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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 and Finance and the Minister in charge of Social Security.

CADES' mission is to:

- Amortize the social security debt transferred to it, i.e. the cumulative deficits of the Central Agency of Social Security Bodies (ACOSS);
- Make payments to various social security funds and organizations.

CADES' lifetime has been extended beyond the former January 31, 2014, deadline, to 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 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.

Moreover, 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. ORGANIZATIONAL STRUCTURE OF THE AGENCY

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 the provisions of the aforementioned decrees, financial and accounting transactions fall under the responsibility of CADES' Authorizing Officer and Chairman, Mr. Patrice Ract Madoux, and its Chief Accounting Officer, Mr. Frank Mordacq, Head of CBCM MINEFE.

- CADES' budget for each year is established by November 30th of the previous year by the Board of Directors and approved by the ministers who supervise the agency.
- 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).
- 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

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 13, 2004 on health insurance.

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 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 is populated by 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 RECORDING ACCOUNTING AND FINANCIAL 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 the financing, investment and management of interest rate and foreign exchange exposures.

A sequentially numbered 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 that formal presentation requirements are met and thresholds are observed. The Back Office monitors risk, produces reports and liaises 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 CBCM Minefi. The account, listed in the register of government accounts, is stated in euros.

Only the Accounting Officer may authorize payments from it that fall within the administrative budget, and only after examining the supporting vouchers and documents. Moreover, the account is fed with CRDS revenue that transits through the Public Treasury network (daily accounting transfers from Treasury offices).

Since September 1, 2005, CADES has its own account with the *Banque de France* that is distinct from the ACCT account. This account is impacted by all financial transactions completed by CADES in euros and all CRDS revenue from ACOSS. Once again, only the Accounting Officer may authorize expenditures.

The remaining balance of the deposit account is transferred to the CADES' own account whenever the pre-defined threshold is met

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

These accounts are intended to maintain a net cash balance of zero. They are impacted by all transactions related to CADES issues stated in currencies other than the euro, and by their transformation into structures stated in euros on the international markets.

Due to management constraints that are primarily attributable to the time lag between the European, Asian, Australian and American 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.

KEY FIGURES

In millions of euros (*)

NET DEBT IN TERMS OF REPAYMENT VALUE

At 12/31/2007	72 658
At 12/31/2006	75 367
At 12/31/2005	72 584

	12/31/07	12/31/06	12/31/05
NET INCOME	2 578	2 815	- 367
Primarily reflecting the following items:			
CRDS net revenue:	5 681	5 476	5 181
Payment to the French governments:	-	-	- 3 000
Payments to social security:	-	-	-
Interest expense:	- 3 101	- 2 661	- 2 546

(*)Throughout this document, the letter m is used to indicate million and bn to indicate billion.

BALANCE SHEET

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
ASSETS			
Cash in hand, central banks, national giro (note 1)	10,85	-	0,19
Government paper and similar securities (note 1)	1 370,17	-	-
Claims on credit institutions (note 1)			
. repayable on demand	0,28	0,49	112,68
. repayable at maturity	333,46	-	958,39
Intangible assets (note 2)	-	-	-
Tangible assets (note 2)	0,02	0,03	0,05
Real estate assets (note 13 a)	-	-	-
Other assets (note 3)	654,44	273,24	56,42
Accrued income and prepaid expenses (note 4)	1 340,34	1 369,14	1 950,44
TOTAL ASSETS	3 709,56	1 642,90	3 078,17
LIABILITIES			
Amounts owed to credit institutions (note 5)			
. payable on demand	-	-	-
. payable at maturity	2 111,68	2 225,74	3 618,14
Debts evidenced by certificates (note 6)			
. Negotiable debt securities	3 480,48	3 060,18	9 418,94
. Bonds and related securities	68 611,11	70 592,18	61 863,79
. Other debts evidenced by certificates	-	-	-
Other liabilities (note 7)	19,69	18,37	371,93
Accrued expenses and deferred income (note 8)	2 441,94	1 344,48	518,52
Sub-total liabilities	76 664,90	77 240,95	75 791,32
Provisions (note 8)	0,11	0,08	0,10
Property endowment	181,22	181,22	181,22
Balance brought forward	- 75 714,63	- 78 594,46	- 72 527,62
Result	2 577,96	2 815,11	366,85
Net liability position	72 955,45	75 598,13	72 713,25
TOTAL LIABILITIES	3 709,56	1 642,90	3 078,17

INCOME STATEMENT

in millions of euros	12/31/2007	12/31/2006	12/31/2005
<i>Interest receivable and similar income (note 9)</i>	238,96	524,19	470,79
. Interest receivable and similar income on transactions with credit institutions	135,38	108,09	149,20
. Interest receivable and similar income on bonds and other fixed-income securities	21,16	-	-
. Other interest and similar income	82,42	416,10	321,59
<i>Interest payable and similar expenses (note 10)</i>	- 3 332,92	- 3 161,95	- 2 982,99
. Interest payable and equivalent expenses on transactions with credit institutions	- 116,63	- 128,57	- 145,48
. Interest payable and equivalent expenses on bonds and other fixed-income securities	- 3 216,29	- 3 033,38	- 2 837,51
<i>Commissions payable (note 10)</i>	- 7,51	- 23,67	- 33,34
<i>Net profit or loss on sales of trading account securities and similar transactions (note 11)</i>	0,02	0,06	- 0,12
. Net gain from foreign exchange transactions	0,02	0,06	- 0,12
<i>Net profit or loss on sales of trading account securities and similar transactions (note 11a)</i>	-	-	-
. Net gain from trading account securities	-	-	-
<i>Other income from banking operations</i>	-	-	-
<i>Other expenses from banking operations</i>	- 0,01	- 0,02	- 0,03
NET INCOME FROM BANKING OPERATIONS	- 3 101,45	- 2 661,39	- 2 545,69
<i>General operating expenses (note 13)</i>	- 2,06	- 2,22	- 2,43
. Payroll expense	- 0,74	- 0,75	- 0,79
. Other administrative expenses	- 1,32	- 1,47	- 1,64
<i>Depreciation and provisions for depreciation of intangible and tangible assets</i>	- 0,02	- 0,03	- 0,03
<i>Other operating income:</i>	5 814,76	5 541,94	5 241,30
. CRDS-related income (note 12)	5 814,76	5 541,93	5 241,24
. Property sales (note 13a)	-	0,01	0,06
<i>Other operating expenses</i>	- 133,27	- 63,19	- 3 060,00
. CRDS-related expenses (note 12)	- 69,09	- 63,09	- 59,95
. Payment to the government (note 14)	-	-	3 000,00
. Payments to Social Security (note 14)	-	-	-
. CRDS depreciation allowance (note 12)	- 64,17	-	-
. Expenses on property (note 13a)	- 0,01	- 0,10	- 0,05
GROSS RESULT OF ORDINARY ACTIVITIES	2 577,96	2 815,11	- 366,85
LOSS OR GAIN ON ORDINARY ACTIVITIES	2 577,96	2 815,11	- 366,85
PRE-TAX GAIN OR LOSS ON ORDINARY ACTIVITIES	2 577,96	2 815,11	- 366,85
. Non-recurring income (note 15)	-	-	-
NET RESULT FOR PERIOD ENDED	2 577,96	2 815,11	- 366,85

OFF BALANCE SHEET COMMITMENTS

in millions of euros (notes 16-18)	At 12/31/2007	At 12/31/2006	At 12/31/2005
COMMITMENTS GRANTED			
Financing commitments			
. Commitments to clients			
. annual payment to government (article 4, IV of ordinance no. 96-50 dated January 24, 1996)	-	-	-
. payments to various social security funding organizations (Article 4, V and VI of ordinance)	-	2 690,00	8 390,00
COMMITMENTS RECEIVED			
Financing commitments			
. Commitments from credit institutions (note 18)	7 550,00	7 438,66	11 050,00
Off-balance sheet 01/01/2004	50 000,00	Act 2004-810	
Transfer 2004	-35 000,00	Act 2004-810	
Transfer 2005	-6 610,00	Decree 2005-1255	
Transfer 2006	-5 700,00	Decree 2006-1214	
Discharge 2007	-2 690,00	Decree 2007-1750	
	0,00		

The item amounting to € 690 m euros is the difference between the €50 bn in debt assumed in accordance with the Act of August 13, 2004 and the actual deficit of the French health insurance system since 2004.

Decree no 2007-1750 dated December 12, 2007 established the procedures for settling the assumption of basic social security deficits between 1999 and 2006.

The social security deficit for 2006 is € 949 m, which was less than the initially forecast deficit, resulting in a CADES receivable from the CNAMTS amounting to €64.72 m. This receivable was duly recorded in the CADES financial statements on December 21, 2007 and the off-balance sheet amount was discharged.

NOTES TO THE FINANCIAL STATEMENTS

OPERATING HIGHLIGHTS, 2007

- **Health insurance reform**

Decree no 2007-1750 dated December 12, 2007 established the procedures for settling the assumptions of the basic social security deficits by CADES between 1999 and 2006. The definitive social security deficit is € 949 m, which resulted in discharging the off-balance sheet amount carried by CADES.

- **Financing transactions**

Issues:

A new benchmark issue was launched in April 2007, which enabled CADES to borrow 3 bn euros for a period of 10 years for a face rate of 4,125%.

As for its inflation-indexed bonds, CADES tapped up its CADESi 2017 issue by €750 m in February 2007. EMTN issues in EUR, JPY, USD, HKD, AUD, GBP, NZD, TRY, ZAR, CAD and MXN allowed CADES to borrow €1 912 m after transformation

Redemptions:

CADES early redeemed seventeen EMTNs and thirty-nine reached maturity during the period, for a total amount of €3 810 million.

In addition, a bond reached maturity in October for a total of €2 610 million.

Macro-hedging:

At the December 31, 2007 reporting date, swaps for macro-hedging purposes totaled €2.16 bn, composed solely of inflation swaps. A swap with a nominal value of €25 m fell due in early June 2007.

- **Lines of credit**

The credit facility contracted in February 2005 for a total of €1.5 bn was renewed in the first half of 2007 for a one-year term.

An additional clause to the multi-currency credit agreement was signed in August 2007, reducing the facility from €10 bn to €5 bn.

The credit agreement signed in December 2006 for 500 million euros was renewed at the end of December 2007 for an additional year.

- **Property management**

The property management agreement between CNAVTS and CADES expired on 12/31/2006. Accordingly, since the beginning of 2007, CADES manages these cases directly, working in partnership with a team of lawyers and marshals of the court, whose role is to monitor pending cases and file suits. The Accounting Officer is responsible for recording collections consistent with the accounting vouchers and supporting documents supplied by the CNAVTS.

- **Cancellable swaps**

In order to take advantage of the effects of the inversion of the yield curve since August 2007 (increase in 3-month EURIBOR and decline in longer-term rates, i.e. more than two years) and the rise of implied volatility, CADES negotiated swaps on which it receives EURIBOR 3 month-margin and pays the fixed rate. These swaps are cancellable by their counterparties 6 months after the beginning of the transaction and then every three months thereafter.

These cancellable swaps, which qualify as micro-hedges, are used to transform adjustable rate structured transactions that have previously been negotiated by CADES into fixed-rate transactions for at least six months. These swaps are strictly backed on swaps already belonging to CADES portfolio.

If the swaps are cancelled, CADES reverts to its initial financing level. These swaps with a nominal amount of €694 m were authorized by the board of directors of November 28th 2007. They qualified as micro-hedge (category b- rules n° 90-15 and 88-02) accordingly to *Réglementation bancaire*.

ACCOUNTING PRINCIPLES AND METHODS

1. General principles of measurement and presentation

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, amended in turn by CRC Regulation 2005.04 of November 3, 2005, 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 the context of the latter regulations,, the CRC considered that CADES was entitled to maintain the adaptations provided for in Opinion No. 99-04 issued by the *Conseil National de la Comptabilité* (CNC) pertaining to the financial statement presentation of its specific transactions. Accordingly, the CADES income statement records operating income and expenses, which are mainly comprised of CRDS revenue, 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. Specific characteristics of CADES

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 2007.

4. Contribution to repayment of the social security debt

▪ Revenue explicitly allocated 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 and Finance 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.

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. 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, 2006.

Since 01/01/2007, CADES has been managing disputed cases internally. CADES has signed a direct and binding agreement with the lawyer responsible for handling these cases.

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

6. Forex 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 reporting date.

Prevailing exchange rates on 12/31/07 (source: ECB):

USD: 1.4721	JPY: 164.93
GBP: 0.733335	HKD: 11.48
CHF: 1.6547	NZD: 1.9024
AUD: 1.6757	TRY: 1.717
ZAR: 10.0298	CAD: 1.4449
MXN: 16.06	

- 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.

7. 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.

8. Tangible and intangible fixed assets

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

Tangible fixed assets mainly consist of office equipment and computer hardware.

Intangible fixed assets include software.

9. 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.

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

- Inflation benchmark:

IPC on 12/31/2007:	115.36065
Cadesi 2011:	1.09603
Cadesi 2013:	1.1516
Cadesi 2017:	1.01723
Cadesi 2019:	1.05536

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.”

10. 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.

11. Financial futures

Firm macro-hedging transactions on regulated markets (German Bund et Bobl bonds) are recorded in accordance with CRBF regulations. Sales of Euro Bund Future and Euro Bobl Future financial futures contracts are recorded off-balance sheet at their nominal value.

Margin calls are recorded to or against income. Deposits are carried in the balance sheet under security deposits paid. Finally, brokerage fees are charged against income. They correspond to trading fees on the sale or purchase of Bunds and Bobls.

12. Provisions

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

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.

14. Managing counterparty credit risk

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.

1. Investments

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.

2. Off-balance sheet transactions

In order to hedge interest-rate and foreign exchange exposures, CADES trades in a number of financial derivative instruments, such as interest-rate, currency and asset swaps. By using different trigger and margin call thresholds depending on the rating of its counterparties, CADES drastically reduces the residual risk of potential delivery default on such instruments.

15. Transactions involving short-term investment securities

The short-term investment securities portfolio is assessed in accordance with the amended version of regulation 90-01 issued by the CRBF (*Comité de la Réglementation Bancaire et Financière*). This portfolio, composed of fixed-income government issued securities is classified under "Government paper and similar securities."

Securities are carried in the balance sheet at their acquisition price. Any interest income earned is recorded under Interest receivable and similar income on bonds and other fixed-income securities.

An impairment allowance is made for unrealized losses, estimated on the basis of the most recent quoted price. These provisions are assessed individually.

Allowances to and reversals of impairment provisions and the capital gains or losses on the sale of short-term investments are credited to or charged against income, under Net gain or loss on investment portfolio and related transactions.

NOTES

BALANCE SHEET

The closing balance for the year ended 12/31/07 was €3.71 bn, with a total debt of €76.66 bn and a net liability position of €-72.96 bn.

ASSETS

Note 1: Treasury and interbank transactions

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
CENTRAL BANKS, NATIONAL GYRO	10,85	-	0,19
Central banks	10,85	-	0,19
GOVERNMENT PAPER AND EQUIVALENT	1 370,18	-	-
Govrment bonds purchased (< 3 months)	1 366,35	-	-
Related receivables	3,83	-	-
CLAIMS ON CREDIT INSTITUTIONS	333,74	0,49	1 071,06
Repayable on demand	0,28	0,49	112,67
Ordinary debit accounts	0,28	0,49	4,76
Securities received under repo agreements	-	-	107,91
Related receivables	-	-	-
Repayable at maturity	333,46	-	958,39
Securities received under repo agreements (< 3 months)	333,28	-	957,69
. T-bills	-	-	219,48
. Bonds	333,28	-	452,31
. Own securities	-	-	285,90
Related receivables	0,18	-	0,70
TOTAL	1 714,77	0,49	1 071,25

The amount recorded under central banks represents cash deposits available in CADES' euro bank account with the Banque de France.

In the course of the full year 2007, CADES acquired government bonds maturing in less than three months from the December 31, 2007 reporting date.

Note 2: Tangible and intangible fixed assets

in millions of euros	At 12/31/2007							
	Gross value 01/01/2007	Acquisitions	Disposals	Gross value 12/31/2007	D&A	Net value 12/31/2007	Net value 12/31/2006	Net value 12/31/2005
Intangible assets	0,22	-	-	0,22	0,22	-	-	-
<i>Software</i>	0,22	-	-	0,22	0,22	-	-	-
Tangible assets	0,43	-	-	0,43	0,41	0,02	0,03	0,05
<i>Miscellaneous equipment</i>	0,43	-	-	0,43	0,41	0,02	0,03	0,05
TOTAL	0,65	-	-	0,65	0,63	0,02	0,03	0,05

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 12/31/2007	At 12/31/2006	At 12/31/2005
SUNDRY DEBTORS	654,44	273,24	56,42
Security deposits	606,37	234,45	24,67
<i>Security deposits paid</i>	604,71	234,07	24,66
<i>Related receivables</i>	1,66	0,38	0,01
Amounts receivable on unpaid CRDS to be collected by ACOSS	48,07	38,79	31,69
<i>Gross amounts receivable</i>	224,34	155,83	151,92
<i>Provisions</i>	- 176,27	- 117,04	- 120,23
Other sundry debtors (financial transactions)	-	-	-
Other sundry debtors (operating expenses)	-	-	-
Other sundry debtors (CNAV)	-	-	0,06
<i>Gross amounts receivable</i>	2,10	2,16	2,19
<i>Provisions / sundry debtors</i>	- 2,10	- 2,16	- 2,13
TOTAL	654,44	273,24	56,42

Other assets include:

- Security deposits paid in connection with forward contracts concluded to hedge counterparty risk (€604.71 m).
- Unpaid CRDS receivables to be collected by ACOSS, totaling €48.07 m. Provisions amounting to €176.27 m are deducted from the gross amounts receivable of €224.3' m.
- Unpaid receivables of €2.16 m, which include damages claimed from a buyer who reneged on a commitment to purchase a group of buildings (1.84 m euros) and receivables from various debtors (tenants and buyers) currently in mediation (€0.26 m) and managed by CNAVTS. Adequate provisions were made for these receivables at the December 31, 2007 reporting date.

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

in millions of euros	At 12/31/2007	Au 31/12/2006	At 12/31/2005
Provisions at the start of the period	119,20	122,35	122,95
Allowances (real estate)	-	0,11	-
Allowances (CRDS)	64,20		
Allowances released (real estate)	- 0,06	- 0,07	- 0,03
Allowances released (CRDS)	- 4,97	- 3,19	- 0,57
Provisions at the end of the period	178,37	119,20	122,35

Note 4: Accrued income and prepaid expenses

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
ACCRUED INCOME	1 116,39	1 129,70	965,70
On forward interest rate instruments	233,45	189,61	155,99
On forward foreign exchange transactions	293,20	312,01	228,04
On CRDS revenues (Article 6 of Ordinance no. 96-50)	589,74	628,08	581,67
On property sales (Article 9 of Ordinance no. 96-50)	-	-	-
Other accrued income	-	-	-
POTENTIAL LOSSES AND LOSSES TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS	0,73	10,24	20,42
DEFERRED EXPENSES	206,09	207,15	204,20
Premiums on bonds and EMTN issues	206,09	207,15	204,20
Other deferred expenses	-	-	-
PREPAID EXPENSES	11,32	13,47	34,03
Prepaid expenses on payments of administrative costs	0,01	0,01	0,09
Prepaid expenses on negotiable debt instruments	11,31	13,46	33,94
Other prepaid expenses	-	-	-
OTHER ADJUSTMENT ACCOUNTS	5,82	8,58	726,09
Foreign currency adjustment accounts	5,82	8,56	726,07
Rental management adjustment account	-	-	-
Miscellaneous	-	0,02	0,02
TOTAL	1 340,35	1 369,14	1 950,44

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

- accrued income on CRDS revenues (€589.74 m), interest rate swaps (€233.45 m) and currency swaps (€293.20 m)
- cash payments on forward swap transactions to be amortized, totaling €0.73 m
- premiums on bonds and EMTN issues to be amortized, totaling €206.09 m
- prepaid expenses (€11.32 m), mainly reflecting interest deducted at the source upon the issuance of negotiable debt securities
- adjustment accounts in foreign currencies totaling €5.82 m (technical accounts enabling the revaluation of off-balance sheet accounts to be integrated into net income).

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 result for the period and the property endowment, was €72 955.4 m. It is composed of the debt transferred to CADES (€ 34 148.5 m and €47 310 m pursuant to the Act of August 13, 2004) less CADES' aggregate result (€ 257.2 m since 1996), the property endowment of January 1, 2000 (181.2 m euros) and the ACOSS payment to settle the assumption of deficits for the 1999-2006 period (€64.7 m).

Net debt, which totals €76 665 m, primarily reflects amounts owed to credit institutions (€ 111.68 m), debts evidenced by certificates (€2 091.59 m), accrued expenses and deferred income (€ 441.94 m) and other liabilities (€19.69 m).

Note 5: Treasury and interbank transactions

in millions of euros	At 12/31/2007				At 12/31/2007	At 12/31/2006	At 12/31/2005
	<= 3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total	Total	Total
CENTRAL BANKS							
Amounts owed to credit institutions	79,18	511,36	1 521,14	-	2 111,68	2 225,74	3 618,14
Payable on demand	-	-	-	-	-	-	0,42
Ordinary deposits	-	-	-	-	-	-	0,42
Payable at maturity	79,18	511,36	1 521,14	-	2 111,68	2 225,74	3 617,72
Securities pledged under repo agreements	-	-	-	-	-	-	-
Term accounts and borrowings	-	511,29	1 521,14	-	2 032,43	2 146,47	3 538,24
.in euros	-	511,29	1 430,49	-	1 941,78	2 053,12	3 441,78
.in foreign currencies	-	-	90,65	-	90,65	93,35	96,46
Related liabilities	79,18	0,07	-	-	79,25	79,27	79,48
TOTAL	79,18	511,36	1 521,14	-	2 111,68	2 225,74	3 618,14

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

Short term (< 1 year)

- DEM 1 billion (€111 m) at step-up rates (4.47% from 12/29/97 to 12/29/2000 then 5.885% until 12/29/2008)

Medium term (> 1 year and < 5 years)

- DEM 700 million (€358 m) at step-up rates (4.18% from 01/09/98 to 01/09/2001 then 5.715% until 01/09/2009)

- DEM 500 million (€256 m) at step-up rates (4.18% from 01/07/98 to 01/07/2001 then 5.72% until 01/07/2009)

- DEM 1.5 billion (€767 m) at step-up rates (4.47% from 01/05/98 to 01/05/2001 then 5.885% until 01/05/2009)

- CHF 150 million floating rate issue pegged to 1 month LIBORCHF (-0.31%), due 06/30/2010

- EUR 50 m floating rate issue pegged to 1 month EURIBOR (-0.23%), due 06/21/2010.

Total debt is €2.11 bn, of which €79.25 m of related debt.

Note 6: Debts evidenced by certificates

in millions of euros	Au 31/12/2007				Au 31/12/06 Au 31/12/05		
	<= 3 months	> 3 months	> 1 an	> 5 ans	Total	Total	Total
NEGOTIABLE DEBT SECURITIES	3 427,15	42,33	-	11,00	3 480,48	3 060,18	9 418,94
Domestic treasury bills issued in euros	60,00	-	-	-	60,00	92,80	884,00
Debt issued in foreign currencies	-	-	-	-	-	-	-
BMTN issued in euros	-	-	-	11,00	11,00	11,00	38,97
Commercial paper issued in euros	185,34	-	-	-	185,34	1 280,00	454,00
Commercial paper issued in foreign currencies	3 181,81	42,33	-	-	3 224,14	1 676,29	8 031,97
Other NDS issued in foreign currencies	-	-	-	-	-	-	-
Related debts	-	-	-	-	-	0,09	10,00
BONDS	1 698,78	6 747,80	22 604,48	37 560,05	68 611,11	70 592,18	61 863,78
Bonds issued in euros	-	4 751,10	13 023,55	33 687,46	51 462,11	50 139,72	45 997,23
Bonds issued in foreign currencies	695,44	-	-	-	695,44	759,49	744,20
EMTN issued in euros	-	121,16	1 327,00	1 340,00	2 788,16	2 914,16	1 493,16
EMTN issued in foreign currencies	157,62	1 671,51	8 253,90	2 532,59	12 615,62	15 780,90	12 868,23
Related debts	845,72	204,03	0,03	-	1 049,78	997,91	760,96
OTHER DEBT EVIDENCED BY A SECURITY	-	-	-	-	-	-	-
TOTAL	5 125,93	6 790,13	22 604,48	37 571,05	72 091,59	73 652,36	71 282,72

Breakdown of debts evidenced by certificates:

Debts evidenced by certificates reflect:

- negotiable debt instruments for € 480.48 m
- bonds and similar securities for € 68 611.11 m.

1. Bond issues

Short term (less than one year)

- An issue in GBP offering 6.25% maturing on March 5, 2008 (ISIN code XS0084856664) for GBP 510 m
- An issue offering 4.71% maturing in May 2008 (ISIN code FR000020912) for €304.9 m
- A euro-fungible 5.125% issue maturing in October 2008 (ISIN code FR0000571259) for € 044.5 m
- An issue not translated into euros with step-up rates (4.63% from 12/17/1997 through 12/17/2001, then 5.94% until 12/17/2008) (ISIN code XS0082832493) for FRF 2 635 m (€401.7 m). This issue included a repayment option at par exercisable at the end of the fourth year but not exercised at that time.

Medium term (between 1 and 5 years)

- An issue offering 3.75% maturing in July 2009 (ISIN code FR0010093377) for € 000 m
- An issue offering 3.125% maturing in July 2010 (ISIN code FR0010173773) for € 000m
- An issue offering 4.6% maturing in July 2010 (ISIN code FR0000209611) for €28.67 m
- An issue maturing in July 2011 (ISIN code FR0000489734) and pegged to the French consumer price index (excluding tobacco) for € 794.8 m after factoring in additional tap-ups and a redemption premium of €44.8 m (value adjusted after the latest known index on 12/31/2007). Based on market forecasts, CADES estimates a redemption premium of €481 m at maturity
- A euro-fungible 5.25% issue maturing October 2012, for € 000m (ISIN code FR0000571366).

Long term (> 5 years)

- An issue maturing in July 2013 (ISIN code FR0000492308) and pegged to the French consumer price index excluding tobacco for € 569.9 m. This amount factors in additional taps and a redemption premium of €469.9 m revalued using the latest inflation index known at 12/31/2007. Based on market forecasts, CADES estimates a redemption premium of €51.9 m at maturity.
- A 3.25% issue due April 2013 (ISIN code FR0010249763) for € 000m
- A 4% issue maturing in October 2014 (ISIN FR000010120410) for € 000m
- A 3.625% issue due April 2015 (ISIN FR000010163329) for € 000m
- A 3.625% issue due April 2016 (ISIN code FR0010301747) for € 000m
- A 4.125% issue due April 2017 (ISIN code FR0010456434) for € 000m

- An issue pegged to the French consumer price index (excluding tobacco) maturing in July 2017 (ISIN code FR0010359679) for € 034.4 m. This amount factors in additional tap-ups and a redemption premium of €34.4 m according to the latest inflation index known at 12/31/2007. Based on market forecasts, CADES expects to pay a redemption premium of €36.3 m at maturity.
- An issue pegged to the French consumer price index (excluding tobacco) maturing in July 2019 for € 583 m (ISIN FR0010137554). This amount factors in additional tap-ups and a redemption premium of €3 m revalued using the latest inflation index known at 12/31/2007. Based on market forecasts, CADES estimates a redemption premium of €66.5 m at maturity.
- A 4% issue maturing in October 2019 (ISIN code FR0010143743) for € 000m
- A 3.750% issue maturing in October 2020 (ISIN code FR0010198036) for €1 000m
- A 4.375% issue maturing in October 2021 (ISIN code FR0010347989) for € 500m.

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 €10bn to €20bn, initiated in 1998 with a pool of banks. At 12/31/2007, there were 124 outstanding EMTN issues in euros and foreign currencies (GBP, HKD, USD, JPY, NZD, AUD, TRY, ZAR, CAD and MXN), for a total of €15 404 m.

Debt maturing in less than one year totaled €1 916 m versus 10 449 m at 12/31/2006. Debt maturing in more than five years totaled €7 571 m, compared with €37 022 m at 12/31/2006. Debt maturing at between one and five years went from €26 181m at year-end 2006 to €22 064 m at year-end 2007.

Compared with prior years, CADES' year-end debt structure shows an increase in long-term debt, primarily reflecting the issue of a bond maturing in 2017 in the first half of 2007. Compared with year-end 2006, the volume of commercial paper issued declined in 2007:

Debt	12/31/07	12/31/06	12/31/05
Short term (< year)	16.5%	14.2%	21.3%
Medium term	31.4%	35.5%	36.0%
Long term (> 5 years)	52.1%	50.3%	42.7%

The structure of euro and foreign currency issues at 12/31/2007 shows an increase in EMTN issues in euros:

Debt	12/31/07	12/31/06	12/31/05
In foreign currencies	24.4%	24.7%	30.4%
In euros	75.6%	75.3%	69.6%

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 on the structure of interest rates before and after hedging. It provides both accounting and financial information related to the value and hedging of products with specified dates of maturity.

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.

The second table shows the breakdown of debt between fixed and floating rate instruments. Hedging modifies the initial breakdown, such that in the final analysis fixed-rate issues account for 57%, floating-rate issues for 27%, and inflation-indexed issues for 16% of CADES' debt.

in millions of euros	Initial debt		Hedging		Final debt	
	en devises	en euros	en devises	en euros	en devises	en euros
Debt in euros		56 448		18 526		74 974
Debt in foreign currencies		countervalue at 12/31/2007		countervalue at 12/31/2007		
CHF	150	91	-	150	-	91
GBP	830	1 132	-	830	-	1 132
JPY	54 100	328	-	54 100	-	328
USD	19 719	13 395	-	19 719	-	13 395
HKD	630	55	-	630	-	55
AUD	1 336	797	-	1 336	-	797
NZD	709	373	-	709	-	373
TRY	175	102	-	175	-	102
ZAR	490	49	-	490	-	49
CAD	400	277	-	400	-	277
MXN	450	28	-	450	-	28
Sub-total forex		16 627		16 627		
Total		73 075		1 899		74 974

in millions of euros	Initial debt			Incidence des couvertures				Final debt			
	in forex	in euros	total	%	in forex	in euros	in forex	in euros	total	%	
Fixed rate											
NDS	-	-	-	-	-	-	-	-	-	-	
Euro-MTN	11 408	1 641	13 049	-	11 408	53	-	1 694	1 694	-	
Bonds	696	41 480	42 176	-	696	77	-	41 403	41 403	-	
Private placements	-	1 892	1 892	-	-	-	-	1 892	1 892	-	
Macro-hedge swaps	-	-	-	-	-	2 157	-	2 157	2 157	-	
Total fixed rate	12 104	45 013	57 117	78	12 104	2 181	-	42 832	42 832	57	
Floating rate											
NDS	3 224	256	3 480	-	3 224	3 236	-	3 492	3 492	-	
Euro-MTN	1 208	1 147	2 355	-	1 208	14 361	-	15 508	15 508	-	
Bonds	-	-	-	-	-	857	-	857	857	-	
Private placements	91	50	141	-	91	96	-	146	146	-	
Macro-hedge swaps	-	-	-	-	-	-	-	-	-	-	
Total floating rate	4 523	1 453	5 976	8	4 523	18 550	-	20 003	20 003	27	
Indexed rate											
Bonds	-	9 982	9 982	-	-	-	-	9 982	9 982	-	
Macro-hedge swaps	-	-	-	-	-	2 157	-	2 157	2 157	-	
Total indexed rate	-	9 982	9 982	14	-	2 157	-	12 139	12 139	16	
Total	16 627	56 448	73 075	100	-	1 899	-	74 974	74 974	100	

Note 7: Other liabilities

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
SECURITY DEPOSITS RECEIVED	0,02	0,01	351,61
Security deposits received	-	-	350,47
Related debts	0,02	0,01	1,14
OTHER CREDITORS ON FINANCIAL TRANSACTIONS	0,82	0,68	1,98
OTHER CREDITORS ON OPERATING TRANSACTIONS	18,85	17,68	18,34
Payable to the French government	-	-	-
Tax payables	-	-	-
Social payables	-	-	0,16
Suppliers	-	-	0,01
Other sundry creditors (ACOSS)	18,83	17,66	18,15
Other sundry creditors	0,02	0,02	0,02
TOTAL	19,69	18,37	371,93

Other liabilities include:

- Security deposits received in connection with forward contracts and repo agreements concluded to hedge the counterparty risk (€ at 12/31/07)
- Liabilities related to margin calls (€0.02 m)
- Payables to ACOSS (€18.83 m, including credits indicated by ACOSS).
- CNAV payables (€0.02 m).

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

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
ACCURED EXPENSES	330,04	275,28	203,67
On forward interest rate instruments	210,16	173,98	148,06
On forward currency transactions	116,22	97,49	52,23
Commissions payable on market trades	-	-	-
Accrued operating expenses	0,22	0,21	0,22
Accrued expenses on CRDS revenue	3,22	3,48	3,02
Other accrued expenses	0,22	0,12	0,14
POTENTIAL INCOME AND INCOME TO BE SPREAD OVER SEVERAL PERIODS ON FINANCIAL FUTURES	49,90	50,85	43,55
DEFERRED INCOME	156,10	193,27	213,55
Premiums on bond issues	156,10	193,27	213,55
Other deferred income	-	-	-
OTHER ADJUSTMENT ACCOUNTS	1 905,90	825,08	57,75
Foreign currency adjustment accounts	1 905,90	825,07	57,74
Miscellaneous	-	0,01	0,01
TOTAL	2 441,94	1 344,48	518,52

Accrued expenses and deferred income (€ 441.93 m) include transactions that affect results independently of their impact on cash flow:

- accrued expenses on interest-rate swaps (€10.16 m), CRDS revenue (€3.21 m), the euro leg of currency swaps (€16.22) and other expenses
- cash payments on currency swaps to be amortized (€49.90 m)
- deferred income from bond discounts (€156.10 m)
- adjustment accounts in foreign currencies (€1 905.90 m). 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 12/31/2006	Allowance	Release	At 12/31/2007
Provisions	0,08	0,03	-	0,11
Provisions for layoff	0,08	0,03	-	0,11
TOTAL	0,08	0,03	-	0,11

INCOME STATEMENT

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

Net result from banking transactions:	- 3 101.45 m euros
Other operating income and expenses:	<u>+ 5 679.41 m euros</u>
Gross result from ordinary activities = net result for period:	+ 2 577.96 m euros

CADES' mission is to amortize the debt allocated to it. Its result measures its ability to reduce its own debt.

Net income from banking transactions

Net income from banking transactions includes income from surplus cash transactions, debt financing costs and net profit or loss on financial transactions.

Note 9: Income from cash transactions

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
INTEREST AND EQUIVALENT INCOME ON WITH CREDIT INSTITUTIONS	135,38	108,09	149,20
Interest on demand	0,49	0,73	0,57
Interest on ordinary deposits	0,15	0,37	0,05
Interest on loans	-	-	-
Interest on securities received under repo agreements	0,34	0,36	0,52
Interest at maturity	92,20	37,47	56,15
Interest on loans in euros	-	-	-
Interest on loans in foreign currencies	-	-	-
Interest on securities received under repo agreements	92,20	37,47	56,15
Other interest	42,69	69,89	92,48
OTHER INTEREST ON BONDS AND OTHER FIXED-INCOME SECURITIES	21,16	-	-
Interest on fixed-income securities	21,16	-	-
OTHER INTEREST AND SIMILAR INCOME	82,42	416,10	321,59
Amortization of bond discounts	37,17	59,22	67,89
Income from hedging transactions	45,25	356,88	253,70
Gain on repurchase of securities issued			
TOTAL	238,96	524,19	470,79

This income includes:

- interest and related income on transactions with credit institutions (€135.38 m), including income earned on the investment of CADES' cash surpluses in repos with delivery of securities (€92.20 m)
- interest on fixed-income securities (€21.16 m)
- amortization of bond discounts on bonds issued (€37.17 m)
- income from hedging transactions (€45.25 m), which is primarily composed of a net gain on currency swaps (€29.07 m), a net loss on inflation swaps (€0.68 m), and a net gain on interest rate swaps on bonds and other fixed-income securities (€6.99 m).

Note 10: Debt financing cost

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
INTEREST PAYABLE AND EQUIVALENT EXPENSES ON TRANSACTIONS WITH CREDIT INSTITUTIONS	116,63	128,57	145,48
Interest payable on demand transactions	0,16	0,45	0,06
Interest on ordinary creditor accounts	0,13	0,34	0,02
Interest on overnight loans	0,03	0,06	0,01
Interest on repos with securities delivered	-	0,05	0,03
Interest payable on term transactions	116,06	124,35	134,86
Interest on CDC loan (debt transfer)			
Interest on multi-currency credit line	1,45	10,92	22,65
Interest on repos with securities delivered	0,51	0,83	0,47
Interest on private placements	114,10	112,60	111,74
Other interest and equivalent expenses	0,41	3,77	10,56
INTEREST AND EQUIVALENT EXPENSES ON BONDS AND OTHER FIXED-INCOME SECURITIES	3 216,29	3 033,38	2 837,51
Expenses on debts evidenced by certificates	3 216,28	3 033,37	2 837,50
Interest on negotiable debt securities issued in euros	8,50	36,18	85,74
Interest on negotiable debt securities issued in foreign currencies	99,95	149,93	263,75
Interest on bonds and similar securities in euros	2 157,95	2 020,19	1 769,39
Interest on bonds and equivalent securities in foreign currencies	726,70	655,50	471,23
Other expenses on debts evidenced by certificates	223,19	171,57	247,39
Other interest and related expense	0,01	0,01	0,01
COMMISSIONS	7,51	23,67	33,34
Commissions on terms loans granted by credit institutions	0,14	0,25	0,40
Commissions on NDS issues	0,68	1,11	2,59
Commissions on bond issues	6,60	22,02	29,86
Other commissions on securities transactions	0,09	0,29	0,49
Other commissions		-	-
TOTAL	3 340,43	3 185,62	3 016,33

Debt financing related to the social security debt rose by 4.9% versus 12/31/2006, following the increase in debt at the end of 2007, broken down as follows:

- € 216.29 m in debt servicing charges
- € 16.63 m in interest paid on transactions with credit institutions (interest on private placements, repos with delivery of securities and margin calls)
- € 7.51 m in commissions.

The biggest change was in commissions, which decreased by € 6.16 m versus 12/31/06, attributable to the reduced volume of bond issues in 2007 compared with 2006.

Note 11: Profit or loss on trading portfolio

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
BALANCE OF FOREIGN EXCHANGE TRANSACTIONS	0,02	0,06	- 0,12
Other forex transactions	0,02	0,06	- 0,12
TOTAL	0,02	0,06	- 0,12

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 foreign currency transactions that are not hedged.

Note 11 a: Net gain or loss on investment portfolios and related

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
Net gain or loss on short-term investment and related	-	-	-
Net result on short-term investment securities	-	-	-
TOTAL	-	-	-

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 dated 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, cancellations and forgiveness of debt):

in millions d'euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
NET CRDS REVENUE (article 6)	5 740,69	5 475,65	5 180,72
CRDS ACOSS revenue (salaries and wages)	5 020,63	4 747,14	4 529,39
CRDS revenue on personal assets	338,59	275,76	280,74
CRDS revenue on investment income	256,27	322,63	244,57
CRDS revenue on sales of precious metals and stones	2,83	3,33	2,48
CRDS revenue on gaming	122,24	126,79	123,54
CRDS revenue exemption offset (travel vouchers, volunteer work)	0,13	-	-

Article 6: CRDS

CRDS revenue, net of collection costs, is € 740.69 m, up 4.8% compared with 12/31/2006. 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 87.5% 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 12/31/07 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 2006, the €216.54 m collected during these years were not turned over to CADES.

Two new events related to URSSAF were noteworthy in 2007.

The first involved an insignificant amount, but which could possibly develop in the future. It concerns the appearance of a new CRDS category, payable by the government in the place of employers, the latter being exempt.

The second led to an increase in revenue of 6.7 million euros. It is related to a one-off accounting adjustment of ACOSS aimed at reconciling payables/receivables, due to the unsuitability of the IT system with a change in eligibility observed in 1996.

The notification sent by ACOSS calls for balance sheet recognition via the balance brought forward, for reasons which are explained in its technical memo on the subject.

However, accounting regulations require using the income statement, and this is what CADES decided to do. Accordingly, income of €70.9 million and an expense of €64.2 million were recognized.

In millions of euros

CRDS-RELATED INCOME:	(I)	CRDS-RELATED EXPENSES:	(II)	Recettes nettes = I - II
CRDS payable under Article 14 (salaries and wages)	5 073,33	Write-offs, cancellation of debt and waivers	27,77	5 020,63
		Assessment and collection costs	24,93	
CRDS payable under Article 15 (personal assets)	353,07	Assessment and collection costs	14,48	338,59
CRDS payable under Article 16 (investment income)	257,56	Assessment and collection costs	1,29	256,27
CRDS payable under Article 17 (sales of jewelry and precious metals)	2,85	Assessment and collection costs	0,01	2,84
CRDS payable under Article 18 (gaming)	122,86	Assessment and collection costs	0,61	122,25
CRDS payable under Acts no. 2006-1770 dated 12/30/2006 and no. 2006-586 dated 05/23/2006	0,12	Assessment and collection costs	-	0,12
Allowances released on remaining CRDS receivables	4,97	Allowances to provisions for unpaid receivables	64,17	59,20
TOTAL	5 814,76	TOTAL	133,26	5 681,50

Note 13: General operating expenses

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
PAYROLL EXPENSE	0,73	0,75	0,79
Salaries and wages	0,53	0,56	0,57
employer contributions	0,20	0,19	0,22
OTHER ADMINISTRATIVE EXPENSES	1,33	1,47	1,64
Taxes	0,07	0,07	0,07
Outsourced services	1,26	1,40	1,57
TOTAL	2,06	2,22	2,43

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 down by 7.2% compared with 12/31/2006, confirming a trend first observed at year-end 2005. This decrease is primarily attributable to a reduction in the use of outsourced services (rating agencies and advertising).

LIST OF STAFF POSITIONS at 12/31/2007

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)

This table was modified to reflect the arrival of an assistant manager of Front Office operations in February 2007.

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

In millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005	
Income from real estate assets:	-	0,01	0,06	
Property disposals	-	-	-	
Rental income	-	0,01	0,06	
Non-recurring income	-	-	-	
Expenses related to real estate assets:	0,01	0,10	0,05	
Expense on property sales	-	-	-	
Change in unsold inventory	-	-	-	
Payroll expense	-	-	0,01	
Outsourced services	0,04	0,02	0,05	
Taxes	-	-	-	
Non-recurring expenses	0,03	0,04	0,02	
Allowances	-	0,11	-	
Reversal of allowances	-	0,06	-	0,03

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. CADES now directly manages residual transactions related to the disposal of the last properties sold in 2003 and disputed cases. Income for the period was close to zero and expenses totaled €0.01 m (following the reversal of a €0.05 m provision on 12/31/2007).

Note 14: Other non-banking charges

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
Payment to the government	-	-	3 000,00
Payments to social security	-	-	-
TOTAL	-	-	3 000,00

Note 15: Non-recurring income

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
Statutory limitation on debt involving the administrative budget	-	-	-
Statutory limitation on debt involving the financing budget	-	-	-
Expenses related to CRDS revenue	-	-	-
Forgiveness of CRDS receivable	-	-	-
Allowance to provisions for unpaid CRDS	-	-	-
TOTAL	-	-	-

OFF-BALANCE SHEET

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 16: Foreign currency transactions

in millions of euros	At 12/31/2007		At 12/31/2006		At 12/31/2005	
	Currency receivable	Currency deliverable	Currency receivable	Currency deliverable	Currency receivable	Currency deliverable
FORWARD TRANSACTIONS	16 687,59	-	18 368,56	-	21 798,68	-
OTC hedging transactions						
Forward exchange against euros	3 224,14	-	1 676,29	-	8 031,97	-
< 1 year	3 224,14	-	1 676,29	-	8 031,97	-
1-5 years	-	-	-	-	-	-
> 5 years	-	-	-	-	-	-
Currency swaps against euros	13 463,45	-	16 692,27	-	13 766,71	-
< 1 year	1 823,63	-	3 352,41	-	917,42	-
1-5 years	8 989,46	-	10 304,75	-	10 744,69	-
> 5 years	2 650,36	-	3 035,11	-	2 104,60	-

Forward exchange contracts against euros are futures contracts entered into for the purpose of hedging commercial paper. The increase in forward exchange against euros is attributable to the increase in commercial paper issues compared with the corresponding period in 2006. The decrease in currency swaps against euros reflects the fall in EMTN issues in foreign currencies.

Note 17: Financial futures instruments

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
INTEREST-RATE INSTRUMENTS			
Regulated and similar markets	-	-	2 160,00
Firm hedging transactions	-	-	-
Euro Bobl Future contracts (5 years)	-	-	930,00
Euro Bund Future contracts (10 years)	-	-	1 230,00
Other firm transactions	-	-	-
Optional hedging transactions	-	-	-
Other optional transactions	-	-	-
OTC	5 096,63	4 553,63	4 160,60
Firm hedging transactions			
. Interest rate swaps in euros	5 096,63	4 553,63	4 160,60
. Micro-hedging	2 939,58	2 371,58	1 978,55
< 1 year	349,90	431,00	-
1-5 years	1 249,68	780,58	961,55
> 5 years	1 340,00	1 160,00	1 017,00
. Macro-hedging	2 157,05	2 182,05	2 182,05
< 1 year	120,00	25,00	-
1-5 years	1 165,00	1 185,00	775,00
> 5 years	872,05	972,05	1 407,05

Interest rate swaps set up by CADES:

- Firm macro-hedging transactions in regulated markets (Euro Bund Future and Euro Bobl Future contracts) were wound up in the second half of 2006, resulting in a net balance of 0 for the year ended December 31, 2007.
- The recorded total for outstanding macro-hedging swaps declined versus year-end 2006, reflecting the arrival of the due date for a swap of a nominal value of €25 m.
- Cancellable swaps, qualifying as micro-hedge were negotiated for a nominal of €694 m.

Note 18: Other off-balance sheet commitments

in millions of euros	At 12/31/2007	At 12/31/2006	At 12/31/2005
COMMITMENTS TO FINANCE			
Commitments received			
<i>From credit institutions:</i>			
. Credit lines	550,00	538,66	550,00
. Multi-currency credit lines	5 000,00	4 900,00	10 000,00
. Bridge loan	0,00	0,00	0,00
. Other commitments to finance	0,00	0,00	0,00
<i>From clients</i>			
. Credit lines	2 000,00	2 000,00	500,00
Commitments given			
To credit institutions	0,00	0,00	0,00
To clients	0,00	0,00	0,00
Payment to the government	0,00	0,00	0,00
Payment to social security	0,00	2 690,00	8 390,00

Commitments received include four lines of back-up credit signed in 2004 for €550 m, which represents the unused portion of the original €550 m provided for in the multi-currency credit line contracted in 2004, amended in August 2006 (in a clause that reduces the facility from €10 bn to €5 bn) and renewed in August 2007, and lines of credit totaling €2 bn (a line of €1.5 bn renewed in February 2007 and a line of €500 m renewed in December 2007).

Financing commitments given represent the unused balance of the €50 bn provided for under the Health Insurance act dated August 13, 2004. This remaining balance was discharged after the publication of the Decree no. 2007-1750 dated December 12, 2007, which established the definitive deficit of ACOSS. The Act also stipulates that any future surpluses generated by the health insurance branch of the French social security system will be allocated as a matter of priority to CADES.

Note 19: Condensed table**CONDENSED BALANCE SHEET AT 12/31/2007**

	in millions of euros
DEBT CARRIED OVER (01/01/2007)	-75 714,6
SURPLUS AT 12/31/2007	2 577,9
PROPERTY ENDOWMENT	181,2
OUTSTANDING DEBT (12/31/2007)	-72 955,5

Analysis of outstanding debt:

Contractual liabilities to third parties:A2

.financing debt < 1 year	12 506,6
.financing debt > 1 year	61 696,7
.accruals, deferred income and miscellaneous	2 461,6

Less assets held

.financial investments	1 714,8
.prepayment, accrued income and miscellaneous	1 994,7

CONDENSED INCOME STATEMENT

	in millions of euros
NET CRDS REVENUE	5 681,5
NET PROPERTY REVENUE	0,0
Interest expense	-3 332,9
Commissions and fees	-7,5
Interest income	238,9
FINANCIAL RESULT	-3 101,5
General operating expenses	-2,1
OPERATING SURPLUS	2 577,9
Payment to the government	0,0
Non-recurring income	0,0
SURPLUS AT 12/31/2007	2 577,9

OTHER INFORMATION

Below, CADES presents information expressed in market value terms, comparing the fair value of its debt versus the book value on December 31, 2007.

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, 2007;
- b. Value of unlisted securities issued, obtained using a CADES zero-coupon curve at December 31, 2007. 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. Present value at December 31, 2007 of collateral, securities received under resale agreements and bank deposit balances.

In millions of euros:

In millions of euros	NET DEBT, REDEMPTION VALUE	NET DEBT, REDEMPTION VALUE	NET DEBT, MARKED TO MARKET	Fair market value of hedging operations
	AT MATURITY	ARRETE COMPTABLE 12/31/2007	AT 12/31/2007	AT 12/31/2007
< 1 YEAR	9 313,00	9 319,69	9 414,00	- 274,17
1-5 YEARS	25 591,00	25 354,74	25 797,00	- 1 054,80
> 5 YEARS	39 451,00	37 983,76	37 302,00	- 398,89
SWAPS	18,00	-	17,00	-
TOTAL	74 373,00	72 658,19	72 530,00	- 1 727,86
ADJUSTABLE RATE	17 682,00	18 424,19	17 707,00	140,49
INDEXED RATE	11 686,00	10 106,00	10 323,00	- 1 362,48
FIXED RATE	44 987,00	44 128,00	44 482,00	- 505,87
SWAPS	18,00	-	18,00	-
TOTAL	74 373,00	72 658,19	72 530,00	- 1 727,86

Difference in value:

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

- . The market value of fixed-rate issues fell due to an increase 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.