable options are contracts that can be exchanged on the regulated markets.

PAR VALUE
Face value of a bond or security. A company's share capital is €X million divided into N shares with a par value of X/N euros. A bond has a par value of N euros: all Treasury securities have a par value of one euro.
Par bonds have a fixed rate of interest in contrast to index-linked bonds.

PRICE
Sum of money equivalent to the market value of a good or service. The price is set by the interplay of supply and demand. Bond prices vary inversely to bond yields.

PRIMARY MARKET
The primary market issues new securities. It is the market for capital increases and bond issues. Compared to the secondary market, which sells "second-hand" securities, the primary market sells only "new" ones.

PRINCIPAL
Value of a bond less the coupon amounts.

RATING
Assessment by agencies specialising in rating the soundness of corporate financial statements and financial instruments issued by an economic agent.
Rating agency: company specialising in corporate credit ratings, i.e. in awarding scores based on the state of the corporate accounts or financial instruments issued.

RISK
Risk is the possibility, which is never zero, of losing all or part of an asset or its equivalent monetary value. Risk is at the very heart of financial activity: evaluating, spreading, assuming, diversifying and hedging risk are all tasks that result in payment for financial transactions. The price of a bond indicates the degree of risk incurred by the buyer. The riskier a particular transaction is, the more the collateral required will increase. Counterparty risk: The risk that the buyer will not pay for what he or she has purchased, that the seller will not deliver what he or she has sold, that the borrower will not repay his or her loan or that the lender will not supply the loan funds promised (and for which he or she has received guarantees). Also called default risk.

SECONDARY MARKET
The secondary market is the market for securities already in circulation (created on the primary market). By ensuring investments remain liquid, the secondary market guarantees the quality of the primary market and the valuation of securities. Primary and secondary markets are therefore highly complementary.

SECURITY
An investment unit, currently stored in electronic format in France.

SETTLEMENT
For financial trades and transactions, settlement consists of a payment by the buyer or subscriber to the seller for the securities acquired and delivery of the securities by the seller.

STRIPPED BONDS
Stripping is a technique that divides a bond into as many securities as there are coupon and redemption payments. The stripped bonds created in this way are sold and listed separately as zero-coupon bonds. There is specific demand for this type of instruments, called strips, on French securities markets.

SYNDICATE
Group of banks that organise and oversee a large bond issue. It comprises lead book runners, co-lead book runners and associated members.

SYNDICATED ISSUE
In principle, syndicated issue means that a bank or a syndicate of banks buys all the securities to be placed with the public from the issuer. This is the preferred placement method for corporate issuers. Syndicated issues were favoured by the French Government up until 1985.

SWAP
Interest rate swaps are based on the comparison of a variable and fixed interest rate. At maturity, one of the counterparties must pay the difference in interest to the other without any exchange of principal. They are particularly suitable for hedging long-term risk within a company. The market for swaps has seen considerable growth and the banks play a key role in market-making. Corporate treasurers like the flexibility offered that enables them to choose the duration, benchmark variable interest rate and the notional value. A swap between a bank and a company can be settled at any time by calculating the present value of the future fixed-rate flows at the market rate and comparing this to the initial notional value. Swaps are also used on a regular basis to hedge the interest rate risk on variable- or fixed-interest rate assets.

TEC
The daily CNO-TEC N index, with a constant maturity of N years (N is between 1 and 30), represents the yield to maturity of a fictitious OAT with a maturity equal to N. The yield to maturity is obtained by extrapolating the annual yields to maturity of the two OATs with maturities closest to N.

TRADE
A stock market operation involving the exchange of a certain quantity of a given security at a certain price between two parties represented by a financial intermediary (investment company). The trade is time-stamped on Euronext. It then goes through clearing, settlement and delivery. Synonyms: transaction, exchange, market.

TRANSACTION
A stock market operation involving the exchange of a certain quantity of a given security at a certain price between two parties represented by a financial intermediary (investment company). Synonyms: trade, exchange, market.

VARIABLE
An interest rate that is not constant throughout the duration of the loan, but which changes depending on outside factors, such as market rates (Euribor, Eonia) or statistical indices.

VOLATILITY (BOND)
Bond market volatility is mainly related to the interest-rate risk that almost only affects fixed-rate bonds, with very few exceptions. The price of a bond varies inversely to the market interest rate. Sensitivity is even greater when the par value and the market interest rate are low.

YIELD CURVE
The yield curve illustrates the relationship between interest rates at different maturities. The curve generally, but not always, slopes upward because of the risk premium (long rates higher than short rates).

LIST OF ABBREVIATIONS

ACOSS
Central Social Security Agency

AFT
Agence France Trésor

AFTI
French Association of Securities Professionals

ANSSI
National Cybersecurity Agency of France

BOE
Bank of England

BTF
Fixed-rate Treasury bill

CAC
Collective action clause

CADES
Social Security Debt Repayment Fund

CDP
Public Debt Fund

CITE
Energy Transition Tax Credit

CPI
Consumer Price Index

DCM
Ministerial Accounts Department

DGFIP
Directorate General of Public Finances

ECB
European Central Bank

EIG
Economic Interest Group

EONIA
Euro OverNight Index Average

ESDM
Economic and Financial Committee (EFC) Sub-Committee on EU Sovereign Debt Markets

GDP
Gross Domestic Product

HICP
Harmonised Index of Consumer Prices

IMF
International Monetary Fund

INSEE
National Statistics and Economic Research Institute

LOLF
Constitutional Bylaw on Budget Acts

OAT
Long-term Treasury bond

OECD
Organisation for Economic Co-operation and Development

OPEC
Organization of the Petroleum Exporting Countries

QE
Quantitative Easing

SCBCM
Ministerial Budget and Accounting Control Unit

SCN
Department with national scope

SEA
Military Fuel Unit

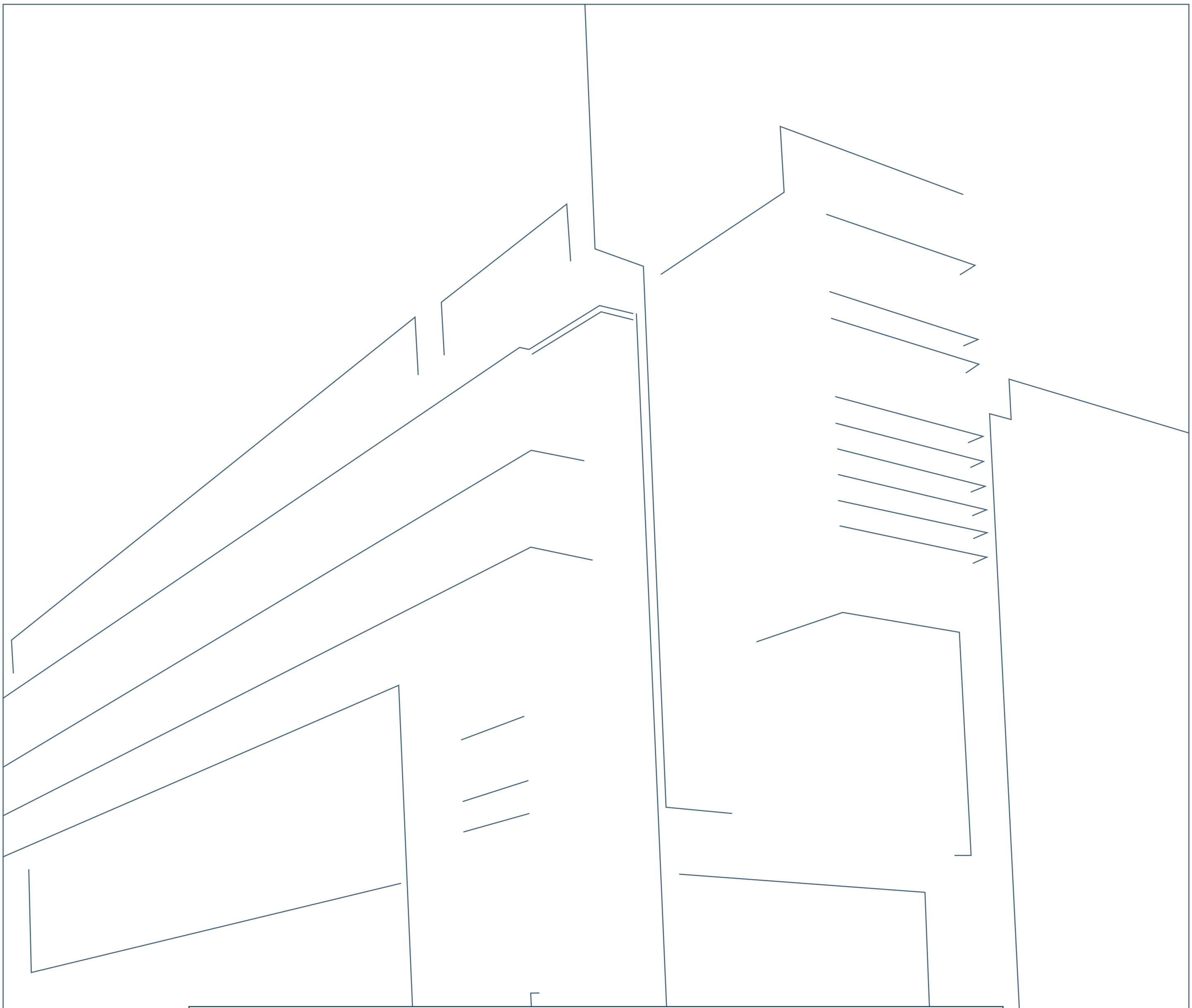
SHDFS
Senior Defense and Security official service from the French Ministry for the Economy and Finance

SVT
Primary dealer

TFEU
Treaty on the Functioning of the European Union

UCITS
Undertaking for collective investment in transferrable securities

WPDM
Working Party on Public Debt Management



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