

Assemblée Générale Mixte

21 avril 2011

Q & A



QUESTIONS ASKED AT THE GENERAL MEETING

This is a summary of the questions asked orally and in writing during the AGM and the answers to them.

Question:

Will rising raw materials prices have a negative impact on the margins of Bouygues Construction and Colas?

Martin Bouygues:

This is not the first time that raw materials prices have gone up sharply. When we conclude contracts, we try to protect ourselves from these increases by hedging materials such as steel and hydrocarbon-based products. Our contracts include price review clauses that theoretically pass along the increases. This does not happen immediately, however, so there may be a momentary negative impact, but in principle, we are not overly affected by these higher prices.

Question:

As a result of the dramatic events in Japan, the major companies in the nuclear industry will be making huge investments to enhance and improve the safety of nuclear power plants. What opportunities might this create for Bouygues in the construction sector?

Martin Bouygues:

It is likely that these dramatic events will lead to some maintenance operations and even to modifications of nuclear facilities. We are obviously ready to help EDF [the French electric utility] as well as nuclear plant operators with our expertise and engineering capabilities.

Question:

The government recently decided to raise the price of the electricity sold by EDF to 42 euros per MWh as of 1 January 2012. What impact will this have on Bouygues' financial results?

Martin Bouygues:

None. This is the wholesale price set by the government for on-selling EDF's nuclear-generated power to its competitors, so at this level, consumers are not affected. What will have an impact on us are

subsequent price trends for electricity sold to consumers, but that is a different issue.

Question:

Are you thinking about reducing your stake in Alstom by a few percentage points so that you do not have to make a takeover bid?

Martin Bouygues:

No. We are covered by a grandfather clause, which, given the date on which our Alstom shareholding breached the 30% threshold, relieves us of the obligation either to reduce our stake to less than 30% or to make a bid for the company. So there is no reason to sell any shares.

Question:

Alstom has set up a joint venture with a Chinese company. What are the consequences for Bouygues' stake in Alstom?

Martin Bouygues:

There are none. It is a 50–50 joint venture between Alstom and a Chinese partner in which each is putting assets, so there will be no impact on Alstom's capital.

Question:

Are you still eyeing a stake in AREVA?

Martin Bouygues:

Because of the dramatic events in Japan, the nuclear industry is in turmoil right now. This is a matter that we can't really give thought to in the current circumstances.

Question:

What is the future for LCI and Eurosport on the cable channels? What issues will come up when the agreements with Canal+ expire?

Martin Bouygues:

This issue is on the agenda for 2011. The real talks are going to get under way in the coming weeks. We will then see how they turn out. For the time being, we don't have any idea. Canal+ has a monopoly on encrypted broadcasting and is thus in a very strong position. We will see whether we get the terms we need to renew the agreements. For the time being, we don't have a precise idea of how things stand.

Question:

Bouygues Telecom's Spot plan, which combined advertising and free call minutes, disappeared on 18 April. Why? Was Spot profitable? Aren't prepaid phone customers going to pay more as a result?

Martin Bouygues:

This option was dropped because it was not generating enough advertising revenues.

Question:

Congratulations for the presentation on the work being done at Challenger and for the installations themselves. How many years do you estimate it will take to recoup the investment?

Long term, and in particular with the problems of drought, isn't there a risk of thermal and hydrostatic destabilisation from the use of the ground water?

Will it be possible to visit the installations when they are completed or even while the work is going on?

Martin Bouygues:

That is a good suggestion. Next time, we will try to arrange it so that anyone who wants to visit the worksite can do so in complete safety.

Regarding the investment payback period, it will depend a great deal on the cost of energy. But given how quickly energy prices are rising, it is reasonable to think that it should not be too long. As for the water issue, we are using a geothermal system that takes the water and then puts it back. What is being used is not the water itself, but the heat in it. The heat is removed and the water put back immediately, but at a different temperature.

Question:

The government would like to link an increase in dividends to an increase in wages. Could this lead to a change in your dividend policy in the future?

Martin Bouygues:

No. I will simply say that our Group has always had very progressive employee policies in terms of wages and benefits. What we want, obviously, is for each company to be able to adjust its policies according to its particular situation.

I believe the particular situation of each group must be taken into consideration.

Question:

I represent a German shareholder, and I would like to know the percentage of Bouygues' foreign shareholders?

Martin Bouygues:

We have about 40% foreign shareholders.

Question:

The resolutions of the Extraordinary General Meeting authorise a capital increase of up to 41% with no preferential subscription rights. Even if these are classic authorisations – which is the usual response – don't you find this proportion excessive? Moreover, the fifteenth resolution says that these shares may be issued with a 20% discount. Isn't this dilutive? Our association cannot approve resolutions thirteen to eighteen.

Martin Bouygues:

As you say, these are classic resolutions. As the Chairman of the Board of Directors of Bouygues and Bouygues' second-largest shareholder, I believe that our interests are totally bound together. I have no reason to propose resolutions to the Board that would be contrary to shareholders' interests.

Question:

The proportion of women on the board of directors is far lower than the 40% that will soon be mandatory, while the board includes two staff representatives over the appointment of whom the management has no power. What action is the Group taking to see that Bouygues complies with the statutory 40% quota?

Martin Bouygues:

We rank third among CAC 40 companies in terms of the percentage of female directors. We are very proud of that, and we thank the women who are serving on our board. The law requires a quota of 40% in 2017 and 20% in 2014.

Question:

Why propose the "poison pill" of the twenty-fourth resolution? Isn't a rising stock price a company's best protection?

Martin Bouygues:

We are perfectly aware of that.

Question:

When will AGMs be held in Paris?

Martin Bouygues:

Among all the fine buildings constructed by Francis Bouygues, this headquarters is an exceptional work of architecture. I am very eager to maintain, modernise and improve it. We are indeed doing work on it at the moment. I think it would be a shame not to give our shareholders an opportunity to appreciate this outstanding venue.

Question:

What is your feeling about the property market in France? In particular, what consequences would a decline in housing prices have for the Group?

Martin Bouygues:

I'm one of the people hoping for lower housing prices. I am convinced that the property market in France is out of kilter. The excessive, continuing and growing speculation in property is not normal.

This speculation is obviously contrary to the interests of buyers, and in my opinion, it is organised. Both the scarcity and the speculation is organised, with the result that too little property is available, and it is expensive.

I don't think it is normal that a young couple wanting to buy a home cannot find something of tangibly better quality in 2011 than they could have 35 years ago.

The productivity gains in housing construction and the increased purchasing power of households in similar situations over the period have led not to higher quality or larger housing or to better amenities, but to higher real estate costs. It seems to me that from this point of view, all cities have a major responsibility. I find this quite troubling.

We are not speculators. We buy land, complete the construction very quickly, and immediately resell the properties. I will add that housing construction in France remains at a low level. Production levels have indeed risen a little, but they are still weak.

What worries me is that right now, the percentage of property buyers who are using tax exemptions that were introduced – and very wisely, by the way – from the beginning of the crisis is still very high. This means the proportion of first-time homebuyers who are purchasing a place to live in themselves is still fairly small. Full confidence has not returned to the market, and buyers are still afraid. We hope the situation is going to improve as the economy picks up.

Question:

Regarding Colas, I recall that over the past ten years or so the company was doing very well. Then, suddenly, we are being told about problems in Eastern Europe. What happened? Why did everything suddenly start going badly in this region?

Martin Bouygues:

Some Eastern European countries in which Colas had done projects were hit full-on by a severe economic crisis, and they did nothing in particular to soften the blow. They halted their investments in infrastructure, and as a consequence, we have seen a very sharp downturn in business. The result has been substantial operating losses. It was an opportunity to take steps at the management and financial levels and to cut costs. Starting in 2011, you will see the situation improve. I'm quite confident about that.

Question:

I note that this year the proportion of foreign shareholders has increased by 6%, compared with 31 December 2009. Who are they replacing? French institutional investors or private investors?

What is your reaction to this relatively large increase from one year to the next?

Martin Bouygues:

Institutional investors make decisions based on their assessment of future prospects and, in the case of foreign investors, on exchange rates. We have no control over any of that.

I made a statement concerning the problem of dark pools. I will stress this problem again because at the present time, more than half the trading volume in Bouygues stock changes hands without our having any information about what is happening to it.

I find this deeply abnormal. I do not see any progress made on these issues. I think the regulations should be modified. Issuers should have continual access to this type of information.

Jean-François Guillemin:

We are often asked about the number of individual shareholders. The last survey that we did was of shareholders having 2,000 or more shares. The survey indicated that about 2.5% of the capital was held by individual shareholders, but we think that totally, individuals could own nearly 5% of the capital.

Question:

You indicate that over the past ten years sales have gone up by an average of 5% and net profit by an average of 10%, while the dividend increased by a factor of 4.4. Unfortunately, the stock price has not followed these trends. Now for a shareholder, there are two factors of value creation. First, the trend in the dividend – and there, the dividend paid by Bouygues and the trend are entirely satisfactory. There is no problem. The second factor is the price of the stock. Compared with 2005, for example, the price has totally failed to match the trend in the dividend. The P/E ratio is much weaker today. I would like to know what you think of this positive trend in the operating results and the negative one in the stock price.

Martin Bouygues:

I am going to give you a two-part answer.

First, in 2000 Bouygues market capitalization was twice as high as today's, while our results were five to ten times lower.

The second part of the answer is that at the time of Bouygues' IPO, Francis Bouygues told me that it would be great if one day we could have a P/E ratio of 7, that is, market capitalisation 7 times profits. At that period, the P/E for companies like Bouygues was 5. That shows the extreme volatility of stock prices, which are linked to many factors over which the Bouygues board of directors and I have no hold. However, I recently noted one transaction. Vivendi bought SFR's shares in Vodaphone at the minority price, since Vivendi is the majority shareholder. This price gives an idea of how much Bouygues Telecom is worth. The sum-of-the-parts calculation for Bouygues leads to valuations that should, I hope, lift the stock price.

Like you, I am very surprised by the weak stock prices, but it is all part of speculative markets. By definition, speculation involves movement. It goes from one sector to another for reasons that I myself am unable to grasp. Our best weapon is to continue improving our results and growing our dividend because, as you have rightly pointed out, for our shareholders, there are two values: the dividend – that is, the immediate return – and the day they want to sell – that is, the value of the share.

Question:

What is your position regarding the arrival of Free in the mobile phone market next year? How do you see the situation developing, considering what was announced recently: that is, among other things, that Free might charge mobile phone prices about 50% lower than current rates?

Martin Bouygues:

I am always wary of announcements. Often the language is deceptive. If Free charged such rates, the three incumbent operators would have to align their prices with them.

Can you imagine Orange or SFR or Bouygues Telecom dividing their sales figures by half? The three companies would go bankrupt! In this business, theoretically, the bigger you are, the easier it is to amortise one's fixed costs. And in the mobile phone business, Free, in my opinion, is not the largest. I watch all of this with great interest, but I am a bit suspicious. The presentation may be misleading.

We are gearing up for the competition. We are doing more than ever before to get ready for it. Moreover, in the fixed-line market, where Bouygues Telecom arrived as a new entrant barely two years ago, our performance is already better than Free's, and we are very pleased about that.

Question:

Are you feeling any effects from the arrival of the Free Box in the market six months ago?

Martin Bouygues:

No, I would say we are not.