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auditor's report

EXECUTIVE SUMMARY

1. MISSION STATEMENT

Ordinance No. 96-50 dated January 24, 1996¹ established the *Caisse d'Amortissement de la Dette Sociale*, or Social Security Debt Repayment Fund (CADES), on January 1, 1996. CADES is an administrative public agency (*établissement public à caractère administratif*, or EPA) supervised by the French Minister of the Economy, Finance and Industry and the Minister in charge of Social Security.

CADES' mission is to:

- Amortize the social security debt transferred to it, i.e. the aggregate deficits of the Central Agency of Social Security Bodies (ACOSS);
- Contribute EUR 3 billion to the general budget of the French government each year until 2005;
- Make payments to various social security funds and organizations.

CADES' lifetime has been extended beyond January 31, 2014 (its original life span), until such date as the social security debt transferred to it has been fully extinguished.

In the furtherance of its mission, CADES receives the proceeds of a special tax known as the CRDS (social security debt repayment contribution), legally introduced in Chapter 2 of the aforementioned Ordinance. It has also received the proceeds from the sale of real-estate assets owned and leased by the national agencies falling under the basic social security scheme and ACOSS.

CADES is authorized to borrow funds, in particular via public offerings and the issuance of negotiable debt securities.

Finally, CADES benefits from repayments of receivables from foreign social security agencies to the national health insurance fund for salaried workers (CNAMTS).

Lastly, in accordance with Act No. 2004-810 dated August 13, 2004, any future surpluses generated by the health insurance branch of the French social security system will be allocated to CADES. The Social Security Finance Act will set out the terms governing this allocation.

2. CADES' ORGANIZATIONAL STRUCTURE

CADES is governed by a Board of Directors and a Supervisory Board. It is subject to the provisions and subsequent amendments of Decree no. 53-1227 dated December 10, 1953, pertaining to the accounting policies applicable to French administrative public agencies, and Decree No. 62-1587 dated December 29, 1962, and amendments thereto, providing general public-sector accounting rules, subject to the legal provisions and regulations specific to CADES (aforementioned Ordinance of January 24, 1996, and Decree No. 96-353 dated April 24, 1996).

Pursuant to these provisions, financial and accounting transactions fall under the responsibility of CADES' Authorizing Officer and Chairman, Mr. Patrice Ract Madoux, and its Chief Accounting Officer, Mr. Jean-Jacques Francois, General Tax Receiving Officer and Central Treasury Accounting Officer.

- CADES' budget for each year is established by November 30th of the previous year by the Board of Directors and approved by the supervising ministers.
- Financing is limited to appropriated funds, excluding expense related to the repayment of loans, financial management costs and assessment and collection charges.
- The Board of Directors reviews and signs off on the accounts drawn up by the Accounting Officer. The financial statements are then transmitted to the General Directorate of Public Accounting (DGCP) prior to submission to the *Cour des Comptes* (Government Audit Office).
- CADES' Board of Directors examines and approves the accounts. In parallel, the Board ensures that CADES maintains a healthy underlying financial basis over its scheduled lifetime by updating CRDS revenue forecasts on the basis of changes in the amortization schedule of the debt carried on the balance sheet as a liability and debt servicing charges.

Accounting procedures and principles are subject to a contractual, independent audit. In addition, CADES is subject to:

- Financial audits conducted by the government, in accordance with the Order dated October 29, 1996, for its administrative management and monitoring of the collection of CRDS revenues, the management and disposal of real-estate property owned by national social security agencies, and repayments obtained from foreign social security agencies.

¹ As amended by the Social Security Finance Act No. 97-1164, dated December 19, 1997, the 2001 and 2002 Finance Acts, the 2003 and 2004 Social Security Finance Acts and Act No. 2004-810 of August 17, 2004 on health insurance.

- External audits performed by a private audit firm for market transactions, in accordance with the Order dated May 22, 1998.
- Audits carried out by the *Cour des Comptes*.

CADES records accounting transactions on an information system installed on a network. The system uses a single database and is managed by software shared by the Authorizing Officer and the Accounting Officer. Clearance to read and alter data has been clearly defined so as to enable the Accounting Officer and the Authorizing Officer to exercise their respective powers.

3. GENERAL PROVISIONS FOR THE RECORDING OF FINANCIAL AND ACCOUNTING TRANSACTIONS

Accounting framework

Article 7 of Decree No. 96-353 dated April 24, 1996, pertaining to CADES, calls for the adoption of a special chart of accounts, drawn up in accordance with the standard chart of accounts for administrative public agencies (Instruction M 9-1 from the General Directorate of Public Accounting).

This standard, modeled on the general chart of accounts, was found to be poorly suited to CADES' activity. Consequently, the Board of Directors agreed on October 10, 1996 to adopt the chart of accounts used by credit institutions.

Since then, both routine transactions and the annual financial statements submitted by the Accounting Officer are presented in accordance with credit institution standards. In addition, financial statements are also drawn up in accordance with the regulatory standard set out in Instruction M 9-1, for submission to audit organizations.

This particular accounting framework was recommended by an independent consulting firm and validated by the Accounting Officer, the General Directorate of Public Accounting and the *Conseil National de la Comptabilité*, the French accounting standards board (Opinion No. 99-04, plenary session held on March 18, 1999).

Transactions performed by the Accounting Officer

Transactions performed by CADES' Accounting Officer vary from those traditionally performed by Accounting Officers in other administrative public agencies.

Due to CADES' status as a market participant, specific structures have been set up in conformity with the mission of the agency. For example, financing transactions are distinguished from administrative transactions.

1. Financing transactions

The administrative workflow of financing transactions is organized into Front Office, Middle Office and Back Office services.

The Front Office is responsible for developing the Fund's asset liability management strategy and carrying out transactions in the financial, interest-rate and currency markets, in accordance with defined limits and procedures. These routine transactions are related to financing, investment and the management of interest-rate and foreign exchange exposures.

A sequentially numbered transaction ticket is issued for each transaction, describing its main features, and validated by the Front Office. The Back Office then double-checks and certifies the ticket before sending it to the Accounting Officer.

The Middle Office gathers information on cash exposures, draws up forecasts, provides repayment schedules, and performs an initial plausibility check of Front Office transactions.

The Back Office records and validates the transactions handled by the Front Office after verifying the formal presentation and observance of limits. The Back Office is in charge of monitoring risk, producing reports and liaising with the accounting departments.

The Accounting Officer then records transaction tickets as income or expenses.

2. Administrative transactions

Transactions are recorded in the administrative section of the budget in compliance with the provisions of the Decree dated December 29, 1962, which sets forth general public sector accounting policies. Administrative expenses are evidenced by payment orders, accompanied by the appropriate supporting vouchers and documents.

After due completion of the control procedures described in Articles 12 and 13 of the aforementioned decree, expenses are booked and paid.

3. Cash movements

CADES holds a deposit account with the Treasury Central Accounting Agency (ACCT). The account, listed in the register of government accounts, is stated in euros. Only the Accounting Officer may authorize payments that fall within the administrative budget, and only after examining the supporting vouchers and documents

Cash movements related to CADES' financing transactions are carried out via ministerial dispensations and joint decisions by the Treasury Director and the DGCP, supported by one or more of the following, depending on the transaction in question:

- Statements of financial flows certified by the Treasury Directorate
- EUROCLEAR statements
- A recap statement certified by members of the Treasury Directorate authorized to carry out transactions on the Treasury's current account with the Banque de France, in accordance with the agreement signed on March 29, 1994 by and between the French government and the Banque de France.

CADES also holds accounts with foreign financial institutions in New York and London.

These accounts are intended to maintain a net balance of zero. Income stated in foreign currencies, derived from issues in the US and Euromarkets, is paid into these accounts, immediately translated into euros, and then transferred to CADES' account with the Treasury.

Due to management constraints that are primarily attributable to the time lag between the European and US markets, CADES has been waived from the requirement set forth in the Decree of December 29, 1962, which grants public accounting officers alone the right to authorize movements in the financial accounts. In the case of CADES, the Back Office carries out transactions on its foreign currency accounts.

FINANCIAL HIGHLIGHTS

In € millions

NET DEBT IN TERMS OF REPAYMENT VALUE

On 12/31/2004	65 813
On 12/31/2003	29 972
On 12/31/2002	29 146

	12/31/04	12/31/03	12/31/02
NET RESULT	-752	- 987	227
- primarily reflecting the following components:			
CRDS net revenues	4 896	4 721	4 645
Payment to the government	-3 000	-3 000	-3 000
Payments to social security funds	-1 097	-1 283	
Interest expense	-1 554	-1 432	-1 433

BALANCE SHEET

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
ASSETS			
Cash in hand, central banks, national giro (note 1)	1.69	13.31	1.23
Government paper and similar securities (note 1)			
Loans and advances to credit institutions (note 1)			
. repayable on demand	1.82	0.05	0.05
. repayable at maturity	3 150.65	1 581.53	677.27
Intangible assets (note 2)	0.01	0.03	0.03
Tangible assets (note 2)	0.07	0.07	0.06
Real-estate assets (note 13a)			34.32
Other assets (note 3)	299.30	53.83	25.74
Accrued income and prepaid expenses (note 4)	1 065.99	888.10	911.60
TOTAL ASSETS	4 519.53	2 536.92	1 650.30
LIABILITIES			
Amounts owed to credit institutions (note 5)			
. repayable on demand			
. repayable at maturity	11 643.49	2 117.25	1 970.96
Debts evidenced by certificates (note 6)			
. Negotiable debt securities	15 091.96	520.84	527.06
. Bonds and related securities	42 141.43	29 205.10	27 633.24
. Other debts evidenced by certificates			
Other liabilities (note 7)	74.86	56.78	191.34
Accrued expenses and deferred income (note 8)	1 304.11	620.84	324.35
Sub-total liabilities	70 255.85	32 520.81	30 646.95
Provisions for contingencies and losses (note 8)	0.08	0.33	0.24
Property endowment	181.22	181.22	181.22
Retained balance brought forward	-65 165.44	-29 178.11	-29 405.34
Balance for the period ended	-752.18	-987.33	227.23
Net liability position	-65 736.40	-29 984.22	-28 996.89
TOTAL LIABILITIES	4 519.53	2 536.92	1 650.30

INCOME STATEMENT

in millions of euros	12/31/2004	12/31/2003	12/31/2002
Interest receivable and similar income (note 9)	313.96	175.45	193.42
. Interest receivable and similar income on transactions with credit institutions	82.63	30.09	52.94
. Interest receivable and similar income on bonds and other fixed-income securities	0	0	0.93
. Other interest receivable and similar income	231.33	145.36	139.55
Interest payable and equivalent expenses (note 10)	-1 842.31	-1 605.05	-1 618.11
. Interest payable and equivalent expenses on transactions with credit institutions	-157.27	-118.93	-128.72
. Interest payable and equivalent expenses on bonds and other fixed-income securities	-1 685.04	-1 486.12	-1 489.39
Commissions payable (note 10)	-25.41	-2.57	-8.49
Net profit or loss on sales of trading account securities and similar transactions (note 11)	0.12	0.03	0.03
. Net profit on foreign exchange transactions	0.12	0.03	0.03
Other income from banking operations	0.00	0.00	0.00
Other expenses from banking operations	-0.03	-0.03	-0.04
NET INCOME FROM BANKING OPERATIONS	-1 553.67	-1 432.17	-1 433.19
General operating expenses (note 13)	-2.29	-2.18	-2.31
. Payroll expense	-0.78	-0.74	-0.73
. Other administrative expenses	-1.51	-1.44	-1.58
Depreciation and provisions for depreciation of intangible and tangible assets	-0.04	-0.05	-0.05
Other operating income	4 960.81	4 824.85	4 871.19
. CRDS-related income (note 12)	4 960.52	4 782.56	4 678.40
. Property sales (note 13a)	0.29	42.29	192.79
Other operating expenses	-4 157.26	-4 377.78	-3 208.41
. CRDS-related expenses (note 12)	-57.74	-58.98	-58.35
. Payment to the government (note 14)	-3 000.00	-3 000.00	-3 000.00
. Payments to social security funds (note 14)	-1 097.31	-1 282.84	-1 282.84
. Expense on property sales (note 13a)	-2.21	-35.96	-150.06
GROSS RESULT OF ORDINARY ACTIVITIES	-752.45	-987.33	227.23
LOSS ON ORDINARY ACTIVITIES	-752.45	-987.33	227.23
PRE-TAX LOSS ON ORDINARY ACTIVITIES	-752.45	-987.33	227.23
. Non-recurring income (note 15)	0.27		
NET RESULT FOR PERIOD ENDED	-752.18	-987.33	227.23

OFF-BALANCE SHEET ITEMS

in millions of euros (notes 16 to 18)	At 12/31/2004	At 12/31/2003	At 12/32/2002
COMMITMENTS GRANTED			
Financing commitments			
. Annual payment to the government (pursuant to Article 4, IV of Ordinance No. 96-50 of January 24, 1996)	3 000.00	6 000.00	9 000.00
. Payments to various social security funding organizations (pursuant to Article 4, V and VI of Ordinance No. 96-50 of January 24, 1996)	15 000.00	1 097.31	1 282.84
COMMITMENTS RECEIVED			
Financing commitments			
. Commitments from credit institutions (note 18)	11 050.00	650.00	0.00

NOTES TO THE FINANCIAL STATEMENTS

2004 OPERATING HIGHLIGHTS

◆ Health insurance reform

Draft legislation on health insurance reform was submitted to Parliamentary debate in the first half of 2004. The Health Insurance Act was published in the Official Journal of the French Republic on August 17, 2004.

In accordance with Article 76 of the Act, which amends Ordinance No. 96-50, CADES will assume to 35 billion euros of deficits accumulated by the health insurance branch as at December 31, 2004. Following an initial payment of 10 billion euros on September 1, 2004, CADES will transfer the remaining funds by December 31, 2004 (with payments scheduled as follows: EUR 7 billion on October 11, 2004, EUR 9 billion on November 9, 2004, and EUR 9 billion on December 9, 2004). A maximum of EUR 15 billion of the 2005 and 2006 deficits will also be assumed by CADES. This sum was recorded at the December 31, 2004 reporting date as an off-balance sheet commitment (under commitments granted).

To provide CADES with the resources needed to fulfill its mission, the CRDS tax will continue to be levied until the social security debt has been fully extinguished. Pursuant to Article 76, Paragraph 1 of the Act of August 13, 2004, "the portion of health insurance branch income that exceeds the expenses of the branch shall be allocated to the Caisse d'amortissement de la dette sociale, under the conditions defined in the Social Security Finance Act."

◆ Amounts payable under the Social Security Finance Act for 2004

On April 1, 2004, CADES paid 1.097 billion euros to ACOSS for distribution to the national health insurance fund for salaried workers (CNAMTS), the national family allowance fund (CNAF) and the national old-age insurance fund for salaried workers (CNAVTS).

This payment was fully expensed in the first half of 2004, and is the principal cause of the loss recorded by CADES for this period.

◆ Payment to the government

The annual payment to the government provided for in Article 38 of the 2002 Finance Act, for the amount of EUR 3 billion, was completed in 2004 (the payment was broken down as follows: EUR 600 million on March 31, 2004, EUR 600 million on June 30, 2004, EUR 600 million on September 30, 2004 and EUR 1 200 million on December 31, 2004).

◆ Financial transactions

Issues:

With its new benchmark bond, issued in June, CADES borrowed 3 billion euros for 5 years (July 12, 2009 maturity) at a nominal rate of 3.75%. In October, CADES also issued 10-year bonds for EUR 4 billion with a face value of 4% and EUR 3 billion in 15-year bonds with a face value of 4% in December 2004. CADES issued a new CADESi index-linked bond in December 2004 for EUR 1 billion, maturing in 15 years and with a face value of 1.85%.

Through EMTN (Euro Medium Term Notes) issues in EUR, JPY, USD, HKD, AUD, GBP and NZD, CADES borrowed the equivalent of EUR 6 959 million. Of this amount, EUR 1 788 represent EMTN issued with early redemption options that may be exercised by the issuer.

Redemptions:

Two bonds matured in July 2004: the first totaled EUR 3 000 million and the second (issued in NLG) totaled EUR 950 million.

CADES completed the early redemption of thirteen EMTN issues (EUR 963 million) in 2004.

Macro-hedging:

CADES set up 17 swaps to hedge against inflation, maturing from 2009 to 2011, for a total notional amount of EUR 755 million. Four inflation swaps totaling EUR 125 million reached maturity.

Eighteen interest-rate swaps were either liquidated or sold in 2004.

As at December 31, 2004, interest-rate swaps for macro-hedging totaled EUR 2.3 billion.

◆ Lines of credit

To provide additional security for the sub-account it holds with the Bank of France, CADES signed several agreements with various credit institutions in 2004 for back-up lines of credit with end-of-day facilities totaling EUR 550 million).

CADES also signed an agreement opening a multi-currency credit line of EUR 20 billion on August 9, 2004. These lines of credit are recorded off-balance sheet, under commitments received.

◆ **Property management (CNAVTS/CADES agreement)**

The agreement binding CNAVTS and CADES for the management of CADES' real-estate assets expired on December 31, 2004. A new property management agreement, under which CNAVTS agrees to handle outstanding disputes over the sale of its real-estate assets, was signed in the first quarter of 2005 for a renewable one-year term.

◆ **Financial innovations**

- In the second half of 2004, CADES performed conclusive tests on the Eurex futures market for Bund and Bobl contracts.
- A new currency for CADES' financing: The Board of Directors authorized CADES to extend the range of currencies it uses to include the Canadian dollar (CAD). This decision applies to CADES' Euro-MTN and ECP issue programs.

1 – General valuation and presentation principles

The accounting principles adopted by CADES meet two requirements:

Given that CADES' activity is essentially financial in nature, the annual financial statements are prepared in accordance with accounting regulations applicable to credit and financial institutions, as well as with accounting principles generally accepted in France. In particular, the accrual and conservatism principles are applied.

The annual financial statements also comply with Regulation No. 91.01 adopted by the *Comité de la Réglementation Bancaire et Financière* (CRBF) on January 16, 1991, governing the preparation and publication of the individual annual accounts of credit institutions. This regulation was amended by CRC Regulation 2000.03 of July 4, 2000, incorporating into French law the European directive of December 8, 1996, pertaining to the annual and consolidated accounts of banks and other financial institutions. However, in light of Opinion No. 99-04 issued on 03/18/99 by the *Conseil National de la Comptabilité* (CNC), approving CADES' financial statements, and the specific characteristics of the fund, CADES continues to present its financial statements using the format set forth in Regulation No. 91.01. Accordingly, CADES' income statement records operating income and expenses, which are mainly comprised of CRDS revenues, proceeds from the sale of real-estate assets and payments made to the government and social security funds and organizations.

In accordance with Instruction M 9-1, these accounts are then aggregated to comply with the chart of accounts applicable to administrative public agencies and then submitted to the *Cour des Comptes*.

2 – CADES' specific characteristics

CADES' mission is to amortize the debt that has been allocated to it. CADES' results measure its ability to reduce its own debt.

When reading CADES' income statement, it is important to bear in mind that its primary mission is to extinguish a debt over its scheduled term.

3 – Changes in accounting methods or principles with respect to previous years

No changes were made to accounting methods or principles during 2004.

4 – Social security debt repayment contribution

- Resources explicitly distributed to CADES

The social security debt repayment contribution (CRDS) defined by Ordinance No. 96-50 of January 24, 1996, was explicitly created to provide resources to CADES: "The proceeds of the contributions created in Chapter 2 of this Ordinance on repayment of the social security debt shall be allocated to the Caisse d'Amortissement de la Dette Sociale (Article 6 of the Ordinance)."

- A broad-based tax

The CRDS is levied on multiple sources of income:

- Earned and unearned income such as wages, unemployment and retirement benefits (under certain conditions), retirement and disability pensions, sickness and maternity benefits, housing grants, family allowances and childcare subsidies for young children.
- Capital gains from property, investments, the sale of precious metals and stones and gaming.

Contributions assessed on the basis of earned and unearned income are paid daily by ACOSS to CADES as and when they are collected.

Government financial agencies (tax collection agencies, Treasury offices and customs offices) centralize contributions assessed on other income before they are turned over to CADES.

- Collection costs borne by CADES

Pursuant to Article 8 of the Order dated January 24, 1996, assessment and collection costs are borne by CADES. They consist of a flat amount defined jointly by the Minister of the Economy, Finance and Industry and the Minister in charge of Social Security.

Collection agencies deduct a 0.5% levy from contributions turned over to CADES.

CRDS contributions from capital gains entered in the tax assessment register by the Treasury offices are paid to CADES on the basis of the register entries and not the amounts actually collected. In return, a 4.1% levy is

deducted from the sums paid to CADES to cover assessment and collection costs (0.5%) as well as the cost of tax reductions and waivers (3.6%), as provided for under Article 1641 of the General Tax Code.

Amounts actually collected by CADES in respect of the CRDS are recorded in the income statement under other operating income. Assessment and collection costs are recorded under other operating expenses.

- **Accrual principle**

CADES applies the accrual principle in accordance with the accounting standards applicable to credit institutions and the Decree of May 23, 1996. This decree amended the Social Security Code and introduced the application of the accrual principle for agencies falling under the basic social security scheme.

Accordingly, amounts of CRDS paid to collecting agencies in respect of the year then ended are included in that year's accounts, regardless of the date on which these amounts were actually collected. The collecting agencies assess and notify CADES of the amounts relating to the year ended that have not yet been collected and receivables on unpaid CRDS that remain to be collected by ACOSS, so that CADES can record these amounts as accrued income.

At the half-year reporting date, the amount of accrued income recorded represents the estimated CRDS due for July 2004.

ACOSS notifies CADES of receivables on unpaid CRDS, calculated using a statistical rate based on the age of the claim. These amounts are deducted from the gross amounts receivable carried as Fund assets.

5 – Payments to the government and social security agencies

Ordinance No. 96-50 of January 24, 1996, which established CADES, stipulates that the latter will provide an annual contribution to the general budget of the French government. This payment is prorated and expensed over each annual accounting period.

The outstanding balance of payments to be made by CADES is recorded as an off-balance sheet commitment.

6 - Private rental real estate

CADES completed the sale of the real estate portfolio that was transferred to it on January 1, 2000, in accordance with Article 9 of Ordinance No. 96-50 of January 24, 1996, and recorded under property endowment in the capital account.

On behalf of CADES, CNAVTS managed the remaining rights and obligations related to this portfolio until the expiration of their agreement.

Signed with CNAVTS in December 1999, this agreement, under which the latter agreed to carry out all property management operations as needed, expired on December 31, 2004.

Accounts were closed on December 31, 2004 and the liaison account between CNAVTS and CADES was balanced.

A new management agreement for outstanding disputes (with both tenants and buyers) was signed in the first half of 2005 for a renewable one-year term, following an end-of-year statement of accounts and procedures.

CADES' Accounting Officer records expenses and revenues on the basis of the monthly budget statements submitted and certified by CNAVTS.

7 - Foreign exchange transactions

Foreign exchange transactions are recorded on a multi-currency basis and recorded in compliance with the following principles:

- Transactions on balance sheet and off-balance sheet accounts are translated into euros at the exchange rate prevailing at the year-end reporting date.

- Prevailing currency exchange rates on 12/31/04 (source: ECB):

USD : 1.36210	JPY : 139.650
GBP : 0.705050	HKD : 10.5881
CHF : 1.54290	NZD : 1.88710
NOK : 8.23650	CAD : 1.64160
AUD : 1.74590	

- Income and expenses denominated in foreign currencies are translated into euros at the exchange rate prevailing at the date they were recorded in the income statement.
- Realized and unrealized exchange gains and losses are recorded in the income statement as income or expenses from banking transactions.

8 - Repos with securities delivered

CADES temporarily purchases top-grade securities under repos for the purpose of investing cash assets.

Securities received are recorded under loans and advances to credit institutions.

9 - Tangible and intangible fixed assets

Fixed assets are valued using the historical cost method. They are amortized over their estimated useful life.

Tangible fixed assets mainly consist of office and IT equipment.

Intangible fixed assets include software.

10 - Bond issues

Bonds issued by CADES, plus any related debts, are recorded as a balance sheet liability at their nominal value (if redeemed at par).

Bonds issued in foreign currencies are translated into euros at the prevailing exchange rate on the balance sheet reporting date.

Inflation-indexed bonds (pegged to the French consumer price index, or CPI, excluding tobacco for all households in metropolitan France) are revalued on the basis of the inflation index at the balance sheet reporting date, and a redemption premium is recorded under liabilities.

- Inflation indexes:

CPI at 12/31/2004:	109.89032
Cadesi 2006 index:	1.09235
Cadesi 2011 index:	1.04406
Cadesi 2013 index:	1.09699
Cadesi 2019 index:	1.00531

Bond premiums are treated as deferred expenses, and as such are recorded under accrued income and prepaid expenses on the asset side of the balance sheet. Premiums are amortized over the life of the bonds. The amount amortized is recorded under operating expenses from banking transactions.

Bond discounts are recorded under deferred income and amortized over the life of the bonds. The amount amortized is recorded under operating income from banking transactions.

All expenses relative to bond issues are charged against income on the date of the issue, under commissions payable.

11 - Interest-rate and currency swaps

Swap transactions carried out to manage interest-rate or foreign exchange exposure are recorded in accordance with regulations issued by the *Comité de la Réglementation Bancaire et Financière* (CRBF). Commitments resulting from swap transactions are recorded as off-balance sheet items for the nominal value of such contracts. They are accounted for on the basis of the type of instrument and the exposure being hedged.

The hedging transactions carried out are primarily interest-rate and currency swaps. Interest-rate swaps are concluded in conformity with the risk management policy defined by the Board of Directors. Currency swaps are concluded for the sole purpose of hedging CADES' foreign exchange exposures.

Income and expense related to swap transactions that are set up to hedge and manage global interest-rate exposures of the savings fund are prorated over the period and recorded in the income statement. Gains and losses on hedges are recorded in the income statement as interest receivable and similar income, or interest payable and equivalent expenses, symmetrically to the income and expenses of the item being hedged.

For cash payments, the portion covering the expenses related to the issue of the underlying security is recorded in the income statement in full, at the time the cash payment is made. This accounting method provides an accurate picture of the value of issues transformed by swap contracts involving cash payments and a pro rata amortization of the equivalent of issue costs.

12 - Provision for contingencies and losses

CADES does not establish a general allowance for contingencies and losses. Where appropriate, allowances are set aside based on identified risks, in compliance with applicable accounting principles.

13 - Taxation

CADES is not subject to business taxes (corporate income tax, value added tax, local business tax) or the apprenticeship tax. The only tax to which it is subject is the payroll tax.

Furthermore, proceeds from the sale of real estate transferred by the social security agencies do not generate a taxable capital gain.

13 – Counterparty risk management

CADES' exposure to counterparty risk is limited to two types of transactions: investments and off-balance sheet transactions.

For both types of transactions, CADES has signed market agreements similar to the *Fédération Bancaire Française* convention with all its counterparties. These agreements provide for daily (investments) and weekly (off-balance sheet transactions) margin calls.

CADES primarily invests its cash in securities delivered under repos. In exchange for the loan extended to a counterparty, CADES receives full ownership of a government security (OAT, BTAN, BTF) or guaranteed security for the lifetime of the repo. Repos are carried out exclusively with French primary dealers (SVTs), intermediaries in French government securities (IVTs), or counterparties with a rating of at least AA.

Moreover, CADES has set up daily margin calls to ensure greater protection against significant fluctuations in the market prices of securities received as collateral.

In order to hedge interest-rate and foreign exchange exposures, CADES trades in a number of financial instruments, such as forward foreign currency purchases, interest-rate swaps and currency swaps. No transaction may be completed until the counterparty has signed a futures market agreement. Such agreements provide for weekly margin calls.

By using different margin call thresholds depending on the rating of its counterparties, CADES drastically reduces the residual risk of potential delivery default.

NOTES

BALANCE SHEET

The closing balance for the year ended 12/31/04 was EUR 4.52 billion, with a total debt of EUR 70.26 billion and a net liability position of EUR –65.74 billion.

ASSETS

Note 1: Treasury and interbank transactions

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
CENTRAL BANKS, NATIONAL GIRO	<u>1.69</u>	<u>13.31</u>	<u>1.23</u>
Central banks	1.69	13.31	1.23
CLAIMS ON CREDIT INSTITUTIONS	<u>3 152.47</u>	<u>1 581.58</u>	<u>677.32</u>
Repayable on demand	1.82	0.05	0.05
Ordinary debit accounts	0.81	0.05	0.05
Securities received under repurchase agreements	1.00		
Related receivables	0.00		
Repayable at maturity	3 150.65	1 581.53	677.27
Securities received under repurchase agreements (< 3 months), o.w.:			
. Treasury bills	1 730.68	855.01	503.57
. Bonds	1 301.84	724.80	172.75
. Own securities	115.00		
Related amounts receivable	3.13	1.72	0.95
TOTAL	3 154.16	1 594.89	678.55

The amount recorded under central banks represents cash deposits available in CADES' euro account with the Banque de France via the Treasury Central Accounting Agency (ACCT).

Note 2: Tangible and intangible fixed assets

in millions of euros	At 12/31/2004					At 12/31/03	At 12/31/02	
	Cost on 01/01/04	Purchases	Sales	Cost on 31/12/04	Depreciation and Provisions	Net book value 12/31/04	Net book value 12/31/03	Net book value 12/31/02
INTANGIBLE ASSETS	0.21	0.02	0.00	0.23	0.20	0.01	0.03	0.03
Software	0.21	0.02	0.00	0.23	0.20	0.01	0.03	0.03
TANGIBLE ASSETS	0.40	0.02	0.00	0.42	0.35	0.07	0.07	0.06
Sundry equipment	0.40	0.02	0.00	0.42	0.35	0.07	0.07	0.06
TOTAL	0.61	0.04	0.00	0.65	0.55	0.08	0.10	0.09

Intangible and tangible assets reflect the value of software and hardware acquired by CADES, net of amortization.

Note 3: Other assets

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
SUNDRY DEBTORS	299.30	53.83	25.74
Security deposits	268.23	23.07	
Security deposits received	267.95	23.05	
Related amounts receivable	0.28	0.02	
Amounts receivable on unpaid CRDS contributions to be collected by ACOSS	30.97	28.92	25.74
Gross amounts receivable	151.77	156.26	160.86
Provisions	-120.80	-127.34	-135.12
Other sundry debtors on financial transactions			
Other sundry debtors on operating expenses			
Other sundry debtors CNAV	0.09		
Gross amounts receivable	2.25	1.84	
Provisions/sundry debtors	-2.15		
TOTAL	299.30	53.83	25.74

Other assets reflect:

- Security deposits paid in connection with forward contracts concluded to hedge counterparty risk (EUR 268.23 million)
- Unpaid CRDS receivables to be collected by ACOSS, totaling EUR 30.97 million. Based on the information provided by ACOSS on December 31, 2003, provisions amounting to EUR 120.8 million (79.6% of the total) are deducted from the gross amounts receivable of EUR 151.77 million.
- Unpaid receivables of EUR 2.25 million in damages claimed from a buyer who reneged on a commitment to purchase a group of buildings (EUR 1.84 million) and receivables from various debtors (tenants and buyers) currently in mediation (EUR 0.38 million) and managed by CNAVTS. Provisions were made for these receivables at the December 31, 2004 reporting date. The remaining EUR 0.03 million represent receivables in receivership.

The following table shows the changes in provisions for unpaid CRDS to be collected and provisions made for disputes in progress:

in euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
Provisions at the start of the period	127.34	135.12	110.55
Provisions (CNAV)	2.15	0.00	24.69
Release of provisions (CRDS)	-6.54	-7.78	-0.12
Provisions at the end of the period	122.95	127.34	135.12

Note 4: Accrued income and prepaid expenses

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
ACCRUED INCOME	785.34	774.69	735.08
On forward interest rate instruments	125.59	134.18	124.37
On forward foreign exchange transactions	72.98	64.87	76.18
On CRDS revenues (pursuant to Art. 6 of Ordinance No. 96-50)	586.36	575.64	534.53
On property sales (pursuant to Art. 6 of Ordinance No. 96-50)		0.00	
Other accrued income	0.41		
POTENTIAL LOSSES & LOSSES TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS	6.58	1.82	2.53
DEFERRED CHARGES	176.91	102.57	132.54
Premiums on bonds and EMTN issues	176.91	102.57	132.54
Other deferred charges			
PREPAID EXPENSES	91.34	2.36	0.81
Prepaid expenses on payments of management costs	0.04	0.04	0.04
Prepaid expenses on negotiable debt instruments	91.30	2.32	0.77
Other prepaid expenses			
OTHER ADJUSTMENT ACCOUNTS	5.82	6.66	40.64
Foreign currency adjustment accounts	5.82	5.82	39.82
Rental management adjustment account		0.84	0.82
Miscellaneous	0.00	0.00	
TOTAL	1 065.99	888.10	911.60

Accrued income and prepaid expenses include transactions that affect net income independently of their impact on cash flow, primarily:

- Accrued income on CRDS revenues (EUR 586.36 million), interest rate swaps (EUR 125.59 million) and currency swaps (EUR 72.98 million)
- Cash payments on swap transactions to be amortized, totaling EUR 6.58 million
- Premiums on bonds and EMTN issues to be amortized, totaling EUR 176.91 million
- Adjustment accounts in foreign currencies totaling EUR 5.82 million (technical accounts enabling the revaluation of off-balance sheet accounts to be integrated into net income)
- Prepaid expenses (EUR 91.34 million) mainly reflecting interest deducted at the source upon issuance of negotiable debt securities.

LIABILITIES

Liabilities distinguish CADES' net liability position from other items in liabilities.

CADES' net liability position, taking into account the retained balance brought forward, the net income for the year ended and property endowment, was EUR –65 736.4 million. It is equivalent to the debt transferred to CADES (EUR 34 148.5 million and EUR 35 000 million pursuant to the Act of August 13, 2004) less CADES' cumulative income (EUR (3 230.9 million since 1996) and the property endowment of January 1, 2000 (EUR 181.2 million).

Net debt, which totals EUR 70 255.85 million, primarily reflects amounts owed to credit institutions (EUR 11 643.49 million), debts evidenced by certificates (EUR 57 233.39 million) accrued expenses and deferred income (EUR 1 304.11 million) and other liabilities (EUR 74.86 million)

Note 5: Treasury and interbank transactions

in millions of euros	At 12/31/2004				Total	At 12/31/2003	At 12/31/2002
	<= 3 months	> 3 mos <= 1 yr	> 1 yr <= 5 yrs	> 5 yrs		Total	Total
CENTRAL BANKS					0	0	0
AMOUNTS OWED TO CREDIT INSTITUTIONS	9 525.31	79.18	1 891.78	147.22	11 643.49	2 117.25	1 970.96
Payable on demand							
Ordinary deposits	0.00				0.00	0.00	0.00
Payable at maturity							
Securities pledged under repo agreements				0.00	0.00	0.00	0.00
Term accounts and borrowings							
.in euros	9 500.00		1 891.78	50.00	11 441.78	1 941.78	1 891.78
.in foreign currencies				97.22	97.22	96.28	
Related debts	25.31	79.18			104.49	79.19	79.18
TOTAL	9 525.31	79.18	1 891.78	147.22	11 643.49	2 117.25	1 970.96

Amounts owed to credit institutions consist of repos and private placements, broken down as follows:

Short-term debt (< 1 year)

- Multi-currency line of credit for EUR 9.5 billion in connection with the agreement signed with a pool of 10 banks.

Medium-term debt (from 1 to 5 years)

- DEM 1 billion at step-up rates (4.47% from 12/29/97 to 12/29/2000 then 5.885% until 12/29/2008)
- DEM 700 million at step-up rates (4.18% from 01/09/98 to 01/09/2001 then 5.715% until 01/09/2009)
- DEM 500 million at step-up rates (4.18% from 01/07/98 to 01/07/2001 then 5.72% until 01/07/2009)
- DEM 1 billion at step-up rates (4.47% from 01/05/98 to 01/05/2001 then 5.885% until 01/05/2009)
- DEM 500 million at step-up rates (4.47% from 01/05/98 to 01/05/2001 then 5.885% until 01/05/2009)

Long-term debt (> 5 years)

- A floating-rate issue pegged to the 1-month LIBORCHF -0.31% for CHF 150 million, maturing on 06/30/2010
- A floating-rate issue pegged to the 1-month EURIBOR -0.23% for DEM 50 million, maturing on 06/21/2010

Total debt is EUR 11.6 billion, of which EUR 104.5 million of related debts.

Note 6: Debts evidenced by certificates

in millions of euros	At 12/31/2004				At 12/31/03	At 12/31/02	
	<= 3 mos	> 3 mos <= 1 yr	> 1 yr <= 5 yrs	> 5 yrs	Total	Total	
NEGOTIABLE DEBT INSTRUMENTS	8 375.22	6 669.83	0.00	46.91	15 091.96	520.84	527.06
Domestic CP paper issued in euros	1 342.00	2 850.00			4 192.00		
CP issued in foreign currencies	11.01				11.01		
MTN issued in euros				38.97	38.97	27.97	27.97
BMTN CP paper issued in euros	1 899.00	535.00			2 434.00	43.00	15.00
CP issued in foreign currencies	5 123.21	3 284.83			8 408.04	443.89	479.95
Other neg. debt inst. issued in foreign currencies							
Related debt				7.94	7.94	5.98	4.14
BOND ISSUES	439.82	2 862.29	19 459.76	19 379.56	42 141.43	29 205.10	27 633.24
Bonds issued in euros		2 332.31	14 403.18	16 419.42	33 154.91	25 949.90	23 911.41
Bonds issued in foreign currencies			723.35		723.35	723.61	1 128.27
EMTN issued in euros	380.00	13.00	528.16	1 017.00	1 938.16	823.16	806.16
EMTN issued in foreign currencies		70.92	3 805.07	1 943.14	5 819.13	1 247.38	1 332.37
Related debt	59.82	446.06			505.88	461.05	455.03
TOTAL	8 815.04	9 532.12	19 459.76	19 426.47	57 233.39	29 725.94	28 160.30

Breakdown of debts evidenced by certificates:

Debts evidenced by certificates reflect:

- EUR 15 091.96 million of negotiable debt instruments
- EUR 42 141.43 million of bonds and assimilated securities

1. Bond issues

Short-term debt (< 1 year)

- A 6% issue maturing on July 25, 2005, for EUR 2 332.3 million (ISIN 571291)

Medium-term debt (from 1 to 5 years)

- An issue pegged to the French consumer price index (excluding tobacco) maturing in 2006 for EUR 4 041.69 million (ISIN 498248). This amount factors in additional taps and a redemption premium of EUR 341.69 million, revalued using the latest inflation index known at 12/31/2004. Based on market forecasts, CADES estimates a redemption premium of EUR 473.9 million at maturity.
- A 6.25% issue maturing on October 25, 2007, for EUR 2 610.4 million (ISIN 571283)
- A 6.25% issue maturing on March 5, 2008, for GBP 510 million (ISIN XS0084856664)
- A 4.71% issue maturing on May 11, 2008, for EUR 304.9 million (ISIN 209611)
- A euro-fungible 5.125% issue maturing on October 25, 2008, for EUR 4 044.5 million (ISIN 571259)
- An issue with step-up rates (4.63% from 12/17/1997 to 12/17/2001 then 5.94% until 12/17/2008) for FRF 2 635 million (EUR 401.7 million), not translated into euros. This issue comprises a repayment option at par, which the holder may exercise at the end of the fourth year and which was not exercised.
- A 3.75% issue maturing on July 12, 2009, for EUR 3 000 million (ISIN FR0010093377)

Long-term debt (> 5 years)

- A 4.6% issue maturing on July 15, 2010, for EUR 228.675 million (ISIN 209611)
- An issue pegged to the French consumer price index (excluding tobacco) maturing in 2011 for EUR 2 662.35 million (ISIN 489734). This amount factors in additional taps and a redemption premium of EUR 112.35 million revalued using the latest inflation index known at 12/31/2004. Based on market forecasts, CADES estimates a redemption premium of EUR 517.4 million at maturity.
- A euro-fungible 5.25% issue maturing on October 25, 2012, for EUR 3 000 million (ISIN 571366)
- An issue pegged to the French consumer price index (excluding tobacco) maturing in 2013 for EUR 2 523.07 million. This amount factors in additional taps and a redemption premium of EUR 223.07 million revalued using the latest inflation index known at 12/31/2004. Based on market forecasts, CADES estimates a redemption premium of EUR 737.8 million at maturity
- A 4% issue maturing in October 2014 for EUR 4 000 million (ISIN FR0010120410);
- An issue pegged to the French consumer price index (excluding tobacco) maturing in 2019 for EUR 1 005.31 million (ISIN FR0010137554). This amount factors in additional taps and a redemption premium of EUR 5.31 million revalued using the latest inflation index known at 12/31/2004. Based on market forecasts, CADES estimates a redemption premium of EUR 386.3 million at maturity.
- A 4% issue maturing in October 2019 for EUR 3 000 million (ISIN FR0010143743).

2. Other bond issues

- Assimilated securities are EMTN (Euro Medium Term Notes) issued by CADES as part of the issue program, for which the ceiling was raised from 10 to 15 billion euros, initiated in 1998 with a pool of banks. At 12/31/04, there were 83 outstanding EMTN issues in euros and foreign currencies (GBP, HKD, USD, JPY, NOK, AUD, NZD), totaling EUR 7 757 million.

Debt maturing in less than one year totaled EUR 18 347 million versus EUR 5 414 million at 12/31/2003. Debt maturing in more than five years totaled EUR 19 4263 million compared with EUR 8 990 million at 12/31/2003. Debt maturing at between one and five years increased from EUR 15 322 million to EUR 19 460 million at the end of 2004.

Compared with prior years, CADES' year-end debt structure shows an increase in long-term debt, reflecting the issue of bonds maturing in July 2014 and July 2019. The rise in short-term debt is attributable to the significant volume of commercial paper issued:

Debt	12/31/04	12/31/03	12/31/02
Short-term (< 1 year)	32.1%	18.2%	6.3%
Medium-term	34.0%	51.6%	47.4%
Long-term (> 5 years)	33.9%	30.2%	46.3%

The change in the percentage of debt issued in foreign currencies versus euros reflects the high volume of commercial paper issued in foreign currencies:

Debt	12/31/04	12/31/03	12/31/02
In foreign currencies	27.1%	8.0%	10.4%
In euros	72.9%	92.0%	89.6%

Note 6a: Analysis of transactions in euros and foreign currencies before and after hedging

This note analyses the effect of hedging transactions on the initial debt structure and on floating/fixed rates.

in millions of euros	Initial debt		Hedging		Final debt	
	Forex	Euros	Forex	Euro	Forex	Euro
Debt in euros		43 700		15 978		59 678
Debt in foreign currencies		counter-value at 12/31/2004		counter-value at 12/31/2004		
CHF	660	428	-660	-428	0	0
GBP	901	1 278	-901	-1 278	0	0
JPY	50 300	360	-50 300	-360	0	0
USD	17 117	12 567	-17 117	-12 567	0	0
HKD	300	28	-300	-28	0	0
AUD	295	169	-295	-169	0	0
NZD	423	224	-423	-224	0	0
CAD	8	5	-8	-5		
Sub-total foreign currencies		15 059		-15 059		0
Total		58 759		919		59 678

The first table provides a breakdown of the initial nominal debt between issues in euros or foreign currencies. Since all transactions in foreign currencies were hedged, CADES' final debt is denominated only in euros. These hedging transactions enabled CADES to neutralize the impact of exchange rate fluctuations on its debt, estimated at EUR 919 million on 12/31/04.

The second table shows the breakdown of debt between fixed and floating rate instruments. After hedging, fixed-rate issues account for 38%, floating-rate issues for 41%, and inflation-indexed issues for 20% of debt.

in millions of euros	Initial debt				Hedging		Final debt			
	Forex	Euros	Total	%	Forex	Euros	Forex	Euros	Total	%
Fixed rate										
NDS/Commercial paper		28	28			-28	0	0	0	
Euro-MTN	4 162	819	4 981		-4 162	-819	0	0	0	
Bonds	723	22 922	23 646		-723	-77	0	22 845	22 845	
Private placements		1 892	1 892				0	1 892	1 892	
Macro-hedging swaps						-1 938	0	-1 938	-1 938	
Total fixed rate	4 885	25 661	30 546	52	-4 885	-2 862	0	22 799	22 799	38
Floating rate										
NDS/Commercial paper	8 419	6 637	15 056		-8 419	8 835	0	15 472	15 472	
Euro-MTN	1 658	1 119	2 777		-1 658	7 115	0	8 234	8 234	
Bonds			0		0	857	0	857	857	
Private placements	98	50	148		-98	96	0	146	146	
Macro-hedging swaps							0	0	0	
Total floating rate	10 175	7 806	17 981	31	-10 175	16 903	0	24 709	24 709	41
Indexed rate										
Bonds		10 232	10 232					10 232	10 232	
Macro-hedging swaps						1 938		1 938	1 938	
Total indexed rate	0	10 232	10 232	17	0	1 938	0	12 170	12 170	20
Total	15 059	43 700	58 759	100		919	0	59 678	59 678	100

Note 7: Other liabilities

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
SECURITY DEPOSITS RECEIVED	53.14	51.87	191.02
Security deposits received	53.13	51.86	190.98
Related debts	0.01	0.01	0.04
OTHER CREDITORS ON FINANCIAL INSTITUTIONS	1.99	0.17	0.19
OTHER CREDITORS ON OPERATING TRANSACTIONS	19.73	4.74	0.13
Taxes due	0.02	0.01	0.02
Social security	0.13	0.11	0.09
Suppliers	0.01	0.09	0.02
Other sundry creditors (ACOSS)	19.57	4.53	
Other sundry creditors (CNAV)	0.01		
TOTAL	74.86	56.78	191.34

Other liabilities include:

- Security deposits made in connection with forward contracts and repo agreements concluded to hedge counterparty risk (EUR (53.14 million);
- Amounts owed to ACOSS (EUR 19.57 million including the credit declared by ACOSS);
- Commissions payable and operating debt

Note 8: Accrued expenses and deferred income and provision for contingencies and losses

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
ACCRUED EXPENSES	154.94	121.88	113.00
On forward interest rate instruments	115.17	94.48	80.71
On forward foreign exchange transactions	36.18	23.61	28.11
Fees payable on market trading instruments	0.00	0.12	0.16
Accrued operating expenses	0.29	0.19	0.19
Expenses on CRDS revenues	3.21	3.36	3.64
Other accruals	0.09	0.12	0.19
POTENTIAL INCOME & INCOME TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS	32.95	16.83	21.49
DEFERRED INCOME	185.26	237.75	112.12
Discounts on bond issues	185.26	237.75	112.12
Other deferred income			
OTHER ADJUSTMENT ACCOUNTS	930.96	244.38	77.74
Foreign currency adjustment accounts	930.95	244.37	77.73
Miscellaneous	0.01	0.01	0.01
TOTAL	1 304.11	620.84	324.35

Accrued income and deferred expenses total EUR 1N 304.11 million and include transactions that affect net expenses independently of their impact on cash flow, primarily:

- Accrued expenses on interest-rate swaps (EUR 115.17 million), CRDS revenues (EUR 3.21 million), the euro leg of currency swaps (EUR 36.18 million) and other expenses
- Cash payments on currency swaps to be amortized (EUR 32.95 million)
- Deferred income from bond discounts (EUR 185.26 million)
- Adjustment accounts in foreign currencies (EUR 930.96 million). These are technical accounts enabling the revaluation of off-balance sheet accounts to be integrated into net expenses

The following table shows changes in provisions for dismissal awards:

:

in millions of euros	At 12/31/2003	Allowance	Release	At 12/31/2004
Provisions for losses	0.06	0.02	0.00	0.08
Provision for dismissal awards	0.06	0.02	-	0.08
TOTAL	0.06	0.02	0.00	0.08

INCOME STATEMENT

The income statement separates net income from banking transactions and other operating income and expenses, showing net profit for the year ended.

Net income from banking transactions	EUR - 1 553.67 million
Other operating income and expenses	EUR 801.22 million
Non-recurring income	EUR <u>0.27 million</u>
Gross result from ordinary activities = net result for year ended	EUR - 752.18 million

The principal causes of the result for this period are the payments made to ACOSS pursuant to the Social Security Finance Act and the Act of August 13, 2004 reforming health insurance. CADES' mission is to amortize the debt allocated to it. Its results measure its ability to reduce this debt. CADES' half-year results demonstrate that the Fund was required to increase its own debt in order to meet its commitments.

Net income from banking transactions

Net income from banking transactions includes income from Treasury transactions, debt financing costs and net profit on financial transactions.

Note 9: Income from Treasury transactions

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
INTEREST RECEIVABLE AND EQUIVALENT INCOME ON TRANSACTIONS WITH CREDIT INSTITUTIONS	82.63	30.09	52.94
Interest on sight transactions			
Interest on ordinary debit accounts	0.01	0.00	0.75
Interest on loans			
Interest on securities received under repurchase agreements	0.41	0.05	0.05
Interest on forward transactions			
Interest on euro-denominated loans			
Interest on loans denominated in foreign currencies			
Interest on securities received under repurchase agreements	77.43	29.80	51.74
Other interest	4.78	0.24	0.40
OTHER INTEREST AND EQUIVALENT INCOME	231.33	145.36	139.55
Amortization of bond discounts	58.08	41.44	42.74
Income from hedging transactions	173.25	103.92	96.75
Gains from repurchase of securities issued			0.06
TOTAL	313.96	175.45	193.42

This income includes:

- Income received from the investment of CADES' cash surplus in repos with securities (EUR 82.63 million, a sharp rise from 12/31/2003)
- Amortization of bond discounts on bonds issued (EUR 58.08 million) and income from currency and interest-rate swaps (EUR 173.25 million)

Note 10: Debt financing costs

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
INTEREST PAYABLE AND EQUIVALENT EXPENSES ON TRANSACTIONS WITH CREDIT INSTITUTIONS	157.27	118.93	128.72
Interest payable on debt at sight			
Interest on ordinary accounts/creditor	0.01	0.00	0.76
Interest on overnight loans	0.00		
Interest on repos with securities delivered	0.03	0.01	0.01
Interest payable on term transactions			
Interest on CDC loan (debt transfer)			
Interest on syndicated loan	25.28		
Interest on repos with securities delivered	0.29	0.19	0.68
Interest on private placements	111.34	110.31	110.30
Other interest payable and similar charges	20.32	8.42	16.97
INTEREST PAYABLE AND EQUIVALENT EXPENSES ON BONDS AND OTHER FIXED-INCOME SECURITIES	1 685.04	1 486.12	1 489.39
Expense on debt evidenced by certificates			
Interest on negotiable debt securities issued in euros	47.07	3.34	4.54
Interest on negotiable debt securities issued in foreign currencies	70.62	5.19	11.37
Interest on bonds and assimilated securities issued in euros	1 267.35	1 197.44	1 179.76
Interest on bonds and assimilated securities issued in foreign currencies	123.29	102.33	152.46
Other expenses on debt evidenced by certificates	176.70	177.81	141.25
Other interest payable and equivalent expenses	0.01	0.01	0.01
COMMISSIONS	25.41	2.57	8.49
Commissions on term loans extended by credit institutions	0.23	0.05	0.12
Commissions on negotiable debt instruments issued	2.50	0.19	0.22
Commissions on bonds	22.52	2.24	7.98
Other commissions on securities transactions	0.16	0.09	0.14
Other commissions			0.03
TOTAL	1 867.72	1 607.62	1 626.60

Debt financing costs rose 16.2% over the past 12 months, driven up by an increase in debt. The costs reflect:

- EUR 1 685.04 million in debt servicing charges
- EUR 157.27 million in interest on transactions with credit institutions (interest on private placements, repos with securities delivered and margin calls)
- EUR 25.41 million in commissions

The most significant change was recorded in commission. This increase reflects bond issues in the second half of 2004 – two bonds totaling EUR 7 billion and one inflation-indexed bond for EUR 1 billion – as well as a sharp rise in negotiable debt securities.

Note 11: Profit or loss on trading portfolio

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
NET PROFIT ON FOREIGN EXCHANGE TRANSACTIONS	0.12	0.03	0.03
Other foreign exchange transactions	0.12	0.03	0.03
TOTAL	0.12	0.03	0.03

In accordance with the provisions of CRC Regulation 2000-03 on the preparation of financial statements, profit or loss on interest-rate and currency swaps are recorded under "Interest receivable and similar income" or "Interest payable and equivalent expenses" (see note 9). This item only reflects the net profit or loss determined during the periodic evaluation of unhedged foreign currency transactions.

Other operating income and expenses

Other operating income and expenses mainly consist of the specific income and expenses provided for in Ordinance No. 96-50 of January 24, 1996 (CRDS, sale of real-estate assets and payments to the government and various social security funds), general operating expenses and accrued depreciation of fixed assets.

Note 12: Net revenues allocated to CADES by Ordinance No. 96-50 of January 24, 1996

This note presents the revenues allocated to CADES by Article 6 of the Ordinance No. 96-50 of January 24, 1996, after deduction of assessment and collection costs and losses on CRDS receivables (write-offs, waivers and cancellations of debt):

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
NET CRDS REVENUES (Article 6)	4 896.25	4 721.10	4 644.83
ACOSS CRDS revenues (on wages and salaries)	4 306.89	4 157.22	4 057.21
CRDS revenues on assets	272.58	264.61	268.13
CRDS revenues on investment income	192.43	183.38	210.52
CRDS revenues on sales of precious stones and metals	2.56	2.70	2.85
CRDS revenues on gambling gains	121.79	113.18	106.12

Article 6: CRDS

- CRDS revenues, net of collection costs, is EUR 4 896.25 million, up 3.71% compared with 12/31/2003. The following table shows the breakdown of CRDS revenues and related expenses.
- CRDS collected by ACOSS on the basis of salaries and wages accounts for 88% of the total. The remaining CRDS proceeds are collected by the Treasury offices, mainly on capital gains (assets and investment income) and gaming.
- Accrued income booked on 12/31/04 is determined on the basis of information provided by ACOSS on sums collected by URSSAF and CGSS, and statements filed by agencies that are part of the basic social security system.
- Debt repayments made prior to 12/31/1999 (pursuant to CEE Community Regulations and Social Security Bilateral Agreements) by foreign countries: As of 12/31/1997, these payments are transferred by the CNAMTS to CADES provided that this does not create a deficit for the CNAMTS or aggravate an existing shortfall. Given the losses recorded by CNAMTS from 1998 to 2003, the EUR 216.54 million collected during these years were not turned over to CADES.

In millions of euros

CRDS-RELATED REVENUES	(I)	CRDS-RELATED EXPENSES	(II)	<u>Net revenues</u> (I) - (II)
CRDS due pursuant to Article 14 (salaries and wages)	4 351,39	Write-offs, cancellations of debt and waivers	22.75	
		Assessment and collection costs	21.74	4 306.90
CRDS due pursuant to Article 15 (assets)	284,23	Assessment and collection costs	11.65	272.58
CRDS due pursuant to Article 16 (investment income)	193,39	Assessment and collection costs	0.97	192.42
CRDS due pursuant to Article 17 (sale of precious stones and metals)	2,57	Assessment and collection costs	0.01	2,56
CRDS due pursuant to Article 18 (gambling gains)	122,40	Assessment and collection costs	0.61	121.79
		Total net revenues:		4 896.25
Release of provisions for unpaid receivables	6,54	Provisions for Unpaid CRDS receivables	-	
TOTAL	4 960.52	TOTAL	57.73	

Note 13: General operating expenses

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
PAYROLL EXPENSE	0.78	0.74	0.73
Salaries and wages	0.57	0.55	0.56
Social contributions	0.21	0.19	0.17
OTHER ADMINISTRATIVE EXPENSES	1.51	1.44	1.58
Taxes	0.07	0.07	0.06
Outsourced services	1.44	1.37	1.52
TOTAL	2.29	2.18	2.31

General operating expenses correspond to the use of the administrative budget, excluding the acquisition and amortization of fixed assets (see note 2). These expenses are up 5% compared with 12/31/2003.

LIST OF POSITIONS at 12/31/2004

Non-permanent government employees:

- 1 senior manager of Front Office operations (category A)
- 3 assistant managers of Front Office operations (category A)
- 1 senior manager of Back Office operations (category A)
- 1 assistant manager of Back Office operations (category A)
- 1 bilingual executive assistant (category C)

Permanent government employees:

- 1 general office manager (category A)
- 1 administrative manager (category B)

Note 13a: Note relative to real-estate assets and management thereof

All of the real-estate assets in the property portfolio transferred to CADES on January 1, 2000 were sold within three years of the transfer. Under the terms of its management agreement, CNAVTS continued in 2004 to carry out transactions related to the last properties sold in 2003 and manage disputes. At 12/31/2004, the management agreement binding CNAVTS and CADES expired. Income totals EUR 0.29 million. Expenses amount to EUR 2.21 million, taking into account EUR 2.12 million of provisions (EUR 1.84 million reflect provisions made for a dispute between CADES and a buyer who reneged on a commitment to purchase a group of buildings) and EUR 0.23 million for release of provisions.

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
Income from real estate assets	0.29	42.29	192.79
Proceeds from sales	-	38.86	184.22
Proceeds from rents	0.29	1.59	8.57
Exceptional income		1.84	
Expenses related to real estate assets:	2.21	35.96	150.07
Expense on sales	0.00	0.10	0.69
Change in inventory	-	34.32	144.01
Personnel expense	0.01	0.12	0.46
Outsourced services	0.18	1.03	4.03
Taxes		0.16	0.76
Exceptional expenses	0.13	0.15	0.12
Provisions for contingencies and losses	2.12	0.21	0.11
Release of provisions for contingencies and losses	-0.23	-0.13	-0.11

Note 14: Other non-banking charges

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
Payment to the government	3 000.00	3 000.00	3 000.00
Payment to Social Security funds	1 097.31	1 282.84	0.00
TOTAL	4 097.31	4 282.84	3 000.00

Pursuant to Article 38 of the 2002 Finance Act, the annual EUR 3 billion payment to the government and the EUR 1.907 billion payment to ACOSS provided for in the Social Security Financing Act of 2004 were made.

Note 15: Non-recurring income

Non-recurring income totals EUR 0.27 million and reflects debt for which the four-year statutory limit has expired, involving the administrative budget (expenses to be paid recorded in 1997) and the financing budget (unpaid costs recorded between 1996 and 1998).

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
Statutory limitations for debt involving the administrative budget	0.08	0.00	0.00
Statutory limitations for debt involving the financing budget	0.19	0.00	0.00
TOTAL	0.27	0.00	0.00

OFF-BALANCE SHEET COMMITMENTS

Recorded off-balance sheet commitments are presented on the basis of whether they are "granted" or "received" (financing commitments, guarantees, collateral, pledges on securities, etc.). Some commitments are not recorded, however, such as those relating to currency transactions and futures instruments. Information on these commitments is provided in Notes 16 and 17.

Note 15: Foreign currency transactions

in millions of euros	At 12/31/2004		At 12/31/2003		At 12/31/2002	
	Currencies to be received	Currencies to be delivered	Currencies to be received	Currencies to be delivered	Currencies to be received	Currencies to be delivered
FORWARD TRANSACTIONS	15 208.33	-	2 587.33	-	3 016.99	-
OTC hedging transactions						
Forward exchange against EUR	8 492.47	-	443.89	-	479.95	-
< 1 year	8 492.47		443.89		479.95	
1 to 5 years	0.00					
> 5 years						
Currency swaps against EUR	6 715.86	-	2 143.44	-	2 537.04	-
< 1 year	70.92		514.73		815.67	
1 to 5 years	4 604.58		914.88		738.19	
> 5 years	2 040.36		713.83		983.18	
Other OTC transactions						
Foreign exchange transactions	-	-	-	-	-	-
Currency swaps against EUR						
< 1 year						

Forward exchange contracts against euros are futures contracts entered into for the purpose of hedging commercial paper. At 12/31/2004, the difference between forward exchange contracts (EUR 8 492.47 million) and commercial paper issued in foreign currencies (see note 6) reflects instruments set up at the end of December to hedge negotiable debt securities issued in early January 2005. The increase in forward exchange against euros is attributable to the rise in commercial paper issues. The climb in currency swaps against euros reflects the rise in EMTN issues in foreign currencies.

Note 16: Financial futures markets

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
INTEREST-RATE INSTRUMENTS			
Regulated and similar markets			
Firm hedging transactions			
Other firm transactions			
Optional hedging transactions			
Other optional transactions			
OTC transactions	4 708.99	4 816.93	4 623.52
Firm hedging transactions			
. Interest swaps in euros	4 708.99	4 816.93	4 279.02
. Micro-hedging	2 423.55	3 308.55	3 390.64
< 1 year	393.00	2 000.00	0.00
1 to 5 years	756.90	1 263.58	2 608.68
> 5 years	1 273.65	44.97	781.96
. Macro-hedging	2 285.44	1 508.38	888.38
< 1 year	103.38	125.00	25.00
1 to 5 years	818.53	205.00	210.00
> 5 years	1 363.53	1 178.38	653.38
. Interest rate swaps in foreign currencies			344.50
< 1 year			344.50
1 to 5 years			
> 5 years			

Interest-rate swaps set up by CADES:

- Macro-hedging increased as a result of new inflation swaps;
- The decrease in micro-hedging swaps is tied to the maturing of a EUR 2 billion swap backed with a bond redeemed in July 2004.

Note 17: Other off-balance sheet commitments

in millions of euros	At 12/31/2004	At 12/31/2003	At 12/31/2002
FINANCING COMMITMENTS			
Commitments received			
From credit institutions			
. Backup lines	550.00	150.00	0.00
. Multi-currency credit lines	10 500.00	500.00	0.00
Commitments granted			
Payment to the government	3 000.00	6 000.00	9 000.00
Payment to social security organizations	15 000.00	1 097.31	1 282.84

Commitments received includes four end-of-day backup credit facilities for a total of EUR 550 million set up in 2004. For the multi-currency credit lines, the EUR 10 500 million represents the undrawn portion of the total EUR 20 000 million provided for in the agreement.

Other financing commitments granted are the aggregate of CADES' payments to the government in 2005 (EUR 3 billion) and EUR 15 billion to be paid over to ACOSS for the estimated deficits for 2005 and 2006, pursuant to Article 4, as amended, of Ordinance No. 96-50 and the Act of August 13, 2004, on health insurance. The Act also stipulates that any future surpluses generated by the health insurance branch of the French social security system will be allocated to CADES.

Payments to the government:

These payments represent the phased repayment of an accrued social security debt of EUR 16.77 billion (FRF 110 billion) that was transferred to the French government. Pursuant to Article 7 of Ordinance No. 96-50 dated January 24, 1996, which stipulates that CADES' resources be subordinated to the payment of principal and interest on CADES' existing obligations, the total amount of payments has been recorded in the off-balance sheet.

The amortization of this debt was first carried out according to Schedule A (1996-2008) in accordance with Article 4 of the Ordinance, representing a gross yield to maturity of 6.10%. This schedule of payments was adhered to until year-end 2000, at which time the remaining outstanding principal due was EUR 11.78 billion.

The 2001 Finance Act, which amended Ordinance No. 96-50, reduces CADES' remaining payments to the government to 2008 from EUR 1 905 to EUR 1 852 million per annum. This reduction was intended to offset the loss in revenue resulting from the decision to exempt the non-tax-paying unemployed from the CRDS contribution. The total commitment therefore decreased by EUR 427 million, bringing the gross yield to maturity down to 5.39% (see Schedule B).

Schedule B was in force in 2001 only. At year-end, the remaining outstanding principal was EUR 10.5 billion.

Article 38 of the 2002 Finance Act replaced the remaining seven annual payments of EUR 1 852 million (a total of EUR 12 966 million) set forth in Schedule B with four payments of EUR 3 billion (a total of EUR 12 000). The breakdown between principal and interest (at the implicit interest rate of 5.28%) is provided in Schedule C (2002-2005). The off-balance sheet commitment was therefore reduced to EUR 12 billion at December 31, 2001.

REDEMPTION PROFILES OF FRF 110 BILLION (EUR 16.77 BILLION) AVANT ET APRES MESURES

A) INITIAL PROFILE					B) POST 2001 MEASURES					C) POST 2002 MEASURES				
Rate: 6.102%					Rate: 5.389%					Rate: 5.282%				
Outst. principal	Interest	Amort.	Installments		Outst. principal	Interest	Amort.	Installments		Outst. principal	Interest	Amort.	Installments	
16.769	1.02334	0.882	1.906	1996	16.769	1.023335	0.882	1.906	1996	16.769	1.02334	0.882	1.906	1996
15.887	0.9695	0.936	1.906	1997	15.887	0.969495	0.936	1.906	1997	15.887	0.9695	0.936	1.906	1997
14.951	0.91237	0.993	1.906	1998	14.951	0.91237	0.993	1.906	1998	14.951	0.91237	0.993	1.906	1998
13.958	0.85176	1.054	1.906	1999	13.958	0.851758	1.054	1.906	1999	13.958	0.85176	1.054	1.906	1999
12.904	0.78745	1.118	1.906	2000	12.904	0.787448	1.118	1.906	2000	12.904	0.78745	1.118	1.906	2000
11.786	0.71921	1.186	1.906	2001	11.786	0.635	1.217	1.852	2001	11.786	0.635	1.217	1.852	2001
10.599	0.64681	1.259	1.906	2002	10.569	0.569	1.283	1.852	2002	10.569	0.558	2.442	3.000	2002
9.341	0.57	1.336	1.906	2003	9.286	0.500	1.352	1.852	2003	8.127	0.429	2.571	3.000	2003
8.005	0.48849	1.417	1.906	2004	7.934	0.428	1.425	1.852	2004	5.556	0.293	2.707	3.000	2004
6.588	0.40201	1.504	1.906	2005	6.509	0.351	1.502	1.852	2005	2.849	0.151	2.849	3.000	2005
5.084	0.31026	1.595	1.906	2006	5.008	0.270	1.582	1.852	2006	0,000				
3.489	0.2129	1.693	1.906	2007	3.425	0.185	1.668	1.852	2007					
1.796	0.10961	1.796	1.906	2008	1.758	0.095	1.758	1.852	2008					
0.000					0.000									
TOTAL:	16.77		24.77	bn euros	TOTAL:	16.77		24.35	bn euros	TOTAL:	16.77		23.38	bn euros

Barring further amendments made to Ordinance No. 96-50, the initial debt of EUR 16.77 billion (FRF 110 billion) will be fully repaid by year-end 2005. Thereafter, substantially all of CADES' resources will be able to be dedicated to the service and repayment of the social security deficit.

CONDENSED BALANCE SHEET AT 12/31/04

in millions of euros

DEBT CARRYOVER at 01/01/04	-30 165.4
DEFICITS ASSUMED IN 2004	-35 000.0
RESULT AT 12/31/04	-752.2
PROPERTY ENDOWMENT	181.2
OUTSTANDING DEBT at 12/31/04	-65 736.4

Breakdown of debt:

- Liabilities contracted with third parties:

. Financing debt < 1 yr	27 951.7
. Financing debt > 1 yr	40 925.2
. Accruals, deferred income and sundries	1 379.0

- Less assets held:

. Financial investments	3 154.2
. Prepayment, accrued income and sundries	1 365.3

CONDENSED INCOME STATEMENT AT 12/31/04

in millions of euros

NET REVENUES FROM THE CRDS	4 902.8
NET PROCEEDS FROM PROPERTY	-1.92
Interest payable	-1 842.3
Bank commissions	-25.4
Interest receivable	314.1
NET FINANCIAL RESULTS	-1 553.67
General operating expenses	-2.30
OPERATING SURPLUS	3 344.9
Payment to the government	-3 000.0
Payments provided for in the 2004 SSFA	-1 097.3
Non-recurring income	0.3
DEFICIT AT 12/31/04	-752.2

OTHER INFORMATION

In connection with the adoption of IFRS international accounting standards, CADES provides the following information in terms of market value, comparing the market value of net debt to its book value on the December 31, 2004 reporting date. The balance sheet and income statement will be presented in conformity with IFRS standards in an upcoming report.

Net debt in terms of market value is equal to the sum of the following aggregates:

- a. Value of fixed-rate and inflation-indexed bonds, determined on the basis of the average market rate observed at December 31, 2004;
- b. Value of unlisted securities issued, obtained using a CADES zero-coupon curve at December 31, 2004. Options included with certain of these securities are valued using an internal model that was built using standard valuation software developed and marketed by an outside provider;
- c. Value of derivatives used to transform a portion of the debt into micro-hedging instruments. Options included with certain of these securities are valued using the same internal model;
- d. Value of macro-hedging derivatives;
- e. Updated value at December 31, 2004 of collateral, securities received under resale agreements and bank deposits.

In millions of euros:

	NET DEBT IN TERMS OF REPAYMENT VALUE AT MATURITY	NET DEBT IN TERMS OF REPAYMENT VALUE AT 12/31/04 REPORTING DATE	NET DEBT IN TERMS OF MARKET VALUE AT 12/31/04
<u>< 1 YEAR</u>	24 402.74	24 364.85	24 406.69
<u>1 TO 5 YEARS</u>	21 866.68	21 734.50	23 152.98
<u>> 5</u>	21 014.67	19 713.82	20 949.93
<u>YEARS</u>	55.87		55.87
<u>TOTAL</u>	67 339.96	65 813.17	68 565.47
<u>REVISABLE RATE</u>	30 810.74	30 843.45	30 656.80
<u>INDEXED RATE</u>	11 665.57	10 232.44	11 305.48
<u>FIXED RATE</u>	24 807.78	24 737.28	26 547.32
<u>SWAPS</u>	55.87		55.87

Differences in value:

Differences in the market and repayment value of net debt is attributable to the following factors:

- . The market value of fixed-rate issues increased due to a decline in interest rates.
- . Market value takes into account revalued future coupons, while repayment value only takes the nominal coupon payment into account.
- . Gains or losses related to macro-hedging swaps or swaps to hedge against inflation both impact market value.

The data in this presentation, which is being provided for information only, covers a significant portion of CADES' primary activity, which is to amortize the debt it contracts on financial markets under the best possible terms and conditions.

The data must be read in relation to other factors, such as the payment to the government and estimated CRDS revenues, which were not recorded in this presentation.