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Paris EUROPLACE Financial Forum New York

Round Table 2

**"Prospects for Financial Restructuring in France
and in Europe"**

Gérard MESTRALLET intervention

I would like to insist, for my part, on corporate business reality in France and the positive evolutions which raised these very last years that certainly does interest investors.

The French industrial groups, today, are marked by two fields of excellence:

- world-class technical excellence coupled with a high technological level of innovation
- the fact that the whole of the French industrial groups became, in the 30 last years, genuine international groups which have developed a true international corporate culture. They realize more than 50% of their turnover outside France, this rate is much higher than that carried out on average by US firms.

The French industrial groups were faced, since the early 1990s, with the acceleration of the marketization and financierization of the world economy and with the increasing importance of the articulation with stock exchange markets and international investors. It was a great challenge in particular in the dialogue with the shareholders.

In addition, some of our large companies were faced with crises, due to the reversal of markets or, in certain cases, with questionable choices made in corporate management.

I consider, today, that French corporates have taken up most of those difficult challenges and the situation is today radically different from what it was 5 more years ago.

Let me highlight what has been achieved :

- French corporates succeeded in setting up collective answers to the difficulties they have encountered, without there needing, in the majority of the cases, to call upon the intervention of the State. As Chairman and CEO, I thus make a point of underlining the effective co-operation between large companies, the banks of the Paris market financial place, including some of the largest international banking groups present in Paris , to support restructuring plans.

- secondly, the Paris market place succeeded in mobilizing the strong capacity of financial innovation of the banks, but also of the legal and accounting experts, also represented in this round table.

The capacity of financial innovation in France is a driving force. In the case of the restructurings, the definition of long term action plans, the combination of various sources of financing, the innovations as regards legal and financial techniques largely contributed largely to the success of these operations.

- third element, the transparency of the dialogue with international investors has been made possible by the implementation of corporate

governance rules which are amongst the best international standards and which continue to evolve/move.

In his last report, the French Authority of the Financial Markets (AMF) evaluated the practices of corporate governance and internal audit set up by the French firms. It comes out from this analysis that the practices have largely progressed, even in SME's.

I note, among the principal results of the study, that:

- all the firms of the CAC 40 have a Board of directors made up of one or more independent directors (knowing that, in the French law the number of remunerated directors is limited to two, which implies right now that all the facilities are offered to recruit independent directors);
- almost the whole of the companies of the CAC40 have precise procedures in particular defining the rules and the methods of organization and operation of their council as well as attributions and responsibilities for the directors.

This study shows, also, that:

- 100 % of the companies of the CAC 40 created a committee of audit and/or accounts; - more than 40 % created a committee of the nominations or a committee of compensations/nominations.

Significant progress was made as regards evaluation of work of the Board and/or the committees of experts, another significant field. The study indicates that more than 50% of the companies of the CAC 40 proceed, from now on, with the regular evaluation of the collective work of their Board.

But we certainly have to do better : the next step in this field as in others, will largely be the harmonization of European practices, but also on the two sides of the Atlantic, to fulfil the requirements of global financial markets

- finally, I would like to underline the flexibility, to answer these challenges, of the large French companies. One often insists, on the rigidity of the institutional framework in our country and on the difficulty of setting up the essential reforms in the administrative domain and political. This difficulty of the reforms should not mask another French reality of today, which is the extraordinary capacity of adaptation of our industrial groups and their flexibility, I believe that it is what pointed out, one moment ago, by Patrick Artus and Jean-Paul Betbèze.

A certain number of examples, as those which we evoke - Alcatel, France Telecom, Vivendi - illustrates the reactivity of the French industrial groups and in particular their ability to refocus their activities on new growing sectors.

The action that I have carried out for a years at Suez also constitutes, I hope indeed, an illustration of this movement.

Last but not least, the French regulation has been completely removed with the adoption in last July of the new law “de sauvegarde des entreprises”, inspired by the American chapter 11 which brings important reform in terms of transparency, protection of the corporates and, the best security for shareholders as well as bondholders.