



2001 Financial statements

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1. MISSION STATEMENT

Ordinance No. 96-50, dated January 24, 1996, pertaining to the repayment of the debt accrued by French social security system, created the *Caisse d'Amortissement de la Dette Sociale*, or Social Security Debt Repayment Fund (CADES), for a planned lifetime of thirteen years and one month. CADES is an administrative public agency 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 EUR 20.9 billion (FRF 137 billion) debt contracted by the Central Agency of Social Security Bodies (ACOSS) from the *Caisse des Dépôts et Consignations* (bank for official deposits) as reported at December 31, 1995, representing the accrued debt of the French social security system at December 31, 1995, and the estimated shortfall for 1996
- Contribute EUR 1.905 billion (FRF 12.5 billion) to the general budget of the French government each year from 1996 to 2008, as stipulated in the aforementioned Ordinance and the 2001 and 2002 Finance Acts providing the revised payment amounts and schedule.

In the furtherance of its mission, CADES receives the proceeds of a special tax known as the social debt reimbursement contribution (CRDS), legally introduced in Chapter 2 of the aforementioned Ordinance, and is authorized to borrow funds, in particular via public offerings and the issuance of negotiable debt securities.

CADES also receives the proceeds from the sale of private real-estate assets held and leased by the national agencies of the main social security scheme and ACOSS. Assets that remained unsold at December 31, 1999 were transferred to CADES on January 1, 2000.

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

Article 31 of the Social Security Finance Act No. 97-1164, dated December 19, 1997, extended the scope of CADES' mission.

As of January 1, 1998, an additional EUR 13.2 billion (FRF 87 billion) of social security debt was transferred to CADES, representing:

- Estimated debt accrued by the main social security scheme at December 31, 1997, totaling EUR 11.4 billion (FRF 75 billion)
- The shortfall forecast for 1998, amounting to EUR 1.8 billion (FRF 12 billion).

Both the lifetime of CADES and the CRDS collection period were extended by five years.

2. CADES' ORGANIZATIONAL STRUCTURE

CADES is governed by a Board of Directors and a Supervisory Board. It is subject to the provisions of Decree no. 53-1227, dated December 10, 1953, as amended, on the accounting policies applicable to French administrative public agencies, and Decree No. 62-1587 dated December 29, 1962, as amended, 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' Principal 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 expenses 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).

Accounting procedures and principles are subject to a contractual 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.
- 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 Principal Officer and the Accounting Officer. Clearance to read and modify data has been clearly defined so as to enable the Accounting Officer and the Principal Officer to exercise their respective powers.

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

Budget and accounting

1. Budget

CADES' budget, which sets forth expected income and expenses for the year, is divided into two sections: a financing section, consisting of active debt management transactions, and an administrative section, consisting of transactions relating to the implementation of the human and technical resources required to fulfill its stated mission.

Funds credited to income include earmarked proceeds from the CRDS, loans and equivalent debt, and financial or investment income.

Financing expenses consist primarily of charges related to CADES' obligations to repay the government as well as interest, fees and commissions on operations.

The borrowing requirement of the administrative section is met by deducting required amounts from CRDS revenue. Administrative management expenses include capital expenditures related to the purchase of office and IT equipment, and operating expenses, such as payroll costs, supplies and compensation of intermediaries. The budget is submitted to the supervising ministers for approval.

2. Accounting

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 (BDA) 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 trader, 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 for financing transactions is governed by the implementation of Front Office, Middle Office and Back Office services.

Within the scope of its defined procedures and restrictions, the Front Office has the monopoly on transactions involving the financial, interest-rate and currency markets. These are routine transactions 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 then 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 at the Treasury Central Accounting Agency (ACCT). The account number is 441.115, held in the name of:

"Caisse d'amortissement de la dette sociale." The account is 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
- SICOVAM 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 (Chase Manhattan Bank 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 (CMB accounts), 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

At 12/31/2001	29,484
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At 12/31/2000	30,756
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At 12/31/1999	31,931

NET RESULT AT 12/31/01: 1,168

CRDS net revenues	4,599
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Net income from real estate	4
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Payment to the government	-1,852
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Interest expense	-1,560

REAL-ESTATE ASSETS – INVENTORY

	Number	Appraised value of property
At 12/31/2001	35	178
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At 01/01/2000	36	181

BALANCE SHEET

In millions of euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
ASSETS			
Cash in hand, central banks, national giro (note 1)	3.24	0.69	0.40
Treasury bills and similar securities			
Loans and advances to credit institutions (note 1)			
. repayable on demand	0.06	0.06	0.13
. repayable at maturity	2 536.63	1 834.00	897.90
Loans and advances to clients			
. Other advances to clients			
Bonds and other fixed-income securities			
Shares and other variable-yield securities			
Intangible assets (note 2)	0.04	0.01	0.02
Tangible assets (note 2)	0.06	0.12	0.16
Property assets (stock) (note 13a)	178.33	178.33	0.00
Other assets (note 3)	50.56	159.58	71.27
Accrued income and prepaid expenses (note 4)	1 621.39	1 881.36	2 026.36
TOTAL ASSETS	4 390.31	4 054.15	2 996.24
LIABILITIES			
Amounts owed to credit institutions (note 5)			
. payable on demand	0.00	0.00	0.00
. payable at maturity	2 071.12	1 950.94	1 950.86
Amounts owed to clients - Other debts			
. payable on demand			
. payable at maturity			
Debts evidenced by certificates (note 6)			
. Negotiable debt instruments	245.39	2 053.21	2 190.88
. Debenture loans	30 356.82	29 123.73	28 793.08
. Other debts evidenced by certificates			
Other liabilities (note 7)	512.48	656.49	1 338.58
Accrued expenses and deferred income (note 8)	428.40	662.28	435.24
Sub-total liabilities	33 614.21	34 446.65	34 708.64
Provisions for contingencies and losses (note 13a)	0.22	0.03	0.00
Property endowment	181.22	181.22	0.00
Retained balance brought forward	-30 573.75	-31 712.40	-32 787.16
Balance for the year ended	1 168.41	1 138.65	1 074.76
Net liability position	-29 224.12	-30 392.53	-31 712.40
TOTAL LIABILITIES	4 390.31	4 054.15	2 996.24

INCOME STATEMENT

In millions of euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
NET INCOME FROM BANKING OPERATIONS	-1 559.97	-1 461.64	-1 524.13
Interest receivable and similar income (note 9)	153.88	141.37	111.64
. Interest receivable and similar income on transactions with credit institutions	129.75	120.64	92.30
. Interest receivable and similar income on transactions with clients			
. Interest receivable and similar income on bonds and other fixed-income securities			
. Other interest receivable and similar income	24.13	20.73	19.34
Interest payable and similar charges (note 10)	-1 786.81	-1 814.65	-1 744.30
. Interest payable and equivalent expenses on transactions with credit institutions	-144.38	-115.87	-94.03
. Interest payable and equivalent expenses on transactions with clients			
. Interest payable and equivalent expenses on and other fixed-income securities	-1 642.43	-1 698.78	-1 650.27
. Other interest payable and equivalent expenses			
Commissions payable (note 10)	-6.98	-7.43	-46.22
Net profits on financial transactions (note 11)	79.96	219.83	154.78
. Net profit on transactions in trading securities			
. Net profit on transactions in securities held for sale			
. Net profit on foreign exchange transactions	0.01	0.00	0.42
. Net profit on transactions in financial instruments	79.95	219.83	154.36
Net loss on financial transactions (note 11)	0.00	-0.87	0.00
. Net loss on transactions in trading securities			
. Net loss on transactions in securities held for sale			
. Net loss on foreign exchange transactions	0.00	-0.87	0.00
. Net loss on transactions in financial instruments			
Other income from banking operations	0.01	0.13	0.02
Other expenses from banking operations	-0.03	-0.02	-0.05

INCOME STATEMENT (cont'd.)

In millions of euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
OTHER OPERATING INCOME AND EXPENSES	2 728.38	2 600.29	2 598.89
General operating expenses (note 13)	-2.51	-2.00	-2.06
. Staff costs	-0.55	-0.58	-0.54
. Other administrative expenses	-1.96	-1.42	-1.52
Depreciation and provisions for depreciation of intangible and tangible assets	-0.06	-0.07	-0.10
Other operating income:	4 644.87	4 549.89	4 632.03
. CRDS (note 12)	4 632.72	4 534.28	4 403.31
. Release of provisions on CRDS receivables (note 12)	0.10	0.00	0.00
. Property sales (note 13a)	12.05	15.61	228.72
Other operating expenses	-1 913.92	-1 947.53	-2 030.99
. Payment to the govt. (note 14)	-1 852.26	-1 905.61	-1 905.61
. Expense on CRDS revenues (note 14)	-34.15	-32.81	-30.34
. Write-off of CRDS receivables (note 12)	-2.09	0.00	0.00
. Allowance established for CRDS receivable (note 12)	-17.85	-0.02	-92.79
. Expense on property sales (note 13a)	-7.57	-9.09	-2.20
. Other	0.00	0.00	-0.05
GROSS PROFIT ON ORDINARY ACTIVITIES	1 168.41	1 138.65	1 074.76
PROFIT ON ORDINARY ACTIVITIES	1 168.41	1 138.65	1 074.76
Exceptional income			
Exceptional charges			
NET PROFIT FOR YEAR ENDED	1 168.41	1 138.65	1 074.76

OFF-BALANCE SHEET COMMITMENTS

In millions of euros (Notes 15 - 17)

At 13/31/2001

At 12/31/2000

At 12/31/1999

COMMITMENTS GIVEN

Financing commitments

. Commitments to credit institutions			
. Commitments to clients			
. Annual payment to the govt. (pursuant to art. 4 of Ordinance n° 96-50 of January 24, 1996) (note 17)	12 000.00	14 818.04	17 150.51

Guarantees

- . Guarantees to credit institutions
- . Guarantees to clients

Commitments related to securities

- . Securities purchased with sale or repurchase options
- . Other commitments given

COMMITMENTS RECEIVED

Financing commitments

. Commitments from credit institutions (note 17)	533.57	533.57	686.02
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Guarantees

- . Guarantees from credit institutions

Commitments related to securities

- . Securities sold with sale or repurchase options
 - . Other commitments received
-

2001 OPERATING HIGHLIGHTS

◆ **CRDS**

The Constitutional Council approved measures included in the 2001 Social Security Finance Act to exempt non-taxable retirees and the non-tax-paying unemployed from payment of the CRDS.

To offset the loss in revenue resulting from the exemption granted to the non-tax-paying unemployed, CADES' annual contribution to the government budget was reduced by EUR 53 million, from EUR 1.905 billion (FRF 12.5 billion) to EUR 1.852 billion (FRF 12.15 billion) in 2001.

◆ **Payments to the government**

The seven yearly payments of EUR 1.852 billion (FRF 12.15 billion) planned from 2002 to 2008 have been replaced with four annual payments of EUR 3 billion from 2002 to 2005 (Article 38 of the 2002 Finance Act, published in the *Journal Officiel* on December 29, 2001).

◆ **Financial transactions**

CADESi inflation-linked bonds were tapped up by EUR 2.18 billion on the 2006 issue and EUR 300 million on the 2013 issue.

International medium-term debt (EMTN): the last zero coupon bonds reached maturity, an EMTN with 2006 maturity was issued for USD 100 million, and the repurchase option of the 2008 maturity EMTN of 10 billion yen was exercised.

The 1996 bond issue of USD 2 billion reached maturity and was redeemed in December 2001.

Short-term interest-rate management: CADES set up macro-hedging tools consisting of fixed-rate swaps against EONIA. CADES also pursued macro hedging against inflation through the issue of two swaps in the second half of 2001 for a total of EUR 100 million.

Lastly, CADES issued euro commercial paper in Australian dollars for the first time.

ACCOUNTING PRINCIPLES AND METHODS

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 requirements applicable to credit and financial institutions, as well as with the 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 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.

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

CADES' chart of accounts was approved by the *Conseil National de la Comptabilité* in Opinion No. 99-04 issued at the plenary session held on March 18, 1999.

It is important to read CADES' income statement in relation to its primary mission, namely, to amortize a debt before the end of its lifetime.

Parallel to the examination and approval of the accounts, CADES' Board of Directors regularly ensures that the financial balance of the Fund is maintained throughout its lifetime, taking into account updated CRDS revenue forecasts and changes in the amortization schedule of the debt, recorded as a liability in the balance sheet, as well as charges incurred to service this debt.

1 – Contribution to repayment of the social security debt

- Resources explicitly distributed to CADES

The social security debt reimbursement 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 (3.60%), 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 main 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.

To enable CADES to record these amounts as accrued income, the collecting agencies notify CADES of the amounts relating to the year ended that have not yet been collected.

2 - Private rental real estate

In addition to the CRDS levy, Ordinance No. 96-50 of January 24, 1996, establishing CADES, also allocated to CADES the proceeds from the "sale of private real estate held and leased by the national agencies of the main social security scheme and ACOSS, excluding properties used for administrative purposes."

"The portion of the property portfolio not sold by 12/31/1999 shall be transferred to CADES together with the attendant rights and obligations (...) For the management or sale of the aforesaid property, CADES may call upon any department or organization authorized to this end. Full disposal of the property portfolio must be completed by 12/31/2008." (Article 9)

The first building was sold in 1997 for a net sum of EUR 14 million. The proceeds from the sale were recorded under Other non-banking income on the income statement. Other disposals were completed in 1999 for a net total of EUR 226.5 million.

Pursuant to the order of December 27, 1999, the unsold portion of the private rental real estate portfolio of the national old-age insurance fund for salaried workers (CNAVTS) was transferred to CADES free of charge on January 1, 2000.

As these assets are intended for resale, they are recorded on the debit side of the inventory account "Property held for resale" by crediting a "Property endowment" subdivision of the capital account. At a meeting held on July 13, 2000, the Board of Directors selected the *Service des Domaines* (government land management office) to perform appraisal services. Accordingly, as of 2001, the Service des Domaines conducts a yearly valuation of the real estate inventory. This appraisal enables CADES to make provision in its accounts for any unrealized capital loss.

Pending sale of the real estate, a management agreement was signed in with CNAVTS in December 1999 under which CNAVTS undertakes to carry out all the necessary operations for the management of the property in accordance with the property management strategy adopted by CADES. CNAVTS pays all expenses, collects rents and follows up on disputes. CADES' Accounting Officer is responsible for the related accounting transactions. Expenses and revenues are recorded by CADES on the basis of the monthly budget statements submitted and certified by CNAVTS.

3 - Foreign exchange transactions

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

- Transactions on balance sheet and off-balance sheet accounts are redenominated into euros at the exchange rate prevailing at the account closing date.
- Income and expenses denominated in foreign currencies are redenominated into euros at the exchange rate prevailing at the date they were recorded in the profit and loss account.
- Realized and unrealized exchange gains and losses are recorded in the profit and loss account and reported as income or expenses from banking transactions.

4 - Repos with securities delivered

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

Depending on the type of counterparty with which CADES concludes the repo transaction, securities received are recorded under loans and advances to credit institutions or loans and advances to customers.

5 - 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.

6 - Bond issues

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

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 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. 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.

7 - 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.

8 – Interest-rate and currency swaps

Commitments resulting from swap transactions are recorded as off-balance sheet items for the nominal value of such contracts.

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.

Swaps are recorded in accordance with the policies and methods applicable to the underlying exposure being hedged. Gains and losses on hedges are recorded symmetrically to the underlying transaction.

9 - 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. Disposals of real estate transferred by the social security agencies do not generate a taxable capital gain.

10 – 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 with all its counterparties providing for margin calls.

CADES 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 when signed with lower-rated counterparties, and monthly margin calls in other cases.

Using lower margin call thresholds for lower-rated counterparties, CADES ensures hedging against potential delivery default by a counterparty.

NOTES

BALANCE SHEET

The closing balance for the year 2001 amounted to EUR 4.4 billion, with a total debt of EUR 33.6 billion and a net liability position of EUR -29.2 billion.

ASSETS

Note 1: Treasury and interbank transactions

in euros	At 12/31/2001	At /12/31/2000	At 12/31/1999
CENTRAL BANKS, NATIONAL GIRO	<u>3 237 257.31</u>	<u>693 457.33</u>	<u>406 223.12</u>
Central banks	3 237 257.31	693 457.33	406 223.12
CLAIMS ON CREDIT INSTITUTIONS	<u>2 536 682 308.64</u>	<u>1 834 064 903.83</u>	<u>898 027 515.97</u>
Repayable on demand	57 022.13	62 691.72	127 422.87
Ordinary debit accounts	57 022.13	62 691.72	127 422.87
Securities received under repurchase agreements			
Related amounts receivable			
Repayable at maturity	2 536 625 286.51	1 834 002 212.11	897 900 093.10
Securities received under repurchase agreements (< 3 months) o. w.:			
· Treasury bills	1 204 481 506.63	535 138 409.97	535 401 683.36
· Bonds	1 326 012 609.46	1 295 188 215.02	279 042 698.60
· Own securities			82 004 079.00
Related amounts receivable	6 131 170.42	3 675 587.12	1 451 632.14
TOTAL	2 539 919 565.95	1 834 758 361.16	898 433 739.09

Total claims on credit institutions consist of EUR 3.2 million in cash deposits in accounts held in the name of CADES and EUR 2,536.7 million in securities received under resale agreements (including EUR 6.1 million of investment-related receivables).

Note 2: Tangible and intangible fixed assets

In euros	At 12/31//01				At 31/12/00		At 31/12/99	
	Cost Start 01/01/2001	Purchases	Sales	Cost on 31/12/01	Depreciation and Provisions	Net book value 31/12/01	Net book value 31/12/00	Net book value 31/12/99
INTANGIBLE ASSETS	145 288	44 850	0	190 138	147 919	42 219	5 166	17 765
IT software	145 288	44 850	0	190 138	147 919	42 219	5 166	17 765
TANGIBLE ASSETS	316 783	4 079	0	320 862	257 047	63 815	114 437	158 948
Sundry equipment	316 783	4 079	0	320 862	257 047	63 815	114 437	158 948
TOTAL	462 071	48 929	0	511 000	404 966	106 035	119 603	176 713

Intangible and tangible fixed assets reflect the value of software and equipment acquired by CADES, net of amortization (EUR 106,000).

Note 3: Other assets

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
OPTIONAL ASSETS PURCHASED			
Interest-rate instruments			
Foreign exchange instruments			
Other optional instruments			
Provision for depreciation of optional instruments purchased			
Net book value of optional instruments purchased			
SUNDRY DEBTORS	50 562 451.48	159 583 931.53	71 268 853.58
Security deposits	0.00	89 242 211.15	4 211 374.77
Security deposits received	0.00	89 206 146.00	4 200 000.00
Related amounts receivable	0.00	36 065.15	11 374.77
Amounts receivable on unpaid CRDS contributions to be collected by ACOSS	50 501 329.85	70 338 625.31	67 057 478.81
Gross amounts receivable	161 055 883.97	163 147 181.58	159 849 546.9
Provisions	(110 554 554.12)	(92 808 556.27)	(92 792 068.10)
Other sundry debtors on financial transactions	60 000.00	0.00	0.00
Other sundry debtors on operating expenses	0.00	0.00	0.00
Other sundry debtors	1 121.63	3 095.07	0.00
TOTAL	50 562 451.48	159 583 931.53	71 268 853.58

Other assets mainly consist of amounts receivable on unpaid CRDS to be collected by ACOSS, totaling EUR 50.5 million. Based on the information provided by ACOSS, provisions amounting to EUR 110.5 million (68.6% of the total) are deducted from the gross amount receivable of EUR 161 million.

Note 4: Accrued income and prepaid expenses

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
ACCRUED INCOME	857 422 613.88	779 261 983.73	818 265 577.18
On forward interest rate instruments	124 104 352.63	88 466 515.96	73 186 718.69
On forward foreign exchange transactions	150 047 387.03	157 371 684.41	138 606 318.49
On CRDS revenues (pursuant to art. 6 of Ordinance n° 96-50)	583 270 874.22	533 423 783.36	447 773 113.05
On property sales (pursuant to art.9 of Ordinance n° 96-50)	0.00	0.00	158 699 426.95
Other accrued income	0.00	0.00	0.00
POTENTIAL LOSSES AND LOSSES TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS	3 962 857.95	5 665 521.43	8 724 350.40
DEFERRED CHARGES	168 592 238.00	175 392 798.94	159 395 087.65
Premium on bond and EMTN issues	168 592 238.00	175 392 798.94	159 395 087.65
Other deferred charges	0.00	0.00	0.00
PREPAID EXPENSES	2 207 619.34	49 687 542.47	26 977 933.84
Prepaid expenses on payments of management costs	33 461.69	31 880.02	31 028.73
Prepaid interest on negotiable debt instruments issued	2 174 157.65	49 655 662.45	26 946 905.11
Other prepaid expenses	0.00	0.00	0.00
OTHER ADJUSTMENT ACCOUNTS	589 208 848.75	871 352 390.08	1 012 995 018.89
Currency adjustment account	588 415 616.19	870 126 347.17	1 005 653 124.57
Rental management adjustment account	791 052.18	1 223 064.25	0.00
Divers	2 180.38	2 978.66	7 341 894.32
TOTAL	1 621 394 177.92	1 881 360 236.65	2 026 357 967.96

Accrued income and prepaid expenses include transactions that affect net income independently of their impact on cash flow. This essentially includes:

- Accrued income totaling EUR 857.4 million (including EUR 583.2 million of CRDS revenues and EUR 274.2 million from forward interest rate or foreign exchange transactions)
- Balancing adjustments on forward financial instruments amounting to EUR 4 million
- Bond premiums amounting to EUR 168.6 million
- Prepaid interest on negotiable debt securities totaling EUR 2.2 million
- Adjustment accounts in foreign currencies amounting to EUR 588 million (technical accounts enabling the revaluation of off-balance sheet accounts to be integrated into net income).

The reduction in the size of foreign currency adjustment accounts is attributable to the redemption of a bond issue of USD 2 billion in December.

LIABILITIES

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

The net liability position, the retained balance brought forward, income for the year ended and property endowment, was EUR -29,224.1 million. This represents the debt transferred to CADES (EUR -34,148.5 million), less CADES' cumulative income (EUR 4,743.2 million since 1996) and the property endowment of January 1, 2000 (EUR 181.2 million).

Total borrowing, amounting to EUR 33,614.2 million, consists essentially of amounts owed to credit institutions (EUR 2,071.1 million), debts evidenced by certificates (EUR 30,602.2 million), accrued expenses and deferred income (EUR 428.4 million) and other liabilities (EUR 512.5 million).

Note 5: Treasury and interbank transactions

In euros	At 12/31/2001				At 12/31/2000	At 12/31/1999
	<= 3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total	Total
CENTRAL BANKS					0	0
AMOUNTS OWED TO CREDIT INSTITUTIONS	179 167 417.22	167 164.04	1 891 779 960.43	2 071 114 541.69	1 950 942 765.47	1 950 860 875.52
Payable on demand						
Ordinary deposits	1.83			1.83	142.07	2.02
Payable at maturity						
Securities pledged under repo	99 993 652.00			99 993 652.00	0.00	0.00
Term accounts and borrowings			1 891 779 960.43	1 891 779 960.43	1 891 779 960.43	1 891 779 960.43
Related debts	79 173 763.39	167 164.04		79 340 927.43	59 162 662.97	59 080 913.07
TOTAL	179 167 417.22	167 164.04	1 891 779 960.43	2 071 114 541.69	1 950 942 765.47	1 950 860 875.52

Amounts owed to credit institutions mainly include private placements amounting to DEM 3.7 billion, broken down as follows:

- 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).

It is worth noting that the counterparties did not exercise their repurchase options at the end of the third year following the initial subscription.

In connection with these treasury transactions and its short-term financing, CADES also sold debt securities under repos for an amount of EUR 100 million.

Note 6: Debts evidenced by certificates

In thousand euros	At 31/12/01				Total	At 31/12/00	At 31/12/99
	<= 3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years		Total	Total
NEGOTIABLE DEBT INSTRUMENTS	170 203	44 820	0	30 367	245 390	2 053 203	2 190 884
Commercial paper issued in euros	0				0	155 000	1 217 900
BMTN (medium-term notes) issued in euros				27 970	27 970	27 970	0
EMTN issued in euros	0				0	200 000	100 000
Commercial paper issued in foreign currencies	170 203	44 820			215 023	1 669 484	872 984
Other negotiable debt instruments issued in foreign currencies							
Related debts				2 397	2 397	749	0
BOND ISSUES	1 276 348	3 818 315	10 796 619	14 465 537	30 356 819	29 123 733	28 793 075
Bonds issued in euros		2 770 765	9 217 958	13 083 920	25 072 643	21 563 987	22 026 897
Bonds issued in foreign currencies	1 134 687		337 177	838 127	2 309 991	4 369 506	4 821 144
EMTN issued in euros (*)		261 800		426 161	687 961	889 229	396 161
EMTN issued in for. cur. (*)		328 677	1 241 484	117 329	1 687 490	1 738 124	1 021 747
Related debts	141 661	457 073			598 734	562 887	527 126
OTHER DEBTS EVIDENCED BY CERTIFICATES							
TOTAL	1 446 551	3 863 135	10 796 619	14 495 904	30 602 209	31 176 936	30 983 959

(*) : EMTN (Euro Medium-Term Notes) are now considered as bonds rather than debt securities

Breakdown of the debt

Debts evidenced by certificates can be broken down as follows:

- Negotiable debt instruments amounting to EUR 245.4 million
- Bond issues and assimilated securities totaling EUR 30,356.7; bond debt can be broken down as follows:

1. Bond debt in "in" currencies:

- Bonds issued before 01/01/99 and redenominated in euros:

- A 5.5% issue maturing on April 25, 2002, for an amount of EUR 2,770,764,656
- A 6.25% issue maturing on October 25, 2007, for an amount of EUR 2,610,384,484
- A 6% issue maturing on July 25, 2005, for an amount of EUR 2,332,317,488
- An issue with step-up rates (5.18% from 04/16/1997 to 04/16/2003 then 7% until 04/16/2008) for an amount of EUR 99,091,860; this issue comprises a repayment option at par, which the issuer may exercise at the end of the sixth year
- A euro-fungible 5.125% issue maturing on October 25, 2008, for an amount of EUR 4,044,497,106
- A euro-fungible 5.25% issue maturing on October 25, 2012, for an amount of EUR 3,000,000,000
- A 4.71% issue maturing on May 11, 2008, for an amount of EUR 304,900,000
- A 4.6% issue maturing on July 15, 2010, for an amount of EUR 228,675,000

- Bonds issued before 01/01/99 and not translated into euros:

- An issue with step-up rates (4.63% from 12/17/1997 to 12/17/2001 then 5.94% until 12/17/2008) for an amount of FRF 2,635 million; this issue comprises a repurchase option at par, which the borrower may exercise at the end of the fourth year and which was not exercised at year-end
- A 6.375% issue in NLG maturing on July 29, 2004, for an amount of 2,097,135,000

- Bonds issued in euros after 01/01/99:

- A 3.375% issue maturing on July 12, 2004, for an amount of EUR 3 billion
- An issue pegged to the French consumer price index (excluding tobacco) maturing in 2013 for an amount of EUR 2.395 billion. This amount factors in additional taps and a redemption premium of EUR 95 million, revalued using the latest inflation index known at December 31, 2001. Based on market forecasts, CADES estimates a redemption premium of EUR 701.2 million at maturity.
- An issue pegged to the French consumer price index (excluding tobacco) maturing in 2006 for an amount of EUR 2.934 billion. This amount factors in additional taps and a redemption premium of EUR 104 million, revalued using the latest inflation index known at December 31, 2001. Based on market forecasts, CADES estimates a redemption premium of EUR 271 million at maturity.

2. Bond debt in "out" currencies:

- A 6.5% issue in USD maturing on March 11, 2002, for an amount of 1 billion
- A 2.5% issue in CHF maturing on March 17, 2003, for an amount of 500 million
- A 6.25% issue in GBP maturing on March 5, 2008, for an amount of 510 million

3. Securities assimilated to bonds

- Assimilated securities are EMTN (Euro Medium Term Notes) issued by CADES as part of the program initiated in 1998 with a pool of banks. At December 31, 2001, there were twelve outstanding EMTN issues in euros and foreign currencies (GBP, HKD, USD, JPY), totaling EUR 2.37 billion.

Debt under one year amounted to EUR 5,310 million compared with EUR 5,071 million at December 31, 2000. Over-five-year debt totaled EUR 14,496 million versus EUR 14,319 million at December 31, 2000. Debt with maturity between one and five years fell from EUR 11,786 million to EUR 10,797 million in 2001.

CADES' debt structure at December 31, 2001 remains stable compared with previous years:

Debt	12/31/01	12/31/00	12/31/99
Short-term (< 1 year)	17.3%	16.3%	16.7%
Medium-terms	35.3%	37.8%	35.3%
Long-term (> 5 years)	47.4%	45.9%	48.0%

Maturity of the bond issue of USD 2 billion and a reduction in foreign-currency commercial paper issues led to a sharp decline in the percentage of debt issued in foreign currencies, as recorded at December 31, 2001:

Debt	12/31/01	12/31/00	12/31/99
In foreign currencies	13.8%	24.9%	21.6%
In euros	86.2%	75.1%	78.4%

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

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

In million euros	Initial debt		Hedging		Final debt	
	forex	euros	forex	euros	forex	euros
Debt in euros		27 680		3 727		31 407
Debt in foreign currencies		counter-value at 12/31/01		counter-value at 12/31/01		
CHF	500	337	-500	-337	0	0
GBP	710	1 167	-710	-1 167	0	0
HKD	500	73	-500	-73	0	0
JPY	3 000	26	-3 000	-26	0	0
USD	2 300	2 610	-2 300	-2 610	0	0
Sub-total foreign currencies		4 213		-4 213		0
Total		31 893		-486		31 407

The first table provides a breakdown of the initial nominal debt between issues in euros ("in" currencies) or foreign ("out") 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 486 million on December 31, 2001.

In millions of euros	Initial debt				Hedging		Final debt			
	forex	euros	total	%	forex	euros	forex	euros	total	%
Fixed rate										
NDS		28	28			-28	0	0	0	
Euro-MTN	1 688	668	2 356		-1 688	-668	0	0	0	
Bonds	2 310	19 744	22 054		-2 310	-1 208	0	18 536	18 536	
Private placements		1 892	1 892				0	1 892	1 892	
Macro-hedging swaps						-638	0	-638	-638	
Total fixed rate	3 998	22 332	26 330	83	-3 998	-2 542	0	19 790	19 790	63
Floating rate										
NDS/Commercial paper	215		215		-215	233	0	233	233	
Euro-MTN		20	20			2 126	0	2 146	2 146	
Bonds			0		0	3 272	0	3 272	3 272	
Macro-hedging swaps						0	0	0	0	
Total variable rate	215	20	235	0	-215	5 631	0	5 651	5 651	18
Indexed rate										
Bonds		5 328	5 328					5 328	5 328	
Macro-hedging swaps						638		638	638	
Total indexed rate	0	5 328	5 328	17	0	638	0	5 966	5 966	19
Total	4 213	27 680	31 893	100		-486	0	31 407	31 407	100

The second table shows the breakdown of debt between fixed and floating rate instruments. After hedging transactions, fixed-rate issues now account for only 63% of debt, variable rate issues have risen to 18%, and inflation-indexed issues represent 19% of debt.

Note 7: Other liabilities

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
SECURITY DEPOSITS RECEIVED	512 295 689.26	655 947 288.40	575 576 304.4⁴
Security deposits received	511 263 493.32	653 586 629.63	574 171 267.71
Related debts	1 032 195.94	2 360 658.77	1 405 036.78
OTHER CREDITORS ON FINANCIAL TRANSACTIONS	154 793.42	448 812.66	657 132.85
OTHER CREDITORS ON OPERATING TRANSACTIONS	33 886.29	94 994.77	762 348 727.7¹
Payment to the government to be made	0.00	0.00	762 245 086.15
Taxes due	4 333.06	0.00	48 898.94
Social security	12 321.84	50 108.09	45 490.48
Suppliers	16 446.41	40 823.05	9 192.68
Other sundry creditors	784.98	4 063.63	59.46
TOTAL	512 484 368.97	656 491 095.83	1 338 582 165.13

Other liabilities include:

- Security deposits received in connection with forward contracts concluded to hedge counterparty risk (EUR 512.3 million)
- Commissions payable and operating debt (EUR 0.2 million).

Note 8: Accrued expenses and deferred income

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
ACCRUED EXPENSES	160 454 466.43	142 500 922.20	124 462 894.48
On forward interest rate instruments	91 906 929.37	63 676 710.40	51 535 635.65
On forward foreign exchange transactions	64 557 513.64	75 183 885.18	68 261 351.47
Fees payable on market trading transactions	167 611.49	162 771.83	130 883.66
Accrued operating expenses	216 094.48	335 162.17	386 945.02
Expenses on CRDS revenues	3 472 317.65	3 026 292.43	2 638 793.26
Expenses due on property sales	0.00	0.00	1 398 046.69
Other accruals	133 999.80	116 100.19	111 238.73
POTENTIAL INCOME & INCOME TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS	132 700 911.15	442 859 192.62	207 106 961.47
DEFERRED INCOME	133 252 243.37	76 909 021.01	99 594 664.14
Discounts on bond issues	133 252 243.37	76 909 021.01	99 594 664.14
Other deferred income			
OTHER ADJUSTMENT ACCOUNTS	1 996 763.32	9 950.98	4 074 332.97
TOTAL	428 404 384.27	662 279 086.81	435 238 853.06

Accrued expenses and deferred income, totaling EUR 428.4 million, include transactions that affect net expenses independently of their impact on cash flow. This essentially includes:

- Accrued expenses on rate swaps (EUR 91.9 million), costs on CRDS revenue (EUR 3.5 million), on the euro leg of currency swaps (EUR 64.6 million) and other expenses
- Balancing adjustments to be spread over currency swaps (EUR 132.7 million)
- Deferred income from bond discounts (EUR 133.3 million)
- Other adjustment accounts (EUR 2 million).

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 - 1,560 million
Other operating income and expenses	EUR <u>+2,728 million</u>
Gross profit on ordinary activities = net profit for year ended	EUR 1,168 million

CADES' mission is to amortize its transferred debt. The profit generated is not a cash surplus; it indicates that CADES is repaying its debt.

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 euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
INTEREST RECEIVABLE AND EQUIVALENT INCOME ON TRANSACTIONS WITH CREDIT INSTITUTIONS	129 748 438.81	120 639 264.88	92 303 305.24
Interest on sight transactions			
Interest on ordinary debit accounts	9 794.32	945.77	22 407.05
Interest on loans			
Interest on securities received under repurchase agreements	58 247.11	89 120.98	35 743.02
Interest on forward transactions			
Interest on franc-denominated loans			
Interest on loans denominated in foreign currency			
Interest on securities received under repurchase agreements	116 782 572.52	96 557 400.16	40 561 665.22
Other interest	12 897 824.86	23 991 797.97	51 683 489.95
INTEREST RECEIVABLE AND SIMILAR INCOME ON BONDS AND OTHER FIXED-INCOME SECURITIES	0.00	0.00	0.00
Interest on investment and held-to-maturity securities			
Other interest on securities transactions			
OTHER INTEREST AND EQUIVALENT INCOME	24 131 914.04	20 730 605.35	19 339 188.49
TOTAL	153 880 352.85	141 369 870.23	111 642 493.73

This income includes:

- Income received from the investment of CADES' cash surplus in repos with securities (EUR 117 million)
- Amortization of bond discounts on bonds issued (EUR 24 million)
- Discounts on forward purchases (EUR 13 million)

Note 10: Debt financing costs

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
INTEREST PAYABLE AND EQUIVALENT EXPENSES ARISING FROM TRANSACTIONS WITH CREDIT INSTITUTIONS	144 378 133.30	115 869 151.80	94 028 990.20
Interest payable on debt on sight			
Interest on ordinary accounts/creditor	4.11	0.01	21 979.99
Interest on overnight loans			
Interest on repos with securities delivered	22 540.12	40 406.00	23 989.61
Interest payable on term transactions			
Interest on CDC loan (debt transfer)			
Interest on syndicated loan			
Interest on repos with securities delivered	186 196.70	303 286.64	25 044.53
Interest on private placements	109 992 716.93	82 823 461.39	82 783 354.65
Other interest payable and similar charges	34 176 675.44	32 701 997.76	11 174 621.42
INTEREST AND EQUIVALENT EXPENSES ARISING FROM BONDS AND OTHER FIXED-INCOME SECURITIES	1 642 426 118.34	1 698 775 949.83	1 650 266 025.30
Expense on debt evidenced by certificates			
Interest on negotiable debt instruments issued in euros (*)	8 813 321.39	18 118 006.22	31 943 382.24
Interest on negotiable debt instruments issued in foreign currencies (*)	53 352 273.82	64 502 378.62	134 220 761.00
Interest on bonds issued in euros (*)	1 157 716 805.53	1 167 152 678.43	1 098 190 938.24
Interest on bonds issued in foreign currencies (*)	321 324 733.01	363 047 788.77	342 011 490.16
Other expenses on debt evidenced by certificates	101 210 142.27	85 945 036.08	43 750 164.28
Other interest payable and equivalent expenses	8 842.32	10 061.71	149 289.46
COMMISSIONS	6 983 702.85	7 427 949.92	46 221 955.50
Commissions on term loans extended by credit institutions	135 772.34	139 928.90	404 959.13
Commissions on negotiable debt instruments issued (*)	77 743.69	573 844.21	605 060.50
Commissions on bonds (*)	6 547 578.64	6 441 025.02	45 063 856.40
Other commissions on securities transactions	220 383.18	270 926.79	148 079.53
Other commissions	2 225.00	2 225.00	0.00
TOTAL	1 793 787 954.49	1 822 073 051.55	1 790 516 971.14

(*) Charges on EMTN are now considered as charges on bonds and no longer as charges on negotiable debt securities.

Debt financing costs dropped slightly (-1.6%) and can be broken down as follows:

- EUR 1,642 million in debt servicing charges
- EUR 144 million in interest on transactions with credit institutions (interest on private placements, repos with securities delivered and margin calls)
- EUR 7 million in commissions.

Note 11: Net profit on financial transactions

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
NET PROFIT ON FOREIGN EXCHANGE TRANSACTIONS	6 728.16	-866 721.91	418 796.81
Other foreign exchange transactions	6 728.16	-866 721.91	418 796.81
NET PROFIT ON TRANSACTIONS IN FINANCIAL INSTRUMENTS	79 948 893.41	219 825 866.22	154 364 177.67
Interest and other cash payments on foreign currency swaps	92 649 624.26	146 626 126.64	165 284 995.65
Interest on interest rate swaps	-12 673 380.52	73 199 739.58	-10 920 817.98
. Micro-hedging	-11 066 316.21	-17 670 016.10	-26 094.61
. Macro-hedging	-1 607 064.31	90 869 755.68	-10 894 723.37
Allowances for depreciation of isolated exposures	-27 350.33	0.00	0.00
TOTAL	79 955 621.57	218 959 144.31	154 782 974.48

Currency and rate swaps yielded a net profit of EUR 80 million, which can be broken down as follows:

- EUR 93 million: interest and balancing adjustments on currency swaps
- EUR -13 million: interest and balancing adjustments on interest rate swaps, comprising:
 - EUR -2 million for macro-hedging swaps
 - EUR -11 million for micro-hedging swaps

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 property and payments to the government), 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

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
NET CRDS REVENUES (article 6)	4 598 563 747.43	4 498 177 361.50	4 213 120 966.57
ACOSS CRDS revenues (on wages and salaries)	3 995 304 994.18	3 919 039 754.24	3 697 694 979.02
CRDS revenues on assets	292 707 850.85	272 280 766.64	241 266 302.95
CRDS revenues on investment income	209 791 809.32	209 744 551.42	192 113 978.35
CRDS revenues on sales of jewellery and precious metals	3 240 049.56	3 363 563.74	3 295 377.14
CRDS revenues on gambling gains	97 519 043.52	93 748 725.46	78 750 329.11
Changes in net claims on ACOSS CRDS	-19 837 295.46	3 281 146.50	67 057 478.81
current year	0.00	3 297 634.67	38 064 837.84
previous years	(2 091 297.61)	0.00	121 784 709.07
provisions	(17 845 682.76)	(16 488.17)	(92 792 068.10)
release of provisions	99 684.91	0.00	0.00
SALE OF ASSETS PRIOR TO TRANSFER OF PROPERTY (article 9)	0.00	0.00	226 523 382.83
TOTAL	4 578 726 451.97	4 501 458 508.00	4 506 701 828.21

This note provides the net revenues allocated to CADES by Articles 6 and 9 of Ordinance No. 96-50 dated January 24, 1996.

Article 6:

- The amount of CRDS, net of recovery expenses and provisions, is EUR 4,598 million, up 2.2% from 2000 levels.
- CRDS collected by ACOSS on the basis of salaries and wages accounts for 86.9% of the total amount. The remaining CRDS proceeds are collected by the Treasury offices, mainly on capital gains (property and investment income) and gaming.
- Accrued income entered into the accounts at December 31, 2001, accounts for 12.6% of total CRDS revenue in 2001 (11.8% in 2000).
- ACOSS provides information enabling CADES to enter into its accounts unpaid receivables and a provision for doubtful debt (determined in accordance with observed collection rates and the age of the claim). Net debt varied by EUR 19.8 million, reflecting the write-off of forgiven debts (EUR -2.1 million), allowances for the period (EUR -17.9 million) and the release of earlier allowances (EUR +0.1 million). (see Note 3)
- Debt repayments made prior to December 31, 1999 (relating to CEE Community Regulations and Social Security Bilateral Agreements) by foreign countries: As of December 31, 1997, these payments are transferred to CADES provided that this does not create a deficit for the CNAMTS or aggravate an existing shortfall. Given CNAMTS' losses in respect of 1998, 1999, 2000 and 2001, the EUR 216.13 million collected during these years will not be turned over to CADES.

Breakdown as at 31/12/2001	Gross revenues	Expenses	Net revenues
Total amount of revenues (article 6)	4 632 715 314.86	34 151 567.43	4 598 563 747.43
ACOSS CRDS revenues (on wages and salaries)	4 015 381 903.85	20 076 909.67	3 995 304 994.18
CRDS revenues on assets	305 221 950.83	12 514 099.98	292 707 850.85
CRDS revenues on investment income	210 846 039.61	1 054 230.29	209 791 809.32
CRDS revenues on sales of jewellery and precious metals	3 256 331.42	16 281.86	3 240 049.56
CRDS revenues on gambling gains	98 009 089.15	490 045.63	97 519 043.52

Article 9:

Pursuant to Article 9 of Ordinance No. 96-50 dated January 24, 1996:

- The national agencies of the main social security scheme and ACOSS shall sell their private rental real-estate assets within four years, excluding properties used for administrative purposes.
- Proceeds from such sales shall be allocated to CADES.
- The portion of the property not sold by December 31, 1999 shall be transferred to CADES, together with attendant rights and obligations.

In accordance with the Order of December 27, 1999, the unsold buildings were transferred to CADES on January 1, 2000. The integration of these real estate assets into CADES' accounts and the related management transactions are the subject of a separate note. (Note 13a)

Note 13: General operating expenses

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
PAYROLL EXPENSE	554 271.72	576 561.86	540 325.97
Compensation (wages)	422 608.09	434 176.36	406 809.98
Benefits (social contributions)	131 663.63	142 385.50	133 515.99
OTHER ADMINISTRATIVE COSTS	1 960 543.35	1 422 521.72	1 517 475.30
Taxes	51 624.12	51 015.43	49 937.16
Outsourced services	1 908 919.23	1 371 506.29	1 467 538.14
of which payroll of staff seconded to CADES	0.00	0.00	40 361.54
TOTAL	2 514 815.07	1 999 083.58	2 057 801.27

General operating expenses correspond to use of the administrative budget, excluding fixed assets and amortization (see Note 2). The increase observed at the December 31, 2001 reporting date, is mainly attributable to higher expenses related to outsourced services (+40%).

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

This note details the real-estate portfolio recorded as inventory and a condensed statement of income and expenses related to property management (see tables, next page).

At January 1, 2000, pursuant to the Order of December 27, 1999, the unsold portion of the private real-estate portfolio of the CNAVTS was transferred free of charge to CADES. This portfolio, originally consisting of 36 buildings, was recorded as inventory account under Property held for resale.

Pending completion of the sales program, a management agreement was signed with CNAVTS under which CNAVTS undertakes to collect rent and pay property management expenses on behalf of CADES.

An analysis of income and expenses related to property management shows a surplus of EUR 4.5 million, including EUR 188,000 set aside to cover the default risk on related rents.

All real-estate assets are scheduled for sale in 2002. A first bundle of nine buildings will be sold at the end of first quarter 2002 for a total of EUR 63.45 million (based on firm prices and offers), versus a balance sheet carrying value of EUR 48.89 million at December 31, 2001. No depreciation allowance was recorded for any of the buildings in this first bundle in CADES' financial statements for the year ended December 31, 2001.

In a letter dated October 9, 2001, to the Chairman of the CNAMTS, CADES requested the transfer of the proceeds from the sale of the Paul Cézanne building complex. Following a negative response from the Chairman of the CNAMTS, CADES referred the case to the Legal Affairs department of the Ministry of the Economy, Finance and Industry.

In euros

1 - Property assets held as inventory

	Stock at 01/01/2000	Sales	Stock at 12/31/2001
Number of buildings	36	1	35
Net book value in euros	181 225 293.73	2 896 531.33	178 328 762.40

The CADES Board voted on 07/13/2000 to use the appraised values of the *Service des Domaines*

2 - Other operating income and charges associated with property sales (in euros)

	At 12/31/2001	At 12/31/2000
Sales proceeds	0.00	3 277 653.87
Selling costs	0.00	-
Changes in stock	0.00	2 896 531.33

No property was sold in 2001

3 - Other operating income and expenses related to property management operations (euros)

	At 12/31/2001	At 12/31/2000
Proceeds from rents	12 055 925.37	12 329 483.28
Staff costs	622 804.13	640 276.66
Outsourced services	5 902 674.39	4 334 980.85
Taxes	835 668.11	1 191 523.71
Exceptional expenses	50 860.30	0.00
Sub-total:	7 412 006.93	6 166 781.22
Provisions for contingencies and losses	188 522.13	30 489.80
Releases of provisions for contingencies and losses	30 489.80	0.00
Total:	7 570 039.26	6 197 271.02

Note 14: Other non-banking charges

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
Payment to the government	1 852 255 559.44	1 905 612 715.46	1 905 612 715.47
Expenses on CRDS revenues	34 151 567.43	32 805 901.29	30 344 087.94
Write-off of CRDS receivable	2 091 297.61	0.00	0.00
Provisions on CRDS receivables	17 845 682.76	16 488.17	92 792 068.10
Expenses on property sales	0.00	0.00	2 195 877.73
Other	0.00	0.00	50 283.50
TOTAL	1 906 344 107.24	1 938 435 104.922	030 995 032.74

An annual payment to the government of EUR 1,852 million is provided for in the 2001 Finance Act. This payment shall be increased to EUR 3 billion as of 2002 (see Note 17). Expenses relative to CRDS revenues accounts for 0.7% of gross revenues.

Based on the statistical reserve ratio applied by ACOSS, which is calculated in proportion to the age of the related claim, a provision of EUR 17.9 million was recorded in the accounts at December 31, 2001.

OFF-BALANCE SHEET ITEMS

Off-balance sheet items record commitments on the basis of whether they are "granted" or "received" (financing commitments, guarantees, collateral, pledges on securities, etc.). Certain of these commitments are not included, however, such as those relating to currency transactions and futures instruments. These commitments are described in Notes 15 and 16.

Note 15: Foreign currency transactions

In euros	At 12/31/2001		At 12/31/2000		At 12/31/1999	
	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	4 538 901 691	-	8 108 958 621	-	7 767 597 294	-
OTC hedging transactions						
Forward exchange against EUR	215 023 261	-	1 669 483 863	-	1 752 960 910	-
< 1 yr	215 023 261		1 669 483 863		1 752 960 910	
1 to 5 yrs						
> 5 yrs						
Currency swaps against EUR	4 315 678 430	-	6 439 474 758	-	5 289 292 916	-
< 1 yr	1 705 164 468		2 295 727 942		0	
1 to 5 yrs	1 578 897 038		3 042 334 126		4 392 282 942	
> 5 yrs	1 031 616 924		1 101 412 690		897 009 974	
Forex transactions against currencies	-	-	-	-	725 343 468	-
< 1 yr					725 343 468	
1 to 5 yrs						
> 5 yrs						
Other OTC transactions						
Forward exchange transactions	-	-	-	-	-	-
Currency swaps against EUR	8 200 000					
< 1 yr	8 200 000					
SPOT TRANSACTIONS						
OTC transactions	-	-	-	-	-	-

Forward exchange contracts against euros are futures contracts entered into for the purpose of hedging commercial paper, and decrease at the same rate at which this source of financing decreases.

The fall in the level of currency swaps against euros is attributable to the redemption of a bond issue of USD 2 billion.

Note 16: Financial futures markets

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
INTEREST-RATE INSTRUMENTS			
Regulated and similar markets			
Firm hedging transactions			
Other firm transactions			
Optional hedging transactions			
Other optional transactions			
OTC transactions	5 006 431 924.40	5 832 864 449.06	7 143 827 690.00
Firm hedging transactions			
. Interest rate swaps in EUR	4 669 018 747.52	5 504 378 367.13	6 832 102 564.00
. Micro-hedging	3 030 637 253.00	4 843 547 855.37	4 913 006 388.00
< 1 yr	20 000 000.00	1 812 910 602.37	647 428 926.00
1 to 5 yrs	2 000 000 000.00	2 020 000 000.00	3 632 910 602.00
> 5 yrs	1 010 637 253.00	1 010 637 253.00	632 666 860.00
. Macro-hedging	1 638 381 494.52	660 830 511.76	1 919 096 176.00
< 1 yr	1 000 000 000.00		
1 to 5 yrs	210 000 000.00	210 000 000.00	150 000 000.00
> 5 yrs	428 381 494.52	450 830 511.76	1 769 096 176.00
. Interest-rate swaps in foreign currencies	337 413 176.88	328 486 081.93	311 725 126.00
< 1 yr			
1 to 5 yrs	337 413 176.88	328 486 081.93	311 725 126.00
> 5 yrs			
. FRA			
. Others			
Other firm transactions			
Optional hedging transactions			
Other optional transactions			
OTHER INSTRUMENTS			
Exchange rate instruments			
. Regulated and similar markets			
. OTC markets			
Other instruments			
. Regulated and similar markets			
. OTC markets			

Interest-rate swaps set up by CADES:

- Micro hedging decreased in line with the maturity of the bond issue of USD 2 billion, the currency swap having been accompanied by a rate swap in euros.
- The recorded increase in outstanding macro-hedging swaps is attributable to the integration into the accounts of two fixed-rate swaps against EONIA for the same nominal amount and maturity but in opposite directions.

Note 17: Other off-balance sheet commitments

In euros	At 12/31/2001	At 12/31/2000	At 12/31/1999
FINANCING COMMITMENTS			
Commitments received			
From credit institutions:			
. Multi-currency syndicated loan	533 571 560.33	533 571 560.33	686 020 577.57
. Bridging loan			
. Other financing commitments			
From clients			
Commitments given			
To credit institutions			
To clients			
Payment to the government	12 000 000 000.00	14 818 044 475.48	17 150 514 439.21
GUARANTEES			
Commitments given			
To credit institutions			
To clients			
Commitments received			
To credit institutions			
To clients			
COMMITMENTS ON SECURITIES			
Securities to be received			
Securities to be delivered			
OTHER COMMITMENTS			
Commitments given			
Securities pledged in respect of transactions on futures markets			
Obligations relating to retirement			
Other			
Commitments			
Securities received as collateral on transactions on futures			
Other			

Other financing commitments received at December 31, 2001, include drawing rights on the multi-currency syndicated loan negotiated with a pool of banks (EUR 533.6 million) maturing on November 14, 2002 and the aggregate of annual payments to the government by CADES from 2002 to 2005 (EUR 12,000 million), according to the terms of the 2002 Finance Act.

These payments represent the phased repayment of a EUR 16.77 billion (FRF 110 billion) debt accrued by the French social security system, which was transferred to the government. Given that Article 7 of Ordinance No. 96-50 dated January 24, 1996 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 CADES' off-balance sheet.

The amortization of this debt was first carried out according to Schedule A (see next page) (1996-2008) in accordance with Article 4 of the Order, 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 (FRF 77.3 billion).

The 2001 Finance Act, amending Ordinance No. 96-50, reduced CADES' annual payments to the government until 2008 to EUR 1.852 billion, versus the initially planned payment of EUR 1.905 billion per annum. This reduction was intended to offset the loss in revenue resulting from the exemption of 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 amounted to EUR 10.5 billion (FRF 69.3 billion).

Article 38 of the 2002 Finance Act replaces 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 BN (€16.77 BN) PRE- AND POST-MEASURES

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 euro	TOTAL:	16.77		24.35	BN euro	TOTAL:	16.77		23.38	BN euro

Barring further amendments are 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 dedicated to the service and repayment of the debt allocated to CADES in 1996 and 1998.

CONDENSED BALANCE SHEET AT 12/31/01

In millions of euros

DEBT CARRYOVER at 01/01/01	-30 573
SURPLUS at 31/12/01	1 168
PROPERTY ENDOWMENT	181
OUTSTANDING DEBT at 31/12/01	-29 224

Breakdown of debt:

-liabilities contracted with third parties

. short-term financing debt < 1 yr	5 489
. financing debt > 1 yr	27 184
. accruals, deferred income and sundries	941

- less assets held:

. financial investments held with credit institutions	2 540
. prepayment, accrued income and sundries	1 850

CONDENSED INCOME STATEMENT at 12/31/2001

In millions of euros

REVENUES FROM THE CRDS	4632.7
NET PROCEEDS FROM PROPERTY	4.5
Interest payable	-1786.8
Bank commissions	-7.0
Interest receivable	233.8
NET FINANCIAL RESULT	-1560.0
Net change in CRDS receivables	-19.8
CRDS collection costs	-34.1
General expenses	-2.6
General operating expenses	-56.5
OPERATING SURPLUS	3020.7
Payment to the government	-1852.3
SURPLUS AT 12/31/01	1168.4

NET DEBT IN TERMS OF REPAYMENT VALUE

Excluding accruing interest

Based on residual lifetime

In € thousands	At 12/31/01
< 1 year	2 579
Negotiable debt instruments	204 999
Bonds	4 296 751
Private placements	0
Margin calls	511 263
Treasury transactions	-2 433
Amounts owed to government	0
1 to 5 years	10 618
Negotiable debt instruments	0
Bonds	10 618
> 5 years	16 286
Negotiable debt instruments	27 970
Bonds	14 366
Private placements	1 891 780
NET DEBT IN TERMS OF REPAYMENT VALUE	29 484



RSM SALUSTRO REYDEL

**REPORT OF AUDITORS
ON THE ANNUAL FINANCIAL STATEMENTS**

CADES

*4 bis, boulevard Diderot
75012 PARIS*

YEAR ENDED DECEMBER 31, 2001

CADES

4 bis, boulevard Diderot

75012 PARIS

REPORT OF THE AUDITORS ON THE ANNUAL FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

In accordance with appointment by your letter dated August 27, 2001 we have audited the accompanying financial statements (balance sheet, statement of income and notes to the financial statements) of Caisse d'Amortissement de la Dette Sociale for the year ended December 31, 2001. It is our responsibility to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with international auditing standards. Those standards require that we plan and perform the audit to obtain a reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe that our audit provides a reasonable basis for our opinion.



In our opinion, the financial statements give a true fair view of the financial position of CADES at December 31, 2001 and of the results of its operations for the year then ended, in accordance with the “Plan Comptable des Etablissements de Crédit”, which applies to CADES by reason of notice no. 99-04 of the Conseil National de la Comptabilité.

Paris, April 10, 2002

RSM SALUSTRO REYDEL

J. GOALEC