CADES
Caisse d'Amortissement de la Dette Sociale

The Letter

N°31 MAY 2012

Patrice Ract Madoux
Chairman of the Board of Directors

The Board of Directors approved the financial statements for 2011 on 25th April.

Resources allocated to the French Social Security Debt Repayment Fund (CADES) reached €15.5 billion in 2011, enabling €11.7 billion of social security debt to be amortised, in accordance with the amortisation objective stipulated by the 2011 Social Security Financing Act. Bearers of CADES' bonds received a total of €3.8 billion in interest.

CADES issued a total of €31.4 billion in mid- and long-term bonds over the year, consolidating its position as one of the top European government and quasi-government bond issuers.

Sustained growth in European bond markets and a high level of investor interest in quasi-government bonds have enabled swift progress in our new funding programme since the start of 2012. By the end of April the total top-range requirement planned at the start of the programme had almost been met, with €21.0 billion of mid- and long-term debt having been raised on the capital markets.

In the current economic and political climate, where European governments' desire to reduce public debt is clear, we must not underestimate the importance of CADES' amortisation mechanism in managing French public debt. By 31 December 2011, CADES had amortised €59.6 billion of social security debt, equating to 3 per cent of France's GDP. When the interest saving on the amortised debt is taken into account, the reduction in French public debt amounts to 4 per cent of GDP.

Since CADES was first tasked by the French Parliament with amortising social security debt, the resources allocated and collected specifically for our use have ensured that we can make an effective contribution to reducing that debt. These resources ensure that we can continue to pay interest to investors and amortise all our issue capital until the social security debt transferred to CADES by the French Parliament is repaid in full. Since 1995, Parliament has also had a statutory obligation to allocate further resources to CADES for all transfers of debt adopted under annual social security financing legislation. Most recently, with effect from 2010, the French Constitutional Council performs an annual assessment to confirm that these additional resources are sufficient to amortise the social security debt assigned to CADES.

These conditions are prerequisites for us to continue with and fulfil our mission to amortise and therefore reduce the French social security debt.

By ministerial decree of April 24, 2012, Thomas FATOME, Director of Social Security, is appointed member of CADES' Board as a replacement for Dominique LIBAULT

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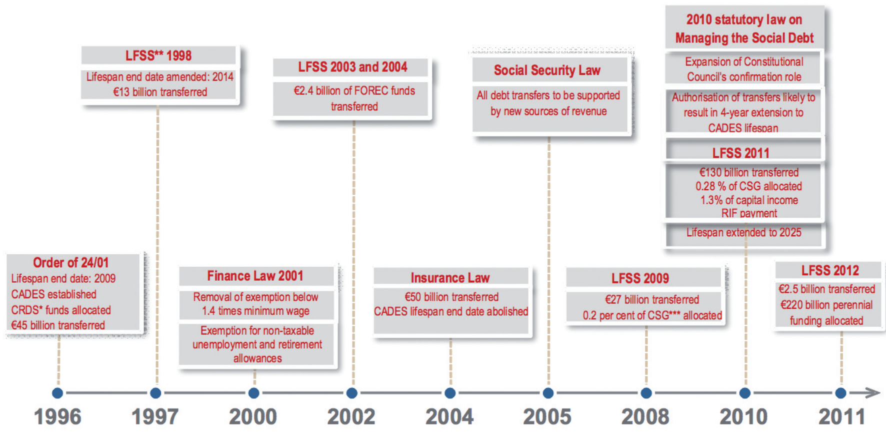
KEY LEGISLATIVE DEVELOPMENTS SINCE 1996



**CRDS: Social Debt Repayment Contribution (Contribution au remboursement de la dette sociale)*
***LFSS: Social Security Finance Law (Loi de financement de la sécurité sociale)*
****FOREC: Fund for financing the reform of employer social security contributions (Fonds de financement de la réforme des cotisations patronales de sécurité sociale)*

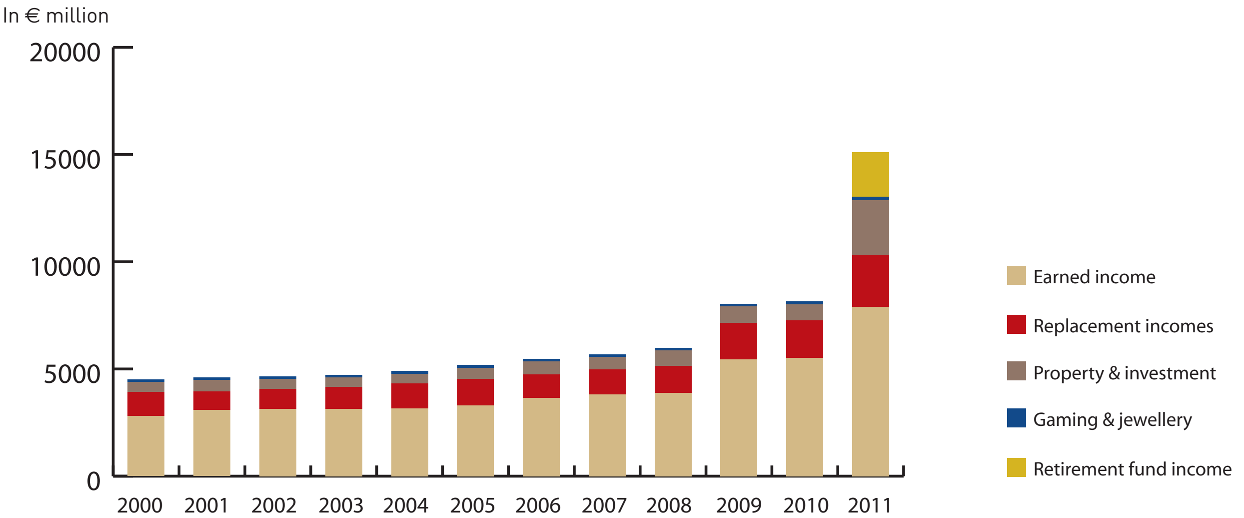
The scope of CADES' responsibility has changed since its inception, as a result of numerous amendments to finance and social security financing legislation.

Section 20 of social security statute no. 2005-881 of 2 August 2005 in particular, provides for **additional resources to be associated with all new transfers of debt to the Social Security Debt Repayment Fund, to ensure that the period for social security debt amortisation is not increased.**

The Constitutional Council declared this section to have the nature of an organic law. It didn't come into force until 2009, when CADES assumed ¤27 billion of debt. Organic law 2010-1380 of 13 November 2010 provided clarification of this section, which enshrines CADES' right to resources that are allocated, ring-fenced and protected for its use. Constitutional Council decision 2010-616 DC of 10 November 2010 enforced the organic law.

At CADES' request, the Chairman of the Constitutional Council reviewed CADES' governing regulations. On 2 March 2012, he stated his findings that CADES' interpretation was compliant with the constitutional framework: *"The Constitutional Council has ruled on this matter on a number of occasions, in particular in decisions No 2005-519DC of 29 July 2005 and No 2010-616DC of 10 November 2010. The Council has judged consistently that the Social Security Financing Law must plan for all resources allocated to social security debt repayment until the end-of-lifespan date stipulated. The Council is thus able to confirm that resources are sufficient for the relevant term to be maintained."*

RESOURCE EVOLUTION SINCE 2000



In 2011, the net book value of CADES' assets was €15.5 billion.

This included Social Debt Repayment Contribution (CRDS), which increased by 6.4% from 2010 to reach a net book value of €6.3 billion. Receipts collected by the Social Security and Family Allowance Contribution Collection Offices (URSAFF) and the Social Security Funds (CGSS) increased by 4.9%. There was also a significant increase in income from the central account (11.9%). Capital income and revenues from gaming and precious metals increased by 4.2%.

CADES resources also include General Social Charge (CSG) revenues, with a net book value of €5.5 billion. The rate of CSG increased from 0.20% to 0.48% on 1st January 2011.

At the same time, in return for the debt assumed, the 2011 Social Security Financing Law (LFSS 2011) allocated CADES 1.3% of the social charges levied on capital revenues. With effect from 1st October 2011, the rate of social charges levied on property income and investment yields increased from 2.2% to 3.4%.

Finally, the LFSS for 2011 provided for an annual payment of €2.1 billion from 2011 to 2024 as part of the programme to balance the financing of pension reforms, a total of €29.4 billion over the period.