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Base Prospectus
Dated 18 June 2012

# CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE

an administrative public agency (*établissement public national à caractère administratif*) established in France

# EURO 65,000,000,000

# Global Medium Term Note Programme

Under the Global Medium Term Note Programme described in this Base Prospectus (the "**Programme**"), *Caisse d'Amortissement de la Dette Sociale* ("**CADES**" or the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Medium Term Notes (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed Euro 65,000,000,000 (or the equivalent in other currencies).

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, for the approval of this Base Prospectus as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**"). References in this Base Prospectus to the "Prospectus Directive" shall include the amendments made by Directive 2010/73/EU (the "**2010 PD Amending Directive**") to the extent that such amendments have been implemented in the relevant member state of the European Economic Area (the "**EEA**" and any State member of the EEA, an "**EEA Member State**"). Application has also been made to the Luxembourg Stock Exchange for the Notes issued under the Programme to be admitted to the official list of the Luxembourg Stock Exchange (the "**Official List**") and to be admitted to trading on the Luxembourg Stock Exchange's regulated market. References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market (or any other stock exchange), or unlisted. Pursuant to Article 7(7) of the Luxembourg Prospectus Act, by approving this Base Prospectus the CSSF gives no undertaking as to the economic and financial soundness of the Notes to be issued hereunder and the quality or solvency of the Issuer.

Each Series (as defined in "Summary of the Programme – Method of Issue") of Notes in bearer form will, if so specified in the relevant Final Terms, be represented on issue by a temporary global note (each a "**temporary Global Note**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933 (the "**Securities Act**"). Interests in temporary Global Notes generally will be exchangeable for interests in permanent global notes (each a "**permanent Global Note**" and, together with the temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Final Terms, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of the relevant Tranche (as defined in "Summary of the Programme - Method of Issue") of Notes upon certification as to non-U.S. beneficial ownership. Interests in permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under "Summary of Provisions Relating to the Notes while in Global Form". If the Global Notes are stated in the applicable Final Terms to be issued in new global note ("**NGN**") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Global Notes which are not issued in NGN form ("**Classic Global Notes**" or "**CGNs**") will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**").

The Notes of each Series to be issued in registered form ("**Registered Notes**") will be represented by registered certificates (each, a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Registered Notes issued in global form and sold in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Notes**") will initially be represented by a permanent registered global certificate (each an "**Unrestricted Global Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, with a common depositary on behalf of Euroclear and Clearstream, Luxembourg, (b) if such Unrestricted Global Certificate is to held under the New Safekeeping Structure (the "**NSS**") with a Common Safekeeper for Euroclear and Clearstream, Luxembourg or (c) with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**") or (d) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, DTC, Euroclear and/or Clearstream, Luxembourg, or delivered outside a clearing system, as agreed between the Issuer and the Dealer. Registered Notes sold in the United States to "qualified institutional buyers" ("**QIBs**") within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act that are also "qualified purchasers" ("**QPs**") as defined in Section 2(a)(51) of the United States Investment Company Act of 1940 (the "**Investment Company Act**") ("**Restricted Notes**") will initially be represented by a permanent registered global certificate (each a "**Restricted Global Certificate**" and, together with the Unrestricted Global Certificate, the "**Global Certificates**") without interest coupons, which may be deposited on the relevant issue date with a Custodian for, and registered in the name of Cede & Co. as nominee for DTC. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes and the exchange of interests in each Global Certificate for definitive Registered Notes are described in "Summary of Provisions Relating to the Notes while in Global Form".

The Issuer has been assigned a rating of Aaa by Moody's France S.A.S, AA+ by Standard & Poor's Credit Market Services France and AAA by Fitch France S.A.S, in respect of its long-term debt. Each of Standard & Poor's Credit Market Services France, Moody's France S.A.S and Fitch France S.A.S is established in the European Union and registered under Regulation (EU) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "**CRA Regulation**"). As such, as of the date of this Base Prospectus, each of Standard & Poor's Credit Market Services France, Moody's France S.A.S and Fitch France S.A.S is included in the list of registered credit rating agencies published on the website of the European Securities and Markets Authority ("**ESMA**") (www.esma.europa.eu). Tranches of Notes (as defined in "**Summary of the Programme**") issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Notes. Whether or not each credit rating applied for in relation to a relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. Where Notes are rated by a credit rating agency registered under the CRA Regulation, such credit rating agency will appear on the list of registered credit rating agencies published on the website of ESMA (www.esma.europa.eu). **A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Furthermore, the Issuer may at any time reduce the number of rating agencies from which it requests ratings.**

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Base Prospectus.

**Arranger and Dealer**
**CREDIT SUISSE**

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This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer (the "**Responsible Person**") accepts responsibility for the information contained in this Base Prospectus (including, for the avoidance of doubt, any free translations included in this Base Prospectus). To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

**No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Dealer or the Arranger (as defined in "Summary of the Programme"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.**

**The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, any Dealer and the Arranger to inform themselves about and to observe any such restrictions. This Base Prospectus may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Base Prospectus and other offering material relating to the Notes, see "Subscription and Sale" and "Transfer Restrictions". No action has been or will be taken**

**to permit a public offering of the Notes in any jurisdiction where any act would be required for that purpose.**

**The Issuer has not been and will not be registered under the Investment Company Act. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may include Notes in bearer form that are subject to U.S. tax law requirements. Notes may not be offered, sold or, in the case of bearer notes, delivered within the United States or to, or for the account or benefit of U.S. persons, except in transactions exempt from the registration requirements of the Securities Act. For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see "Subscription and Sale".**

**The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and, in the case of Registered Notes, within the United States to QIBs that are also QPs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Base Prospectus see "Subscription and Sale" and "Transfer Restrictions".**

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

**EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF NOTES.**

**This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or any Dealer to subscribe for, or purchase, any Notes. This Base Prospectus is intended only to provide information to assist potential investors in deciding whether or not to subscribe for or purchase Notes in accordance with the terms and conditions specified by the Dealers. The Notes may not be offered or sold, directly or indirectly, and this Base Prospectus may not be circulated, in any jurisdiction except in accordance with the legal requirements applicable to such jurisdiction.**

**Neither the Arranger nor any Dealer has separately verified the information contained in this Base Prospectus. To the fullest extent permitted by law, neither the Arranger nor any Dealer makes any representation, express or implied, or accepts any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger or any Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or any Dealer that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. Neither the Arranger nor any Dealer undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements**

**contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Arranger or any Dealer.**

**In connection with the issue of any Tranche, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

## NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955 ("**RSA 421-B**"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## FORWARD-LOOKING STATEMENTS

This Base Prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "estimate", "project", "will", "would", "may", "could", "continue" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the Issuer's financial position, business strategy, management plans and objectives for future operations, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Issuer's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer expects to operate in the future.

Factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors". Forward-looking statements speak only as of the date of this Base Prospectus and the Issuer expressly disclaims any obligation or undertaking to publicly update or revise any forward-looking statements in this Base Prospectus to reflect any change in the Issuer's expectations or any change in events, conditions or circumstances on which these forward-looking statements are based. Given the uncertainties of forward-looking statements, the Issuer cannot give any assurance that projected

results or events will be achieved and the Issuer cautions investors not to place undue reliance on these statements.

## ENFORCEABILITY OF JUDGMENTS IN FRANCE AND SEIZURE OF ASSETS

The Issuer is an administrative national public agency (*établissement public national à caractère administratif*) established under the laws of France. The directors and executive officers of the Issuer are, and will continue to be, non-residents of the United States and substantially all of the assets of the Issuer and such persons are located outside the United States. Although the Issuer has appointed an agent for service of process in the United States, the Issuer has been advised that there is a doubt that a foreign judgment based upon U.S. federal or state securities laws would be enforced in France. The Issuer has also been advised that there is a doubt that a lawsuit based upon U.S. federal or state securities laws could be brought in an original action in France.

The United States and France are not party to a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters. Accordingly, a judgment rendered by any U.S. federal or state court based on civil liability, whether or not predicated solely upon U.S. federal or state securities laws, enforceable in the United States, would not directly be recognized or enforceable in France. A party in whose favour such judgment was rendered could initiate enforcement proceedings (*exequatur*) in France before the relevant civil court (*Tribunal de Grande Instance*). Enforcement in France of such U.S. judgment could be obtained following proper (i.e., non-*ex parte*) proceedings if the civil court is satisfied that the following conditions have been met (which conditions, under prevailing French case law, do not include a review by the French court of the merits of the foreign judgment):

- the dispute is clearly connected to the country in which the judgment was rendered (the United States) and the French courts did not have exclusive jurisdiction over the matter;
- such U.S. judgment does not contravene French international public policy rules, both pertaining to the merits and to the procedure of the case;
- such U.S. judgment is not tainted with fraud; and
- such U.S. judgment does not conflict with a French judgment or a foreign judgment which has become effective in France and there are no proceedings pending before French courts at the time enforcement of the judgment is sought and having the same or similar subject matter as such U.S. judgment.

In addition, the discovery process under actions filed in the United States could be adversely affected under certain circumstances by French criminal law No. 68-678 of 26 July 1968, as modified by French law No. 80-538 of 16 July 1980 (relating to communication of documents and information of an economic, commercial, industrial, financial or technical nature to foreign authorities or persons), which could prohibit or restrict obtaining evidence in France or from French persons in connection with a judicial or administrative U.S. action. Similarly, French data protection rules (law No. 78-17 of 6 January 1978 on data processing, data files and individual liberties, as modified by law No. 2004-801 of 6 August 2004) can limit under certain circumstances the possibility of obtaining information in France or from French persons in connection with a judicial or administrative U.S. action in a discovery context.

Furthermore, if an original action is brought in France, French courts may refuse to apply the designated law if its application contravenes French international public policy. Further, in an action brought in France on the basis of U.S. federal or state securities laws, French courts may not have the requisite power to grant all the remedies sought.

As with all French public entities, the assets of CADES situated in France may not be seized. Noteholders will therefore have no recourse to such assets. In addition, to the extent the Issuer has any assets outside

France, such assets may be protected by immunity from execution if allocated to sovereign activities (though such privilege does not extend to assets allocated to commercial activities). In any case, the right to immunity (if any) will be governed by the law of the place where the assets (if any) are situated. No guarantee is given that the Issuer will at any time have any assets outside France or that any such assets will not be subject to immunity.

**In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "euro", "EUR" and "€" are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty Establishing the European Community, as amended and to "U.S.$", "USD", "U.S. dollars" and "$" are to dollars of the United States of America being the legal currency for the time being of the United States of America.**

## AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Notes are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Issuer will during any period that it is neither subject to section 13 or 15(d) of the United States Securities and Exchange Act of 1934 (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder furnish, upon request, to any holder or beneficial owner of such restricted securities or any prospective purchaser designated by any such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

## FINANCIAL STATEMENTS

The financial statements of the Issuer for the two years ended 31 December 2010 and 31 December 2011, English language translations of which (together with the audit reports thereon) contained in this Base Prospectus, English language translations of which also are contained herein, are presented on the basis of French generally accepted accounting principles ("**GAAP**") in a format that is specific to French credit institution and financial institutions. These financial statements comply with the regulations of the French Accounting Regulation Committee (*Comité de la Réglementation Comptable* or CRC) and the French Banking and Financial Regulatory Committee (*Comité de la Réglementation Bancaire et Financière* or CRBF) (which recently has been merged into the *Autorité de Contrôle Prudentiel*). See "Note 1 – Basis of valuation and presentation" of the notes to the 2010 financial statements. Significant differences in GAAP may exist between different jurisdictions, including between French GAAP and United States GAAP. Significant differences may also exist between French GAAP and International Financial Reporting Standards as adopted by the European Union ("**IFRS**"). The Issuer has not quantified the impact of these differences. Investors should be aware that these differences may be material in the interpretation of the financial statements and financial information contained herein and should consult their own professional advisors for an explanation of the differences between French GAAP, on the one hand, and U.S. GAAP and IFRS, on the other hand. See "Risk Factors" for a discussion for certain considerations relating to the presentation of financial information by the Issuer on the basis of French GAAP.

## PROSPECTUS SUPPLEMENT

If at any time the Issuer shall be required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, the Issuer will prepare and make available an appropriate supplement to this Base Prospectus that, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market, shall constitute a prospectus supplement as required by Article 13 of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities.

If such a supplement to the Base Prospectus is to be prepared by the Issuer, the supplement shall be approved by the CSSF.

The Issuer has given an undertaking to each Dealer that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, the Issuer shall prepare a supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

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## SUMMARY OF THE PROGRAMME

*This summary must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (an "**EEA State**"), no civil liability will attach to the Responsible Person in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.*

*Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meaning where used in this summary.*

**Overview of the Issuer**

The Caisse d'Amortissement de la Dette Sociale is an administrative public agency (*établissement public national à caractère administratif*) created by a specific statute and owned and controlled by the French State. CADES is responsible for financing and repaying a portion of the accumulated debt of France's social security system. CADES finances this debt by borrowing primarily in the debt capital markets and using the proceeds of social security taxes imposed on French taxpayers' earnings to service interest payments and repay principal on the amounts borrowed.

CADES was established in 1996 as part of a series of measures to reform the French social security system with the aim of repaying the debt it accumulated between 1994 and 1996. The French State has since transferred additional social security debt to CADES on several occasions, and, pursuant to the 2011 Social Security Financing Act dated 20 December 2010 (*loi de financement de la sécurité sociale pour 2011*), will transfer a total of approximately Euro 130 billion of social security debt to CADES between 2011 and 2018. The French State has also from time to time increased the revenue base of social security taxes to provide CADES with the revenue necessary to service such additional indebtedness. Since 2005, the French State has been legally required to match any increase in the social security debt it transfers to CADES with increased resources for CADES. See "Historical Evolution of Debt and Resources" below.

As at 31 December 2011, the cumulative amount of social security debt transferred to CADES totalled Euro 202.4 billion, of which, as of that date, CADES had repaid Euro 59.6 billion and Euro 142.8 billion was outstanding, and had paid interest for an amount equal to Euro 33.6 billion. For the year ended 31 December 2010, the cumulative amount of social security debt transferred to CADES totalled Euro 134.6 billion, of which, as of that date, CADES had repaid Euro 47.9 billion and Euro 86.7 billion was outstanding, and had paid interest for an amount equal to Euro 29.9 billion.

CADES' principal sources of revenue are allocated to it by law and paid automatically in part on a daily basis and in part on an annual basis. They are (i) a specifically earmarked social security levy (the *contribution au remboursement de la dette sociale* or "**CRDS**"), and (ii) a portion of another social security tax (the *contribution sociale généralisée* or "**CSG**"), both of which are allocated to CADES on a permanent basis until CADES' purpose has been fulfilled. Pursuant to the 2011 Social Security Financing Act, CADES will receive an additional annual cash transfer of Euro 2.1 billion from the French Pension Fund (*Fonds de Réserve pour les Retraités* or "**FRR**") from 2011 through 2024 and additional tax revenue equal to 1.3 per cent. of the taxes raised by the French capital and investment tax (*prélèvements sociaux sur les revenus du patrimoine et des produits de placement*, the "**Levy Tax**") (which is a tax levied at the rate of 2.2 per cent. until 30 September 2011, 3.4 per cent. from 1 October 2011, and 5.4 per cent. from 1 July 2012). See "Sources of Revenue" below.

Pursuant to the 2012 Social Security Act, the French state will transfer to CADES approximately EUR 2.466 billion of social security debt consisting of *Mutualité Sociale Agricole* (the Social System for the Agricultural Sector) deficits. This transfer will be amortised using additional financing sources allocated to CADES by the 2012 Social Security Financing Act, which increases the taxable assessment base for the CRDS from 97 per cent. to 98.25 per cent., with effect from 1 January 2012.

CADES' registered office is located at 15-17 rue Marsollier 75002 Paris – France and its telephone number is +33 1 55 78 58 00.

**Risk Factors**

There are certain factors that may affect the ability of the Issuer to fulfil its obligations under the Notes and certain factors that are material for the purpose of assessing the market risks associated with the Notes. A detailed discussion of such risks is set forth in the section headed "Risk Factors". The following is a list of these risk factors:

***Risks relating to the Issuer***

- The French State has transferred additional social security debt to the Issuer in the past and may do so in the future
- The revenues of CADES from the social security taxes it receives may vary
- The Issuer faces various market risks
- Differences in accounting methodology may be material to an understanding of the financial information contained in this Base Prospectus
- The Issuer has not registered, and will not register, as an investment company under the Investment Company Act

***Risk Factors relating to the Notes***

- The Notes may not be a suitable investment for all investors
- None of the Issuer, any Dealer or any of their affiliates has or assumes any responsibility for the lawfulness of the acquisition of the Notes
- The trading market for debt securities may be volatile and may be adversely impacted by many events
- An active trading market for the Notes may not develop
- Any early redemption at the option of the Issuer, if provided for in any Final Terms for a particular issue of Notes, could cause the yield received by any Noteholders to be considerably less than anticipated
- The Notes may be subject to restrictions on transfer which may adversely affect their value
- The Notes contain limited events of default and covenants
- A Noteholder's actual yield on the Notes may be reduced from the stated yield due to transaction costs
- A Noteholder's effective yield on the Notes may be diminished due to the tax impact on that Noteholder of its investment in the Notes
- Investors will not be able to calculate in advance their rate of return on Floating Rate Notes
- The Issuer's ability to convert the interest rate of Fixed to Floating Rate Notes may affect the secondary market and the market value of the Notes

- Zero Coupon Notes are subject to higher price fluctuations than non-discounted bonds
- Foreign currency bonds expose investors to foreign-exchange risk as well as to issuer risk
- Structured Notes may entail significant risks not associated with similar investments in a conventional debt security
- Investments in Index Linked Notes entail significant risks and may not be appropriate for investors lacking financial expertise
- The Notes may be subject to exchange rate risks
- The Notes are subject to interest rate risks
- Holdings of less than the minimum Specified Denomination may be affected if the Notes are traded in denominations that are not integral multiples of the Specified Denomination
- Taxes, charges and duties may be payable in respect of purchases of the Notes
- Member States may be required to provide details of payments of interest under the EU Savings Directive and neither the Issuer nor any Paying Agent will pay any additional amount with respect to any Note as a result of the imposition of withholding tax by another Member State
- The Issuer shall not pay any additional amounts in respect of Grossing-Up in case of withholding
- The decision of the majority of Noteholders may bind all holders of the Notes
- The Notes may be affected by changes in law
- The credit ratings assigned to the Notes may not reflect all factors that could affect the value of the Notes

**Overview of the Programme**

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| **Issuer:** | CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE (CADES) |
| **Description:** | Global Medium Term Note Programme |
| **Size:** | Up to Euro 65,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. |
| **Arranger:** | Credit Suisse Securities (Europe) Limited |
| **Dealer:** | Credit Suisse Securities (Europe) Limited<br>The Issuer may from time to time terminate the appointment of the dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches. |
| **Fiscal Agent, Principal Paying Agent,** | Citibank N.A., London Branch |

**Transfer Agent and Calculation Agent:**

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| **Registrar** | Citigroup Global Markets Deutschland AG |
| **Method of Issue:** | The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the "**Final Terms**"). |
| **Issue Price:** | Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments. |
| **Form of Notes:** | The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "– Selling Restrictions" below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by an Unrestricted Global Certificate. Registered Notes sold in the United States to QIBs that are also QPs will initially be represented by a Restricted Global Certificate. |
| **Clearing Systems:** | Clearstream, Luxembourg, Euroclear for bearer notes, Clearstream, Luxembourg, Euroclear and/or DTC for Registered Notes and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer. |
| **Initial Delivery of Notes:** | On or before the issue date for each Tranche, if the relevant Global Note is a NGN or the relevant Global Certificate is held |

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| | under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems. |
| **Currencies:** | Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers. |
| **Maturities:** | Subject to compliance with all relevant laws, regulations and directives, any maturity. |
| **Specified Denomination:** | Definitive Notes will be in such denominations as may be specified in the relevant Final Terms save that (i) the minimum denomination of each Note admitted to trading on a European Economic Area exchange and/or offered to the public in an EEA State in circumstances that require the publication of a prospectus under the Prospectus Directive will be €1,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, (ii) unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in other currencies) and (iii) in the case of any Notes to be sold in the United States to QIBs that are also QPs, the minimum specified denomination shall be U.S.$100,000. |
| **Fixed Rate Notes:** | Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms. |
| **Floating Rate Notes:** | Floating Rate Notes will bear interest determined separately for each Series as follows:<br>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the |

2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. or

(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms), as adjusted for any applicable margin.

Interest periods will be specified in the relevant Final Terms.

**Zero Coupon Notes:** Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

**Dual Currency Notes:** Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.

**Index Linked Notes:** Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.

**Interest Periods and Interest Rates:** The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

**Redemption:** The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

**Redemption by Instalments:** The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.

**Other Notes:** Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, Partly Paid Notes and any other type of Note provided for in this Base Prospectus or an applicable supplement that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms.

**Optional Redemption:** The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part)

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| | and/or the holders, and if so the terms applicable to such redemption. |
| **Status of Notes:** | Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* among themselves all as described in "Terms and Conditions of the Notes – Status". |
| **Negative Pledge:** | See "Terms and Conditions of the Notes – Negative Pledge". |
| **Cross Default:** | None |
| **Ratings:** | The Issuer has been assigned a rating of Aaa by Moody's France S.A.S, AA+ by Standard & Poor's Credit Market Services France and AAA by Fitch France S.A.S, in respect of its long-term debt. Tranches of Notes issued under the Programme may be rated or unrated. Each of Standard & Poor's Credit Market Services France, Moody's France S.A.S and Fitch France S.A.S is established in the European Union and registered under Regulation (EU) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "**CRA Regulation**"). As such, as of the date of this Base Prospectus, each of Standard & Poor's Credit Market Services France, Moody's France S.A.S and Fitch France S.A.S is included in the list of registered credit rating agencies published on the website of the European Securities and Markets Authority ("**ESMA**") (www.esma.europa.eu). Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Notes. Whether or not each credit rating applied for in relation to a relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. Where Notes are rated by a credit rating agency registered under the CRA Regulation, such credit rating agency will appear on the list of registered credit rating agencies published on the website of ESMA (www.esma.europa.eu). **A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Furthermore, the Issuer may at any time reduce the number of rating agencies from which it requests ratings**. |
| **Early Redemption:** | Except as provided in "– Optional Redemption" above, Notes will not be redeemable at the option of the Issuer prior to maturity. See "Terms and Conditions of the Notes – Redemption, Purchase and Options". |
| **Withholding Tax:** | All payments of principal and interest in respect of the Notes will be made free and clear of French withholding taxes unless required by applicable law or regulation. In the event of any such withholding, the Issuer shall not, nor shall it be required to, pay any additional amount in respect of any such |

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| | withholding, all as described in "Terms and Conditions of the Notes – Taxation". |
| **ERISA Considerations:** | Unless otherwise provided in the applicable Final Terms, the Notes (other than with respect to a Note that by its terms does not require the principal to be repaid in full in the specified currency) may be purchased by an "employee benefit plan" as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or any entity whose underlying assets include the assets of any such employee benefit plan or plan, subject to certain conditions. See "Certain ERISA Considerations". |
| **Governing Law:** | English. |
| **Listing and Admission to Trading:** | Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Luxembourg Stock Exchange's regulated market or as otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted. |
| **Redenomination, Renominalisation and/or Consolidation** | Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. See "Terms and Conditions of the Notes - Form, Denomination, Title and Remuneration" and " - Further Issues and Consolidation". Any further provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the relevant Final Terms. |
| **Selling Restrictions:** | The United States, the Public Offer Selling Restriction under the Prospectus Directive, the United Kingdom, France, Japan. See "Subscription and Sale".<br><br>The Issuer is Category 2 for the purposes of Regulation S under the Securities Act, as amended.<br><br>The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable. |

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| **Transfer Restrictions** | There are restrictions on the transfer of Notes sold pursuant to Regulation S under the Securities Act prior to the expiration of the relevant distribution compliance period and on the transfer of Registered Notes sold pursuant to Rule 144A under the Securities Act. See "Transfer Restrictions" and "Certain ERISA Considerations". |

# RISK FACTORS

*The purchase of Notes may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial business matters necessary to enable them to evaluate the risks and merits of an investment in the Notes. Before making an investment decision, prospective purchasers of Notes should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Base Prospectus. If any, or a combination of, these risks occurs, the Issuer's business, reputation, financial condition and/or results of operations could be adversely affected. If this occurs, the price of the Notes may decline and investors could lose all or part of their investment.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

**Risk Factors relating to the Issuer**

*The French State has transferred additional social security debt to the Issuer in the past and may do so in the future*

The French State transferred to CADES social security debt of Euro 44.7 billion in 1996, Euro 13.3 billion in 1998, Euro 1.3 billion in 2003, Euro 48.4 billion from 2004 to 2006, Euro 10 billion in 2008 and Euro 17 billion in 2009. Pursuant to the 2011 Social Security Financing Act (*loi de financement de la sécurité sociale pour 2011*), the French State will transfer an additional Euro 130 billion in social security debt to CADES between 2011 and 2018 (see "Description of Issuer — Historical evolution of debt and resources"). These debt transfers have increased and will continue to increase CADES' funding requirements in the debt capital markets and its exposure to the volatility of those markets. Increased interest rates or reduced liquidity in the debt capital markets could adversely affect CADES and its Noteholders. In addition, the French State may carry out further debt transfers in the future, which would increase CADES' funding requirements and debt capital markets exposure. Although the French Government is required by law to provide CADES with additional funding in connection with debt transfers, there can be no assurance that CADES will be able to obtain the funding necessary to fully amortise its debt by 2025.

*The revenues of CADES from the social security taxes it receives may vary*

CADES' revenue sources (the CRDS and the CSG) are mainly based on the salaries of French taxpayers (*masse salariale*). Tax receipts from the CRDS are closely correlated with France's nominal gross domestic product ("**GDP**"). For the year ended 31 December 2011, CADES received Euro 6.297 billion from the CRDS and Euro 5.499 billion from the CSG. For the year ended 31 December 2010, CADES received Euro 5.917 billion from the CRDS and Euro 2.234 billion from the CSG. Both the aggregate salaries of French taxpayers and France's GDP fluctuate over time and, as a result, CADES' tax receipts from the CSG and CRDS will also fluctuate and may decrease. There can be no assurance that CADES's revenues from such taxes will be sufficient to meet its debt servicing requirements.

*The Issuer faces various market risks*

CADES faces interest rate risks and counterparty risks, as described below.

**Counterparty risk** may result mainly from the exposure of CADES to the credit risk of banking counterparties when dealing in over-the-counter derivative contracts, and the risk of default of such counterparties. See "Description of Issuer – Risk Management – Counterparty risk".

**Interest rate risks** may result from CADES' exposure to fluctuations in market interest rates. See "Description of Issuer – Risk Management – Interest rate risks".

*Differences in accounting methodology may be material to an understanding of the financial information contained in this Base Prospectus*

CADES prepares financial statements in accordance with French GAAP (as described in "Description of Issuer – Presentation of Financial Information"). Certain differences exist between French GAAP and both IFRS and U.S. GAAP, and these differences may be material to an understanding of the financial information contained in this Base Prospectus. CADES has not identified the significant differences between French GAAP and IFRS, and French GAAP and U.S. GAAP (as they apply to CADES), and CADES' financial statements in this Base Prospectus have not been reconciled to IFRS or U.S. GAAP. CADES does not intend to reconcile future financial statements to IFRS or U.S. GAAP, as these standards might yield operating results, cash flows and other financial figures, including debt levels, which differ substantially from those calculated under French GAAP. In making an investment decision, investors should rely upon their own examination of CADES, the terms of the offering and the financial information included in this Base Prospectus. Prospective investors should also consult their own financial or accounting advisors for an understanding of the differences between French GAAP, IFRS and U.S. GAAP and how these differences might affect the financial information contained herein.

*The Issuer has not registered, and will not register, as an investment company under the Investment Company Act*

The Issuer will seek to qualify for an exemption from the definition of "investment company" under the Investment Company Act and will not register as an investment company in the United States under the Investment Company Act. The Investment Company Act provides certain protections to investors and imposes certain restrictions on registered investment companies, none of which apply to the Issuer or its investors.

**Risk Factors relating to the Notes**

*The Notes may not be a suitable investment for all investors*

Each potential investor should determine the suitability of investing in the Notes in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to meaningfully evaluate the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained in this Base Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such potential investor's financial activities are principally denominated;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes that are complex financial instruments unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

*None of the Issuer, any Dealer or any of their affiliates has or assumes any responsibility for the lawfulness of the acquisition of the Notes*

None of the Issuer, any Dealer or any of their affiliates has or assumes any responsibility for the lawfulness of the acquisition of the Notes by a prospective investor, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

*The trading market for debt securities may be volatile and may be adversely impacted by many events*

The trading market for debt securities is influenced by financial market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in other European and other industrialised countries. There can be no assurance that events in France, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect on the Notes.

*An active trading market for the Notes may not develop*

There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected. The Issuer is entitled to buy the Notes, as described in Condition 6(f), and the Issuer may issue further Notes, as described in Condition 13. Such transactions may favourably or adversely affect the market value and liquidity of the Notes. Additional and competing products introduced in the markets might adversely affect the value of the Notes. Accordingly, the purchase of the Notes is suitable only for investors who can bear the risks associated with a lack of liquidity in the Notes and the financial and other risks associated with an investment in the Notes.

*Any early redemption at the option of the Issuer, if provided for in any Final Terms for a particular issue of Notes, could cause the yield received by Noteholders to be considerably less than anticipated*

The Final Terms for a particular issue of Notes may provide for early redemption at the option of the Issuer. As a consequence, the yields received upon redemption may be lower than expected, and the redeemed face amount of the Notes may be lower than the purchase price for the Notes paid by the Noteholder. As a consequence, part of the capital invested by the Noteholder may be lost, so that the Noteholder in such case would not receive the total amount of the capital invested. In addition, investors that choose to reinvest monies they receive through an early redemption may be able to do so only in securities with a lower yield than the redeemed Notes.

*The Notes may be subject to restrictions on transfer which may adversely affect their value*

The Notes have not been and will not be registered under the Securities Act or any United States state securities laws and the Issuer has not undertaken to effect any exchange offer for the Notes in the future. The Notes may not be offered in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable United States state securities laws, or pursuant to an effective registration statement. The Notes and the Agency Agreement will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the Securities Act in transactions that will not cause the Issuer to become required to be registered as an investment company

under the Investment Company Act. Furthermore, the Issuer has not registered the Notes under any country's securities laws. Investors must ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See "Transfer Restrictions".

*The Notes contain limited events of default and covenants*

The holder of any Note may only give notice that such Note is immediately due and repayable in a limited number of events. Such events of default do not include, for example, a cross-default of the Issuer's other debt obligations.

*A Noteholder's actual yield on the Notes may be reduced from the stated yield due to transaction costs*

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions generally charge their clients either a fixed minimum or a pro-rata commission, depending on the order value. Noteholders should take into account that, to the extent that additional parties, whether domestic or foreign, are involved in executing an order, including but not limited to domestic dealers or brokers in foreign markets, they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

*A Noteholder's effective yield on the Notes may be diminished due to the tax impact on that Noteholder of its investment in the Notes*

Payments of interest on the Notes, or profits realised by the Noteholder upon the sale or repayment of the Notes, may be subject to taxation in the Noteholder's home jurisdiction or in other jurisdictions in which it is required to pay taxes. The general tax impact on Noteholders in France is described under "Taxation" below; however, the tax impact on an individual Noteholder may differ from the situation described for Noteholders generally. The Issuer advises all investors to contact their own tax advisors for advice on the tax impact of an investment in the Notes.

*Investors will not be able to calculate in advance their rate of return on Floating Rate Notes*

A key difference between Floating Rate Notes and Fixed Rate Notes is that interest income on Floating Rate Notes cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of Floating Rate Notes at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. If the terms and conditions of the Notes provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

*The Issuer's ability to convert the interest rate of Fixed to Floating Rate Notes may affect the secondary market and the market value of the Notes*

Fixed to Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes, since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the fixed to floating Rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at

any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

*Zero Coupon Notes are subject to higher price fluctuations than non-discounted bonds*

Changes in market interest rates have a substantially stronger impact on the prices of Zero Coupon Notes than on the prices of ordinary Notes because the discounted issue prices are substantially below par. If market interest rates increase, Zero Coupon Notes can suffer higher price losses than other Notes having the same maturity and credit rating. Due to their leverage effect, Zero Coupon Notes are a type of investment associated with a particularly high price risk.

*Foreign currency bonds expose investors to foreign-exchange risk as well as to issuer risk*

As purchasers of foreign currency bonds, investors are exposed to the risk of changing foreign exchange rates. This risk is in addition to any performance risk that relates to the issuer or the type of Note being issued.

*Structured Notes may entail significant risks not associated with similar investments in a conventional debt security*

An investment in Notes the premium and/or the interest on or principal of which is determined by reference to the value of one or more currencies, commodities, interest rates or other indices or formulae, either directly or inversely, may entail significant risks not associated with similar investments in a conventional debt security, including the risks that the resulting interest rate will be less than that payable on a conventional debt security at the same time and/or that an investor could lose all or a substantial portion of the principal of its Notes. Neither the current nor the historical value of the relevant currencies, commodities, interest rates or other indices or formulae should be taken as an indication of future performance of such currencies, commodities, interest rates or other indices or formulae during the term of any Note.

*Investments in Index Linked Notes entail significant risks and may not be appropriate for investors lacking financial expertise*

An investment in Index Linked Notes entails significant risks that are not associated with similar investments in a conventional fixed or floating rate debt security. These risks include, among other things, the possibility that:

(i) such index or indices may be subject to significant changes, whether due to the composition of the index itself, or because of fluctuations in value of the indexed assets;

(ii) the resulting interest rate will be less (or may be more) than that payable on a conventional debt security issued by the Issuer at the same time;

(iii) the repayment of principal can occur at times other than that expected by the investor;

(iv) the holder of an Index Linked Note could lose all or a substantial portion of the principal of such Note (whether payable at maturity or upon redemption or repayment) if the principal of such Notes is linked to such an index, and, if the principal is lost, interest may cease to be payable on the Index Linked Note;

(v) an investment in an Index Linked Note where the principal and/or interest is linked to a rate of inflation may be subject to considerable volatility;

(vi) investing in an Index Linked Note encompasses both risks relating to the underlying indexed securities or commodities and risks that are unique to the Note itself;

(vii) any Index Linked Note that is indexed to more than one type of underlying asset, or on formulae that encompass the risks associated with more than one type of asset, may carry levels of risk that are greater than the levels of risk associated with Notes that are indexed to one type of asset only;

(viii) it may not be possible for investors to hedge their exposure to these various risks relating to Index Linked Notes; and

(ix) a significant market disruption could mean that the index on which the Index Linked Notes are based ceases to exist.

In addition, the value of Index Linked Notes on the secondary market is subject to greater levels of risk than is the value of other Notes. The secondary market, if any, for Index Linked Notes will be affected by a number of factors, independent of the creditworthiness of the Issuer and the value of the applicable currency, commodity, stock, interest rate or other index, including the volatility of the applicable currency, commodity, stock, interest rate or other index, the time remaining to the maturity of such Notes, the amount outstanding of such Notes and market interest rates. The value of the applicable currency, commodity, stock or interest rate index depends on a number of interrelated factors, including economic, financial and political events, over which the Issuer has no control. Additionally, if the formula used to determine the amount of principal, premium and/or interest payable with respect to Index Linked Notes contains a multiplier or leverage factor, the effect of any change in the applicable currency, commodity, stock, interest rate or other index will be increased. The historical experience of the relevant currencies, commodities, stocks or interest rate indices should not be taken as an indication of future performance of such currencies, commodities, stock, interest rate or other indices during the term of any Index Linked Note. Additionally, there may be regulatory and other ramifications associated with the ownership by certain investors of certain Index Linked Notes.

The credit ratings assigned to the Issuer's Programme are a reflection of the credit status of the Issuer, and in no way are a reflection of the potential impact of any of the factors discussed above, or any other factors, on the market value of any Index Linked Note. Accordingly, prospective investors should consult their own financial and legal advisors as to the risks entailed by an investment in Index Linked Notes and the suitability of such Notes in light of their particular circumstances.

Various transactions by the Issuer could impact the performance of any Index Linked Notes, which could lead to conflicts of interest between the Issuer and holders of its Index Linked Notes.

*The Notes may be subject to exchange rate risks*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (for example, due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. The Issuer does not have any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile, and could continue to be volatile in the future. However, past fluctuations between currencies are not necessarily indicative of future fluctuations. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

*The Notes are subject to interest rate risks*

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

*Holdings of less than the minimum Specified Denomination may be affected if the Notes are traded in denominations that are not integral multiples of the Specified Denomination*

To the extent permitted by the applicable law(s) and in relation to any issue of Notes that have a denomination consisting of a minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the Specified Denomination (or its equivalent) that are not integral multiples of the Specified Denomination (or its equivalent). In such a case, a Noteholder that, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

*Taxes, charges and duties may be payable in respect of purchases of the Notes*

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or the laws and practices of other jurisdictions. In some jurisdictions, official statements of the tax authorities or court decisions may not be available for financial instruments such as the Notes. Potential investors are advised not to rely exclusively upon the tax summary contained in this Base Prospectus and to ask for their own tax adviser's advice on their individual tax liabilities with respect to the acquisition, holding, sale and redemption of the Notes. Only these advisors are in a position to duly consider the specific situation of potential investors.

*Member States may be required to provide details of payments of interest under the EU Savings Directive and neither the Issuer nor any Paying Agent will pay any additional amount with respect to any Note as a result of the imposition of withholding tax by another Member State*

On 3 June 2003, the European Council of Economics and Finance Ministers adopted a directive 2003/48/EC regarding the taxation of savings income in the form of interest payments (the "**Directive**"). The Directive requires Member States, subject to a number of conditions being met, to provide to the tax authorities of another Member State details of payments of interest and other similar income made by a person located within their jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Luxembourg and Austria will instead withhold an amount on interest payments unless the relevant beneficial owner of such payment elects otherwise and authorises the paying agent to disclose the above information. A number of non-EU countries and territories have adopted similar measures, including Switzerland, which has a withholding system. See "Taxation – EU Taxation".

If a payment were to be made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a Paying Agent, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

*The Issuer shall not pay any additional amounts in respect of Grossing-Up in case of withholding*

In the event of any withholding or deduction for reason of French taxes required by applicable law on any payments made by the Issuer under the Notes, the Issuer shall not, nor shall it be required to, pay any additional amounts in respect of any such withholding or deduction nor shall the Issuer be entitled or obliged to redeem any such Notes.

*The decision of the majority of Noteholders may bind all holders of the Notes*

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders

including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

*The Notes may be affected by changes in law*

The Notes are governed by English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decisions or change to English (or any other relevant) law after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

*The credit ratings assigned to the Notes may not reflect all factors that could affect the value of the Notes*

One or more independent credit rating agency may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. **A credit rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be revised, suspended or withdrawn by the rating agency at any time.**

## GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes. The issue price, issue date, interest rate, interest period, redemption date applicable to any Notes and any other relevant provisions of such Notes will be specified in the applicable Final Terms.

## OVERVIEW OF FINANCIAL INFORMATION OF THE ISSUER

The overview of the financial information set forth below shows CADES' audited historical financial information as of and for the years ended 31 December 2011, 2010 and 2009. The information set forth below should be read in conjunction with the audited financial statements of CADES and "Description of Issuer" included elsewhere in this Base Prospectus.

### NET DEBT AT REPAYMENT VALUE

| **(in millions of Euros)** | |
|---|---|
| At 31 December 2011 | 142,475 |
| At 31 December 2010 | 86,299 |
| At 31 December 2009 | 91,660 |

### NET INCOME

| | **31 December** | | |
|---|---|---|---|
| **(in millions of Euros)** | **2011** | **2010** | **2009** |
| Net Profit | 11,678 | 5,135 | 5,260 |
| Primary reflecting the following items: | | | |
| CRDS and CSG net revenue | 11,796 | 8,151 | 8,082 |
| Social levies on income from property and investments net of expenses | 1,576 | - | - |
| Retirement Reserve Fund (*Fonds de Réserve pour les Retraites – FRR*) | 2,100 | - | - |
| Payments to the French State | - | - | - |
| Payments to social security agencies | - | - | - |
| Interest expenses | (3,794) | (3,016) | (2,822) |

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued pursuant to an Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 18 June 2012 between the Issuer, Citibank N.A., London Branch as fiscal agent, principal paying agent, transfer agent and calculation agent, and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 18 June 2012 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**". The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

### 1 Form, Denomination and Title and Redenomination

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

Registered Notes may be issued either in the same Specified Denomination or in a minimum Specified Denomination and integral multiples thereof or of a lower specified integral multiple.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

The Issuer may (if so specified in the relevant Final Terms) without the consent of the holder of any Note, and, if applicable, Receipt, Coupon or Talon, by giving at least 30 days' notice in accordance with Condition 13, redenominate on any Interest Payment Date all, but not some only, of the Notes of any Series on or after the date on which the Member State of the European Union in whose national currency such Notes are denominated has become a participant member in the third stage of the European economic and monetary union ("**EMU**") in accordance with such arrangements as the Issuer may decide, after consultation with the Redenomination Agent, and the terms of which shall be included in any such notice given pursuant to Condition 14, or as more fully provided in the relevant Final Terms.

## 2 No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the

Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

## 3 Status

The Notes and the Receipts and Coupons relating to them constitute (subject to Condition 4) direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and, save for those preferred by mandatory provisions of French law and subject to Condition 4, equally with all other present and future unsecured and unsubordinated obligations of the Issuer.

## 4 Negative Pledge

The Issuer undertakes that, so long as any Notes or Coupons remain outstanding (as defined in the Agency Agreement), it shall not create on any of its present or future assets or revenues any mortgage, pledge or other encumbrance to secure any Publicly Issued External Financial Indebtedness of the Issuer, unless the Issuer's obligations under the Notes or, if applicable, Receipts and Coupons shall also be secured by such mortgage, pledge or other encumbrance equally and rateably therewith.

In this Condition, "**Publicly Issued External Financial Indebtedness**" means any present or future marketable indebtedness represented by bonds, notes or any other publicly issued debt securities (i) which are expressed or denominated in a currency other than euro or which are, at the option of the person entitled to payment thereof, payable in a currency other than euro and (ii) which are, or are capable of being, traded or listed on any stock exchange or over-the-counter or other similar securities market.

## 5 Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon

(y) the Designated Maturity is a period specified hereon and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits

in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 9).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the

Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country**[**ies**]** of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless

continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "**TARGET Business Day**") and/or

(iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual - ISDA**" is specified hereon, the actual number of days in the **Calculation** Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365

(iii) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case $D_1$ will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and $D_1$ is greater than 29, in which case $D_2$ will be 30

(v) if "**30E/360**" **or** "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**$Y_1$**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**$Y_2$**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$M_1$**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**$M_2$**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case $D_1$ will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case $D_2$ will be 30

(vi) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**$Y_1$**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**$Y_2$**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$M_1$**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**$M_2$**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case $D_1$ will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case $D_2$ will be 30

(vii) if "**Actual/Actual-ICMA**" is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s)

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended

"**Interest Accrual Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and

including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon

"**Reference Rate**" means the rate specified as such hereon

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid, however, should no such successor have been appointed by the Issuer within 30 days of receipt of a notice of resignation, the Calculation Agent may itself make such appointment.

## 6 Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless

payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) Zero Coupon Notes:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes*:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption at the Option of the Issuer**: If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(d) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(e) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(f) **Purchases**: The Issuer may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(g) **Cancellation:** All Notes purchased by or on behalf of the Issuer shall be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(h) **Compulsory Sale:** The Issuer may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") to sell its interest in such Notes, or may sell such interest on behalf of such beneficial owner, if such beneficial owner is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities

Act) and also a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

## 7 Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments Subject to Fiscal Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents:** The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency

or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least one major European city, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be.

Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

## 8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within France or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall not pay, nor be required to pay, any additional amounts in respect of any such withholding or deduction.

## 9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

## 10 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable, unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(a) **Non-Payment:** default is made for more than 30 days in the payment on the due date of interest or principal in respect of any of the Notes, or

(b) **Breach of Other Obligations:** the Issuer defaults in the due performance and observance of any other provision contained in the Notes and such default (if capable of remedy) remains unremedied for 90 days after written notice thereof shall have been given to the Issuer at the specified office of the Fiscal Agent by any Noteholder, or

(c) **Dissolution, etc.**: the Issuer is dissolved or ceases to be an *établissement public* prior to the repayment in full of the Notes or the payment in full of all sums due under the Notes unless its activities and debts are validly transferred to another *établissement public* or assumed by the French State.

## 11 Meeting of Noteholders and Modifications

(a) **Meetings of Noteholders:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(b) **Modification of Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

## 12 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 13 Further Issues and Consolidation

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "Issue Date" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

The Issuer may also from time to time without the consent of the holders of the Notes or, if applicable, Receipts or Coupons of any Series, consolidate the Notes with the Notes of one or more other series issued by it provided that, in respect of all periods subsequent to such consolidation, the Notes of all such other Series are denominated in the same currency as such Notes (irrespective of the currency in which any Notes of such other series were originally issued) and otherwise have the same terms and conditions as such Notes. Notice of any such consolidation will be given to the Noteholders in accordance with Condition 14.

With effect from their consolidation, the Notes and the Notes of such other Series will (if listed prior to such consolidation) be listed on at least one European stock exchange on which either such Notes or the Notes of such other Series were listed immediately prior to consolidation.

The Issuer shall in dealing with the holders of such Notes following a consolidation pursuant to this Condition 13 have regard to the interests of the holders and the holders of the Notes of such other Series, taken together as a class, and shall treat them alike.

## 14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing provided that so long as the Notes are listed on the official list of the Luxembourg Stock Exchange, such notices are also published either on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of

general circulation in London (which is expected to be the *Financial Times*) and so long as the Notes are listed on the official list of the Luxembourg Stock Exchange, published either on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

## 15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## 16 Governing Law and Jurisdiction

(a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not). The State and Federal courts presiding in the City and County of New York are also to have jurisdiction to settle any claim brought by Noteholders in connection with the offering by the Issuer of the Notes in the United States ("**U.S. Proceedings**"). The Issuer irrevocably submits to the jurisdiction of such courts in the City and County of New York over U.S. Proceedings and waives any objection to U.S. Proceedings in such courts whether on the ground of venue or on the ground that the U.S. Proceedings have been brought in an inconvenient forum. The Issuer irrevocably and unconditionally agrees not to claim any immunity from proceedings brought by any Noteholder against it in relation to the Notes and to ensure that no such claim is made on its behalf, consents generally to the issue of any process in connection with those proceedings.

(c) **Service of Process:** The Issuer irrevocably appoints TMF Corporate Services Limited whose address at the date hereof is Pellipar House, 1st Floor, 9 Cloak Lane, London EC4R 2RU as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. The Issuer also irrevocably appoints CT Corporation System whose address at the date hereof is 111 Eighth Avenue, 13th Floor, New York, NY 10011 as its agent in New York to receive, for and on its behalf, service of process in any U.S. Proceedings. Such service shall be deemed completed on delivery to the relevant process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason the relevant process agent ceases to be able to act as such or no longer has an address in London or, as the case may be, in New York, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

### 1 Initial Issue of Notes

Global Notes, which are issued in CGN form, and Global Certificates, which are not held under the NSS, may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Notes in the name of a nominee for DTC and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### 2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be) for its share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

## 3 Exchange

### 3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "Summary of the Programme – Selling Restrictions"), in whole, but not in part, for the Definitive Notes defined and described below and

(ii) otherwise, in whole or in part, upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

### 3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or

(ii) if principal in respect of any Notes is not paid when due by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only.

A Noteholder that holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

### 3.3 Permanent Global Certificates

(a) Unrestricted Global Certificates

If the Final Terms state that the Notes are to be represented by an Unrestricted Global Certificate on issue, the provisions described below will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg, DTC or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in whole but not in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so;

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

(b) Restricted Global Certificates

If the Final Terms state that the Restricted Notes are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in DTC. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of DTC, but will limit the circumstances in which the Notes may be withdrawn from DTC. Transfers of the holding of Notes represented by that Restricted Global Certificate pursuant to Condition 2(b) may only be made:

(i) in whole but not in part, if such Notes are held on behalf of a Custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Restricted Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and this Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

(ii) in whole or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to (i) above, the relevant Registered Noteholder has given the Registrar no less than 30 days' notice at its specified office of the Registered Noteholder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Notes as set out in "Transfer Restrictions".

### 3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

### 3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver or procure the delivery of a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Base Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or

substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### 3.6 Exchange Date

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling no less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

## 4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions:

### 4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) will apply to the Definitive Notes only.

If the Global Note is a NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

### 4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

### 4.3 Meetings

The holder of a permanent Global Note and of Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being separate persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are

entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

### 4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or its presentation to or to the order of the Fiscal Agent for endorsement in the relevant schedule of such permanent Global Note or in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificates in the register of the certificate holders, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

### 4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

### 4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg, DTC or any other clearing system (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

### 4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation. Where the Global Note is a NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

### 4.8 NGN nominal amount

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

### 4.9 Events of Default

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the nominal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 18 June 2012 to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

### 4.10 Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the official list of the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *the Luxemburger Wort*).

### 4.11 Record Date

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, and notwithstanding any provisions of the Terms and Conditions of the Notes as set out in this Base Prospectus, "**Record Date**" shall mean the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive, except 25 December and 1 January.

## 5 Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Base Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

## USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be applied by the Issuer for its general financing purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

# DESCRIPTION OF ISSUER

## OVERVIEW

The Caisse d'Amortissement de la Dette Sociale is an administrative public agency (*établissement public national à caractère administratif*) created by a specific statute and owned and controlled by the French State. CADES is responsible for financing and repaying a portion of the accumulated debt of France's social security system. CADES finances this debt by borrowing primarily in the debt capital markets and using the proceeds of social security taxes imposed on French taxpayers' earnings to service interest payments and repay principal on the amounts borrowed.

CADES was established in 1996 as part of a series of measures to reform the French social security system with the aim of repaying the debt it accumulated between 1994 and 1996. The French State has since transferred additional social security debt to CADES on several occasions, and, pursuant to the 2011 Social Security Financing Act dated 20 December 2010 (*loi de financement de la sécurité sociale pour 2011*), will transfer a total of approximately Euro 130 billion of social security debt to CADES between 2011 and 2018. The French State has also from time to time increased the revenue base of social security taxes to provide CADES with the revenue necessary to service such additional indebtedness. Since 2005, the French State has been legally required to match any increase in the social security debt it transfers to CADES with increased resources for CADES. See "Historical Evolution of Debt and Resources" below.

As at 31 December 2011, the cumulative amount of social security debt transferred to CADES totalled Euro 202.4 billion, of which, as of that date, CADES had repaid Euro 59.6 billion and Euro 142.8 billion was outstanding, and had paid interest for an amount equal to Euro 33.6 billion. For the year ended 31 December 2010, the cumulative amount of social security debt transferred to CADES totalled Euro 134.6 billion, of which, as of that date, CADES had repaid Euro 47.9 billion and Euro 86.7 billion was outstanding, and had paid interest for an amount equal to Euro 29.9 billion.

CADES' principal sources of revenue are allocated to it by law and paid automatically in part on a daily basis and in part on an annual basis. They are (i) a specifically earmarked social security levy (the *contribution au remboursement de la dette sociale* or "**CRDS**"), and (ii) a portion of another social security tax (the *contribution sociale généralisée* or "**CSG**"), both of which are allocated to CADES on a permanent basis until CADES' purpose has been fulfilled. Pursuant to the 2011 Social Security Financing Act, CADES will receive an additional annual cash transfer of Euro 2.1 billion from the French Pension Fund (*Fonds de Réserve pour les Retraités* or "**FRR**") from 2011 through 2024 and additional tax revenue equal to 1.3 per cent. of the taxes raised by the French capital and investment tax (*prélèvements sociaux sur les revenus du patrimoine et des produits de placement*, the "**Levy Tax**") (which is a tax levied at the rate of 2.2 per cent. until 30 September 2011, 3.4 per cent. from 1 October 2011, and 5.4 per cent. from 1 July 2012). See "Sources of Revenue" below.

Pursuant to the 2012 Social Security Act, the French state will transfer to CADES approximately EUR 2.466 billion of social security debt consisting of *Mutualité Sociale Agricole* (the Social System for the Agricultural Sector) deficits. This transfer will be amortised using additional financing sources allocated to CADES by the 2012 Social Security Financing Act, which increases the taxable assessment base for the CRDS from 97 per cent. to 98.25 per cent., with effect from 1 January 2012.

**CADES' registered office is located at 15-17 rue Marsollier 75002 Paris – France and its telephone number is +33 1 55 78 58 00.**

## PURPOSE AND AUTHORITY

CADES was established by the French State by order n° 96-50, dated 24 January 1996 (*ordonnance n° 96-50 relative au remboursement de la dette sociale* or the "**CADES Law**") as an administrative public agency (*établissement public national à caractère administratif*). CADES' main purpose, as set out in Article 2 of the CADES Law, is to repay a portion of the cumulative debt of the French central social security administration (*Agence centrale des organismes de sécurité sociale* or "**ACOSS**"). CADES was originally intended to have a duration through 2009 only. Its existence was subsequently extended to 2014, and finally extended until such date as CADES' purpose has been fulfilled and its outstanding debt has been repaid. Pursuant to the Organic Law n◦ 2010-1380 on social security debt dated 13 November 2005 (*loi organique n◦2010-1380 du 13 novembre 2010 relative a la gestion de la dette sociale*) and the 2011 Social Security Financing Act, CADES' debt repayment deadline has been extended by four years, to 2025.

While CADES is an entity separate from the French State, it is nonetheless subject to its control and supervision. In addition, CADES' solvency and liquidity are largely dependent on the French State (see "Strengths" below).

As a public administrative agency, CADES is not required to comply with the French law corporate governance regime.

## HISTORICAL EVOLUTION OF DEBT AND RESOURCES

At its establishment in 1996, CADES was responsible for Euro 44.7 billion of social security debt transferred to it by ACOSS and the French State. Further transfers of social security debt were made to CADES in 1998 (Euro 13.3 billion) and 2003 (Euro 1.3 billion). From 2004 to 2006, the French health insurance system transferred an additional Euro 48.4 billion of debt to CADES, and the French State increased the taxable assessment base for the CRDS from 95 per cent. to 97 per cent. of taxable income of French taxpayers. This additional debt was transferred to CADES as follows: Euro 36.1 billion in 2004, Euro 6.6 billion in 2005 and Euro 5.7 billion in 2006. Since 2005, the French State has been legally required by Organic Law n◦ 2005-881 on social security funding dated 2 August 2005 (*loi organique n◦ 2005 – 881 du 2 août 2005 relative aux lois de financement de la sécurité sociale*) to match any increase in the social security debt it transfers to CADES with increased resources for CADES.

Pursuant to the 2009 Social Security Financing Act dated 17 December 2008 (*loi n◦ 2008 – 1330 du 17 décembre 2008 de financement de la sécurité sociale pour 2009*), the cumulative deficits of the French health insurance system as at 31 December 2008 (Euro 8.9 billion), the French old-age pension system (Euro 14.1 billion) and the Fonds de Solidarité Vieillesse (Euro 4 billion) were financed by transfers from CADES to ACOSS. The transfers were made in three instalments, the first in December 2008 for Euro 10 billion, the second in February 2009 for Euro 10 billion, and the balance of Euro 7 billion in March 2009. CADES financed the transfers by issuing debt securities in the capital markets.

Pursuant to the 2011 Social Security Financing Act, the French State will transfer additional debt to CADES in two steps: (i) approximately Euro 68 billion of social security debt, consisting of the deficits relating to 2009, 2010 and the expected amount for 2011, will be transferred to CADES no later than 31 December 2011 and (ii) a total of approximately Euro 62 billion in anticipated deficits for the pension system will be transferred to CADES by 2018 in a series of transfers at a rate of approximately Euro 10 billion a year, commencing no later than 30 June 2012 (together, the "**Euro 130 Billion Transfer**"). The current pension reforms in France are aimed at eliminating pension deficits beyond 2018. These increases in debt will be amortised using additional financing

sources allocated to CADES by the 2011 Social Security Financing Act, including: (i) an increase in CADES' CSG allocation from 0.2 per cent. to 0.48 per cent. (which is expected to provide approximately Euro 3.2 billion per year), (ii) an annual cash transfer of Euro 2.1 billion from the FRR from 2011 through 2024 and (iii) additional tax revenue equal to 1.3 per cent. of the taxes raised by the French capital and investment tax (which is a tax levied at the rate of 2.2 per cent. until 30 September 2011, 3.4 per cent. from 1 October 2011, and 5.4 per cent. from 1 July 2012). CADES has also received an extension in its debt repayment deadline from 2021 to 2025.

Pursuant to the 2012 Social Security Act, the French state will transfer to CADES approximately EUR 2.466 billion of social security debt consisting of *Mutualité Sociale Agricole* (the Social System for the Agricultural Sector) deficits. This transfer will be amortised using additional financing sources allocated to CADES by the 2012 Social Security Financing Act, which increases the taxable assessment base for the CRDS from 97 per cent. to 98.25 per cent., with effect from 1 January 2012.

CADES was assigned an annual debt repayment target under the 2006 Social Security Financing Act dated 19 December 2005 (*loi n◦ 2005 – 1579 du 19 décembre 2005 de financement de la sécurité sociale pour 2006*) and has met this target each year since. CADES has been assigned new debt repayment targets in connection with the Euro 130 Billion Transfer.

If the French State does not transfer any additional debt to CADES without corresponding resources, and depending on a number of variables, including, among other things, assumed increases in the CRDS and interest rate variations, CADES currently expects to have paid off all of the social security debt transferred to it by 2025. However, if such assumptions with respect to debt transfers, tax receipts and interest rates prove to be incorrect, CADES may not pay off all its accumulated debt by that date. See "Risk Factors – Risk factors relating to the Issuer – The French State has transferred additional social security debt to the Issuer in the past and may do so in the future".

## STRENGTHS

*State support for solvency and liquidity*

CADES' status as an administrative public agency entitles it to State support in respect of its solvency and liquidity. Pursuant to the CADES Law, in the event that CADES is unable to meet its financial commitments, the French Government would be required by law to submit to Parliament the necessary measures to ensure that principal and interest on CADES' debt is paid on the scheduled payment dates.

*Solvency*

In the event CADES fails to meet its payment obligations under its bonds or notes, the French Government has a legal obligation to ensure its solvency. Law No. 80-539 of 16 July 1980 on the execution of judgments on public entities (*loi n°80-539 du 16 juillet 1980 relative aux astreintes prononcées en matière administrative et à l'exécution des jugements par les personnes morales de droit public or the "**Law of 1980**"*), which applies to all national public agencies, provides that in case of default, a public supervisory authority (in the case of CADES, the Minister in charge of the Economy, Finance and Industry and the Ministers in charge of Social Security) must approve the sums for which the public agency is held liable by court order and provide the agency with new resources.

Court-ordered reorganisation and liquidation proceedings do not apply to public agencies such as CADES. The French Commercial Code excludes public agencies from its sphere of application, including with respect to court-ordered reorganisation and liquidation of businesses. Furthermore, France's Supreme Court (*Cour de cassation*) has ruled out the application of insolvency proceedings whenever an entity's bylaws contain provisions rooted in public law.

If an administrative public agency, such as CADES, were dissolved, its assets and liabilities as a whole would be transferred to the authority responsible for its creation. Thus, the French State would be required to service CADES' debt directly upon its dissolution.

*Liquidity*

CADES' liquidity position is supported by the French State. While CADES faces potential liquidity risk due to the nature of its activities (refinancing and repaying social security debt), in the event that there are insufficient funds and CADES is unable to access new resources, the French Government will at all times grant cash advances to CADES in order to ensure its liquidity, according to Organic Law No. 2001-692 dated 1 August 2001 on funding laws (*loi organique n°2001-692 du 1 août 2001 relative aux lois de finances*). Furthermore, pursuant to the Law of 1980, if the French State failed to grant the aforementioned cash advances, it would be required to advance funds to CADES and support its liquidity. The French State has never had to advance such funds to CADES.

*Resources linked to the payroll*

Part of CADES' revenue (i.e., CRDS and CSG) is based on the salaries of French taxpayers (*masse salariale*), which are subject to withholding at source by the French State. The CRDS and CSG are also levied on certain other revenues, which are not necessarily subject to withholding at source but are nonetheless subject to reporting (see "Sources of Revenue" and "Risk Factors – Risk factors relating to the Issuer").

*CADES has met its debt repayment targets*

Each year since 2005, pursuant to the social security financing law (*loi de financement de la sécurité sociale*) for the relevant year, the French Parliament assigns to CADES a target for the amount of debt to be repaid by CADES. CADES has met this target each year.

## SOURCES OF REVENUE

CADES' principal sources of revenue are two specifically earmarked social security levies collected by the French State: the CRDS and, since 1 January 2009, the CSG. For the year ended 31 December 2011, CADES received Euro 6.297 billion from the CRDS and Euro 5.499 billion from the CSG. For the year ended 31 December 2010, CADES received Euro 5.917billion from the CRDS and Euro 2.234 billion from the CSG. For the year ended 31 December 2009, CADES received Euro 5.895 billion from the CRDS and Euro 2.187 billion from the CSG. In connection with the Euro 130 Billion Transfer, CADES will receive an additional annual cash transfer of Euro 2.1 billion from the FRR from 2011 through 2024 (the "**FRR Payment**") (the first payment was made on 26 April 2011) and a portion of the revenues raised by the Levy Tax. For the full year 2012, total estimated resources are around EUR 15.8 billion distributed as follows : CRDS 40.3 per cent., CSG 36.0 per cent., Levy Tax 9.9 per cent. and FRR Payment 13.8 per cent.

## CRDS

The CRDS levy is a broad-based tax on all earned and unearned (investment and other) income of French individuals. The CRDS is currently assessed at a rate of 0.5 per cent. per annum on 98.25 per cent. of the earned income of individuals. The CRDS was introduced specifically for CADES in 1996, and CRDS revenue is allocated exclusively to CADES. The CADES Law provides that the CRDS is to be deducted from the income of individuals until the French social security debt has been paid off. The 2011 Social Security Financing Act has capped individuals' CRDS taxable income to four times the annual threshold amount (*plafond annuel de la sécurité sociale*). In 2012, this cap will equal Euro 141,408 pursuant to the order (*arrêté*) of the Minister in charge of the budget, public accounts, and State works dated 26 November 2010.

The CRDS is paid to CADES (i) in part on a daily basis by ACOSS acting as collector of the CRDS with respect to income from gambling activities, jewellery sales, investment revenues (including capital gains), wages and replacement revenues, which include financial support paid in case of unemployment, maternity leave, work related sickness, accidents at work and pension income and (ii) in part annually on 15 December by the French Treasury (*le Trésor*) acting as collector of the CRDS deducted from property revenues (*revenus du patrimoine*).

The French State passes on CRDS collection costs to CADES. These costs are currently fixed at (i) 0.5 per cent. of the CRDS levied on gambling activities, jewellery sales, investment revenues (including capital gains), wages and replacement revenues and (ii) 4.1 per cent. of the CRDS deducted from property revenues (*revenus du patrimoine*).

The table below sets out the breakdown of sectors from which the CRDS levy is derived for the years ended 31 December 2011 and 2010.

| | **CRDS (*in per cent.*)** | |
|---|---|---|
| | **2011** | **2010** |
| **Wages** | 64.1 | 67.3 |
| **Replacement revenues** | 24.6 | 21.4 |
| **Property Revenues** | 3.8 | 3.8 |
| **Investment revenues** | 5.2 | 5.3 |
| **Gambling activities** | 2.2 | 2.1 |
| **Jewellery sales** | 0.1 | 0.1 |

Source: CADES

## CSG

The CSG, like the CRDS, is mainly collected through payroll deductions from French taxpayers' earned income, and has experienced historical growth similar to the CRDS. The portion of the CSG allocated to CADES was, through 2010, 0.2 per cent. of the income from which the CSG is deducted. Pursuant to the 2011 Social Security Financing Act, the portion of the CSG allocated to CADES increased to 0.48 per cent. of the income from which the CSG is deducted (except for CSG assessed on gambling activities, for which the percentage allocated to CADES increased to 0.28 per cent.).

As with the CRDS, the CSG is paid to CADES (i) in part on a daily basis by ACOSS acting as collector of the CSG with respect to income from gambling activities, jewellery sales, investment revenues (including capital gains), wages and replacement revenues, which include financial support paid in case of unemployment, maternity leave, work related sickness, accidents at work and pension income and (ii) in part annually on 15 December by the French Treasury (*le Trésor*) acting as collector of the CSG deducted from property revenues (*revenus du patrimoine*).

As with the CRDS, the CSG collection costs are borne by CADES. These collection costs are equal in percentage terms to those of the CRDS.

The following table describes the breakdown of CSG levy by sectors for the years ended 31 December 2011 and 2010.

| | CSG (*in per cent.*) | |
|---|---|---|
| | **2011** | **2010** |
| Wages | 70.1 | 71.6 |
| Replacement revenues | 19.2 | 18.2 |
| Property Revenues | 4.2 | 4.13 |
| Investment revenues | 6.4 | 5.9 |
| Gambling activities | 0.1 | 0.2 |

Source: CADES

## FRR

Pursuant to the 2011 Social Security Financing Act and Organic Law No. 2010-1380 on social security debt it is provided that CADES will receive an additional annual cash transfer of Euro 2.1 billion from the FRR from 2011 through 2024.

**Social charges on capital and investment (*prélèvements sociaux sur les revenus du patrimoine et des produits de placement*) (Levy Tax)**

The 2011 Social Security Financing Act provides that CADES will receive, until 2024, a portion of the revenues raised by the Levy Tax initially attributed to the FRR.

**Selected Financial Statement Data**

The table below sets out selected financial data of CADES for the years ended 31 December 2011, 2010 and 2009.

| | **For the year ended 31 December (in Euro billion) (audited)** | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Revenues (CRDS, CSG, Levy Tax on capital income and FRR) after charges | 15.472 | 8.151 | 8.082 |
| Net interest expense (on capital markets borrowings) plus general operating charges | (3.794) | (3.016) | (2.822) |
| **Total available for principal repayments on debt** | **11.678** | **5.135** | **5.260** |

Source: CADES

## THE SOCIAL SECURITY DEBT

The total social security debt transferred to CADES by the French Parliament consisted of Euro 44.7 billion in 1996, Euro 13.3 billion in 1998, Euro 1.3 billion in 2003, Euro 48.4 billion from 2004 to 2006, Euro 10 billion in 2008 and Euro 17 billion in 2009. In addition, a total of Euro 130 billion will be transferred between 2011 and 2018 pursuant to the 2011 Social Security Financing Act.

The table below sets out the aggregate amount of social security debt transferred to CADES, or that will be transferred to CADES, by the various social security funds and organisations since CADES' creation through

2012. As at 31 December 2011, the total debt that had been transferred to CADES since its creation was Euro 202.4 billion, the debt repaid was Euro 59.6 billion, and the residual year end deficit, which is the difference between the debt transferred and the debt repaid, was Euro 142.8 billion.

In 2005, 2006 and 2007, ACOSS reimbursed Euro 1.7 billion, Euro 0.3 billion and Euro 0.1 billion respectively to CADES in relation to amounts overpaid by CADES in the respective previous years. In 2009 ACOSS reimbursed Euro 0.1 billion to CADES in relation to an amount overpaid the same year.

**Transfer of the social security debt to CADES since its creation (in Euro billion)**

| **Entity Making Transfer** | **1996** | **1998** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2011** | **2012 (expected)** | **Total By Entity** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ACOSS | 20.9 | 13.3 | | 35 | 8.3 | 6.0 | | 10 | 17 | 67.8 | **6.7** | **182.9** |
| | | | | | -1.7 | -0.3 | -0.1 | | | | | |
| French Government | 23.4 | | | | | | | | | | | **23.4** |
| CANAM | 0.5 | | | | | | | | | | | **0.5** |
| FOREC | | | 1.3 | 1.1 | | | | | | | | **2.4** |
| **Total By Year** | **44.8** | **13.3** | **1.3** | **36.1** | **6.6** | **5.7** | **-0.1** | **10** | **17** | **67.8** | **6.7** | **209.2** |

CANAM: *Caisse Nationale d'Assurance Maladie et Maternité des Travailleurs non salariés des professions non agricoles*
FOREC: *Fonds de Financement de la réforme des cotisations patronales de Sécurité Sociale*

Source: CADES.

## CADES' BORROWING PROGRAMME

In order to finance the social security debt that has been transferred to it, CADES borrows funds principally through debt capital markets issuances, and then repays those borrowings over time with the revenues it receives from the CRDS, the CSG, the FRR and the Levy Tax on capital income.

CADES' borrowing programme consists of issuances of bonds or notes to qualified investors, and/or loans granted by financial institutions. CADES intends to further develop its borrowing programme in response to the Euro 130 Billion Transfer.

The aggregate principal amount outstanding of Notes under the Euro 65 billion Global Medium Term Note Programme as of 31 December 2011 was Euro 7.2 billion.

**Specific debt securities issuance programmes**

In addition to the Euro 65 billion Global Medium Term Note Programme described in this Base Prospectus, as at 31 December 2011, CADES had the following debt issuance programmes:

- a Euro 25 billion French domestic treasury bills (*billets de trésorerie*) programme, under which an aggregate principal amount of Euro 10.5 million had been issued and was outstanding;
- a Euro 60 billion global commercial paper programme, issued in USD in the United States of America and in multiple currencies in the international markets, under which an aggregate principal amount of approximately Euro 27.3 billion had been issued and was outstanding;
- a Euro 10 billion French negotiable debt securities (*bons à moyen terme négociables*) programme, under which an aggregate principal amount of Euro 2.5 billion had been issued and was outstanding;

- a Euro 130 billion Debt Issuance Programme, governed by French law, under which an aggregate principal amount of Euro 78.8 billion had been issued and was outstanding; and
- an AUD 5 billion "Kangaroo programme", an Australian debt issuance programme, under which an aggregate principal amount of Euro 896 million had been issued and was outstanding.

During 2011, CADES raised Euro 31.4 billion in medium- and long-term debt issues under the programmes described above.

**Other borrowing capacities and facilities**

As of 31 December 2011, CADES' borrowing programme also consisted of:

- a standalone bond/note issuance capacity for a maximum amount of Euro 35 billion, of which an aggregate principal amount of Euro 27.504 billion had been issued and was outstanding; and
- four back-up credit facilities for an amount of Euro 750 million.
- a syndicated credit facility for an amount of Euro 9 billion.

CADES' borrowing programme is carried out according to principles of dynamic management of the debt portfolio and using a range of capital market instruments. CADES has no fixed issuance schedule and is flexible in the methods by which it raises funds, including using the short term markets, for example under its US commercial paper programme. CADES uses a range of financial instruments, including Euro and US commercial paper, syndicated loans, bond issues, and MTN programmes. In addition, CADES enters into futures transactions, foreign exchange transactions, interest rate swaps or options, securities lending, and the borrowing of bonds and other debt securities issued by the French State or of CADES' own bonds and other debt securities. CADES also carries out debt repurchases and exchanges.

**Allocation of Resources**

In accordance with the CADES Law, the resources of CADES must be allocated to payments due on the borrowings incurred by CADES (including any securities issued by CADES). CADES aims to keep excess cash to a minimum and places any such excess cash temporarily in French State securities.

## DEBT ISSUANCE PROFILE

The following information gives an indication of the profile of CADES' existing capital markets debt.

**Medium and Long Term Debt by currencies and instruments**

The table below sets out the profile of CADES' debt in terms of different currencies and debt instruments as at 31 December 2011.

| Bonds in Euro | Bonds in other currencies | Inflation linked bonds/notes | MTN private placements |
|---|---|---|---|
| 47.5% | 30.3% | 10.4% | 11.8% |

Source of the above table: CADES.

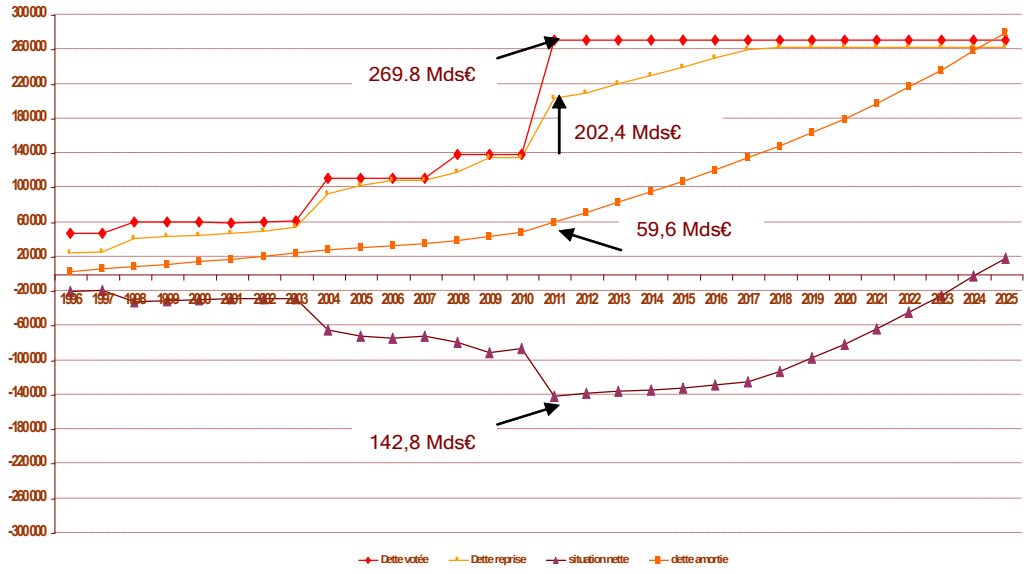
As at 31 December 2011, CADES' debt profile, broken down by currency, was as follows: 67.3 per cent. of CADES' tradable debt was Euro–denominated, 25.5 per cent. was U.S. Dollar-denominated, and 7.2 per cent. was denominated in other currencies. As at 31 December 2010, CADES' debt profile, broken down by currency, was as follows: 67.8 per cent. of CADES' tradable debt was Euro–denominated, 29.9 per cent. was U.S. Dollar-denominated, and 2.3 per cent. was denominated in other currencies.

CADES seeks to manage interest rate exposure through a combination of instruments (see "Risk management – Interest rate risk" below). As at 31 December 2011, CADES' total debt instruments were broken down as follows: bonds and notes outstanding at fixed rates accounted for 51 per cent. of the total, while those at floating rates accounted for 40 per cent. and inflation-indexed bonds accounted for 9 per cent. As at 31 December 2010, CADES' total debt instruments were broken down as follows: bonds and notes outstanding at fixed rates accounted for 77.1 per cent. of the total, while those at floating rates accounted for 8.9 per cent. and inflation-indexed bonds accounted for 13.9 per cent. CADES seeks to manage interest rate exposure through a combination of instruments (see "*Risk management – Interest rate risk*" below).

As at 31 December 2011, CADES' debt by maturity was as follows: 28.3 per cent. of CADES' debt had a maturity shorter than one year, 38.3 per cent. had a maturity between one and five years and 33.4 per cent. had a maturity longer than five years.

## DEBT ASSUMPTION AND AMORTISATION PROFILE

The following chart below sets out as at 31 December 2011 CADES' voted, assumed and amortised debt after debt assumption and an estimate of such voted, assumed and amortised debt until 2025.




Source: CADES.

"voted debt" ("*dette votée*") means that the French Parliament has voted the transfer of such debt to CADES.

"assumed debt" ("*dette reprise*") means that such debt has been transferred to CADES.

"amortised debt" ("*dette amortie*") means that such debt has been repaid by CADES.

"net position" ("*situation nette*") means the difference between the assumed debt and the amortised debt.

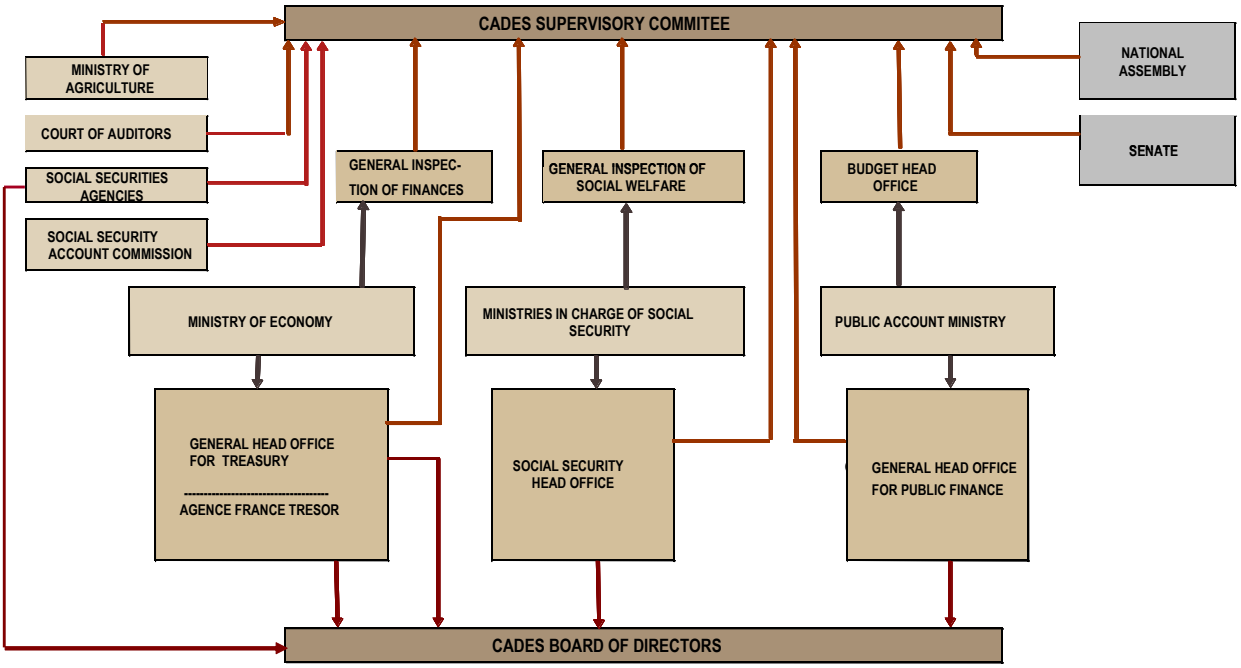
## ORGANISATIONAL STRUCTURE

The CADES Law sets out the organisational and operating rules of CADES. As a French administrative public agency, CADES is separate from, but under the control and authority of, the French State. It is directly

under the dual authority of the Minister in charge of the Economy, Finance and Industry and the Ministers in charge of Social Security. CADES has no shareholders.

CADES' management structure consists of (i) a board of directors (*conseil d'administration*) (the "**Board of Directors**") responsible for the management of CADES and oversight of CADES' budget and financial statements and (ii) a supervisory committee (*comité de surveillance*) (the "**Supervisory Committee**"), which gives its views on the annual report and whom the Board of Directors may consult for any issue. The contact address of the members of the Board of Directors and the Supervisory Committee is 15-17 rue Marsollier, 75002 Paris.

The chart below provides a brief overview of the relations between, *inter alia*, the Board of Directors and the Supervisory Committee.




**The Board of Directors**

According to the CADES Law, the Board of Directors is composed of six members: the Chairman, three representatives of the Minister of the Economy, Industry and Employment and two representatives of the Ministers in charge of Social Security. The members of CADES' Board of Directors are appointed by decree by the applicable ministries. These directors may also be revoked using the same method. The Chairman is appointed by a decree signed by the President of the Republic of France and the Prime Minister on the joint recommendation of the Minister of the Economy, Industry and Employment and the Ministers in charge of Social Security. Mr Patrice Ract Madoux was appointed the Chairman of the Board of Directors by presidential decree on 9 September 1999, and has since then been reappointed. The last presidential decree appointing Mr Patrice Ract Madoux was published on 10 May 2011.

At the date hereof, the members of the Board of Directors, nominated by decrees, are as follows:

| | |
|---|---|
| *Chairman* | Patrice Ract Madoux |
| *Members of the Board of Directors representing the Minister of the Economy, Industry and Employment* | Maya Atig, General Director of Treasury, or her deputy Sébastien Raspiller, Deputy Director;<br>François Tanguy, Deputy Director of Public Accountancy, or his deputy Grégory Berthelot, Chef de Bureau; and<br>Philippe Mills, General Director of Agence France Trésor, or his |

| | |
|---|---|
| | deputy Anthony Requin, Chef de Bureau. |
| *Members of the Board of Directors representing the Minister of Labour, Social Affairs, Family and Solidarity* | Thomas Fatome, Social Security Director, or his deputy Jean-François Chadelat, General Inspector of Social Affairs; and<br>Jonathan Bosredon, Deputy Director of Social Security Funding, or his deputy Damien Vergé. |

According to the CADES Law as amended by the Organic Laws, and as from the date of publication of and subject to the law in relation to the financing of the social security system for 2011 (*loi de financement de la sécurité sociale pour 2011*) (the "**2011 FSS Law**"), the number of members of the Board of Directors has been increased by eight members to a total of fourteen members, including:

- the chairman and the vice-chairman of the board of directors of the ACOSS (Jean-Eudes Tesson and Pierre-Yves Chanu respectively) or their respective deputy (Jean-Claude Guéry and Serge Cigana respectively) nominated by this board;
- each of the chairmen of the boards of the CNAMTS[1], CNAVTS[2], and of the CNAF[3] (Michel Regereau, Gérard Rivière and Jean-Louis Deroussen respectively) or the vice-chairmen nominated by these boards (Jean-Marc Lamère, Pierre Burban and Olivier Collas respectively) as the case may be;
- the chairman of the board of the *Caisse nationale du régime social des indépendants* (Gérard Quevillon) or its deputy (Louis Grassi) nominated amongst the vice-chairmen of this board;
- the chairman of the board of the *Caisse centrale de la mutualité sociale agricole* (Gérard Pelhate) or the first vice-chairman of this board (Jean-François Belliard), designated as such;
- two members chosen by the French ministry in charge of the Economy and Finances (Maya Atig and Philippe Mills) or their respective deputies (Sébastien Raspiller and Anthony Requin respectively), nominated by order (*arrêté*) signed by this ministry;
- two members chosen by the French ministry in charge of the social security (Thomas Fatome and Jonathan Bosredon) or their respective deputies (Jean-François Chadelat and Damien Vergé respectively), nominated by order (*arrêté*) signed by this ministry;
- a representative of the ministry in charge of the budget (François Tanguy) or his deputy (Grégory Berthelot), both nominated by order of this ministry;
- a representative of the supervisory board of the *Fonds de Réserve pour les Retraites* (Valérie Corman) or her deputy (Emilie Martinez), designated by the president of this supervisory board from amongst the representatives of the *assurés sociaux* or independent workers and employers.

The Board of Directors oversees CADES' borrowing programme. The Board of Directors has the capacity, pursuant to Article 5-II of the CADES Law, to delegate to the Chairman any power to implement the borrowing programme by deciding any issuance or borrowing.

**The Supervisory Committee**

The Supervisory Committee reviews and comments on CADES' annual report and may assist the Board of Directors on any matter at the request of the Board of Directors, according to the CADES Law.

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[1] *Caisse Nationale de l'Assurance Maladie des Travailleurs Salariés*

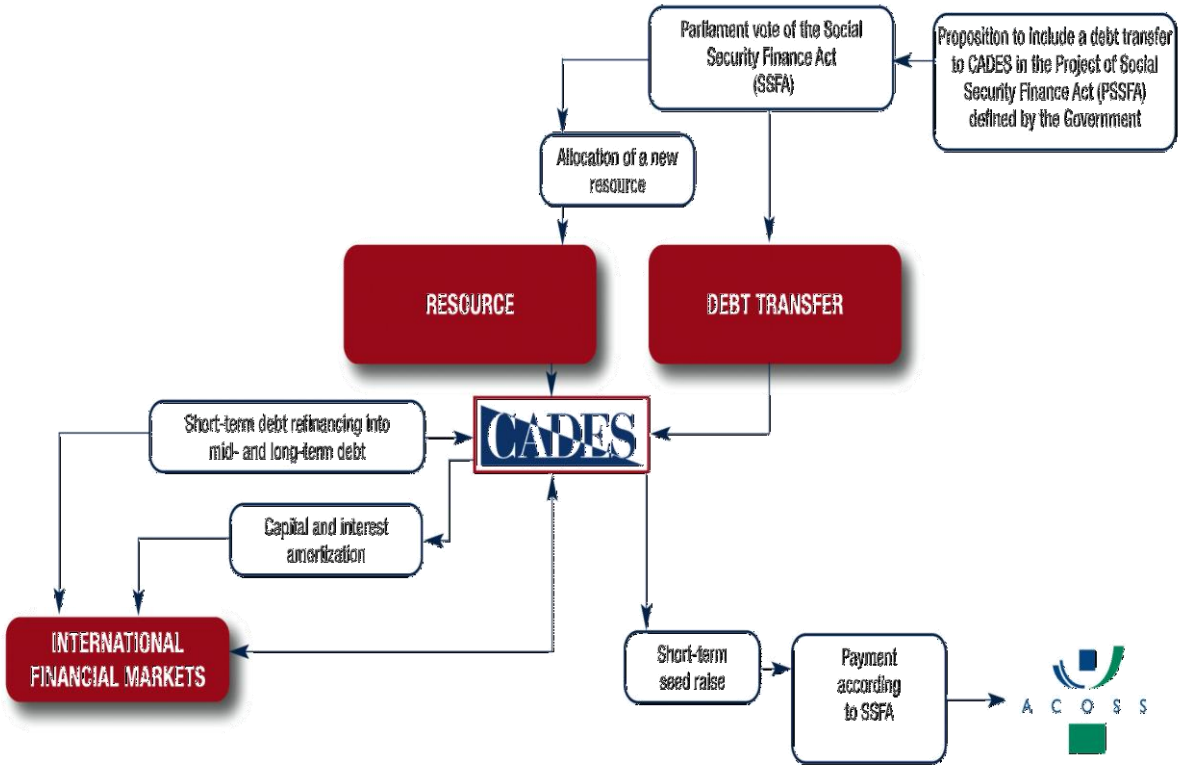
[2] *Caisse Nationale de l'Assurance Vieillesse des Travailleurs Salariés*

[3] *Caisse Nationale des Allocations Familiales*

The Supervisory Committee is composed of four members of Parliament, including two deputies and two senators, the chairmen of national social security funds (*Caisses nationales de sécurité sociale*), the general secretary of the social security accounting commission, and representatives of ministries and members of the boards of directors of national entities of the general regime of the French social security system and of the *Caisse nationale d'assurance maladie et maternité des travailleurs non salariés des professions non agricoles*.

At the date hereof, the members of the Supervisory Committee are:

- Philippe Vitel, Deputy, nominated by the *Président* of the National Assembly (*Assemblée Nationale*);
- Gérard Bapt, Deputy, nominated by the *Président* of the National Assembly (*Assemblée Nationale*);
- Alain Vasselle, Senator, nominated by the *Président* of the French Senate (*Sénat*);
- Jean-Jacques Jégou, nominated by the *Président* of the French Senate (*Sénat*);
- Julien Dubertret, nominated by the Ministry of the Economy, Industry and Employment;
- Ramon Fernandez, nominated by the Ministry of the Economy, Industry and Employment;
- François Tanguy, nominated by the Ministry of the Economy, Industry and Employment;
- Bernard Billon, nominated by the Ministry in charge of Social Security;
- Dominique Libault, nominated by the Ministry in charge of Social Security;
- Jean Picot, nominated by the Ministry in charge of Social Security;
- François de la Gueronnière, nominated by the Ministry in charge of Agriculture;
- Catherine Demier, member of the *Cour des Comptes*;
- Véronique Hespel, member of the *Inspection Générale des Finances*;
- Michel Laroque, general secretary of the commission in charge of social security accounts;
- François Monier, general secretary of the accounting committee for social security;
- Michel Regereau, chairman of the CNAMTS;
- Gérard Riviere, chairman of the CNAVTS;
- Jean-Louis Deroussen, chairman of the CNAF;
- Jean-Eudes Tesson, chairman of the ACOSS;
- Franck Gambelli, president of the commission in charge of accidents at work and occupational diseases; and
- Gérard Quevillon, president of the specific social regime of independent workers (RSI).




**Conflicts**

There are no potential conflicts of interest between any duties owed by any of the members of the Board of Directors or the Supervisory Committee towards CADES and their private interests and/or other duties. The Issuer does not consider that the private interests and/or other duties of the members of the Board of Directors or the Supervisory Committee are significant to the extent they need to be disclosed in this Base Prospectus.

**Control and Supervision**

Owing to its administrative public agency status, CADES is subject to the supervision of the French Government and to the same budgetary and accounting rules as the French State. In particular, Decree No. 62-1587 of 29 December 1962 on the general regulation of public accounting rules (*décret n°62-1587 du 29 décembre 1962 portant règlement général sur la comptabilité publique*) stipulates that collections and disbursements must be carried out by a Government accountant under the control of the French state audit office (*cour des comptes*). CADES also publishes its accounts in accordance with standard accounting methods used by French banks and finance companies (see "Presentation of Financial Information" below).

Certain decisions of the Board of Directors require approval of the Minister in charge of the Economy, Finance and Industry and the Minister in charge of Social Security before they become effective, including decisions related to the budget, financial accounts, and management agreements. In addition, CADES' borrowing programme requires the approval of the Minister in charge of the Economy, Finance and Industry in accordance with Article 5.I of the CADES Law.

**Risk Management**

CADES faces various market risks, in particular interest rate risks, exchange rate risks and counterparty risks as described below.

*Counterparty risk*

CADES manages counterparty risk by requiring that a new counterparty can be accepted only if it executes a guarantee agreement with margins calls with CADES.

*Exchange rate risk*

CADES maintains a programme of hedging arrangements in respect of its issues of debt instruments denominated in currencies other than Euro by means of derivatives in order to avoid exchange rate risk.

*Interest rate risks*

CADES seeks to manage interest rate exposure through a combination of instruments, including futures transactions and interest rate swaps, and by issuing debt instruments with a variety of interest rate bases.

*Auditing CADES' management operations*

CADES' management operations are subject to a periodic audit by the French state audit office (*Cour des Comptes*) pursuant to Decree No. 62-1587 of 29 December 1962 on the general regulation of public accounting rules (*décret no. 62-1587 du 29 décembre 1962 portant réglement général sur la comptabilité publique)*. CADES is also subject to financial audits conducted by the government in accordance with the Order of 29 October 1996, on its administrative management and collection of CRDS revenues, the management and disposal of property owned by national social security agencies and repayments obtained from social security agencies.

In addition, market transactions are subject to internal audit rules established by the Board of Directors. CADES' internal audit process consists of three elements:

- Determination by the Board of Directors of the maximum interest rate risks, foreign exchange risks, liquidity risks, and counterparty risks that can be taken by CADES in its market operations;
- A daily report concerning the transactions carried out by CADES to be given to the Chairman; and
- A monthly report summarising the transactions carried out during the relevant period, as well as CADES' position in relation to the risk limits fixed by the Board of Directors given to all members of the Board of Directors.

In addition to this internal audit, an external and independent audit firm that reports to the Board of Directors on a quarterly basis also scrutinises CADES' market transactions and determines compliance on a quarterly basis with the limits and procedures, in particular those regarding the division of responsibilities between market operators and post-market operators. KPMG and Harmony Baker Tilly conduct the external audit. To date, no external auditor has been appointed for a period longer than three consecutive years.

## PRESENTATION OF FINANCIAL INFORMATION

As required by Decree No. 62-1587 of 29 December 1962 on the general regulation of public accounting rules, the accounts of CADES are prepared annually by CADES in accordance with accounting principles established by the French public sector accounting rules and are therefore presented in a format that may differ from that generally used by private sector companies. In order to take account of the fact that the activities of CADES are essentially financial in nature, and to ensure that the information provided to the financial community is more familiar to investors, the Board of Directors of CADES has decided to restate its accounts to conform with the accounting principles and procedures generally accepted in France applicable to credit and financial institutions. On 25 April 2012, CADES restated accounts relating to the year ended 31 December 2011 were approved by the Board of Directors and are publicly available.

**Financial Information of the Issuer**

The information set forth below should be read in conjunction with the audited financial statements of CADES.

**Balance Sheet**

| **At (in millions of euro)** | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand, balances with central banks and post office banks | 8,438.91 | 1,200.34 | 983.44 |
| Treasury bills and other bills eligible for refinancing with central banks | 150.01 | 12,166.95 | 2,284.57 |
| Loans and advances to credit institutions | | | |
| - Repayable on demand | 0.75 | 0.29 | 0.37 |
| - Repayable at maturity | 5,165.53 | 1,129.48 | 1,686.34 |
| Intangible assets | 0.01 | - | - |
| Tangible assets | 0.16 | 0.17 | 0.21 |
| Property assets | - | - | - |
| Other assets | 179.12 | 49.41 | 260.42 |
| Prepayments and accrued income | 5,463.10 | 2,665.73 | 1,751.19 |
| **Total assets** | **19,397.59** | **17,212.37** | **6,966.54** |
| | | | |
| **LIABILITIES** | | | |
| Amounts owed to credit institutions | | | |
| - Payable on demand | - | - | - |
| - Payable at maturity | 1,026.47 | - | 151.11 |
| Debts evidenced by certificates | | | |
| - Negotiable debt instruments | 42,880.68 | 8,446.45 | 10,587.56 |
| - Bonds and similar instruments | 114,046.95 | 92,798.48 | 86,366.93 |
| - Other debts evidenced by certificates | - | - | - |
| Other liabilities | 3,418.79 | 2,018.54 | 222.10 |
| Accruals and deferred income | 789.23 | 624.67 | 1,449.30 |
| **Sub-total - Debts** | **162,162.12** | **103,888.14** | **98,777.00** |
| Provisions | 0.21 | 0.18 | 0.16 |
| Property endowment | 181.22 | 181.22 | 181.22 |
| Profit and loss account brought forward | (154,623.81) | (91,991.84) | (97,251.86) |
| Profit for the period | 11,677.85 | 5,134.67 | 5,260.02 |
| **Sub-total - Reserves** | **(142,764.74)** | **(86,675.95)** | **(91,810.62)** |
| **Total liabilities** | **19,397.59** | **17,212.37** | **6,966.54** |

**Profit and Loss Account**

| **Period ended (in millions of euro)** | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|
| ***Interest receivable and similar income*** | **318.08** | **350.79** | **279.63** |
| - From transactions with credit institutions | 77.84 | 29.51 | 44.70 |
| - From bonds and other fixed income securities | 10.83 | 12.28 | 1.97 |
| - Other interest receivable and similar income | 229.41 | 309.00 | 232.96 |
| **Interest payable and similar charges** | **(4,049.59)** | **(3,347.19)** | **(3,050.50)** |
| - On transactions with credit institutions | (152.85) | (11.04) | (46.15) |
| - On bonds and other fixed income securities | (3,896.74) | (3,336.15) | (3,004.35) |
| ***Fees payable*** | **(60.09)** | **(17.37)** | **(48.41)** |
| ***Gains and losses on trading securities*** | **(0.29)** | **(0.28)** | **(0.30)** |
| - Net profit (loss) on foreign exchange transactions | (0.29) | (0.28) | (0.30) |
| ***Gains and losses on investment securities*** | **-** | **-** | **-** |
| - Net profit (loss) on investment securities | - | - | - |
| ***Other operating income - banking*** | **-** | **-** | **-** |
| ***Other operating charges - banking*** | **(0.02)** | **(0.02)** | **(0.02)** |
| **NET BANKING INCOME** | **(3,791.91)** | **(3,014.07)** | **(2,819.60)** |
| | | | |
| ***General operating charges (Note 13)*** | **(2.89)** | **(2.50)** | **(2.63)** |
| - Staff costs | (1.00) | (0.89) | (0.85) |
| - Other administrative expenses | (1.89) | (1.61) | (1.78) |
| ***Depreciation and provisions - intangible and tangible assets*** | **(0.04)** | **(0.04)** | **(0.04)** |
| ***Other operating income*** | **15,656.58** | **8,312.03** | **8,253.66** |
| - Income related to CRDS and CSG (Notes 12 and 12.1) | 11,942.02 | 8,312.03 | 8,253.66 |

| Period ended<br>(in millions of euro) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| - Income from property (Note 13.1) | 1,607.38 | - | - |
| ***Other operating charges*** | **(184.48)** | **(160.75)** | **(171.37)** |
| - Charges related to CRDS and CSG (Notes 12 and 12.1) | (105.11) | (86.83) | (80.78) |
| - Payments to the State (Note 14) | - | - | - |
| - Payments to social security agencies (Note 14) | - | - | - |
| - Provision for doubtful debts relating to CRDS and CSG (Notes 12 and 12.1) | (47.89) | (73.92) | (90.58) |
| - Charges related to property (Note 13.1) | (0.01) | - | (0.01) |
| **GROSS OPERATING PROFIT** | **11,677.26** | **5,134.67** | **5,260.02** |
| **OPERATING PROFIT** | **11,677.26** | **5,134.67** | **5,260.02** |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | **11,677.26** | **5,134.67** | **5,260.02** |
| - Exceptional income (Note 15) | 0.59 | - | - |
| **NET PROFIT FOR THE PERIOD** | **11,677.85** | **5,134.67** | **5,260.02** |

## CASH FLOW STATEMENTS OF THE ISSUER

The cash flow table for the years ended 31 December 2011 and 31 December 2010 below is based on the audited financial statements of the Issuer for the years ending 31 December 2011 and 31 December 2010 and the method of calculation and the calculations themselves have been approved by the auditors of the Issuer.

| Cash flow<br>(€ millions) | | Period ended 31 December 2011 | Period ended 31 December 2010 |
|---|---|---|---|
| **Net banking income** | | **(3,792)** | **(3,014)** |
| Inflation premiums | | 287 | 170 |
| Provisions for financial instruments | | 0 | 0 |
| Amortisation of premiums and balancing payments | | (31) | (15) |
| Change in accrued interest | | 266 | 98 |
| ***Net cash from (used in) banking activities*** | ***(A)*** | ***(3,270)*** | ***(2,760)*** |
| | | | |
| **Net operating income** | | **15,469** | **8,151** |
| (Increase) decrease in accrued income from CRDS and CSG | | (447) | 88 |
| (Increase)/decrease in accruals on social levies set at 2.2% | | (76) | 0 |

| | | | |
|---|---|---|---|
| (Increase)/decrease in other accrued income | | 7 | (2) |
| Unearned income (FRR) | | 0 | 0 |
| ***Net cash from (used in) operating activities*** | ***(B)*** | ***14,953*** | ***8,237*** |
| | | | |
| ***Net cash from (used in) banking and operating activities*** | ***(C=A+B)*** | ***11,683*** | ***5,477*** |
| | | | |
| ***Net cash from (used in) financing activities*** | ***(D)*** | ***55,341*** | ***4,066*** |
| | | | |
| ***Debt assumed*** | ***(E)*** | ***(67,767)*** | ***0.00*** |
| | | | |
| ***Net cash flow for the year*** | ***(C+D+E)*** | ***(742)*** | ***9,543*** |
| | | | |
| *Cash and cash equivalents at 31 December Y-1* | | *14,497* | *4,955* |

## RECENT DEVELOPMENTS

Since the beginning of 2012, CADES issued the following debt instruments:

- On 17 January 2012, CADES issued €4bn 1.875 per cent. Notes with a 3-year and 1 month maturity.
- On 17 January 2012, CADES issued a tap of GBP0.4bn FRN Notes with a 2-year and 5 months maturity.
- On 24 January 2012, CADES issued €0.35bn FRN Notes with a 1-year maturity.
- On 25 January 2012, CADES issued €4bn 4.00 per cent. Notes with a 13-year maturity.
- On 25 January 2012, CADES issued €0.1bn FRN Notes with a 1-year maturity.
- On 25 January 2012, CADES issued €0.05bn FRN Notes with a 2-year maturity.
- On 26 January 2012, CADES issued €0.46bn FRN Notes with a 2-year maturity.
- On 31 January 2012, CADES issued a tap of €0.12bn FRN Notes with a 2-year maturity.
- On 31 January 2012, CADES issued a tap of €0.25bn 4.375 per cent. Notes with a 9-year and 9 months maturity.
- On 1 February 2012, CADES issued a tap of €0.5bn FRN Notes with a 2-year and 1 month maturity.
- On 1 February 2012, CADES issued €0.4bn inflation linked Notes with a 12-year and 5 months maturity.
- On 1 February 2012, CADES issued a tap of €0.05bn FRN Notes with a 2-year maturity.
- On 2 February 2012, CADES issued €0.065bn FRN Notes with a 1-year maturity.
- On 7 February 2012, CADES issued €0.5bn 1.81 per cent. Notes with a 3-year maturity.
- On 8 February 2012, CADES issued €1bn zero coupon Notes with a 3-year maturity.
- On 10 February 2012, CADES issued €0.5bn FRN Notes with a 2-year and 1 month maturity.
- On 10 February 2012, CADES issued €0.153bn CMS FRN Notes with a 12-year maturity.
- On 14 February 2012, CADES issued €0.125bn FRN Notes with a 3-year maturity.
- On 14 February 2012, CADES issued a tap of €0.6bn 4.125 per cent. Notes with a 11-year and 2 months maturity.
- On 15 February 2012, CADES issued a tap of €0.24bn inflation linked Notes with a 12-year and 5 months maturity.
- On 16 February 2012, CADES issued US$3bn 1.75 per cent. Notes with a 3-year maturity.
- On 20 February 2012, CADES issued a tap of €0.6bn 4.375 per cent. Notes with a 9-year and 8 months maturity.
- On 24 February 2012, CADES issued a tap of €0.5bn 3.00 per cent. Notes with a 4-year maturity.
- On 24 February 2012, CADES issued a tap of €0.3bn 3.625 per cent. Notes with a 4-year and 2 months maturity.

- On 28 February 2012, CADES issued NOK1bn 4.95 per cent. Notes with a 13-year and 10 months maturity.
- On 29 February 2012, CADES issued JPY30bn 0.80 per cent. Notes with a 4-year maturity.
- On 2 March 2012, CADES issued a tap of €0.3bn 3.625 per cent. Notes with a 13-year and 5 months maturity.
- On 3 March 2012, CADES issued US$2bn 2.125 per cent. Notes with a 5-year maturity.
- On 5 April 2012, CADES issued JPY76.9bn 0.753 per cent. Notes with a 5-year maturity.
- On 17 April 2012, CADES issued €0.05bn FRN Bonds with a 13-year maturity.

For 2012, CADES aims to issue debt instruments for an amount estimated between EUR 40 to EUR 45 billion.

# TAXATION

*The statements herein regarding taxation are based on U.S. federal tax laws and the laws in France and Luxembourg in force as of the date of this Base Prospectus and are subject to any changes in law. The following summaries do not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of Notes should consult its tax advisor as to the U.S. federal, French or, as the case may be, Luxembourg consequences of any investment in or ownership and disposal of the Notes.*

**UNITED STATES TAXATION**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes that are properly treated as debt for U.S. federal income tax purposes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, including Notes whose terms do not require full repayment of principal in certain circumstances, and the relevant Final Terms may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to other types of Note as appropriate. This summary deals only with purchasers of Notes that are U.S. Holders and that will hold the Notes as capital assets. The summary does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term will be discussed in the applicable Final Terms.

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any State thereof or the District of Columbia (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

**Payments of Interest**

*General*

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "**foreign currency**"), other than interest on a "Discount Note" that is not "qualified stated interest" (each as defined below under "Original Issue Discount — General"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes and original issue discount ("**OID**"), if any, accrued with respect to the Notes (as described below under "Original Issue Discount") generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

**Original Issue Discount**

*General*

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID.

A Note with a term of more than one year, will be treated as issued with OID (a "**Discount Note**") if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "**instalment obligation**") will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." A qualified stated interest payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "Variable Interest Rate Notes"), applied to the outstanding principal amount of the Note. Solely for the purposes of determining

whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

*Acquisition Premium*

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "**acquisition premium**") and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

*Short-Term Notes*

In general, an individual or other cash basis U.S. Holder of a Note with a term of one year or less (a "Short-Term Note") is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election will apply to all obligations with a

maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

*Fungible Issue*

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

*Market Discount*

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "**Market Discount Note**") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price", exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount". For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the Internal Revenue Service (the "**IRS**"). A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

*Variable Interest Rate Notes*

Notes that provide for interest at variable rates ("**Variable Interest Rate Notes**") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total noncontingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A “qualified inverse floating rate” is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a “current value” of that rate. A “current value” of a rate is the value of the rate on any day that is no earlier than 3 months prior to the first day on which that value is in effect and no later than 1 year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a “variable rate debt instrument”, then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a “variable rate debt instrument” will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a “true” discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from “true” discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating

rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. See "Contingent Payment Debt Instruments" below for a discussion of the U.S. federal income tax treatment of such Notes.

**Notes Purchased at a Premium**

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as "amortisable bond premium", in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also "Original Issue Discount — Election to Treat All Interest as Original Issue Discount".

**Election to Treat All Interest as Original Issue Discount**

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "Original Issue Discount — General," with certain modifications. For purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium (described above under "Notes Purchased at a Premium") or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under "Market Discount" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

**Contingent Payment Debt Instruments**

Certain Series or Tranches of Notes may be treated as "contingent payment debt instruments" for U.S. federal income tax purposes ("**Contingent Notes**"). Under applicable U.S. Treasury regulations, interest on Contingent Notes will be treated as "original issue discount" ("**OID**"), and must be accrued on a constant-yield basis based on a yield to maturity that reflects the rate at which the Issuer would issue a comparable fixed-rate non-exchangeable instrument (the "**comparable yield**"), in accordance with a projected payment schedule. This projected payment schedule must include each non-contingent payment on the Contingent Notes and an estimated amount for each contingent payment, and must produce the comparable yield.

The Issuer is required to provide to holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments on Contingent Notes. This schedule must produce the comparable yield.

THE COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE WILL NOT BE DETERMINED FOR ANY PURPOSE OTHER THAN FOR THE DETERMINATION OF INTEREST ACCRUALS AND ADJUSTMENTS THEREOF IN RESPECT OF CONTINGENT NOTES FOR UNITED STATES FEDERAL INCOME TAX PURPOSES AND WILL NOT CONSTITUTE A PROJECTION OR REPRESENTATION REGARDING THE ACTUAL AMOUNTS PAYABLE TO THE HOLDERS OF THE NOTES.

The use of the comparable yield and the calculation of the projected payment schedule will be based upon a number of assumptions and estimates and will not be a prediction, representation or guarantee of the actual amounts of interest that may be paid to a U.S. Holder or the actual yield of the Contingent Notes. A U.S. Holder will generally be bound by the comparable yield and the projected payment schedule determined by the Issuer, unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly discloses such schedule to the IRS, and explains to the IRS the reason for preparing its own schedule. The Issuer's determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

A U.S. Holder of a Contingent Note will generally be required to include OID in income pursuant to the rules discussed in the third paragraph under "Original Issue Discount – General", above, applied to the projected payment schedule. The "adjusted issue price" of a Contingent Note at the beginning of any accrual period is the issue price of the Note increased by the amount of accrued OID for each prior accrual period, and decreased by the projected amount of any payments on the Note. No additional income will be recognised upon the receipt of payments of stated interest in amounts equal to the annual payments included in the projected payment schedule described above. Any differences between actual payments received by the U.S. Holder on the Notes in a taxable year and the projected amount of those payments will be accounted for as additional interest (in the case of a positive adjustment) or as an offset to interest income in respect of the Note (in the case of a negative adjustment), for the taxable year in which the actual payment is made. If the negative adjustment for any taxable year exceeds the amount of OID on the Contingent Note for that year, the

excess will be treated as an ordinary loss, but only to the extent the U.S. Holder's total OID inclusions on the Contingent Note exceed the total amount of any ordinary loss in respect of the Contingent Note claimed by the U.S. Holder under this rule in prior taxable years. Any negative adjustment that is not allowed as an ordinary loss for the taxable year is carried forward to the next taxable year, and is taken into account in determining whether the U.S. Holder has a net positive or negative adjustment for that year. However, any negative adjustment that is carried forward to a taxable year in which the Contingent Note is sold, exchanged or retired, to the extent not applied to OID accrued for such year, reduces the U.S. Holder's amount realized on the sale, exchange or retirement.

**Purchase, Sale and Retirement of Notes**

*Notes other than Contingent Notes*

A U.S. Holder's tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium or acquisition premium applied to reduce interest on the Note.

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under "Original Issue Discount — Market Discount" or "Original Issue Discount — Short-Term Notes" or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

*Contingent Notes*

Gain from the sale or retirement of a Contingent Note will be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the U.S. Holder's total interest inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be capital loss. Gain or loss realised by a U.S. Holder on the sale or retirement of a Contingent Note will generally be foreign source.

A U.S. Holder's tax basis in a Contingent Note will generally be equal to its cost, increased by the amount of interest previously accrued with respect to the Note (determined without regard to any positive or negative adjustments reflecting the difference between actual payments and projected payments), increased or decreased by the amount of any positive or negative adjustment that the Holder is required to make to account for the difference between the Holder's purchase price for the Note and the adjusted issue price of the Note at the time of the purchase, and decreased by the amount of any projected payments scheduled to be made on the Note to the U.S. Holder through such date (without regard to the actual amount paid).

**Foreign Currency Notes**

*Interest*

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

*OID*

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or disposition of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

*Market Discount*

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

*Bond Premium*

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income (or OID) in units of the foreign currency. On the date bond premium offsets interest income (or OID), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount offset multiplied by the difference between the spot rate in effect on the date of the offset, and the spot rate in effect on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a capital loss when the Note matures.

*Foreign Currency Contingent Notes*

Special rules apply to determine the accrual of OID, and the amount, timing, source and character of any gain or loss on a Contingent Note that is denominated in, or determined by reference to, a foreign currency (a "**Foreign Currency Contingent Note**"). The rules applicable to Foreign Currency Contingent Notes are complex, and U.S. Holders are urged to consult their tax advisers concerning the application of these rules.

Under these rules, a U.S. Holder of a Foreign Currency Contingent Note will generally be required to accrue OID in the foreign currency in which the Foreign Currency Contingent Note is denominated (i) at a yield at which the Issuer would issue a fixed rate debt instrument denominated in the same foreign currency with terms and conditions similar to those of the Foreign Currency Contingent Note, and (ii) in accordance with a projected payment schedule determined by the Issuer, under rules similar to those described above under "Contingent Payment Debt Instruments". The amount of OID on a Foreign Currency Contingent Note that accrues in any accrual period will be the product of the comparable yield of the Foreign Currency Contingent Note (adjusted to reflect the length of the accrual period) and the adjusted issue price of the Foreign Currency Contingent Note. The adjusted issue price of a Foreign Currency Contingent Note will generally be determined under the rules described above, and will be denominated in the foreign currency of the Foreign Currency Contingent Note.

OID on a Foreign Currency Contingent Note will be translated into U.S. dollars under translation rules similar to those described above under "Foreign Currency—Interest". Any positive adjustment (i.e. the excess of actual payments over projected payments) in respect of a Foreign Currency Contingent Note for a taxable year will be translated into U.S. dollars at the spot rate on the last day of the taxable year in which the adjustment is taken into account, or if earlier, the date on which the Foreign Currency Contingent Note is disposed of. The amount of any negative adjustment on a Foreign Currency Contingent Note (i.e. the excess of projected payments over actual payments) that is offset against accrued but unpaid OID will be translated into U.S. dollars at the same rate at which the OID was accrued. To the extent a net negative adjustment exceeds the amount of accrued but unpaid OID, the negative adjustment will be treated as offsetting OID that has accrued and been paid on the Foreign Currency Contingent Note, and will be translated into U.S. dollars at the spot rate on the date the Foreign Currency Contingent Note was issued. Any net negative adjustment carry forward will be carried forward in the relevant foreign currency.

*Sale or Retirement*

*Notes other than Foreign Currency Contingent Notes.* As discussed above under "Purchase, Sale and Retirement of Notes", a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss

will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

*Foreign Currency Contingent Notes.* Upon a sale, exchange or retirement of a Foreign Currency Contingent Note, a U.S. Holder will generally recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the U.S. Holder's tax basis in the Foreign Currency Contingent Note, both translated into U.S. dollars as described below. A U.S. Holder's tax basis in a Foreign Currency Contingent Note will equal (i) the cost thereof (translated into U.S. dollars at the spot rate on the issue date), (ii) increased by the amount of OID previously accrued on the Foreign Currency Contingent Note (disregarding any positive or negative adjustments and translated into U.S. dollars using the exchange rate applicable to such OID) and (iii) decreased by the projected amount of all prior payments in respect of the Foreign Currency Contingent Note. The U.S. dollar amount of the projected payments described in clause (iii) of the preceding sentence is determined by (i) first allocating the payments to the most recently accrued OID to which prior amounts have not already been allocated and translating those amounts into U.S. dollars at the rate at which the OID was accrued and (ii) then allocating any remaining amount to principal and translating such amount into U.S. dollars at the spot rate on the date the Foreign Currency Contingent Note was acquired by the U.S. Holder. For this purpose, any accrued OID reduced by a negative adjustment carry forward will be treated as principal.

The amount realized by a U.S. Holder upon the sale, exchange or retirement of a Foreign Currency Contingent Note will equal the amount of cash and the fair market value (determined in foreign currency) of any property received. If a U.S. Holder holds a Foreign Currency Contingent Note until its scheduled maturity, the U.S. dollar equivalent of the amount realized will be determined by separating such amount realized into principal and one or more OID components, based on the principal and OID comprising the U.S. Holder's basis, with the amount realized allocated first to OID (and allocated to the most recently accrued amounts first) and any remaining amounts allocated to principal. The U.S. dollar equivalent of the amount realized upon a sale, exchange or unscheduled retirement of a Foreign Currency Contingent Note will be determined in a similar manner, but will first be allocated to principal and then any accrued OID (and will be allocated to the earliest accrued amounts first). Each component of the amount realized will be translated into U.S. dollars using the exchange rate used with respect to the corresponding principal or accrued OID. The amount of any gain realized upon a sale, exchange or unscheduled retirement of a Foreign Currency Contingent Note will be equal to the excess of the amount realized over the holder's tax basis, both expressed in foreign currency, and will be translated into U.S. dollars using the spot rate on the payment date. Gain from the sale or retirement of a Foreign Currency Contingent Note will generally be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the U.S. Holder's total OID inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be capital loss. Gain or loss realized by a U.S. Holder on the sale or retirement of a Foreign Currency Contingent Note will generally be foreign source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Foreign Currency Contingent Notes.

A U.S. Holder will also recognize U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the receipt of foreign currency in respect of a Foreign Currency Contingent Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to the principal or accrued OID to which such payment relates.

*Disposition of Foreign Currency*

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase.

Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

**Backup Withholding and Information Reporting**

In general, payments of interest and accruals of OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such U.S. Holder's U.S. federal income tax liability and may entitle it to a refund, provided the required information is timely furnished to the IRS.

U.S. Holders should consult their tax advisers regarding any reporting obligations they have as a result of their acquisition, ownership or disposition of the Notes. Failure to comply with these reporting or filing obligations could result in the imposition of substantial penalties.

**Reportable Transactions**

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

**EU TAXATION**

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**") Member States of the EU are required to provide to the tax authorities of another Member State, *inter alia*, details *of* interest payments within the meaning of the Savings Directive (interest, premiums or other debt income) made by a paying agent located within its jurisdiction to, or for the benefit of, an individual resident or certain limited types of entity established in that other Member State.

For these purposes, the term "paying agent" is defined widely and includes in particular any economic operator responsible for making interest payments, within the meaning of the Savings Directive, for the immediate benefit of the beneficial owner.

However, for a transitional period, certain Member States (Luxembourg, Belgium and Austria) may instead apply a withholding system in relation to interest payments, unless during such period they elect otherwise (which is the case of Belgium). The beneficial owner of the interest payment may, upon meeting certain conditions, request that no tax be withheld and elect instead for an exchange of information procedure.

Belgium opted out of this transitional regime and has implemented the general exchange of information procedure under the Savings Directive with respect to interest payments made by a paying agent located in Belgium to an individual resident or certain limited types of entities established in another Member State as of 1 January 2010.

A number of non-EU countries and dependent or associated territories of certain Member States have adopted similar measures to the Savings Directive.

On 13 November 2008 the European Commission published a detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of these proposed changes are made in relation to the Savings Directive they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

**Luxembourg**

*The comments below are intended as a basic summary of certain tax consequences in relation to the purchase, ownership and disposition of the Notes under Luxembourg law. Persons in any doubt as to their tax position should consult a professional tax adviser.*

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders or to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders or to certain entities, upon repayment of principal in the case of reimbursement, redemption, repurchase or exchange of the Notes.

**Luxembourg Non-Resident**

Under the Luxembourg laws dated 21 June 2005 implementing the Savings Directive, and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union ("**EU**"), a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure. The same treatment will apply to payments of interest and other similar income made to certain "residual entities" within the meaning of Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent or associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, which are not and have not opted to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC as replaced by the Council Directive 2009/65/EC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands.

The withholding tax rate is 35 per cent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

**Luxembourg Resident**

Interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC as replaced by the Council Directive 2009/65/EC or for the exchange of information regime) are subject to a 10 per cent. withholding tax.

Pursuant to the Luxembourg law of 23 December 2005 as amended by the law of 17 July 2008, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10 per cent. tax on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a State or territory which has concluded an international agreement directly related to the Savings Directive.

**France**

*The descriptions below are intended as a basic summary of certain tax consequences in relation to the purchase, ownership and disposal of the Notes under French law. Persons who are in any doubt as to their tax position should consult a professional tax adviser.*

Following the introduction of the French *loi de finances rectificative pour 2009 no. 3* (n° 2009-1674 dated 30 December 2009) (the "**Law**"), payments of interest and other revenues made by the Issuer with respect to Notes issued on or after 1 March 2010 will not be subject to the withholding tax set out under Article 125 A III of the French General Tax Code unless such payments are made outside France in a non-cooperative State or territory (*Etat ou territoire non coopératif*) within the meaning of Article 238-0 A of the French General Tax Code (a "**Non-Cooperative State**"). If such payments under the Notes are made in a Non-Cooperative State, a 50 per cent. withholding tax will be applicable (subject to certain exceptions and to the more favourable provisions of any applicable double tax treaty) by virtue of Article 125 A III of the French General Tax Code.

Furthermore, interest and other revenues on such Notes may no longer be deductible from the taxable income the Issuer, as from the fiscal years starting on or after 1 January 2011, if they are paid or accrued to persons domiciled or established in a Non-Cooperative State or paid in such a Non-Cooperative State. Under certain conditions, any such non-deductible interest and other revenues may be re-characterised as constructive dividends pursuant to Article 109 of the French general tax code, in which case such non-deductible interest and other revenues may be subject to the withholding tax set out under Article 119 *bis* of the French General Tax Code, at a rate of 30 per cent. or 55 per cent.

Notwithstanding the foregoing, the Law provides that neither the 50 per cent. withholding tax nor the non-deductibility will apply if the Issuer can prove that the principal purpose and effect of a particular issue of Notes were not that of allowing the payments of interest or other revenues to be made in a Non-Cooperative State (the "**Exception**"). Pursuant to the ruling (*rescrit*) (RES 2010/11) of the *Direction générale des finances publiques* published on 22 February 2010, an issue of Notes will benefit from the Exception without the Issuer having to provide any proof of the purpose and effect of such issue of Notes, if such Notes are:

(i) offered by means of a public offer within the meaning of Article L.411.1 of the French Monetary and Financial Code or pursuant to an equivalent offer in a State other than a Non-Cooperative State. For this purpose, an "equivalent offer" means any offer requiring the registration or submission of an offer document by or with a foreign securities market authority;

(ii) admitted to trading on a regulated market or on a French or foreign multilateral securities trading system provided that such market or system is not located in a Non-Cooperative State, and the operation of such market is carried out by a market operator or an investment services provider, or by such other similar foreign entity, provided further that such market operator, investment services provider or entity is not located in a Non-Cooperative State; or

(iii) admitted, at the time of their issue, to the operations of a central depositary or of a securities clearing and delivery and payments systems operator within the meaning of Article L.561-2 of the French Monetary and Financial Code, or of one or more similar foreign depositaries or operators provided that such depositary or operator is not located in a Non-Cooperative State.

## CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (collectively, "**ERISA Plans**"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment will be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed in "Risk Factors" and the fact that in the future there may be no market in which the fiduciary will be able to sell or otherwise dispose of the Notes.

In addition, Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts, which we refer to, together with any entities whose underlying assets include the assets of any such plan and with ERISA Plans, "**Plans**") and certain persons (referred to as "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, a sale or exchange of property or an extension of credit between a Plan and a party in interest or disqualified person may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and/or the Code.

The Issuer, directly or through its affiliates, may be considered a party in interest or a disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA and/or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer or an affiliate is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. Included among these exemptions are Prohibited Transaction Class Exemption ("**PTCE**") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts), PTCE 96-23 (relating to transactions determined by an in-house asset manager) and Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (for transactions with certain service providers). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, OTHER THAN AS DESCRIBED BELOW, BY ITS PURCHASE AND HOLDING OF A NOTE, EACH PURCHASER AND EACH TRANSFEREE, INCLUDING ANY FIDUCIARY PURCHASING ON BEHALF OF A PLAN, WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED, IN ITS CORPORATE AND FIDUCIARY CAPACITY, ON EACH DAY FROM THE DATE ON WHICH THE PURCHASER OR TRANSFEREE ACQUIRES THE NOTE THROUGH AND INCLUDING THE DATE ON WHICH THE PURCHASER OR TRANSFEREE DISPOSES OF ITS INTEREST IN SUCH NOTE, EITHER THAT (A) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO

TITLE I OF ERISA, OR A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN OR (B) ITS PURCHASE, HOLDING AND DISPOSITION OF A NOTE DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, ANY SUBSTANTIALLY SIMILAR LAW) UNLESS AN EXEMPTION IS AVAILABLE WITH RESPECT TO SUCH TRANSACTIONS AND ALL THE CONDITIONS OF SUCH EXEMPTION HAVE BEEN SATISFIED.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, WITH RESPECT TO A NOTE WHICH BY ITS TERMS DOES NOT REQUIRE THE PRINCIPAL TO BE REPAID IN FULL IN THE SPECIFIED CURRENCY, BY ITS PURCHASE AND HOLDING OF THE NOTE, EACH PURCHASER AND EACH TRANSFEREE, INCLUDING ANY FIDUCIARY PURCHASING ON BEHALF OF A PLAN, WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED, IN ITS CORPORATE AND FIDUCIARY CAPACITY, ON EACH DAY FROM THE DATE ON WHICH THE PURCHASER OR TRANSFEREE ACQUIRES THE NOTE THROUGH AND INCLUDING THE DATE ON WHICH THE PURCHASER OR TRANSFEREE DISPOSES OF ITS INTEREST IN SUCH NOTE, THAT (A) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN (ANY OF THE FOREGOING, A "**BENEFIT PLAN INVESTOR**"), AND (B) IF AT ANY TIME THE PURCHASER OR TRANSFEREE WILL BE AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR AND THAT IS SUBJECT TO ANY SUBSTANTIALLY SIMILAR LAW, THE PURCHASE, HOLDING AND DISPOSITION OF A NOTE DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SIMILAR LAW. ANY PURPORTED PURCHASE OR TRANSFER OF A NOTE THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing Notes.

Any Plan fiduciary that proposes to cause a Plan to purchase Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA or the Code.

The sale of Notes to a Plan is in no respect a representation by us that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Any special ERISA considerations relevant to a particular issue of Notes will be provided in the applicable Final Terms.

# SUBSCRIPTION AND SALE

## SUMMARY OF DEALER AGREEMENT

Subject to the terms and on the conditions contained in a dealer agreement dated 18 June 2012 (the "**Dealer Agreement**") between the Issuer, the Permanent Dealer and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealer. However, the Issuer has reserved the right to sell Notes directly on its own behalf to any Dealer that is not a Permanent Dealer. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally or severally and not jointly underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Delivery of the Notes may be made against payment therefore or free of payment on or about a date that will occur more than three business days after the date of pricing of the Notes, which will be specified in the Final Terms. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Notes to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own advisor.

## SELLING RESTRICTIONS

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Permanent Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has not and will not offer, or sell or, in the case of Notes sold in bearer form, deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on

offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Registered Notes within the United States only to persons whom they reasonably believe are QIBs that are also QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers that own and invest on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (c) they are not a participant-directed employee plan, such as a 401(k) plan; (d) they are acting for their own account, or the account of another QIB who is a QP; (e) they are not formed for the purpose of investing in the Issuer; (f) each account for which they are purchasing will hold and transfer not less than the minimum denomination of the Notes at any time; and (g) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB that is also a QP (a "**QIB/QP**") to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB/QP in the United States to any U.S. person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP, is prohibited.

**Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State"**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer"**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

**United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes that have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

**France**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distribution have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*) acting for their own account, all as defined in, and in accordance with, Articles L.411-1, L.411-2, and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

**Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

**GENERAL**

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms in all cases at its own expense.

# CLEARANCE AND SETTLEMENT

**Book-Entry Ownership**

*Bearer Notes*

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems of any Series of Bearer Notes. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note in bearer form without coupons may be deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg or an Alternative Clearing System as agreed between the Issuer and the Dealer. Transfers of interests in such temporary Global Notes or permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Euroclear and Clearstream, Luxembourg or, if appropriate, the Alternative Clearing System.

*Registered Notes*

The Issuer may make applications to DTC, Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems of the Notes to be represented by an Unrestricted Global Certificate. Each Unrestricted Global Certificate deposited with a common depositary for, and registered in the name of, a nominee of Euroclear and/or Clearstream, Luxembourg will have an ISIN and a Common Code.

In addition, the Issuer, and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant, may make application to DTC for acceptance in its book-entry settlement system of the Registered Notes represented by a Restricted Global Certificate and/or Unrestricted Global Certificate. Each such Restricted Global Certificate and/or Unrestricted Global Certificate will have a CUSIP number. Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "Transfer Restrictions". In certain circumstances, as described below in "Transfers of Registered Notes", transfers of interests in a Restricted Global Certificate may be made as a result of which such legend may no longer be required.

In the case of a Tranche of Registered Notes to be cleared through the facilities of DTC, the Custodian, with whom the Restricted Global Certificates and/or Unrestricted Global Certificates are deposited, and DTC, will electronically record the nominal amount of the Restricted Notes or Unrestricted Notes held within the DTC system. Investors may hold their beneficial interests in a Restricted Global Certificate or Unrestricted Global Certificate directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest on, each Restricted Global Certificate or Unrestricted Global Certificate registered in the name of DTC's nominee will be to, or to the order of, its nominee as the registered owner of such Restricted Global Certificate or Unrestricted Global Certificate, as applicable. The Issuer expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Restricted Global Certificate or Unrestricted Global Certificate, as applicable, as shown on the records of DTC or the nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such Restricted Global Certificate or Unrestricted Global Certificate held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Issuer nor any Paying Agent or any Transfer Agent will have any responsibility or liability for any aspect of the records relating, to or payments made on account of, ownership interests in any Restricted Global Certificate or Unrestricted Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Final Terms, and, in the case of Notes initially represented by a Restricted Global Certificate, in minimum amount of U.S.$100,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)) in certain limited circumstances described below.

*Payments through DTC*

Payments in U.S. dollars of principal and interest in respect of a Restricted Global Certificate and/or Unrestricted Global Certificate registered in the name of a nominee of DTC will be made to the order of such nominee as the registered holder of such Note. Payments of principal and interest in a currency other than U.S. dollars in respect of Notes evidenced by a Restricted Global Certificate or Unrestricted Global Certificate registered in the name of a nominee of DTC will be made or procured to be made by the Paying Agent in such currency in accordance with the following provisions. The amounts in such currency payable by the Paying Agent or its agent to DTC with respect to Notes held by DTC or its nominee will be received from the Company by the Paying Agent who will make payments in such currency by wire transfer of same day funds to the designated bank account in such currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York city after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York city prior to the relevant payment date, to receive that payment in such currency. The Paying Agent will convert amounts in such currency into U.S. dollars and deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment that did not elect to receive such payment in such currency. The Agency Agreement sets out the manner in which such conversions are to be made.

*Transfers of Registered Notes*

Transfers of interests in Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate and/or Unrestricted Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Restricted Global Certificate or Unrestricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

In the case of Registered Notes to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through a Restricted Global Certificate for the same Series of Notes provided that any such transfer made on or prior to the expiration of the distribution compliance period (as used in "Subscription and Sale") relating to the Notes represented by such Unrestricted Global Certificate will only be made upon receipt by any Transfer Agent of a written certificate from DTC, Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB that is also a QP in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Certificate will only be made upon request through DTC, Euroclear or Clearstream, Luxembourg by the holder of an interest in the Unrestricted Global Certificate to the Fiscal Agent of details of that account at DTC to be credited with the

relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "Transfer Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Fiscal Agent.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Certificates will be effected through the Fiscal Agent, the Custodian, the Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes, see "Transfer Restrictions".

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of Restricted Global Certificates and/or Unrestricted Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Restricted Global Certificates or Unrestricted Global Certificates, as applicable, are credited and only in respect of such portion of the aggregate nominal amount of the relevant Restricted Global Certificates or Unrestricted Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Restricted Global Certificates or Unrestricted Global Certificates for exchange for Individual Certificates (which will, in the case of Restricted Notes, bear the legend indicated under "Transfer Restrictions — Restricted Notes" of this Base Prospectus).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the state of New York, a "banking organisation" under the laws of the state of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct

participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, nor any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Global Certificate is lodged with DTC or the Custodian, Notes represented by Individual Certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

*Individual Certificates*

Registration of title to Registered Notes in a name other than a depositary or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only (i) in the case of Restricted Global Certificates in the circumstances set forth in "Summary of Provisions Relating to the Notes while in Global Form—Exchange—Permanent Global Certificates—Restricted Global Certificates" or (ii) in the case of Unrestricted Global Certificates in the circumstances set forth in "Summary of Provisions Relating to the Notes while in Global Form— Exchange— Permanent Global Certificates—Unrestricted Global Certificates". In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

(i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Certificates; and

(ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends indicated under "Transfer Restrictions — Restricted Notes" of this Base Prospectus.

*Pre-issue Trades Settlement*

It is expected that delivery of Notes will be made on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the U.S. secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers who wish to trade Registered Notes in the United States between the date of pricing and the date that is three business days prior to the relevant Issue Date will be required, by virtue of the fact that such Notes initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers of Notes who wish to trade Notes between the date of pricing and the date that is three business days prior to the relevant Issue Date should consult their own adviser.

## TRANSFER RESTRICTIONS

**Restricted Notes**

Each purchaser of Restricted Notes, by accepting delivery of this Base Prospectus and the Restricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. It (a) is a QIB that is also a QP, (b) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) is not a participant-directed employee plan, such as a 401(k) plan, (d) is acquiring such Restricted Notes for its own account, or for the account of one or more QIBs that are also QPs, (e) was not formed for the purpose of investing in the Restricted Notes or the Issuer, and (f) is aware, and each beneficial owner of the Restricted Notes has been advised, that the sale of the Restricted Notes to it is being made in reliance on Rule 144A.

2. It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Restricted Notes in a principal amount that is not less than U.S.$100,000 and (b) provide notice of the transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Restricted Notes from one or more book-entry depositories.

3. (i) The Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs that are also QPs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States and (ii) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions on the Restricted Notes.

4. It understands that the Issuer has the power under the Agency Agreement and Condition 6 to compel any beneficial owner of Restricted Notes that is a U.S. person and is not a QIB and also a QP to sell its interest in the Restricted Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Restricted Notes to a U.S. person who is not a QIB and a QP. Any purported transfer of the Restricted Notes to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio*.

5. Except as otherwise provided in the applicable Final Terms, and other than with respect to a Restricted Note which by its terms does not require the principal to be repaid in full in the specified currency, that either (a) it is not an "employee benefit plan" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "plan" as defined in and subject to Section 4975 of the Code, a governmental plan or church plan which is subject to any Similar Law, or an entity whose assets are treated as assets of any such employee benefit plan or plan, or (b) its purchase, holding and disposition of a Restricted Note does not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or in the case of a governmental or church plan, any such substantially Similar Law) unless an exemption is available with respect to such transactions and all the conditions of such exemption have been satisfied.

6. Except as otherwise provided in the applicable Final Terms, and with respect to a Restricted Note which by its terms does not require the principal to be repaid in full in the specified currency, that (a) it

is not an "employee benefit plan" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "plan" as defined in and subject to Section 4975 of the Code, or an entity whose assets are treated as assets of any such employee benefit plan or plan (any of the foregoing a "**Benefit Plan Investor**"), and (b) if at any time the purchaser or transferee will be an employee benefit plan that is not a Benefit Plan Investor and that is subject to any substantially Similar Law, the purchase, holding and disposition of a Restricted Note does not and will not constitute or result in a violation of any Similar Law. Any purported purchase or transfer of a Restricted Note that does not comply with the foregoing shall be null and void *ab initio.*

7. The Restricted Notes, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend in or substantially in the following form:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (A "**QIB**") WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT THAT IS ALSO A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (D) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS THAT ARE ALSO QPS, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$100,000, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN THE RESTRICTED NOTES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE. ANY RESALE OR OTHER TRANSFER OF THIS NOTE (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE PAYING AGENT OR ANY INTERMEDIARY. THE ISSUER HAS THE RIGHT UNDER THE AGENCY AGREEMENT TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER.

THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

THE ISSUER MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB AND A QP.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, AND OTHER THAN WITH RESPECT TO A NOTE WHICH BY ITS TERMS DOES NOT REQUIRE THE PRINCIPAL TO BE REPAID IN FULL IN THE SPECIFIED CURRENCY, BY ITS PURCHASE AND HOLDING OF THIS NOTE, EACH PURCHASER AND EACH TRANSFEREE, INCLUDING ANY FIDUCIARY PURCHASING ON BEHALF OF A PLAN, WILL BE DEEMED TO HAVE REPRESENTED AND AGREED, THAT EITHER THAT (1) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), OR A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN OR (2) ITS PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, ANY SUCH SUBSTANTIALLY SIMILAR LAW) UNLESS AN EXEMPTION IS AVAILABLE WITH RESPECT TO SUCH TRANSACTIONS AND ALL THE CONDITIONS OF SUCH EXEMPTION HAVE BEEN SATISFIED.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, AND WITH RESPECT TO A NOTE WHICH BY ITS TERMS DOES NOT REQUIRE THE PRINCIPAL TO BE REPAID IN FULL IN THE SPECIFIED CURRENCY, BY ITS PURCHASE AND HOLDING OF THIS NOTE, EACH PURCHASER AND EACH TRANSFEREE, INCLUDING ANY FIDUCIARY PURCHASING ON BEHALF OF A PLAN, WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT (1) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN (ANY OF THE FOREGOING, A "**BENEFIT PLAN INVESTOR**"), AND (2) IF AT ANY TIME THE PURCHASER OR TRANSFEREE WILL BE AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR AND THAT IS SUBJECT TO ANY SUBSTANTIALLY SIMILAR LAW, THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SIMILAR LAW. ANY PURPORTED PURCHASE OR TRANSFER OF THIS NOTE THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

**[**THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("**OID**") FOR U.S. FEDERAL INCOME TAX PURPOSES. YOU CAN CONTACT **[**NAME/TITLE OF REPRESENTATIVE OF ISSUER**]** AT **[**ADDRESS/TELEPHONE NUMBER OF SUCH

REPRESENTATIVE**]** TO RECEIVE INFORMATION NECESSARY TO PROPERLY ACCOUNT FOR OID ON THE NOTE**]**[1]

**[**THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("**OID**") FOR U.S. FEDERAL INCOME TAX PURPOSES. THIS NOTE HAS OID OF **[**currency**][**amount**]** PER EACH **[**currency**][**amount**]** OF PRINCIPAL AMOUNT OF THIS NOTE; THE ISSUE PRICE OF THIS NOTE IS **[**currency**][**amount**]**; THE ISSUE DATE IS **[**date**]**; AND THE YIELD TO MATURITY (COMPOUNDED **[**semi-annually**]**) IS **[**yield**].]**[2] **[**THE COMPARABLE YIELD IS: **[**yield**]** AND THE PROJECTED PAYMENT SCHEDULE IS AS FOLLOWS: **[**table**]]**[3]

8. It understands that the Issuer, the Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Notes is no longer accurate, it shall promptly notify the Issuer and the Dealers. If it is acquiring any Notes for the account of one or more QIBs that are also QPs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

9. It understands that the Restricted Notes will be represented by a Restricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate or as the case may be, Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

**Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

**Unrestricted Notes**

Each purchaser of Unrestricted Notes outside the United States (or beneficial interest therein) and each subsequent purchaser of such Unrestricted Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(ii) It understands that such Unrestricted Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Unrestricted Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account, or for the account of one or more QIBs each of which is also a QP in a principal amount of not less than U.S.$ 100,000 in a transaction that meets the requirements of Rule 144A and takes delivery in the form of a Restricted Note or (b) in an offshore

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[1] Include if Notes have OID and Issuer wants to designate a representative to provide OID information to investors

[2] Include if Notes have OID and Issuer wants to provide the OID information in the legend

[3] Include in addition to the text associated with the prior footnote if Issuer has chosen to include OID information in the legend and the Notes are contingent payment debt instruments for US federal income tax purposes

transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(iii) Except as otherwise provided in the applicable Final Terms, other than with respect to an Unrestricted Note which by its terms does not require the principal to be repaid in full in the specified currency, that either (a) it is not an "employee benefit plan" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "plan" as defined in and subject to Section 4975 of the Code, a governmental plan or church plan which is subject to any Similar Law, or an entity whose assets are treated as assets of any such employee benefit plan or plan, or (b) its purchase, holding and disposition of an Unrestricted Note does not and will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or in the case of a governmental or church plan, any such substantially Similar Law) unless an exemption is available with respect to such transactions and all the conditions of such exemption have been satisfied.

(iv) Except as otherwise provided in the applicable Final Terms, with respect to an Unrestricted Note which by its terms does not require the principal to be repaid in full in the specified currency, that (a) it is not an "employee benefit plan" as described in Section 3(3) of ERISA and subject to Title I of ERISA, a "plan" as defined in and subject to Section 4975 of the Code, or an entity whose assets are treated as assets of any such employee benefit plan or plan (any of the foregoing a "**Benefit Plan Investor**"), and (b) if at any time the purchaser or transferee will be an employee benefit plan that is not a Benefit Plan Investor and that is subject to any substantially Similar Law, the purchase, holding and disposition of an Unrestricted Note does not and will not constitute or result in a violation of any Similar Law. Any purported purchase or transfer of an Unrestricted Note that does not comply with the foregoing shall be null and void ab initio.

(v) It understands that the Unrestricted Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IN A TRANSACTION THAT WILL NOT CAUSE THE ISSUER TO BECOME REQUIRED TO REGISTER AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, OTHER THAN WITH RESPECT TO A NOTE WHICH BY ITS TERMS DOES NOT REQUIRE THE PRINCIPAL TO BE REPAID IN FULL IN THE SPECIFIED CURRENCY, BY ITS PURCHASE AND HOLDING OF THIS NOTE, EACH PURCHASER AND EACH TRANSFEREE, INCLUDING ANY FIDUCIARY PURCHASING ON BEHALF OF A PLAN, WILL BE DEEMED TO HAVE REPRESENTED AND AGREED, THAT EITHER THAT (1) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), OR A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN OR (2) ITS PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A

PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF A GOVERNMENTAL OR CHURCH PLAN, ANY SUCH SUBSTANTIALLY SIMILAR LAW) UNLESS AN EXEMPTION IS AVAILABLE WITH RESPECT TO SUCH TRANSACTIONS AND ALL THE CONDITIONS OF SUCH EXEMPTION HAVE BEEN SATISFIED.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, WITH RESPECT TO A NOTE WHICH BY ITS TERMS DOES NOT REQUIRE THE PRINCIPAL TO BE REPAID IN FULL IN THE SPECIFIED CURRENCY, BY ITS PURCHASE AND HOLDING OF THIS NOTE, EACH PURCHASER AND EACH TRANSFEREE, INCLUDING ANY FIDUCIARY PURCHASING ON BEHALF OF A PLAN, WILL BE DEEMED TO HAVE REPRESENTED AND AGREED, THAT (1) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN (ANY OF THE FOREGOING, A "BENEFIT PLAN INVESTOR"), AND (2) IF AT ANY TIME THE PURCHASER OR TRANSFEREE WILL BE AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR AND THAT IS SUBJECT TO ANY SUBSTANTIALLY SIMILAR LAW, THE PURCHASE, HOLDING AND DISPOSITION OF THIS NOTE DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY SIMILAR LAW. ANY PURPORTED PURCHASE OR TRANSFER OF THIS NOTE THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID AB INITIO.

**[**THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("**OID**") FOR U.S. FEDERAL INCOME TAX PURPOSES. YOU CAN CONTACT **[**NAME/TITLE OF REPRESENTATIVE OF ISSUER**]** AT **[**ADDRESS/TELEPHONE NUMBER OF SUCH REPRESENTATIVE**]** TO RECEIVE INFORMATION NECESSARY TO PROPERLY ACCOUNT FOR OID ON THE NOTE**]**[1]

**[**THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("**OID**") FOR U.S. FEDERAL INCOME TAX PURPOSES. THIS NOTE HAS OID OF **[**currency**][**amount**]** PER EACH **[**currency**][**amount**]** OF PRINCIPAL AMOUNT OF THIS NOTE; THE ISSUE PRICE OF THIS NOTE IS **[**currency**][**amount**]**; THE ISSUE DATE IS **[**date**]**; AND THE YIELD TO MATURITY (COMPOUNDED **[**semi-annually**]**) IS **[**yield**].]**[2] **[**THE COMPARABLE YIELD IS: **[**yield**]** AND THE PROJECTED PAYMENT SCHEDULE IS AS FOLLOWS: **[**table**]]**[3]"

(vi) It understands that the Issuer, the Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(vii) It understands that the Unrestricted Notes will be represented by an Unrestricted Global Certificate, or as the case may be, a Global Note. Prior to the expiration of the distribution compliance period, before

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any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

**The Issuer reserves the right to refuse to register a transfer of Notes that is not conducted in accordance with the applicable selling and transfer restrictions.**

## FORM OF FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF NOTES WITH A DENOMINATION OF LESS THAN €100,000 TO BE ADMITTED TO TRADING ON AN EEA REGULATED MARKET AND/OR OFFERED TO THE PUBLIC ON A NON-EXEMPT BASIS IN THE EEA

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

### Final Terms dated [●]

**CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE**

Issue of **[**Aggregate Nominal Amount of Tranche**] [**Title of Notes**]**

under the Euro 65,000,000,000

**Global Medium Term Note Programme**

**[**The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (as defined below) (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer of the Notes may only do so in:

(i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer; or

(ii) in those Public Offer Jurisdictions mentioned in Paragraph 37 of Part A below, provided such person is one of the persons mentioned in Paragraph 37 of Part A below and that such offer is made during the Offer Period specified for such purpose therein.

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances**]**.

**[**The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (as defined below) (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances**]**.

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated **[●]** **[**and the supplement to the Base Prospectus dated **[●]]**which **[**together**]** constitute**[**s**]** a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended by Directive 2010/73/EC, to the extent implemented in the relevant Member State (the "**2010 PD Amending Directive**") (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus **[**as so supplemented**]**. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus **[**as so supplemented**]**. The Base Prospectus **[**and the supplement**[**s**]** to the Base Prospectus**] [**is**] [**are**]** available for viewing **[**at **[**website**]] [**and**]** during normal business hours at **[**address**] [**and copies may be obtained from **[**address**]]**.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the Conditions) contained in the Agency Agreement dated **[**original date**]** and set forth in the Base Prospectus dated **[**original date**] [**and the supplement to the Base Prospectus dated **[●]]**. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) as amended by Directive 2010/73/EC, to the extent implemented in the relevant Member State (the "**2010 PD Amending Directive**") (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated **[**current date**] [**and the supplement to the Base Prospectus dated **[●]]**, which **[**together**]** constitute**[**s**]** a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated **[**original date**] [**and the supplement to the Base Prospectus dated **[●]** and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated **[**original date**]** and **[**current date**] [**and the supplement to the Base Prospectuses dated **[●]** and **[●]]**. The Base Prospectuses **[**and the supplement**[**s**]** to the Base Prospectus**]** are available for viewing **[**at **[**website**]] [**and**]** during normal business hours at **[**address**] [**and copies may be obtained from **[**address**]]**.

**[***Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.***]**

**[***When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive***]**.

| | | |
|---|---|---|
| **1** | Issuer: | Caisse d'Amortissement de la Dette Sociale |
| **2** | **[**(i)**]** Series Number: | **[●]** |
| | **[**(ii) Tranche Number:<br>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).**]** | **[●]** |
| **3** | Specified Currency or Currencies: | **[●]** |
| **4** | Aggregate Nominal Amount: | **[●]** |
| | **[**(i)**]** Series: | **[●]** |
| | **[**(ii) Tranche: | **[●]]** |
| **5** | Issue Price: | **[●]** per cent. of the Aggregate Nominal Amount **[**plus accrued interest from **[***insert date***]** (*if applicable*)**]** |
| **6** | (i) Specified Denominations: | **[●]** |
| | (ii) Calculation Amount: | **[●]** |
| **7** | (i) Issue Date: | **[●]** |
| | (ii) Interest Commencement Date: | **[***Specify*/Issue Date/Not Applicable**]** |
| **8** | Maturity Date: | **[***specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year***]** |
| **9** | Interest Basis: | **[**• per cent. Fixed Rate**]**<br>**[[***specify reference rate***]** +/– • per cent. Floating Rate**]**<br>**[**Zero Coupon**]**<br>**[**Index Linked Interest**]**<br>**[**Other (*specify*)**]**<br>(further particulars specified below) |
| **10** | Redemption/Payment Basis: | **[**Redemption at par**]**<br>**[**Index Linked Redemption**]**<br>**[**Dual Currency**]**<br>**[**Partly Paid**]**<br>**[**Instalment**]**<br>**[**Other (*specify*)**]** |
| **11** | Change of Interest or Redemption/Payment Basis: | **[***Specify details of any Redemption/Payment Basis: provision for convertibility of Notes into another interest or redemption/ payment basis***]** |
| **12** | Put/Call Options: | **[**Investor Put**]**<br>**[**Issuer Call**]**<br>**[**(further particulars specified below)**]** |
| **13** | (i) Status of the Notes: | Senior |
| | (ii) **[**Date **[**Board**]** approval for issuance of Notes obtained: | **[●] [**and **[●]**, respectively**]]**<br>*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)**]*** |
| **14** | Method of distribution: | **[**Syndicated/Non-syndicated**]** |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | |
|---|---|---|
| **15** | **Fixed Rate Note Provisions** | **[**Applicable/Not Applicable**]**<br>*(If not applicable, delete the remaining sub-paragraphs of this paragraph)* |
| | (i) Rate**[**(s)**]** of Interest: | **[●]** per cent. per annum **[**payable **[**annually/semi-annually/quarterly/monthly/other (*specify*)**]** in arrear**]** |
| | (ii) Interest Payment Date(s): | **[●]** in each year **[**adjusted in accordance with **[***specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"***]***/not adjusted***]** |
| | (iii) Fixed Coupon Amount**[**(s)**]**: | **[●]** per Calculation Amount |
| | (iv) Broken Amount(s): | **[●]** per Calculation Amount, payable on the Interest Payment Date falling **[**in/on**] [●]** |
| | (v) Day Count Fraction: | **[**30/360 / Actual/Actual (ICMA/ISDA) / other**]** |
| | (vi) **[**Determination Dates: | **[●]** in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)**]** |
| | (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | **[**Not Applicable/*give details***]** |
| **16** | **Floating Rate Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Interest Period(s): | **[●]** |
| | (ii) Specified Interest Payment Dates: | **[●]** |
| | (iii) First Interest Payment Date | |
| | (iv) Interest Period Date: | **[●]**<br>(Not applicable unless different from Interest Payment Date) |
| | (v) Business Day Convention: | **[**Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)**]** |
| | (vi) Business Centre(s): | **[●]** |
| | (vii) Manner in which the Rate(s) of Interest is/are to be determined: | **[**Screen Rate Determination/ISDA Determination/other (*give details*)**]** |
| | (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the **[**Agent**]**): | **[●]** |
| | (ix) Screen Rate Determination: | |
| | – Reference Rate: | **[●]** |
| | – Interest Determination Date(s): | **[●]** |
| | – Relevant Screen Page: | **[●]** |
| | (x) ISDA Determination: | |
| | – Floating Rate Option: | **[●]** |

| | | |
|---|---|---|
| | – Designated Maturity: | **[●]** |
| | – Reset Date: | **[●]** |
| | – **[**ISDA Definitions: | **[**2000/2006**]]** |
| | (xi) Margin(s): | **[**+/-**][ ]** per cent. per annum |
| | (xii) Minimum Rate of Interest: | **[●]** per cent. per annum |
| | (xiii) Maximum Rate of Interest: | **[●]** per cent. per annum |
| | (xiv) Day Count Fraction: | **[●]** |
| | (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | **[●]** |
| **17** | **Zero Coupon Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Amortisation Yield: | **[●]** per cent. per annum |
| | (ii) Any other formula/basis of determining amount payable: | **[●]** |
| **18** | **Index-Linked Interest Note/other variable-linked interest Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Index/Formula/other variable: | **[***give or annex details***]** |
| | (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the **[**Agent**]**): | **[●]** |
| | (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: | **[●]** |
| | (iv) Interest Determination Date(s): | **[●]** |
| | (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | **[●]** |
| | (vi) Interest Period(s): | **[●]** |
| | (vii) Specified Interest Payment Dates: | **[●]** |
| | (viii) Business Day Convention: | **[**Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)**]** |
| | (ix) Business Centre(s): | **[●]** |

| | | |
|---|---|---|
| | (x) Minimum Rate of Interest: | **[●]** per cent. per annum |
| | (xi) Maximum Rate of Interest: | **[●]** per cent. per annum |
| | (xii) Day Count Fraction: | **[●]** |
| **19** | **Dual Currency Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Rate of Exchange/method of calculating Rate of Exchange: | **[***give details***]** |
| | (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the **[**Agent**]**): | **[●]** |
| | (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: | **[●]** |
| | (iv) Person at whose option Specified Currency(ies) is/are payable: | **[●]** |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| **20** | **Call Option** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Optional Redemption Date(s): | **[●]** |
| | (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | **[●]** per Calculation Amount |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | **[●]** per Calculation Amount |
| | (b) Maximum Redemption Amount: | **[●]** per Calculation Amount |
| | (iv) Notice period: | **[●]** |
| **21** | **Put Option** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Optional Redemption Date(s): | **[●]** |
| | (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | **[●]** per Calculation Amount |
| | (iii) Notice period: | **[●]** |
| **22** | **Final Redemption Amount of each Note** | **[●]** per Calculation Amount |
| | In cases where the Final Redemption Amount is Index-Linked or other variable-linked: | |
| | (i) Index/Formula/variable: | **[***give or annex details***]** |

| | | |
|---|---|---|
| | (ii) Party responsible for calculating the Final Redemption Amount (if not the **[**Agent**]**): | **[●]** |
| | (iii) Name and address of Calculation Agent: | **[●]** |
| | (iv) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: | **[●]** |
| | (v) Determination Date(s): | **[●]** |
| | (vi) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | **[●]** |
| | (vii) Payment Date: | **[●]** |
| | (viii) Minimum Final Redemption Amount: | **[●]** per Calculation Amount |
| | (ix) Maximum Final Redemption Amount: | **[●]** per Calculation Amount |
| **23** | **Early Redemption Amount**<br><br>Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): | **[●]** |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| **24** | **Form of Notes:** | **Bearer Notes:**<br><br>**[**Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note**]**<br><br>**[**Temporary Global Note exchangeable for Definitive Notes on **[●]** days' notice**]**<br><br>**[**Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note**]**<br><br>**Registered Notes:**<br><br>**[**Regulation S Global Note (U.S.$/€ **[●]** nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that |

| | | |
|---|---|---|
| | | is, held under the NSS)**]** |
| **25** | New Global Note: | **[**Yes**] [**No**]** |
| **26** | Financial Centre(s) or other special provisions relating to payment dates: | **[**Not Applicable/*give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(v) and 18(ix) relate***]** |
| **27** | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | **[**Yes/No. *If yes, give details***]** |
| **28** | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made **[**and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment**]**: | **[**Not Applicable/*give details***]** |
| **29** | Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: | **[**Not Applicable/*give details***]** |
| **30** | Redenomination, renominalisation and reconventioning provisions: | **[**Not Applicable/The provisions **[**in Condition •**]** apply**]** |
| **31** | Consolidation provisions: | **[**Not Applicable/The provisions **[**in Condition •**]** apply**]** |
| **32** | Other final terms: | **[**Not Applicable/*give details***]**<br>**[***(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)***]** |
| **DISTRIBUTION** | | |
| **33** | (i) If syndicated, names and addresses of Managers and underwriting commitments: | **[**Not Applicable/*give names, addresses and underwriting commitments***]**<br>*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)* |
| | (ii) Date of **[**Subscription**]** Agreement: | **[●]** |
| | (iii) Stabilising Manager(s) (if any): | **[**Not Applicable/*give name***]** |
| **34** | If non-syndicated, name and address of Dealer: | **[**Not Applicable/*give name and address***]** |
| **35** | Total commission and concession: | **[●]** per cent. of the Aggregate Nominal Amount |
| **36** | U.S. Selling Restrictions: | Reg. S Compliance Category 2; **[**TEFRA C/TEFRA D/ |

| | | |
|---|---|---|
| | | TEFRA not applicable**]** |
| **37** | ERISA: | [Yes/No] |
| **38** | Non-exempt Offer: | **[**Not Applicable**] [**An offer of the Notes may be made by the Managers **[**and **[***specify, if applicable***]]** other than pursuant to Article 3(2) of the Prospectus Directive in **[***specify relevant Member State(s) - which must be jurisdictions where the Prospectus and any supplements have been passported***]** ("**Public Offer Jurisdictions**") during the period from **[***specify date***]** until **[***specify date***]** ("**Offer Period**"). See further Paragraph 10 of Part B below. |
| **39** | Additional selling restrictions: | **[**Not Applicable/*give details***]** |

**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue **[**and**] [**public offer in the Public Offer Jurisdictions**] [**and**] [**admission to trading on **[***specify relevant regulated market***]** of the Notes described herein**]** pursuant to the Euro 65,000,000,000 Global Medium Term Note Programme of Caisse d'Amortissement de la Dette Sociale.

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. **[**(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.**]**

Signed on behalf of CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

| | | |
|---|---|---|
| **1** | **LISTING AND ADMISSION TO TRADING** | |
| | (i) Listing and admission to trading: | Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange with effect from **[●]**.<br>*(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)* |
| | (ii) Estimate of total expenses related to admission to trading: | **[●]** |
| **2** | **RATINGS** | |
| | Ratings: | [The Issuer has been]/[The Notes are expected to be] rated:<br>**[**S & P: **[●]]**<br>**[**Moody's: **[●]]**<br>**[**Fitch: **[●]]**<br>**[[**Other**]**: **[●]]**<br>(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)<br>*Insert one (or more) of the following options, as applicable:*<br>[Each of [*insert credit rating agency/ies*] is established in the European Union and registered under Regulation (EU) No 1060/2009 as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). As such, each of [*insert credit rating agency/ies*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation (www.esma.europa.eu).][1]<br>**[[***Insert credit rating agency/ies***] [**is**]/[**are**]** established in the European Union and **[**has**]/[**have each**]** applied for registration under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"), although the result of such application has not yet been determined. Once the application has been successful, each of [*insert credit rating agency/ies*] will be |

[1] It is important to liaise with the Issuer and/or the relevant credit rating agencies to determine (i) the specific legal entity which will issue the credit ratings, and (ii) the status of any application which has been made to the relevant competent authority by that entity. It is recommended that these enquiries are made at an early stage to allow sufficient time for the information to be obtained.

included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation (www.esma.europa.eu).**]**

**[[***Insert credit rating agency/ies***] [**is**]/[**are**]** not established in the European Union and **[**has**]/[**have**]** not applied for registration under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). As such, none of [*insert credit rating agency/ies*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation (www.esma.europa.eu)**]**

## 3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in **[**"Subscription and Sale"**]**, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."**]**

***[****(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)****]***

## 4 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

| | |
|---|---|
| **[**(i) Reasons for the offer: | **[●]**<br><br>*(See **[**"Use of Proceeds"**]** wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)**]*** |
| **[**(ii)**]** Estimated net proceeds: | **[●]**<br><br>*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)* |
| **[**(iii)**]** Estimated total expenses of the Issue: | **[●]**<br><br>***[****Include breakdown of expenses****]***<br><br>*(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)* |

## 5 [*Fixed Rate Notes only* – YIELD

| | |
|---|---|
| Indication of yield: | **[●]** |

Calculated as **[***include details of method of calculation in summary form***]** on the Issue Date.

As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. **]**

**6 [*Floating Rate Notes only* - HISTORIC INTEREST RATES**

Details of historic **[**LIBOR/EURIBOR/other**]** rates can be obtained from **[**Reuters**].]**

**7 [*Index-Linked or other variable-linked Notes only* – PERFORMANCE OF INDEX/FORMULA/other variable, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident, including a description of any market disruption or settlement disruption events that affect the underlying and any adjustment rules with relation to events concerning the underlying. **[***Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.**]***

***[****(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)**]***

The Issuer **[**intends to provide post-issuance information **[***specify what information will be reported and where it can be obtained***]] [**does not intend to provide post-issuance information**]**.

**8 [*Dual Currency Notes only* – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

*Need to include details of where past and future performance and volatility of the relevant rate**[****s****]** can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.**]***

***[****(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)**]***

**9 OPERATIONAL INFORMATION**

| | |
|---|---|
| ISIN Code: | **[●]** |
| Common Code: | **[●]** |
| Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): | **[**Not Applicable/*give name(s) and number(s) **[***and address(es)**]***]** |
| Delivery: | Delivery **[**against/free of**]** payment |

| | |
|---|---|
| Names and addresses of initial Paying Agent(s): | **[●]** |
| Names and addresses of additional Paying Agent(s) (if any): | **[●]** |
| Intended to be held in a manner which would allow Eurosystem eligibility: | **[**Yes**][**No**]**<br>**[**Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper**[**, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,**][***include this text for registered notes***]]** and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.**][***include this text if "yes" selected in which case bearer Notes must be issued in NGN form***]** |

**10 TERMS AND CONDITIONS OF THE OFFER**

| | |
|---|---|
| Offer Price: | **[**Issue Price**][***specify***]** |
| Conditions to which the offer is subject: | **[**Not Applicable/*give details***]** |
| Time Period/Description of the application process: | **[**Not Applicable/*give details***]** |
| Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants: | **[**Not Applicable/*give detail***]** |
| Details of the minimum and/or maximum amount of application: | **[**Not Applicable/*give details***]** |
| Details of the method and time limits for paying up and delivering the Notes: | **[**Not Applicable/*give details***]** |
| Manner in and date on which results of the offer are to be made public: | **[**Not Applicable/*give details***]** |
| Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: | **[**Not Applicable/*give details***]** |
| Categories of potential investors to which the Notes are offered and whether tranche(s) have been reserved for certain countries: | **[**Not Applicable/*give details***]** |
| Process for notification to applicants of the amount allotted and the | **[**Not Applicable/*give details***]** |

| | |
|---|---|
| indication whether dealing may begin before notification is made: | |
| Amount of any expenses and taxes specifically charged to the subscriber or purchaser: | **[**Not Applicable/*give details***]** |
| Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place. | **[**None/*give details***]** |

## FORM OF FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF NOTES WITH A DENOMINATION OF AT LEAST €100,000 TO BE ADMITTED TO TRADING ON AN EEA REGULATED MARKET

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

### Final Terms dated [●]

**CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE**

Issue of **[**Aggregate Nominal Amount of Tranche**] [**Title of Notes**]**

under the Euro 65,000,000,000

**Global Medium Term Note Programme**

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated **[●]** [and the supplement to the Base Prospectus dated **[●]** which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended by Directive 2010/73/EC, to the extent implemented in the relevant Member State (the "**2010 PD Amending Directive**") (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement[s] to the Base Prospectus] [is] [are] available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address]].

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") contained in the Agency Agreement dated [original date] and set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated **[●]**. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) as amended by Directive 2010/73/EC, to the extent implemented in the relevant Member State (the "**2010 PD Amending Directive**") (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement[s] to the Base Prospectus dated **[●]**, which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated **[●]** and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [original date] and [current date] [and the supplement to the Base Prospectuses dated **[●]** and **[●]**. The Base Prospectuses [and the supplement[s] to the Base Prospectuses] are available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address]].[4]

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

| | | | |
|---|---|---|---|
| **1** | Issuer: | | Caisse d'Amortissement de la Dette Sociale |
| **2** | **[**(i)**]** Series Number: | | **[●]** |
| | **[**(ii) Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).**]** | | **[●]** |
| **3** | Specified Currency or Currencies: | | **[●]** |
| **4** | Aggregate Nominal Amount of Notes: | | **[●]** |
| | **[**(i)**]** Series: | | **[●]** |
| | **[**(ii) Tranche: | | **[●]** |
| **5** | Issue Price: | | **[●]** per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)] |
| **6** | (i) | Specified Denominations: | **[●]**<br>**[[●] [**and integral multiples of **[●]** in excess thereof up to and including **[●]**. No notes in definitive form will be issued with a denomination above **[●]]**. |
| | (ii) | Calculation Amount: | **[●]** |
| **7** | (i) | Issue Date: | **[●]** |
| | (ii) | Interest Commencement Date | [*Specify*/Issue Date/Not Applicable] |
| **8** | Maturity Date: | | [*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*] |
| **9** | Interest Basis: | | **[●]** per cent. Fixed Rate] |
| **10** | Redemption/Payment Basis: | | **[**Redemption at par**]**<br>**[**Index Linked Redemption**]**<br>**[**Dual Currency**]**<br>**[**Partly Paid**]**<br>**[**Instalment**]**<br>**[**Other (*specify*)**]** |
| **11** | Change of Interest or Redemption/Payment Basis: | | **[***Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis***]** |
| **12** | Put/Call Options: | | **[**Investor Put**]**<br>**[**Issuer Call**]**<br>**[**(further particulars specified below)**]** |
| **13** | (i) Status of the Notes: | | Senior |
| | (ii) **[**Date **[**Board**]** approval for issuance of Notes obtained: | | **[●] [**and **[●]**, respectively**]]**<br>*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)**]*** |
| **14** | Method of distribution: | | **[**Syndicated/Non-syndicated**]** |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | |
|---|---|---|
| **15** | **Fixed Rate Note Provisions** | **[**Applicable/Not Applicable**]** |

| | | |
|---|---|---|
| | | *(If not applicable, delete the remaining sub-paragraphs of this paragraph)* |
| | (i) Rate**[**(s)**]** of Interest: | **[●]** per cent. per annum **[**payable **[**annually/semi-annually/quarterly/monthly/other (*specify*)**]** in arrear**]** |
| | (ii) Interest Payment Date(s): | **[●]** in each year **[**adjusted in accordance with **[***specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"***]***/not adjusted***]** |
| | (iii) Fixed Coupon Amount**[**(s)**]**: | **[●]** per Calculation Amount |
| | (iv) Broken Amount(s): | **[●]** per Calculation Amount, payable on the Interest Payment Date falling **[**in/on**] [●]** |
| | (v) Day Count Fraction: | **[**30/360 / Actual/Actual (ICMA/ISDA) / other**]** |
| | (vi) **[**Determination Dates: | **[●]** in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)**]** |
| | (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | **[**Not Applicable/*give details***]** |
| **16** | **Floating Rate Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Interest Period(s): | **[●]** |
| | (ii) Specified Interest Payment Dates: | **[●]** |
| | (iii) First Interest Payment Date: | |
| | (iv) Interest Period Date: | **[●]**<br>(Not applicable unless different from Interest Payment Date) |
| | (v) Business Day Convention: | **[**Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)**]** |
| | (vi) Business Centre(s): | **[●]** |
| | (vii) Manner in which the Rate(s) of Interest is/are to be determined: | **[**Screen Rate Determination/ISDA Determination/other (*give details*)**]** |
| | (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the **[**Agent**]**): | **[●]** |
| | (ix) Screen Rate Determination: | |
| | – Reference Rate: | **[●]** |
| | – Interest Determination Date(s): | **[●]** |
| | – Relevant Screen Page: | **[●]** |
| | (x) ISDA Determination: | |
| | – Floating Rate Option: | **[●]** |
| | – Designated Maturity: | **[●]** |

| | | |
|---|---|---|
| | – Reset Date: | **[●]** |
| | – **[**ISDA Definitions: | **[**2000/2006**]]** |
| | (xi) Margin(s): | **[**+/-**][ ]** per cent. per annum |
| | (xii) Minimum Rate of Interest: | **[●]** per cent. per annum |
| | (xiii) Maximum Rate of Interest: | **[●]** per cent. per annum |
| | (xiv) Day Count Fraction: | **[●]** |
| | (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | **[●]** |
| **17** | **Zero Coupon Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Amortisation Yield: | **[●]** per cent. per annum |
| | (ii) Any other formula/basis of determining amount payable: | **[●]** |
| **18** | **Index-Linked Interest Note/other variable-linked interest Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Index/Formula/other variable: | **[***give or annex details***]** |
| | (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the **[**Agent**]**): | **[●]** |
| | (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: | **[●]** |
| | (iv) Interest Determination Date(s): | **[●]** |
| | (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | **[●]** |
| | (vi) Interest Period(s): | **[●]** |
| | (vii) Specified Interest Payment Dates: | **[●]** |
| | (viii) Business Day Convention: | **[**Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)**]** |
| | (ix) Business Centre(s): | **[●]** |
| | (x) Minimum Rate of Interest: | **[●]** per cent. per annum |

| | | |
|---|---|---|
| | (xi) Maximum Rate of Interest: | **[●]** per cent. per annum |
| | (xii) Day Count Fraction: | **[●]** |
| **19** | **Dual Currency Note Provisions** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Rate of Exchange/method of calculating Rate of Exchange: | **[***give details***]** |
| | (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the **[**Agent**]**): | **[●]** |
| | (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: | **[●]** |
| | (iv) Person at whose option Specified Currency(ies) is/are payable: | **[●]** |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| **20** | **Call Option** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Optional Redemption Date(s): | **[●]** |
| | (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | **[●]** per Calculation Amount |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | **[●]** per Calculation Amount |
| | (b) Maximum Redemption Amount: | **[●]** per Calculation Amount |
| | (iv) Notice period: | **[●]** |
| **21** | **Put Option** | **[**Applicable/Not Applicable**]**<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Optional Redemption Date(s): | **[●]** |
| | (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | **[●]** per Calculation Amount |
| | (iii) Notice period: | **[●]** |
| **22** | **Final Redemption Amount of each Note** | **[●]** per Calculation Amount |
| | In cases where the Final Redemption Amount is Index-Linked or other variable-linked: | |
| | (i) Index/Formula/variable: | **[***give or annex details***]** |
| | (ii) Party responsible for calculating | **[●]** |

| | | |
|---|---|---|
| | the Final Redemption Amount (if not the **[**Agent**]**): | |
| | (iii) Name and address of Calculation Agent: | **[●]** |
| | (iv) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: | **[●]** |
| | (v) Determination Date(s): | **[●]** |
| | (vi) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | **[●]** |
| | (vii) Payment Date: | **[●]** |
| | (viii) Minimum Final Redemption Amount: | **[●]** per Calculation Amount |
| | (ix) Maximum Final Redemption Amount: | **[●]** per Calculation Amount |
| **23** | **Early Redemption Amount**<br><br>Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): | **[●]** |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| **24** | **Form of Notes:** | **Bearer Notes:**<br><br>**[**Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note**]**<br><br>**[**Temporary Global Note exchangeable for Definitive Notes on **[●]** days' notice**]**<br><br>**[**Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note**]**<br><br>**Registered Notes:**<br><br>**[**Regulation S Global Note (U.S.$/€ **[●]** nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)**]** |

| | | |
|---|---|---|
| | | [Rule 144A Global Note (U.S.$ [●] nominal amount) registered in the name of a nominee for DTC] |
| **25** | New Global Note: | **[**Yes**] [**No**]** |
| **26** | Financial Centre(s) or other special provisions relating to payment dates: | **[**Not Applicable/*give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(v) and 18(ix) relate***]** |
| **27** | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | **[**Yes/No. *If yes, give details***]** |
| **28** | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made **[**and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment**]**: | **[**Not Applicable/*give details***]** |
| **29** | Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: | **[**Not Applicable/*give details***]** |
| **30** | Redenomination, renominalisation and reconventioning provisions: | **[**Not Applicable/The provisions **[**in Condition [●]**]** apply**]** |
| **31** | Consolidation provisions: | **[**Not Applicable/The provisions **[**in Condition [●]**]** apply**]** |
| **32** | Other final terms: | **[**Not Applicable/*give details***]**<br>**[***(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)***]** |

**DISTRIBUTION**

| | | |
|---|---|---|
| **33** | (i) If syndicated, names of Managers: | **[**Not Applicable/*give names***]** |
| | (iii) Stabilising Manager(s) (if any): | **[**Not Applicable/*give name***]** |
| **34** | If non-syndicated, name of Dealer: | **[**Not Applicable/*give name***]** |
| **35** | U.S. Selling Restrictions: | Reg. S Compliance Category 2;<br>**[**TEFRA C/TEFRA D/ TEFRA not applicable**]**<br>**[**There are restrictions on the sale and transfer of Notes and the distribution of offering materials in the United States. The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (within the meaning of Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the |

registration requirements of the Securities Act. The Notes will be offered and sold outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" only (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "*Subscription and Sale*" and "*Transfer Restrictions*" in the Base Prospectus.**]**

| | | |
|---|---|---|
| **36** | ERISA: | [Yes/No] |
| **37** | Additional selling restrictions: | **[**Not Applicable/*give details***]** |

**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue and admission to trading on the [*specify relevant regulated market*] of the Notes described herein pursuant to the Euro 65,000,000,000 Global Medium Term Note Programme of Caisse d'Amortissement de la Dette Sociale.

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of CAISSE D'AMORTISSEMENT DE LA DETTE SOCIALE :

By: .....

Duly authorised

## PART B – OTHER INFORMATION

| | | |
|---|---|---|
| **1** | **LISTING AND ADMISSION TO TRADING** | |
| | (i) Listing and admission to trading: | Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange with effect from **[●]**.<br>*(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)* |
| | (ii) Estimate of total expenses related to admission to trading: | **[●]** |
| **2** | **RATINGS** | |
| | Ratings: | [The Issuer has been]/[The Notes are expected to be] rated:<br>**[**S & P: **[●]]**<br>**[**Moody's: **[●]]**<br>**[**Fitch: **[●]]**<br>**[[**Other**]**: **[●]]**<br>(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)<br>*Insert one (or more) of the following options, as applicable:*<br>[Each of [*insert credit rating agency/ies*] is established in the European Union and registered under Regulation (EU) No 1060/2009 as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). As such, each of [*insert credit rating agency/ies*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation (www.esma.europa.eu).] [1]<br>**[[***Insert credit rating agency/ies***] [**is**]/[**are**]** established in the European Union and **[**has**]/[**have each**]** applied for registration under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"), although the result of such application has not yet been determined. Once the application has been successful, each of [*insert credit rating agency/ies*] will be included in the list of credit rating agencies published by the |

[1] It is important to liaise with the Issuer and/or the relevant credit rating agencies to determine (i) the specific legal entity which will issue the credit ratings, and (ii) the status of any application which has been made to the relevant competent authority by that entity. It is recommended that these enquiries are made at an early stage to allow sufficient time for the information to be obtained.

European Securities and Markets Authority on its website in accordance with the CRA Regulation (www.esma.europa.eu).**]**

**[[***Insert credit rating agency/ies***]** **[**is**]/[**are**]** not established in the European Union and **[**has**]/[**have**]** not applied for registration under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). As such, none of [*insert credit rating agency/ies*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation (www.esma.europa.eu)**]**

**3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in **[** "Subscription and Sale"**]**, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."**]**

***[****(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)**]***

**4 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

| | |
|---|---|
| **[**(i) Reasons for the offer: | **[●]**<br><br>*(See **[**"Use of Proceeds"**]** wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)**]*** |
| **[**(ii)**]** Estimated net proceeds: | **[●]**<br><br>*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)* |
| **[**(iii)**]** Estimated total expenses: | **[●]**<br><br>*(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)* |

**5 [*Fixed Rate Notes only* – YIELD**

| | |
|---|---|
| Indication of yield: | **[●]**<br><br>The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. **]** |

**6** **[*Index-Linked or other variable-linked Notes only* – PERFORMANCE OF INDEX/FORMULA/other variable, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident, including a description of any market disruption or settlement disruption events that affect the underlying and any adjustment rules with relation to events concerning the underlying. **[**Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.**]***

***[**(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)**]***

The Issuer **[**intends to provide post-issuance information **[***specify what information will be reported and where it can be obtained**]**] **[**does not intend to provide post-issuance information**]**.

**7** **[*Dual Currency Notes only* – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

*Need to include details of where past and future performance and volatility of the relevant rate**[**s**]** can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.**]***

***[**(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)**]***

**8** **OPERATIONAL INFORMATION**

**[**Unrestricted Notes**]**

| | |
|---|---|
| ISIN Code: | **[●]** |
| Common Code: | **[●]** |
| **[**CUSIP**]** | **[●]** |
| **[**Restricted Notes**]** | |
| ISIN Code: | **[●]** |
| CUSIP: | **[●]** |
| Any clearing system(s) other than Euroclear Bank S.A./N.V. and/or Clearstream Banking, société anonyme and/or DTC and the relevant identification number(s): | **[**Not Applicable/*give name(s) and number(s) **[**and address(es)**]***] |
| Delivery: | **[**Delivery **[**against/free of**]** payment in respect of the Unrestricted Notes**]**<br>**[**Delivery **[**against/free of**]** payment in respect of the |

| | |
|---|---|
| | Restricted Notes**]** |
| Names and addresses of initial Paying Agent(s): | **[●]** |
| Names and addresses of additional Paying Agent(s) (if any): | **[●]** |
| Intended to be held in a manner which would allow Eurosystem eligibility: | **[**Yes**][**No**]**<br>**[**Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper**[**, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,**][***include this text for registered notes***]]** and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.**][***include this text if "yes" selected in which case bearer Notes must be issued in NGN form***]** |

## LEGAL MATTERS

Certain legal matters are being passed upon for the Issuer by Clifford Chance Europe LLP with respect to matters of French law and by Clifford Chance LLP with respect to matters of U.S. Law. The validity of the Notes and certain other legal matters will passed upon for the Dealers by Linklaters LLP with respect to matters of U.S. and English law.

## INDEPENDENT STATUTORY AUDITORS

The financial statements of the Issuer as at, and for the year ended, 31 December 2011 (which include comparative information as at, and for the year ended, 31 December 2010) and the financial statements of the Issuer as at, and for the year ended, 31 December 2010 (which include comparative information as at, and for the year ended, 31 December 2009), have been audited by KPMG Audit, as stated in their reports. See "General Information".

## GENERAL INFORMATION

(1) Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted the Official List and to be admitted to trading on the Luxembourg Stock Exchange's regulated market.

(2) The Issuer has obtained all necessary consents, approvals and authorisations in France in connection with the establishment of the Programme and the issue of Notes. The issue of Notes under the Programme was authorised pursuant to a resolution of the *Conseil d'Administration* of the Issuer dated 28 April 2011 authorising the Issuer's borrowing programme and delegating all powers to issue such Notes to its chairman and the approval of the Issuer's borrowing programme by the Minister in charge of the Economy, Finance and Industry on 27 May 2011.

(3) There has been no significant change in the financial or trading position of the Issuer since 31 December 2011 and no material adverse change in the financial position, affairs or prospects of the Issuer since 31 December 2011.

(4) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or has had in the recent past significant effects, in the context of the issue of the Notes, on the financial position or profitability of the Issuer.

(5) Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

(6) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). In addition, the Issuer may make an application for any Notes to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Notes will be confirmed in the relevant Final Terms. The Common Code, the International Securities Identification Number (ISIN), the Committee on the Uniform Security Identification Procedure ("**CUSIP**") number and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg and the address of DTC is 55 Water Street, New York, New York 10041. The address of any alternative clearing system will be specified in the applicable Final Terms.

(7) There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes being issued.

(8) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to assets underlying issues of Notes constituting derivative securities, unless required by any applicable laws and regulations.

(9) For so long as Notes may be issued pursuant to this Base Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection by Noteholders at the specified offices of the Fiscal Agent:

(i) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Global Certificates, the Coupons, the Receipts and the Talons);

(ii) the Deed of Covenant;

(iii) the audited financial statements of the Issuer for the financial years ended 31 December 2011 and 31 December 2010;

(iv) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);

(v) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus; and

(vi) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is reproduced or referred to in this Base Prospectus.

This Base Prospectus, the Final Terms for Notes that are listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market will be published on the website of the Luxembourg Stock Exchange (*www. bourse.lu*).

(10) Copies of the latest annual financial statements of the Issuer may be obtained at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.

(11) Each time the Issuer sends an annual or other periodic report to the holders of Restricted Notes, the Issuer will include a reminder that: (a) each holder of Restricted Notes is required to be a QIB and a QP that can make the representations set forth in "Transfer Restrictions — Restricted Notes", (b) the Restricted Notes can only be transferred to another QIB that is also a QP which is capable of making the same representations, and (c) the Issuer has the right to force any holder of Restricted Notes that is not a QIB and a QP to sell or redeem its Restricted Notes.

(12) The Issuer's public accountant (*Contrôleur budgétaire et comptable ministeriel)* is responsible for the preparation of its statutory accounts and financial statements. Such accounts and financial statements are also approved by the Minister in charge of the Economy, Finance and Industry and the Minister of Employment and Solidarity and are controlled periodically by the French state audit office (*Cour des Comptes*), which has authority to accept or reject the accounts presented. The Issuer has, in relation to its 2010 and 2011 annual financial statements, requested KPMG Audit to carry out a contractual audit of such financial statements restated in the form appearing in the section entitled "Financial Statements of the Issuer". The reports issued by KPMG Audit in respect of such financial statements are also included in the section entitled "Financial Statements of the Issuer". While the Issuer will restate its future financial statements in the manner of the 2010 and 2011 annual financial statements referred to above, there is no commitment on the Issuer's part to require KPMG Audit or any other accounting firm to carry out any review of such financial statements or to produce any report in respect thereof. KPMG Audit is a member of the *Compagnie Nationale des Commisaires aux Comptes***.**

## FINANCIAL STATEMENTS OF THE ISSUER

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## GENERAL INFORMATION

### 1. MISSION STATEMENT

Ordinance No. 96-50 dated 24 January 1996[1] established the Social Security Debt Repayment Fund (*Caisse d'Amortissement de la Dette Sociale - CADES*) on 1 January 1996. CADES is an administrative public agency (*Etablissement Public à Caractère Administratif - 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 (*Agence Centrale des Organismes de Sécurité Sociale - ACOSS*); and
- Make payments to various social security funds and organizations.

CADES' mandate has been extended beyond 31 January 2014 as decided initially 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 social security debt repayment contribution (*Contribution pour le Remboursement de la Dette Sociale - CRDS*), introduced in Chapter 2 of the aforementioned Ordinance. It also received the proceeds from the sale of property assets owned and leased by the national agencies falling under the basic social security scheme and ACOSS.

From 2009, CADES has access to a new resource corresponding to 0.2 point of the supplementary social security contribution (*Contribution Sociale Généralisée - CSG*).

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 (*Caisse Nationale d'Assurance Maladie des Travailleurs Salariés - CNAMTS*).

Lastly, in accordance with Law No. 2004-810 of 13 August 2004, any future surpluses generated by the

[1] As modified by Social Security Finance Law No. 97-1164 of 19 December 1997, the 2001, 2002, and 2006 Finance Laws, the 2003, 2004, 2006 and 2008 Social Security Finance Laws, Law No. 2004-810 of 13 August 2004 relating to health insurance, Organic Law No. 2005-881 of 2 August 2005, Law No. 2008-1249 of 1 December 2008 and Ordinance No. 2009-80 of 22 January 2009.

health insurance branch of the French social security system will be allocated to CADES. The Social Security Finance Act will define the terms under which this transfer will take place.

## 2. ORGANIZATION OF THE AGENCY

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

Pursuant to the provisions of the aforementioned Decrees, financial and accounting transactions fall under the responsibility of Mr. Patrice Ract Madoux, the Authorizing Officer of CADES and Chairman of the Board of Directors, and Mr. Frank Mordacq, its Chief Accounting Officer and Head of CBCM Finances.

- CADES' annual budget is drawn up by 30 November 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 the accounts drawn up by the Accounting Officer. The financial statements are then forwarded to the General Director of the Public Finances Directorate (*Direction Générale des Finance Publiques - DGFiP*) prior to submission to the Government Audit Office (*Cour des Comptes*).

- CADES' Board of Directors examines and approves the accounts. In parallel, the Board ensures that CADES maintains a healthy underlying financial basis over its scheduled lifetime by updating CRDS and CSG 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 of 19 May 2009; and
- Audits carried out by the Government Audit Office.

Accounting transactions are recorded by CADES in an information system managed using software that is shared by the Authorizing Officer and the Accounting Officer. The system is networked and features a single database. Authorizations for displaying and processing data have 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 of 24 April 1996, relating 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 Finances).

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

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

This specific accounting framework was recommended by an independent consulting firm and approved by the Authorizing Officer, the Accounting Officer, the General Directorate of Public Accounting and the French Accounting Standards Board (*Conseil National de la Comptabilité - CNC*) (Opinion No. 99-04, plenary session of 18 March 1999).

### Transactions executed by the Accounting Officer

Transactions executed by CADES' Accounting Officer differ from those traditionally executed by Accounting Officers at other administrative public agencies.

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

#### 1. Financing transactions

The administrative workflow of financing transactions reflects the existence of Front Office, Middle Office and Back Office services.

The Front Office is responsible for transactions in the financial, interest rate and currency markets, in

accordance with defined limits and procedures. These routine transactions relate to financing, investment and the 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 verifies and validates the ticket before forwarding it to the Accounting Officer.

The Middle Office gathers information on cash positions, draws up forecasts, provides repayment schedules, and performs a first-level plausibility check of Front Office transactions.

The Back Office records and validates the transactions processed by the Front Office after verifying that formal presentation and threshold requirements are met. 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**

Performance of the administrative section of the budget is done in compliance with the provisions of the Decree of 29 December 1962, which sets forth general public-sector accounting policies. Administrative expenses are evidenced by payment orders and income by receipt 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, items of expenditure and income are recognized in the accounts and the amounts are paid or collected.

**3. Cash movements**

CADES has opened a euro-denominated deposit account in the books of CBCM Finances that is listed in the register of government accounts.

In the books of CADES, entries to the debit of this account record expenses falling within the administrative budget. Only the Accounting Officer may authorize these payments. Entries to the credit of this account record CRDS and CSG revenue paid over by the Public Treasury network. This takes the form of daily transfers from General Treasury offices.

Since 1 September 2005, CADES has had its own account with the Banque de France that is distinct from the dedicated Treasury account. Movements to this account comprise all euro-denominated financial transactions completed by CADES and all CRDS and CSG revenue paid over by ACOSS. Once again, only the Accounting Officer may authorize expenditures.

The balance on the deposit account is transferred to CADES' own account twice weekly.

In addition, CADES has opened accounts with foreign financial institutions in New York, London and Frankfurt.
These are intended to be zero-balance accounts. They record all transactions related to CADES issues in currencies other than the euro and their transformation into euro-denominated structures on the international markets.
Due to management constraints attributable primarily to the time lag between the European, Asian, American and Australian markets, CADES has been dispensed from applying the provision of the Decree of 29 December 1962, which states that only public accounting officers may authorize transactions affecting the financial accounts. Accordingly, the Back Office carries out transactions on CADES' foreign currency accounts.

## FINANCIAL HIGHLIGHTS

**NET DEBT AT REPAYMENT VALUE**

**(in millions of euro) (*)**

| | |
|---|---|
| At 31 December 2010 | **86,299** |
| At 31 December 2009 | **91,660** |
| At 31 December 2008 | **79,861** |

| **(in millions of euro) (*)** | **31 December 2010** | **31 December 2009** | **31 December 2008** |
|---|---|---|---|
| **Net profit** | **5,135** | **5,260** | **2,885** |
| Primarily reflecting the following items: | | | |
| CRDS and CSG net revenue | **8,151** | **8,082** | **5,980** |
| Payments to the French State | **-** | **-** | **-** |
| Payments to social security agencies | **-** | **-** | **-** |
| Interest expenses | **(3,016)** | **(2,822)** | **(3,095)** |

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

## BALANCE SHEET

| At<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand, balances with central banks and post office banks (Note 1) | 1,200.34 | 983.44 | 2,718.64 |
| Treasury bills and other bills eligible for refinancing with central banks (Note 1) | 12,166.95 | 2,284.57 | 678.69 |
| Loans and advances to credit institutions (Note 1) | | | |
| - Repayable on demand | 0.29 | 0.37 | 1.31 |
| - Repayable at maturity | 1,129.48 | 1,686.34 | 1,000.51 |
| Intangible assets (Note 2) | - | - | - |
| Tangible assets (Note 2) | 0.17 | 0.21 | 0.23 |
| Property assets (Note 13.1) | - | - | - |
| Other assets (Note 3) | 49.41 | 260.42 | 357.38 |
| Prepayments and accrued income (Note 4) | 2,665.73 | 1,751.19 | 1,489.99 |
| **Total assets** | **17,212.37** | **6,966.54** | **6,246.75** |
| | | | |
| **LIABILITIES** | | | |
| Amounts owed to credit institutions (Note 5) | | | |
| - Payable on demand | - | - | - |
| - Payable at maturity | - | 151.11 | 1,610.55 |
| Debts evidenced by certificates (Note 6) | | | |
| - Negotiable debt instruments | 8,446.45 | 10,587.56 | 14,936.49 |
| - Bonds and similar instruments | 92,798.48 | 86,366.93 | 67,739.18 |
| - Other debts evidenced by certificates | - | - | - |
| Other liabilities (Note 7) | 2,018.54 | 222.10 | 133.54 |
| Accruals and deferred income (Note 8) | 624.67 | 1,449.30 | 1,891.80 |
| **Sub-total - Debts** | **103,888.14** | **98,777.00** | **86,311.56** |
| Provisions (Note 8.1) | 0.18 | 0.16 | 5.83 |
| Property endowment | 181.22 | 181.22 | 181.22 |
| Profit and loss account brought forward | (91,991.84) | (97,251.86) | (83,136.67) |
| Profit for the period | 5,134.67 | 5,260.02 | 2,884.81 |
| **Sub-total - Reserves** | **(86,675.95)** | **(91,810.62)** | **(80,070.64)** |
| **Total liabilities** | **17,212.37** | **6,966.54** | **6,246.75** |

## PROFIT AND LOSS ACCOUNT

| **Period ended**<br>**(in millions of euro)** | **31 December 2010** | **31 December 2009** | **31 December 2008** |
|---|---|---|---|
| ***Interest receivable and similar income (Note 9)*** | **350.79** | **279.63** | **320.66** |
| - From transactions with credit institutions | 29.51 | 44.70 | 284.51 |
| - From bonds and other fixed income securities | 12.28 | 1.97 | 3.05 |
| - Other interest receivable and similar income | 309.00 | 232.96 | 33.10 |
| ***Interest payable and similar charges (Note 10)*** | **(3,347.19)** | **(3,050.50)** | **(3,403.95)** |
| - On transactions with credit institutions | (11.04) | (46.15) | (189.80) |
| - On bonds and other fixed income securities | (3,336.15) | (3,004.35) | (3,214.15) |
| ***Fees payable (Note 10)*** | **(17.37)** | **(48.41)** | **(9.33)** |
| ***Gains and losses on trading securities (Note 11)*** | **(0.28)** | **(0.30)** | **(0.37)** |
| - Net profit (loss) on foreign exchange transactions | (0.28) | (0.30) | (0.37) |
| ***Gains and losses on investment securities (Note 11.1)*** | **-** | **-** | **-** |
| - Net profit (loss) on investment securities | - | - | - |
| ***Other operating income - banking*** | **-** | **-** | **-** |
| ***Other operating charges - banking*** | **(0.02)** | **(0.02)** | **(0.01)** |
| **NET BANKING INCOME** | **(3,014.07)** | **(2,819.60)** | **(3,093.00)** |
| | | | |
| ***General operating charges*** **(Note 13)** | **(2.50)** | **(2.63)** | **(2.40)** |
| - Staff costs | (0.89) | (0.85) | (0.78) |
| - Other administrative expenses | (1.61) | (1.78) | (1.63) |
| ***Depreciation and provisions - intangible and tangible assets*** | **(0.04)** | **(0.04)** | **(0.03)** |
| ***Other operating income*** | **8,312.03** | **8,253.66** | **6,059.86** |
| - Income related to CRDS and CSG (Notes 12 and 12.1) | 8,312.03 | 8,253.66 | 6,059.67 |
| - Income from property (Note 13.1) | - | - | 0.19 |
| ***Other operating charges*** | **(160.75)** | **(171.37)** | **(79.62)** |
| - Charges related to CRDS and CSG (Notes 12 and 12.1) | (86.83) | (80.78) | (76.26) |
| - Payments to the State (Note 14) | - | - | - |
| - Payments to social security agencies (Note 14) | - | - | - |
| - Provision for doubtful debts relating to CRDS and CSG (Notes 12 and 12.1) | (73.92) | (90.58) | (3.46) |
| - Charges related to property (Note 13.1) | - | (0.01) | 0.10 |
| **GROSS OPERATING PROFIT** | **5,134.67** | **5,260.02** | **2,884.81** |
| **OPERATING PROFIT** | **5,134.67** | **5,260.02** | **2,884.81** |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | **5,134.67** | **5,260.02** | **2,884.81** |
| - Exceptional income (Note 15) | - | - | - |
| **NET PROFIT FOR THE PERIOD** | **5,134.67** | **5,260.02** | **2,884.81** |

## CASH FLOW STATEMENT

| **Cash flow**<br>**(in millions of euro)** | **Period ended** | **31 December 2010** | **31 December 2009** | **31 December 2008** |
|---|---|---|---|---|
| **Net banking income** | | **(3,014)** | **(2,820)** | **(3,093)** |
| Inflation premiums | | (170) | (18) | 271 |
| Provisions for financial instruments | | - | (6) | 6 |
| Amortization of premiums and balancing payments | | (15) | (32) | 16 |
| Accrued interest | | 88 | 152 | (3) |
| ***Net cash from (used in) banking activities*** | ***(A)*** | ***(3,111)*** | ***(2,724)*** | ***(2,803)*** |
| **Net operating income** | | **8,151** | **8,082** | **5,978** |
| (Increase) decrease in accrued income from CRDS and CSG | | 88 | (284) | 15 |
| (Increase) decrease in other accrued income | | (2) | 36 | (5) |
| ***Net cash from (used in) operating activities*** | ***(B)*** | ***8,237*** | ***7,835*** | ***5,988*** |
| ***Net cash from (used in) banking and operating activities*** | ***(C=A+B)*** | ***5,126*** | ***5,111*** | ***3,185*** |
| ***Net cash from (used in) financing activities*** | ***(D)*** | ***4,417*** | ***12,445*** | ***9,508*** |
| ***Debt assumed*** | ***(E)*** | ***-*** | ***(17,000)*** | ***(10,000)*** |
| ***Net cash flow for the year*** | ***(C+D+E)*** | ***9,543*** | ***557*** | ***2,693*** |
| *Cash and cash equivalents at 31 December Y-1* | | *4,955* | *4,398* | *1,711* |
| *Cash and cash equivalents at 31 December Y* | | *14,497* | *4,955* | *4,398* |
| **Net increase (decrease) in cash and cash equivalents** | | ***9,543*** | ***557*** | ***2,687*** |

The cash flow statement takes into account the following items:

A - net cash from (used in) banking activities

This is net banking income (debts plus income from derivatives and cash instruments) less income and expenses with no effect on the cash position (provisions, amortization of issuance and redemption premiums, accrued interest, revaluation of index-linked bonds, etc.).

B - net cash from (used in) operating activities

This is the operating profit or loss (mainly CRDS and CSG income) less income and expenses with no effect on the cash position (accrued income or deferred expenses).

C - net cash from (used in) banking and operating activities

This consists of net cash from (used in) banking and operating activities (C = A + B).

D - net cash from (used in) financing activities

These are the cash flows resulting from debt issuance and debt repayment during the year.

E - social security debt assumed

Social security debt assumed represents the disbursements made during the period by CADES in respect of debt assumed from social security funding organizations.

The net change in cash and cash equivalents reflects the following cash flows:

- net cash from (used in) banking and operating activities (C),
- net cash from (used in) financing activities (D), and
- social security debt assumed (E).

## OFF-BALANCE SHEET COMMITMENTS

| At<br>(in millions of euro) | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| **FINANCING COMMITMENTS** | | | |
| **Commitments received** | | | |
| ***From credit institutions*** | | | |
| - Backup credit lines | 700.00 | 700.00 | 700.00 |
| - Multi-currency credit lines | - | - | - |
| - Other credit lines | - | - | 2,500.00 |
| ***Other*** | | | |
| - Retirement reserve fund (*Fonds de Réserve des Retraites*) | 29,400.00 | - | - |
| **Commitments given** | | | |
| - Payment to the State | - | - | - |
| - Payments to social security funding organizations | 130,000.00 | - | 17,000.00 |

## NOTES TO THE FINANCIAL STATEMENTS

## HIGHLIGHTS OF THE YEAR

### ♦ Social security debts assumed

Under the 2011 Social Security Funding Act (*Loi de Financement de la Sécurité Sociale - LFSS*) 2010-1594 of 20 December 2010, CADES is required to take on the following debts:

- The deficits of 2009 and 2010 and the forecast deficit for 2011 for the health, maternity, incapacity and death insurance branch, the senior citizens, widows and widowers insurance branch and the family insurance branch of the French social security system, up to a maximum of €68 billion, by 31 December 2011 at the latest. The dates and amounts to be paid will be set by decree subsequently.

Decree 2011-20 of 5 January 2011 stipulating the dates and amounts to be paid sets the provisional transfer amount at €65.3 billion.

- The deficits of 2011 to 2018 for the senior citizens, widows and widowers insurance branch of the French social security system, subject to an overall maximum of €62 billion and a yearly maximum of €10 billion. These payments are to be made by 30 June each year as from 2012. The dates and amounts to be paid will be set by decree subsequently.

At 31 December 2010, in accordance with the accounting policies CADES applies, all future deficits to be assumed have been recognized in off-balance sheet items as commitments given, in the amount of €130 billion.

### ♦ New resources allocated to debt coverage

Act 2010-1594 of 20 December 2010 provides for the allocation of the following additional resources to CADES as from 2011:

- A larger share of the supplementary social security contribution (*Contribution Sociale Généralisée - CSG*), which will increase from 0.2% to 0.48%;
- A 1.3% share of the social security contributions mentioned in Articles L.245-14 and L.245-15,

for which the rate is set at 2.2%;

- Every year with effect from 1 January 2011 until 2024, no later than 31 October, the Retirement reserve fund will pay CADES €2.1 billion as a contribution towards the deficits of 2011 to 2018 for the senior citizens, widows and widowers insurance branch of the French social security system. The two institutions concerned will draw up an agreement setting out the timing and terms and conditions governing these payments.

## ♦ Financing transactions

### Issues

CADES borrowed €10.72 billion via the following issues made under the French program:

- 11 new issues (3 in EUR, 5 in USD, 2 in GBP and 1 in AUD) for a total amount of €8.68 billion;
- 3 tap issues (2 in EUR and 1 in GBP) for a total amount of €2.04 billion.

### Redemptions

CADES reimbursed the following for a total amount of €6.91 billion:

- 8 issues made under the UK program for a total of €1.84 billion, including one early redemption;
- 1 issue made under the French program for a total of €0.69 billion;
- 2 issues made under the stand-alone program for a total of €4.23 billion;
- 2 matured private placements for a total of €0.15 billion.

### Pre-hedging swaps

Three pre-hedging swaps maturing on 26 April 2021, with a total nominal value of €500 million and designated as isolated open positions in accordance with the regulations issued by the French Banking and Financial Regulatory Committee (*Comité de la Réglementation Bancaire et Financière - CRBF*) (category a of Regulation 90-15) were entered into on 24 May, 27 May and 3 June 2010 and rescinded on 23 June 2010 following the issue of €2.5 billion of 3.375% bonds maturing on 25 April 2021.

Balances on termination of these swaps for an immaterial amount were recognized in profit and loss according to the relevant accounting policies.

♦ **Credit lines**

Commitments received in 2010 comprise four back-up credit lines totaling €700 million that are cancellable by the counterparty at 30 days' notice.

## ACCOUNTING POLICIES AND METHODS

### 1. Basis of valuation and presentation

The accounting policies adopted by CADES meet two requirements.

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

The presentation of the financial statements complies with Regulation 91-01 of 16 January 1991 issued by the French Banking and Financial Regulatory Committee (*Comité de la Réglementation Bancaire et Financière - CRBF*) relating to the preparation and publication of the annual individual accounts of credit institutions, as modified by Regulation 2000-03 of 4 July 2000 issued by the French Accounting Standards Committee (*Comité de la Réglementation Comptable - CRC*), itself modified by Regulations 2005-04 of 3 November 2005 and 2007-05 of 14 December 2007. With respect to the last regulation, the French National Accounting Board (*Conseil National de la Comptabilité - CNC*) decided that CADES could continue to use the adaptations set forth in Opinion 99-04 relating to the presentation of those transactions specific to CADES. Accordingly, in its profit and loss account, CADES records operating income and expenses, which are mainly composed of the revenue drawn from the CRDS and CSG and from property transactions, and payments to the State and social security funding organizations.

These accounts are then aggregated to comply with the chart of accounts applicable to administrative public undertakings in accordance with the requirements of Instruction M9-1, before being submitted to the Government Audit Office.

### 2. Specific characteristics of CADES

CADES has been tasked with paying down the debt transferred to it. The profit or loss therefore measures its capacity to reduce its own debt, and corresponds to the resources allocated to it less the financial costs relating to its debt with third parties.

The profit and loss account should be interpreted in light of the specific mission entrusted to CADES, the sole purpose of which is to extinguish a debt over its scheduled term.

## 3. Changes in accounting policies and methods compared with previous years

No changes were made to accounting principles and methods in 2010.

## 4. Debts assumed from social security funding organizations

The payments CADES makes in respect of debts assumed from social security funding organizations in accordance with the social security deficit funding acts are recognized against the profit and loss account brought forward.

Debts assumed in accordance with legal stipulations but for which payments have not yet been made to the organizations are recorded as off-balance sheet commitments (see Note 18).

## 5. CADES' resources

### 5.1 Contribution to the 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 24 January 1996 was explicitly created to provide resources to CADES. Article 6 of said Ordinance states that "the proceeds of the contributions created in respect of Chapter 2 of said Ordinance on repayment of the social security debt shall be allocated to Caisse d'Amortissement de la Dette Sociale".

- A broad-based tax

The tax is levied on multiple sources of income. One can distinguish:

- On the one hand, employment income and employment income replacements: salaried income, redundancy payments and retirement indemnities (under certain conditions), retirement and disability pensions, sickness and maternity benefits, housing benefits, family allowances, and child-minding benefits, etc., and
- On the other hand, revenue from property, from investments, from the sale of precious metals and gems, and from gaming.

Contributions assessed on employment income and employment income replacements are paid over

daily by ACOSS to CADES as and when they are collected by the central agency.

Contributions assessed on other revenues are centralized by the State's financial agencies (tax collection offices, treasuries and customs and excise agencies) before being paid over to CADES.

- Collection costs borne by CADES

Article 8 of the Ordinance of 24 January 1996 stipulates that CADES shall bear assessment and collection costs. These costs 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% withholding from the contribution paid over to CADES.

CRDS contributions levied on revenue from property entered in the tax assessment register by the Treasury offices are paid over to CADES on the basis of register entries and not the amounts actually collected. In return, a 4.1% withholding is applied to the sums paid over to CADES to cover assessment and collection costs (0.5%) and the cost of tax reductions and bad debts (3.6%), as provided for by Article 1641 of France's General Tax Code (*Code Général des Impôts*).

Amounts collected by CADES in respect of the CRDS are reported under "Other operating income" in the profit and loss account. Assessment and collection costs are recorded under "Other operating charges".

- Accrual basis accounting

CADES applies the accruals principle in accordance with accounting standards applicable to credit institutions and Articles L114-5 and D-114-4-4 of the Social Security Code establishing the principle whereby social security agencies shall maintain accounting records on a receivable-payable basis.

Accordingly, CRDS contributions paid to collecting agencies are included in the accounts for the period regardless of the date on which these amounts were actually collected. So as to be able to recognize this income at the balance sheet date, CADES accrues this income on the basis of a notification provided by the collecting agencies indicating amounts assessed for the period not collected at the balance sheet date and CRDS contributions not yet collected by ACOSS. For the six-monthly closing at 30 June, as CADES receives no notification from the collecting agencies it estimates accrued income based on payments received in July.

Provisions against outstanding CRDS contributions are notified to CADES by ACOSS. These provisions are calculated on a statistical basis applying an annual rate determined by reference to an ageing analysis of the receivables. They are deducted from gross amounts receivable as reported in the balance sheet. As

CADES receives no notification from ACOSS for the position as at 30 June, it determines provisions against outstanding contributions on the same basis as at the previous year end.

Regarding the collection of the CRDS contributions, it will be recalled that at no time does CADES act as primary collector; all the resources to which it is entitled are remitted by third parties, first and foremost ACOSS, followed by the French Treasury.

CADES's responsibility is confined to verifying that the sums transferred agree to the accounting vouchers raised. The primary collecting agencies are responsible for transferring the funds, for verifying the tax base, for adjusting tax bases when applicable and for recovering past dues, in return for which these agencies receive a remuneration equivalent to 0.5% of the sums collected.

Accordingly, CADES's responsibility at revenue level is limited to substantive verifications of the accounting vouchers produced by the collecting agencies.

### 5.2 Supplementary social security contribution

Law No. 2008-1330 on the funding of the social security system for 2009 extended the mission of CADES by entrusting to it a further €27 billion of debt in respect of the health insurance deficit (€14.1 billion), old age pension deficit (€8.8 billion) and old age solidarity fund (€4 billion).

In accordance with the Organic Law of 2 August 2005, the French Parliament voted an increase in resources so as not to extend the life of CADES. This new resource corresponds to 0.2 point of the supplementary social security contribution (*Contribution Sociale Généralisée - CSG*).

This is a broad-based tax levied on employment income and employment income replacements as well as revenue from property, investments and gaming.

The difference in tax base between the CRDS and GSG is that in the latter case it does not include revenue from the sale of precious metals and gems.

The payment circuits and methods of accounting for the CSG are the same as for the CRDS.

### 5.3 Resources from the Retirement reserve fund

Under the 2011 Social Security Funding Act (*Loi de Financement de la Sécurité Sociale - LFSS*) 2010-1594 of 20 December 2010, the Retirement reserve fund (*Fonds de réserve pour les retraites - FRR*) is

required to pay CADES a total of €29.4 billion in yearly installments of €2.1 billion no later than 31 October each year, with effect from 1 January 2011 until 2024. The two institutions concerned will draw up an agreement setting out the timing and terms and conditions governing these payments.

The annual income of €2.1 billion to be paid by the FRR as from 2011 is recognized under income for the period.

FRR's commitment to pay amounts for subsequent years is recognized in off-balance sheet items under Other commitments received – Retirement reserve fund.

## 6. Private rental property

CADES has sold all the property transferred on 1 January 2000 to CADES in application of Article 9 of Ordinance No. 96-50 of 24 January 1996 and recorded under "Property endowment" as a component of reserves.

Acting on behalf of CADES, CNAVTS managed the residual rights and obligations related to this property until the expiration of the agreement between the two parties on 31 December 2006. Signed in December 1999, this agreement empowered CNAVTS to do all that was necessary in connection with the administration of the properties.

Since 1 January 2007, disputes and claims have been managed internally by CADES, to which end it has entered into an agreement with the lawyer responsible for handling these cases.

CADES' Accounting Officer records expenses and revenue on the basis of the supporting documents submitted by the Authorizing Officer.

## 7. Transactions denominated in foreign currencies

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

- Foreign currency transactions involving balance sheet and off-balance sheet items are measured in euro at the rate of exchange ruling on the balance sheet date.

  The rates used at 31 December 2010, which correspond to the reference rates communicated by the European Central Bank, are indicated in the table below:

| | | | |
|---|---|---|---|
| USD: | 1.3362 | JPY: | 108.65 |
| GBP: | 0.86075 | HKD: | 10.3856 |
| CHF: | 1.2504 | NZD: | 1.7200 |
| AUD: | 1.3136 | TRY: | 2.0694 |
| ZAR: | 8.8625 | CAD: | 1.3322 |
| MXN: | 16.5475 | SEK | 8.9655 |

- Foreign currency income and charges are translated into euro at the exchange rate ruling on the date when they were recognized in the profit and loss account.

- Realized and unrealized foreign exchange gains and losses are recognized in the profit and loss account as operating income from banking transactions or operating charges on banking transactions.

**8. Repurchase agreements with securities delivered**

Top-grade securities are acquired by CADES under repurchase agreements for the purpose of investing available cash balances.

Securities received under these agreements are reported under loans and advances to credit institutions.

**9. Tangible and intangible fixed assets**

Fixed assets are accounted for under the historical cost convention. Tangible fixed assets are depreciated and intangible fixed assets amortized over their estimated useful life.

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

Intangible fixed assets include software.

**10. Bonds**

Bonds issued by CADES are reported as a liability in the balance sheet at their nominal value (if

redeemed at par) plus accrued interest. Foreign currency bonds are translated into euro at the exchange rate prevailing on the balance sheet date.

Bonds indexed to inflation (French consumer price index excluding tobacco for all households in Metropolitan France) are measured by reference to a predefined inflation benchmark on the balance sheet date, resulting in the recognition of a redemption premium that is reported as a liability.

Inflation benchmarks:

| | |
|---|---|
| Consumer price index on 31 December 2010: | 120.02516 |
| Cadesi 2011 index: | 1.14035 |
| Cadesi 2013 index: | 1.19817 |
| Cadesi 2017 index: | 1.05836 |
| Cadesi 2019 index: | 1.09803 |

When bonds are issued at a premium, this premium is accounted for as deferred charges and is therefore reported under prepayments and accrued income in the balance sheet. These charges are recognized to the profit and loss account over the life of the bonds under banking operating charges.

When bonds are issued at a discount, this discount is accounted for as deferred income. This income is recognized to the profit and loss account over the life of the bonds under banking operating income.

All costs relating to bond issues are charged to the profit and loss account on the date of issue and reported under fees payable.

## 11. Interest rate and currency swaps

Transactions involving forward financial instruments, entered into for the purpose of hedging interest rate and currency exposure, are recognized in accordance with the regulations issued by the French Banking and Financial Regulatory Committee. Commitments in respect of these transactions are reported as off-balance sheet commitments at the contract's nominal value. Accounting principles applied differ according to the nature of these instruments and management intention at inception.

Transactions consist mainly of interest rate swaps and currency swaps entered into for hedging purposes. Interest rate swaps are entered into in compliance with the risk management policy defined by the Board of Directors. Currency swaps are entered into only for the purpose of hedging CADES' foreign exchange

exposures.

Income and charges arising on forward financial instruments entered into for the purpose of hedging or managing the global interest rate exposure are recognized to profit or loss *pro rata temporis*.

Gains and losses on hedging designed to reduce the risk resulting from a particular asset or liability are taken to profit or loss and included under interest receivable and similar income or interest payable and similar charges to match income or charges recognized in respect of the hedged item.

As regards balancing cash payments arising from swaps entered into to hedge a debt instrument on inception, the portion covering issuance costs in respect of the underlying instrument is taken to profit and loss when the cash payment is recognized. This accounting method fairly reflects the asset value of issues transformed by entering into swaps involving cash payments and results in the amount equivalent to the issuance costs being recognized to profit and loss *pro rata temporis*.

## 12. Interest rate futures

Firm macro hedging transactions on organized markets (German Bund and Bobl) are recognized in accordance with the regulations issued by the French Banking and Financial Regulatory Committee. Sales of financial futures (Euro Bund and Euro Bobl futures) are recognized as off-balance sheet items for their nominal value.

Margin calls are recognized directly to profit or loss. Initial margins are accounted for as deposits paid and reported as assets in the balance sheet. Finally, brokerage fees - which represent trading fees on the sale or purchase of Bunds or Bobls - are recognized directly to profit or loss.

## 13. Provisions

No general provisions for liabilities and charges are recognized by CADES. When appropriate, provisions in respect of identified risks are set aside in accordance with applicable accounting principles.

## 14. Taxation

CADES is not assessed to business taxes (corporation tax, value added tax and local business tax) or to apprenticeship tax. The only tax it pays is the payroll tax.

Note that profits on the sale of property transferred by the social security agencies did not give rise to the

payment of corporation tax.

## 15. Counterparty risk

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

For both types of transactions, CADES has signed market agreements modeled on the master agreement drawn up by the French Banking Association (*Fédération Bancaire Française - FBF*) providing for daily margin calls (for investment transactions) and weekly margin calls (for off-balance sheet transactions).

1. Investment transactions

CADES invests cash balances mainly in securities delivered under repurchase agreements but may also buy government securities outright. In exchange for the loan extended to a counterparty, CADES receives full ownership of a government security (OAT, BTAN, BTF) or government-guaranteed security over the term of the repurchase agreement. Most repurchase agreements are negotiated with French Treasury bond dealers (*Spécialiste en Valeurs du Trésor - SVT*) or with counterparties with a double-A rating.

Margins calls are carried out daily by CADES to provide additional protection against significant fluctuations in market prices for the securities received as collateral.

2. Off-balance sheet transactions

To manage its interest rate risk and eliminate the currency risk, CADES enters into transactions in the derivatives markets involving instruments such as interest rate swaps, currency swaps and asset swaps. By using triggers set by reference to each counterparty's rating and by carrying out weekly margin calls, CADES significantly reduces the residual risk of default on these instruments.

## 16. Transactions involving investment securities

The portfolio of investment securities is valued in accordance with Regulation 90-01 (as amended) issued by the French Banking and Financial Regulatory Committee. This portfolio, which consists of fixed income government securities, is reported in the balance sheet under treasury bills and other bills eligible for refinancing with central banks.

Securities are reported in the balance sheet at their acquisition cost. Interest income is reported under interest receivable and similar income from bonds and other fixed income securities.

Unrealized losses give rise to a provision for impairment determined by reference to the most recent quoted price. These provisions are determined individually.

Provisions for impairment set aside and reversed and gains and losses on the sale of investment securities are reported in the profit and loss account under gains and losses on investment securities.

**NOTES**

## BALANCE SHEET

*At 31 December 2010, the balance sheet showed total assets of €17.21 billion for total debt of €103.89 billion resulting in negative reserves of €86.68 billion.*

***ASSETS***

***Note 1: Treasury and interbank transactions***

| At (in millions of euro) | | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|---|
| **CENTRAL BANKS AND POST OFFICE BANKS** | | **1,200.34** | **983.44** | **2,718.64** |
| Central banks | | 1,200.34 | 983.44 | 2,718.64 |
| **TREASURY BILLS AND OTHER BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS** | | **12,166.95** | **2,284.57** | **678.69** |
| Government securities with a maturity of less than 3 months | | 12,157.00 | 2,284.10 | 677.84 |
| Accrued interest | | 9.95 | 0.47 | 0.85 |
| **LOANS AND ADVANCES TO CREDIT INSTITUTIONS** | | **1,129.77** | **1,686.71** | **1,001.82** |
| **Repayable on demand** | | **0.29** | **0.37** | **1.31** |
| Debit balances on ordinary accounts | | 0.29 | 0.37 | 1.31 |
| Securities received under open repurchase agreements | | - | - | - |
| Accrued interest | | - | - | - |
| **Repayable at maturity** | | **1,129.48** | **1,686.34** | **1,000.51** |
| Securities received under term repurchase agreements with a maturity of less than 3 months | | 1,129.34 | 1,686.16 | 1,000.00 |
| Of which: | Treasury bills | - | 442.67 | - |
| | Bonds | 403.41 | 1,163.74 | 1,000.00 |
| | Own securities | 725.93 | 79.75 | - |
| Accrued interest | | 0.14 | 0.18 | 0.51 |
| **Total** | | **14,497.06** | **4,954.72** | **4,399.15** |

Balances with central banks correspond to the euro-denominated account opened by CADES at Banque

de France.

The Government securities line consists of treasury bills issued by ACOSS with a maturity of less than one month at 31 December 2010.

***Note 2: Intangible and tangible fixed assets***

| *At (in millions of euro)* | *Gross value at 1 January 2010* | *Increase* | *Decrease* | *Gross value at 31 December 2010* | *Amortization and depreciation* | *31 December 2010 Net book value* | *31 December 2009 Net book value* | *31 December 2008 Net book value* |
|---|---|---|---|---|---|---|---|---|
| ***Intangible assets*** | ***0.22*** | ***-*** | ***-*** | ***0.22*** | ***(0.22)*** | ***-*** | ***-*** | ***-*** |
| Software | 0.22 | - | - | 0.22 | (0.22) | - | - | - |
| ***Tangible assets*** | ***0.69*** | ***-*** | ***-*** | ***0.69*** | ***(0.52)*** | ***0.17*** | ***0.21*** | ***0.23*** |
| Sundry equipment | 0.69 | - | - | 0.69 | (0.52) | 0.17 | 0.21 | 0.23 |
| ***Total*** | ***0.91*** | ***-*** | ***-*** | ***0.91*** | ***(0.74)*** | ***0.17*** | ***0.21*** | ***0.23*** |

*Intangible and tangible assets reflect the value of the software and equipment acquired by CADES,*

*net of related amortization and depreciation.*

***Note 3: Other assets***

| At<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **SUNDRY DEBTORS** | **49.41** | **260.42** | **357.38** |
| Deposits paid by way of initial margins | - | 213.22 | 310.46 |
| - *Deposits* | - | 212.99 | 310.38 |
| - *Accrued interest* | - | 0.23 | 0.08 |
| Outstanding CRDS and CSG contributions to be collected by ACOSS | 49.41 | 47.20 | 46.92 |
| - *Gross amounts receivable* | 392.65 | 316.52 | 226.08 |
| - *Provisions* | (343.24) | (269.32) | (179.16) |
| Other debtors in respect of financial transactions | - | - | - |
| Other debtors in respect of operating charges | - | - | - |
| Other sundry debtors - CNAV | - | - | - |
| - *Gross amounts receivable* | 1.61 | 1.61 | 1.62 |
| - *Provisions* | (1.61) | (1.61) | (1.62) |
| **Total** | **49.41** | **260.42** | **357.38** |

Other assets include:

- Deposits paid by way of initial margins in connection with forward contracts entered into to hedge counterparty risk amounting to €1,324.81 million.
- Outstanding CRDS and GSG contributions to be collected by ACOSS amounting to €49.41 million. Provisions totaling €343.24 million have been deducted from the gross amounts receivable of €392.65 million.
- A receivable of €1.61 million, consisting of damages amounting to €1.47 million claimed from a buyer who reneged on a commitment to purchase a group of buildings and sundry debtor balances totaling €0.14 million due from tenants and buyers for which legal proceedings are being managed by CNAVTS. These amounts were provisioned in full at 31 December 2010.

Movements in provisions against outstanding CRDS and CSG contributions to be collected by ACOSS and in respect of sundry debtors are detailed in the table below:

| At<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **Provisions brought forward** | **270.93** | **180.77** | **178.37** |
| Provisions set aside - property | - | - | - |
| Provisions set aside - CRDS and CSG | 73.92 | 90.58 | 3.45 |
| Provisions reversed - property | - | - | (0.48) |
| Provisions reversed - CRDS and CSG | - | (0.42) | (0.57) |
| **Provisions carried forward** | **344.85** | **270.93** | **180.77** |

**Note 4: Prepayments and accrued income**

| At<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **ACCRUED INCOME** | **1,315.90** | **1,384.73** | **1,189.10** |
| On forward interest rate instruments | 225.09 | 221.39 | 330.78 |
| On forward currency instruments | 320.30 | 305.04 | 283.78 |
| On CRDS and CSG revenues | 770.51 | 858.30 | 574.54 |
| On property sales | - | - | - |
| Other accrued income | - | - | - |
| **CONTINGENT LOSSES AND LOSSES TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS** | **13.34** | **19.22** | **0.04** |
| **DEFERRED CHARGES** | **237.74** | **268.51** | **189.62** |
| Issuance premiums on bonds and EMTN | 237.74 | 268.51 | 189.62 |
| Other deferred charges | - | - | - |
| **PREPAYMENTS** | **12.01** | **8.16** | **85.48** |
| Prepaid administrative expenses | 0.01 | 0.05 | 0.01 |
| Prepaid interest on negotiable debt instruments | 12.00 | 8.11 | 85.47 |
| Other prepayments | - | - | - |
| **OTHER** | **1,086.74** | **70.57** | **25.75** |
| Currency adjustment accounts | 1,086.54 | 70.40 | 15.03 |
| Property rental adjustment account | - | - | - |
| Sundry | 0.20 | 0.17 | 10.72 |
| **Total** | **2,665.73** | **1,751.19** | **1,489.99** |

Prepayments and accrued income consist of transactions affecting the profit and loss account independently of the date on which the corresponding income is paid or collected. They include:

- accrued income relating to CRDS and CSG contributions for €770.51 million and to financial instruments amounting to €225.09 million for interest rate instruments and €320.30 million for currency instruments.
- issuance premiums on bonds and EMTN amounting to €237.74 million to be recognized to profit and loss over time.
- prepayments amounting to €12.01 million, which consist mainly of prepaid interest on the issue of negotiable debt instruments.
- currency adjustment accounts amounting to €1,086.54 million, being technical accounts used to recognize to profit and loss adjustments arising on the measurement of off-balance sheet commitments. The increase in these accounts is attributable to the euro's significant depreciation against other currencies.

## *LIABILITIES*

Liabilities draw a distinction between the reserves and the other liabilities of CADES.

Reserves consist of the profit and loss account brought forward, the profit or loss for the period and the property endowment. At 31 December 2010, CADES had negative reserves of €86,675.95 million. These negative reserves correspond to the debt transferred to CADES amounting to €34,148.5 million, €47,310 million pursuant to the Law of 13 August 2004 and €27,000 million pursuant to the Law of 17 December 2008, less amounts that have been credited to reserves and which are composed of the accumulated profits generated by CADES since 1996 amounting to €21,536.63 million, the property endowment on 1 January 2000 amounting to €181.22 million, and the payment received from ACOSS amounting to €64.7 million by way of an adjustment of the deficits assumed by CADES from 1999 to 2006.

Liabilities, which amounted to €103,888.14 million at 31 December 2010, consist mainly of debts evidenced by certificates totaling €101,244.93 million and accruals and deferred income totaling €2,643.21 million.

### ***Note 5: Treasury and interbank transactions***

| **At** | **31 December2010** | | | | **31 December 2010** | **31 December 2009** | **31 December 2008** |
|---|---|---|---|---|---|---|---|
| **(in millions of euro)** | **Up to 3 months** | **Over 3 months and up to 1 year** | **Over 1 year and up to 5 years** | **Over 5 years** | **Total** | **Total** | **Total** |
| **AMOUNTS OWED TO CENTRAL BANKS** | | | | | | | |
| **Amounts owed to credit institutions** | **-** | **-** | **-** | **-** | **-** | **151.11** | **1,610.55** |
| **Repayable on demand** | - | - | - | - | - | - | - |
| Credit balances on ordinary accounts | - | - | - | - | - | - | - |
| **Repayable at maturity** | **-** | **-** | **-** | **-** | **-** | **151.11** | **1,610.55** |
| Securities given under repurchase agreements | - | - | - | - | - | - | - |
| Accounts and deposits | - | - | - | - | - | 151.11 | 1,531.50 |
| Of which: Euro | - | - | - | - | - | 50.00 | 1,430.49 |
| Other currencies | - | - | - | - | - | 101.11 | 101.01 |
| Accrued interest | - | - | - | - | - | - | 79.05 |
| **Total** | **-** | **-** | **-** | **-** | **-** | **151.11** | **1,610.55** |

### ***Note 6: Debts evidenced by certificates***

| At 31 December 2010<br>(in millions of euro) | Up to 3 months | Over 3 months and up to 1 year | Over 1 year and up to 5 years | Over 5 years | Total | 31 December 2009 Total | 31 December 2008 Total |
|---|---|---|---|---|---|---|---|
| **NEGOTIABLE DEBT INSTRUMENTS** | **4,387.00** | **4,048.45** | **11.00** | **-** | **8,446.45** | **10,587.56** | **14,936.49** |
| Treasury bills denominated in euro | 10.00 | - | - | - | 10.00 | 100.00 | 603.00 |
| Treasury bills denominated in other currencies | - | - | - | - | - | 348.98 | - |
| MTN denominated in euro | - | - | 11.00 | - | 11.00 | 11.00 | 11.00 |
| Commercial paper denominated in euro | - | - | - | - | - | 1,279.30 | 7,196.50 |
| Commercial paper denominated in other currencies | 4,377.00 | 4,048.45 | - | - | 8,425.45 | 8,848.28 | 7,125.99 |
| Other negotiable debt instruments denominated in foreign currencies | - | - | - | - | - | - | - |
| Accrued interest | - | - | - | - | - | - | - |
| **BONDS** | **3,559.02** | **8,824.84** | **42,028.33** | **38,386.29** | **92,798.48** | **86,366.93** | **67,739.18** |
| Bonds and EMTN denominated in euro | - | 3,059.89 | 26,764.33 | 35,831.99 | 65,656.21 | 64,764.41 | 52,648.96 |
| Bonds and EMTN denominated in other currencies | 2,432.27 | 5,522.58 | 15,264.00 | 2,554.30 | 25,773.15 | 20,346.85 | 14,052.89 |
| Accrued interest | 1,126.75 | 242.37 | - | - | 1,369.12 | 1,255.67 | 1,037.33 |
| **Total** | **7,946.02** | **12,873.29** | **42,039.33** | **38,386.29** | **101,244.93** | **96,954.49** | **82,675.67** |

**Debts evidenced by certificates are analyzed below:**

They comprise negotiable debt instruments totaling €8,446.45 million, and bonds and similar instruments totaling €92,798.48 million.

Bonds and similar instruments are issued under:

- a French issuance program for which the ceiling was raised to €75 billion in the first half of 2010;
- a UK issuance program for which the ceiling was €25 billion at 30 June 2010. This ceiling was raised to €65 billion in July 2010;
- an Australian issuance program for which the ceiling was AUD6 billion at 31 December 2010;
- a stand-alone program consisting of private placements and MTN issues.

All in all, debts evidenced by certificates maturing within one year totaled €20,819.31 million while those evidenced by certificates maturing in more than five years totaled €38,386.29 million, compared with €18,384.14 million and €39,056.97 million respectively at 31 December 2009. As at 31 December 2010, €42,039.33 million were due to mature between one and five years (€39,513.38 million at 31 December 2009).

The tables below detail borrowings by program.

In millions of euro

| Programme | Issue date | Maturity date | Nominal value (issue currency) | Currency | Nominal interest rate | ISIN code |
|---|---|---|---|---|---|---|
| **Australia** | 28/07/2006 | 28/07/2011 | 500 | AUD | 6.25% | AU300CADE012 |
| | 10/12/2009 | 10/12/2012 | 500 | AUD | BBSW+0.4% | AU3FN0009650 |
| | 28/02/2008 | 28/02/2013 | 1,000 | AUD | 7.50% | AU3CB0058196 |
| **Stand-alone and MTN** | 20/06/2002 | 25/07/2011 | 2,555 | EUR | CADESI 3.4% | FR0000489734 |
| | 27/03/1998 | 25/10/2012 | 3,000 | EUR | 5.25% | FR0000571366 |
| | 01/04/1999 | 25/07/2013 | 3,100 | EUR | CADESI 3.15% | FR0000492308 |
| | 11/10/2004 | 25/10/2014 | 4,000 | EUR | 4.00% | FR0010120410 |
| | 09/02/2005 | 25/04/2015 | 3,000 | EUR | 3.625% | FR0010163329 |
| | 09/12/2004 | 25/07/2019 | 2,400 | EUR | CADESI 1.85% | FR0010137554 |
| | 21/12/2004 | 25/10/2019 | 5,000 | EUR | 4.00% | FR0010143743 |
| | 27/05/2005 | 25/10/2020 | 4,000 | EUR | 3.75% | FR0010198036 |
| | 19/07/2004 | 30/12/2013 | 11 | EUR | 3 month Euribor – 0.17% | FR0107096036 |
| **UK** | 06/09/2006 | 06/09/2011 | 19 | USD | 2.55% | XS0266174050 |
| | 18/09/2003 | 19/09/2011 | 17 | EUR | Formula-based variable rate | XS0176319696 |
| | 14/10/2008 | 14/10/2011 | 300 | USD | 3 month USD Libor + 0.01% | XS0392950670 |
| | 17/10/2008 | 17/10/2011 | 200 | USD | 3.70% | XS0391762548 |
| | 22/11/2004 | 22/11/2011 | 100 | USD | 4.13% | XS0205620056 |
| | 09/12/2004 | 09/12/2011 | 1,000 | USD | 4.125% | XS0206819269 |
| | 27/01/2009 | 27/01/2012 | 200 | USD | 1.97% | XS0410258916 |
| | 13/04/2004 | 13/04/2012 | 100 | USD | 3.72% | XS01899224003 |
| | 16/04/2004 | 16/04/2012 | 100 | USD | 3.80% | XS0190054618 |
| | 23/12/2002 | 20/12/2012 | 26 | USD | 0.50% | XS0159498640 |
| | 06/08/2007 | 06/03/2013 | 50 | EUR | 4.442% | XS0314647149 |
| | 25/11/2008 | 25/10/2013 | 200 | USD | 3.40% | XS0400917349 |
| | 15/12/2004 | 16/12/2013 | 100 | USD | 4.51% | XS0207591271 |
| | 15/12/2008 | 16/12/2013 | 250 | USD | 2.66% | XS040503800 |
| | 30/06/2005 | 30/06/2015 | 25 | AUD | 5.64% | XS0222727058 |
| | 27/06/2007 | 27/06/2020 | 10 | EUR | Formula-based variable rate | XS0306775528 |
| | 27/06/2007 | 27/12/2021 | 20 | EUR | Formula-based variable rate | XS0307053271 |

In millions of euro

| Programme | Issue date | Maturity date | Nominal value (issue currency) | Currency | Nominal interest rate | ISIN code |
|---|---|---|---|---|---|---|
| France | 11/02/2009 | 14/02/2011 | 1,250 | USD | 1.875% | FR0010722017 |
| | 21/02/2008 | 21/02/2011 | 2,000 | USD | 2.625% | FR0010585992 |
| | 09/04/2009 | 14/04/2011 | 2,250 | USD | 1.75% | FR0010746313 |
| | 23/06/2008 | 15/07/2011 | 2,000 | USD | 4% | FR0010634410 |
| | 25/07/2006 | 01/08/2011 | 1,000 | USD | 5.50% | FR0010348094 |
| | 02/08/2006 | 02/08/2011 | 135 | EUR | 4.07% | FR0010359695 |
| | 29/01/2009 | 25/04/2012 | 3,500 | EUR | 2.625% | FR0010718338 |
| | 22/06/2009 | 22/06/2012 | 2,000 | HKD | 3 month Hibor + 0.05% | FR0010772442 |
| | 23/06/2009 | 25/06/2012 | 1,000 | HKD | 3 month Hibor + 0.05% | FR0010772459 |
| | 06/07/2009 | 06/07/2012 | 1,000 | USD | 2.25% | FR0010776674 |
| | 17/07/2007 | 17/07/2012 | 1,000 | USD | 5.375% | FR0010500843 |
| | 25/02/2009 | 25/07/2012 | 200 | CHF | 1.50% | CH0012600398 |
| | 27/10/2009 | 26/10/2012 | 700 | USD | 3 month USD Libor | FR0010816264 |
| | 27/11/2009 | 27/11/2012 | 1,000 | USD | 1.625% | FR0010827246 |
| | 23/03/2006 | 15/01/2013 | 1,000 | USD | 5% | FR0010306340 |
| | 21/01/2010 | 21/03/2013 | 500 | EUR | 2.125% | FR0010844563 |
| | 04/11/2005 | 25/04/2013 | 3,000 | EUR | 3.25% | FR0010249763 |
| | 08/04/2008 | 15/07/2013 | 1,000 | USD | 3.25% | FR0010606442 |
| | 28/07/2010 | 29/07/2013 | 2,000 | USD | 1.375% | FR0010925446 |
| | 04/09/2008 | 04/09/2013 | 3,000 | EUR | 4.500% | FR0010660100 |
| | 15/10/2010 | 15/10/2013 | 1,500 | USD | 0.875% | FR0010950675 |
| | 12/03/2009 | 12/03/2014 | 12,000 | JPY | 3 month JPY Libor + 0.45% | FR0010734327 |
| | 08/04/2009 | 08/04/2014 | 34,000 | JPY | 3 month JPY Libor + 0.55% | FR0010745299 |
| | 01/07/2009 | 01/07/2014 | 1,000 | USD | 3.50% | FR0010775239 |
| | 02/07/2009 | 02/07/2014 | 1,200 | USD | 3 month USD Libor + 0.4% | FR0010776054 |
| | 18/06/2009 | 08/09/2014 | 200 | GBP | 3.750% | FR0010770511 |
| | 22/10/2009 | 22/10/2014 | 1,250 | USD | 2.875% | FR0010815332 |
| | 08/12/2009 | 15/01/2015 | 3,000 | EUR | 2.625% | FR0010831669 |
| | 26/01/2010 | 26/01/2015 | 95 | GBP | 3 month GBP Libor + 0.02% | FR0010850156 |
| | 25/02/2009 | 25/02/2015 | 150 | CHF | 2.125% | CH0012601446 |
| | 02/03/2010 | 02/03/2015 | 1,000 | USD | 2.875% | FR0010862581 |
| | 22/04/2010 | 22/04/2015 | 156 | AUD | BBSW + 0.28% | FR0010889725 |
| | 15/09/2010 | 15/09/2015 | 1,500 | USD | 1.875% | FR0010941732 |
| | 16/09/2010 | 07/12/2015 | 500 | GBP | 2.250% | FR0010942086 |
| | 08/04/2009 | 08/04/2016 | 25,000 | JPY | 3 month JPY Libor + 0.65% | FR0010745307 |
| | 08/03/2006 | 25/04/2016 | 4,500 | EUR | 3.625% | FR0010301747 |
| | 02/11/2006 | 02/11/2016 | 1,250 | USD | 5.25% | FR0010394452 |
| | 14/12/2009 | 14/12/2016 | 150 | USD | 3 month USD Libor + 55bp | FR0010831891 |
| | 20/03/2007 | 20/03/2017 | 450 | MXN | 7.93% | FR0010449355 |
| | 12/04/2007 | 25/04/2017 | 3,600 | EUR | 4.125% | FR0010456434 |
| | 28/07/2006 | 25/07/2017 | 2,000 | EUR | CADESI 1.85% | FR0010359679 |
| | 07/03/2008 | 20/12/2017 | 35 | GBP | 3 month GBP Libor - 0.3705% | FR0010594366 |
| | 26/10/2006 | 26/10/2018 | 400 | CAD | 4.45% | FR0010386110 |
| | 10/06/2009 | 25/04/2020 | 4,250 | EUR | 4.250% | FR0010767566 |
| | 02/07/2010 | 02/07/2020 | 200 | EUR | 3 month Euribor + 0.23% | FR0010917534 |
| | 25/10/2004 | 25/07/2020 | 1,000 | EUR | Max. [0;((1+TEC100-1%)^0.25)-1] | FR0010120436 |
| | 26/10/2010 | 26/10/2020 | 1,000 | USD | 3.00% | FR0010956565 |
| | 21/04/2009 | 21/04/2021 | 200 | CHF | 3.00% | CH0100525382 |
| | 29/06/2010 | 25/04/2021 | 4,250 | EUR | 3.375% | FR0010915660 |
| | 25/07/2006 | 25/10/2021 | 4,250 | EUR | 4.375% | FR0010347989 |

***Note 6.1: Analysis of transactions in euro and foreign currencies before and after hedging***

This note analyzes the effect of hedging transactions on the initial debt and breaks down interest rates before and after hedging. It provides both accounting and financial information related to the value and hedging of instruments at maturity.

| (in millions of euro) | Initial debt | | Hedging transactions | | Final debt | |
|---|---|---|---|---|---|---|
| | **Foreign currencies** | **Euro** | **Foreign currencies** | **Euro** | **Foreign currencies** | **Euro** |
| **Euro-denominated debt** | | **65,677** | | **33,138** | | **98,815** |
| **Foreign currency-denominated debt** | | **Value in euro at 31 December 2010** | | **Value in euro at 31 December 2010** | | |
| CHF | 550 | 440 | (550) | (440) | - | - |
| GBP | 869 | 1,010 | (869) | (1,010) | - | - |
| JPY | 71,000 | 653 | (71,000) | (653) | - | - |
| USD | 39,710 | 29,719 | (39,710) | (29,719) | - | - |
| HKD | 3,000 | 289 | (3,000) | (289) | - | - |
| SEK | 500 | 56 | (500) | (56) | - | - |
| AUD | 2,205 | 1,679 | (2,205) | (1,679) | - | - |
| NZD | - | - | - | - | - | - |
| ZAR | - | - | - | - | - | - |
| CAD | 435 | 327 | (435) | (327) | - | - |
| MXN | 450 | 27 | (450) | (27) | - | - |
| **Sub-total foreign currencies** | | **34,199** | | **(34,199)** | | **-** |
| **Total** | | **99,876** | | **(1,061)** | | **98,815** |

The table above provides a breakdown of the initial nominal debt by issuance currency. Since all transactions in foreign currencies have been hedged, the debt of CADES is effectively entirely in euro. Hedging transactions have enabled CADES to eliminate the impact of exchange rate fluctuations on its debt.

The table below shows the breakdown of debt by interest rate type. Hedging impacts the initial breakdown, such that in the final analysis, 69% of the debt bears fixed rates, 20% floating rates and 11% rates indexed to inflation.

**Breakdown of debt in euro and foreign currencies before and after hedging**

| (in millions of euro) | Initial debt | | | | Hedging transactions | | Final debt | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Foreign currencies | Euro | Total | % | Foreign currencies | Euro | Foreign currencies | Euro | Total | % |
| **Fixed rates** | | | | | | | | | | |
| Negotiable debt instruments | - | - | - | | - | - | - | - | - | |
| Bonds and EMTN | 22,422 | 53,035 | 75,457 | | (22,422) | 14,795 | - | 67,830 | 67,830 | |
| Private placements | - | - | - | | - | - | - | - | - | |
| Macro hedging swaps | - | - | - | | - | - | - | - | - | |
| **Total fixed rates** | **22,422** | **53,035** | **75,457** | **76** | **(22,422)** | **14,795** | **-** | **67,830** | **67,830** | **69** |
| **Floating rates** | | | | | | | | | | |
| Negotiable debt instruments | 8,426 | 21 | 8,447 | | (8,426) | 8,446 | - | 8,467 | 8,467 | |
| Bonds and EMTN | 3,351 | 1,247 | 4,598 | | - | 6,546 | - | 11,144 | 11,144 | |
| Private placements | - | - | - | | - | - | - | - | - | |
| Macro hedging swaps | - | - | - | | - | - | - | - | - | |
| **Total floating rates** | **11,777** | **1,268** | **13,045** | **13** | **(8,426)** | **14,992** | **-** | **19,611** | **19,611** | **20** |
| **Indexed rates** | | | | | | | | | | |
| Bonds | - | 11,374 | 11,374 | | - | - | - | 11,374 | 11,374 | |
| Macro hedging swaps | - | - | - | | - | - | - | - | - | |
| **Total indexed rates** | **-** | **11,374** | **11,374** | **11** | **-** | **-** | **-** | **11,374** | **11,374** | **11** |
| **Total** | **34,199** | **65,677** | **99,876** | **100** | | **(1,061)** | **-** | **98,815** | **98,815** | **100** |

(1) Includes €7,940 million that corresponds to the hedging of swaps cancellable at the initiative of the counterparties. If the swap is cancelled by the counterparty, the hedged position reverts to a variable rate. Based on market rates at 31 December 2010, the swap cancellation options held by counterparties were significantly out of the money, making the likelihood of a reversion to a variable rate virtually nil.

**Note 7: Other liabilities**

| At<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **DEPOSITS RECEIVED BY WAY OF INITIAL MARGINS** | **1,971.38** | **173.16** | **119.23** |
| - Deposits | 1,970.82 | 173.14 | 116.66 |
| - Accrued interest | 0.56 | 0.02 | 2.57 |
| **OTHER CREDITORS IN RESPECT OF FINANCIAL TRANSACTIONS** | **2.24** | **1.67** | **2.27** |
| **OTHER CREDITORS IN RESPECT OF OPERATING CHARGES** | **44.92** | **47.27** | **12.04** |
| Payments to the State | - | - | - |
| Tax | 0.02 | 0.02 | 0.02 |
| Social security | 0.07 | 0.07 | 0.06 |
| Trade creditors | - | 0.01 | - |
| Sundry creditors - ACOSS | 44.83 | 47.17 | 11.96 |
| Other sundry creditors | - | - | - |
| **Total** | **2,018.54** | **222.10** | **133.54** |

Other liabilities correspond to:

- Deposits received by way of initial margins in respect of contracts on forward markets and repurchase agreements put in place to hedge counterparty risk, amounting to €1,970.82 million at 31 December 2010;
- Accrued interest on margin calls amounting to €0.56 million;
- Commission payable on commercial paper amounting to €2.24 million;
- Credit balance with ACOSS amounting to €44.83 million, consisting of taxpayer credit notes received from ACOSS;
- Social security payable amounting to €0.07 million;
- Tax payable amounting to €0.02 million.

***Note 8: Accruals, deferred income and provisions***

| At<br>(in millions of euro) | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| **ACCRUALS** | **354.06** | **351.57** | **441.70** |
| Accruals on forward interest rate instruments | 286.57 | 297.82 | 320.20 |
| Accruals on forward currency instruments | 59.70 | 46.02 | 107.94 |
| Fees payable in respect of market transactions | 0.01 | 0.01 | - |
| Accruals in respect of operating charges | 0.24 | 0.14 | 0.20 |
| Accruals in respect of CRDS and CSG collection costs | 4.53 | 4.90 | 3.37 |
| Other accruals | 3.01 | 2.68 | 9.98 |
| **CONTINGENT GAINS AND GAINS TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS** | **34.21** | **33.25** | **54.52** |
| **DEFERRED INCOME** | **214.61** | **190.40** | **124.62** |
| Issuance premiums on bonds | 201.65 | 189.61 | 123.01 |
| Issuance premiums on government securities | 12.96 | 0.79 | 1.61 |
| Other deferred income | - | - | - |
| **OTHER** | **21.79** | **874.08** | **1,270.96** |
| Currency adjustment accounts | 21.71 | 874.04 | 1,270.93 |
| Sundry | 0.08 | 0.04 | 0.03 |
| **Total** | **624.67** | **1,449.30** | **1,891.80** |

Accruals and deferred income consist of transactions affecting the profit and loss account independently of the date on which the corresponding income is paid or collected. They include notably:

- Accrued expenses in respect of interest rate swaps amounting to €286.57 million and on the euro leg of currency swaps amounting to €59.70 million, commission payable in respect of commercial paper amounting to €3.25 million and accruals in respect of CRDS and CSG collection costs amounting to €4.53 million.
- Balancing cash payments on currency swaps amounting to €34.21 million that are to be spread.
- Deferred income amounting to €214.61 million, corresponding to premiums on bond issues and on government securities.
- Currency adjustment accounts amounting to €21.71 million, being technical accounts used to recognize to profit and loss adjustments arising on the measurement of off-balance sheet

commitments.

Provisions for liabilities and charges include a provision for redundancy indemnities. The provision in respect of unrealized losses on swaps designated as isolated open positions was reversed after the swaps in question were rescinded.

| At<br>(in millions of euro) | 31 December<br>2009 | Set aside | Reversed | 31 December<br>2010 |
|---|---|---|---|---|
| **Provisions** | **0.16** | **0.02** | **-** | **0.18** |
| Provision for redundancy indemnities | 0.16 | 0.02 | - | 0.18 |
| Provision for liabilities | - | - | - | - |
| **Total** | **0.16** | **0.02** | **-** | **0.18** |

**PROFIT AND LOSS ACCOUNT**

In arriving at the profit for the period, net banking income is reported separately from other operating income and charges.

| (in millions of euro) | |
|---|---|
| Net banking income: | (3,014.07) |
| Other operating income and charges: | 8,148.74 |
| Gross operating profit and net profit for the period: | 5,134.67 |

A specific mission has been entrusted to CADES, which is to extinguish a debt over its scheduled term. The profit for the year measures its capacity to reduce its own debt.

**Net banking income**

Net banking income consists of the cost of debt, the income generated from cash positions and the net profit or loss on financial transactions.

***Note 9: Banking income***

| **Period ended**<br><br>**(in millions of euro)** | **31 December 2010** | **31 December 2009** | **31 December 2008** |
|---|---|---|---|
| **INTEREST RECEIVABLE AND SIMILAR INCOME FROM TRANSACTIONS WITH CREDIT INSTITUTIONS** | **29.51** | **44.70** | **284.51** |
| **Interest receivable - Demand loans and advances and open repurchase agreements** | **4.71** | **5.22** | **28.53** |
| Interest from ordinary accounts in debit | 4.43 | 5.09 | 28.24 |
| Interest from loans | - | - | - |
| Interest from securities delivered under repurchase agreements | 0.28 | 0.13 | 0.29 |
| **Interest receivable - Term loans, advances and repurchase agreements** | **14.48** | **33.55** | **225.47** |
| Interest from loans denominated in euro | - | - | - |
| Interest from loans denominated in other currencies | - | - | - |

| | | | |
|---|---|---|---|
| Interest from securities delivered under repurchase agreements | 14.48 | 33.55 | 225.47 |
| **Other interest receivable** | **10.32** | **5.93** | **30.51** |
| **INTEREST RECEIVABLE AND SIMILAR INCOME FROM BONDS AND OTHER FIXED INCOME SECURITIES** | **12.28** | **1.97** | **3.05** |
| Interest from fixed income securities | - | - | 2.20 |
| Interest from government securities | 12.28 | 1.97 | 0.85 |
| **OTHER INTEREST RECEIVABLE AND SIMILAR INCOME** | **309.00** | **232.96** | **33.10** |
| Amortization of premiums on issue | 51.56 | 39.89 | 33.10 |
| Net profit on hedging transactions | 257.44 | 193.07 | - |
| Profit on repurchase of own securities | - | - | - |
| **Total** | **350.79** | **279.63** | **320.66** |

Banking income, which amounted to €350.79 million, includes:

- Net profit on hedging transactions amounting to €257.44 million;
- Interest receivable and similar income from transactions with credit institutions amounting to €29.51 million, of which €14.48 million from investing surplus cash balances via repurchase agreements with delivery of the securities;
- Interest from fixed income securities amounting to €12.28 million; and
- The amortization of bond premiums on issue amounting to €51.56 million.

***Note 10: Cost of debt***

| Period ended<br><br>(in millions of euro) | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| **INTEREST PAYABLE AND SIMILAR CHARGES ON TRANSACTIONS WITH CREDIT INSTITUTIONS** | **11.04** | **46.15** | **189.80** |
| **Interest payable - Demand loans and open repurchase agreements** | **0.04** | **0.05** | **0.10** |
| Interest on ordinary accounts in credit | 0.03 | 0.03 | 0.01 |
| Interest on overnight loans | - | - | 0.03 |
| Interest on securities delivered under repurchase agreements | 0.01 | 0.02 | 0.06 |
| **Interest payable - Term loans and repurchase agreements** | **0.22** | **1.95** | **116.90** |
| Interest on CDC loan (transfer of debt) | - | - | - |
| Interest on multi-currency credit | - | - | - |
| Interest on securities delivered under repurchase agreements | 0.17 | 0.35 | 2.80 |
| Interest on private placements | 0.05 | 1.60 | 114.10 |
| **Other interest payable** | **10.78** | **44.15** | **72.80** |
| **INTEREST PAYABLE AND SIMILAR CHARGES ON BONDS AND OTHER FIXED INCOME SECURITIES** | **3,336.15** | **3,004.35** | **3,214.15** |
| **Interest on debts evidenced by certificates** | **3,336.15** | **3,004.35** | **3,173.58** |
| Interest on negotiable debt instruments denominated in euro | 2.94 | 86.65 | 64.88 |
| Interest on negotiable debt instruments denominated in other currencies | 24.85 | 115.45 | 127.64 |
| Interest on bonds and equivalents denominated in euro | 2,334.51 | 2,126.42 | 2,045.54 |
| Interest on bonds and equivalents denominated in other currencies | 753.05 | 648.98 | 626.73 |
| Other charges on debt instruments evidenced by certificates | 220.80 | 26.85 | 308.79 |
| **Other interest payable and similar charges** | **-** | **-** | **40.57** |
| **FEES PAYABLE** | **17.37** | **48.41** | **9.33** |
| Fees on term loans with credit institutions | - | 4.67 | 0.10 |

| | | | |
|---|---|---|---|
| Fees on negotiable debt instruments issued | 2.75 | 6.35 | 3.32 |
| Fees on bonds | 14.49 | 37.21 | 5.75 |
| Other fees on securities transactions | 0.13 | 0.18 | 0.16 |
| Other fees | - | - | - |
| **Total** | **3,364.56** | **3,098.91** | **3,413.28** |

Interest payable and similar charges on CADES's debt, which amounted to €3,364.56 million, increased by 8.57% from 31 December 2009 and consists of:

- Charges amounting to €3,336.15 million in respect of debts;
- Interest amounting to €11.04 million on transactions with credit institutions, consisting of interest on private placements, securities delivered under repurchase agreements and margin calls; and
- Fees amounting to €17.37 million.

The increase in interest and similar charges payable compared with 2009 was due partly to inflation and partly to new bond issues.

***Note 11: Gains and losses on trading securities***

| Period ended<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **NET PROFIT ON FOREIGN EXCHANGE TRANSACTIONS** | **(0.28)** | **(0.30)** | **(0.37)** |
| Other foreign exchange transactions | (0.28) | (0.30) | (0.37) |
| **Total** | **(0.28)** | **(0.30)** | **(0.37)** |

In accordance with the requirements of Regulation 2000-03 on the presentation of financial statements issued by the French Accounting Standards Committee, gains and losses on instruments used to hedge interest rate and currency risks are reported under interest receivable and similar income or interest payable and similar charges (see Note 9). The net profit on foreign exchange transactions comprises solely gains and losses determined on the periodic measurement of foreign currency accounts that have not been hedged.

***Note 11.1: Gains and losses on investment securities***

| Period ended<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **Gains (losses) on investment securities** | **-** | **-** | **-** |
| Net profit on investment securities | - | - | - |

## Other operating income and charges

Other operating income and charges consist mainly of specific income and charges dealt with by Ordinance No. 96-50 of 24 January 1996 (CRDS contributions, property asset sales, and payments to the State and social security funding organizations), of general operating charges, and of fixed asset amortization and depreciation charges.

***Note 12: CRDS revenues***

The table below details revenue allocated to CADES under Article 6 of Ordinance No. 96-50 of 24 January 1996 after deducting assessment and collection costs and losses on outstanding CRDS contributions (write-offs, waivers, cancellation and forgiveness of debt).

| **Period ended (in millions of euro)** | **31 December 2010** | **31 December 2009** | **31 December 2008** |
|---|---|---|---|
| **NET CRDS REVENUES (Article 6)** | **5,962.56** | **5,950.94** | **5,982.85** |
| CRDS contributions levied on wages and salaries (ACOSS) | 5,278.07 | 5,276.78 | 5,135.55 |
| CRDS contributions levied on property assets | 230.95 | 251.82 | 363.22 |
| CRDS contributions levied on investment income | 321.86 | 298.12 | 360.39 |
| CRDS contributions levied on sales of precious metals and gems | 4.04 | 2.68 | 2.74 |
| CRDS contributions on gaming proceeds | 127.11 | 121.47 | 120.95 |
| CRDS exemption offsets (travel vouchers and voluntary community services) | 0.53 | 0.07 | - |

CRDS revenues, net of collection costs, amounted to €5,962.56 million.

CRDS levied on wages and salaries (which is collected by ACOSS) represents 88.52% of the total. The remaining CRDS proceeds (which are collected by the Treasury offices) are levied mainly on capital (property and investment income) and on gambling.

Repayments relating to amounts written off prior to 31 December 1999 (pursuant to EC regulations and bilateral social security agreements) received from foreign countries have been paid over by CNAMTS to CADES since 31 December 1997 to the extent this does not create a new deficit or increase an existing deficit in the books of CNAMTS. Given that CNAMTS has been in deficit from 1998 to 2010, the €216.77 million recovered during this period was not paid over to CADES.

Since Law No. 2004-810 of 13 August 2004, no surplus has been generated by the health insurance branch of the French social security system.

The table below provides a breakdown of income and charges relating to the CRDS.

| **CRDS REVENUES (in millions of euro)** | **(a)** | **CRDS COSTS** | **(b)** | **Net revenues (a-b)** |
|---|---|---|---|---|
| CRDS levied on wages and salaries (ACOSS) | 5,335.79 | Write-offs, waivers, cancellation and forgiveness of debt | 31.40 | **5,278.07** |
| | | Assessment and collection costs | 26.32 | |
| CRDS levied on property assets | 240.83 | Assessment and collection costs | 9.87 | **230.96** |
| CRDS levied on investment income | 323.47 | Assessment and collection costs | 1.62 | **321.85** |
| CRDS levied on sale of precious metals and gems | 4.06 | Assessment and collection costs | 0.02 | **4.04** |
| CRDS levied on gaming proceeds | 127.75 | Assessment and collection costs | 0.64 | **127.11** |
| CRDS exemption offsets (travel vouchers and voluntary community services) | 0.53 | | - | **0.53** |
| Reversal of provisions on outstanding CRDS | - | Provisions on outstanding CRDS | 45.23 | **(45.23)** |
| **Total** | **6,032.43** | **Total** | **115.10** | **5,917.33** |

***Note 12.1: CSG revenues***

Supplementary social security contributions (*Contribution Sociale Généralisée - CSG*) are a new resource allocated to CADES starting in 2009. They correspond to 0.2 point of the tax base.

The tax base is the same as for the CRDS, with the exception that no contributions are levied on the sale of precious metals and gems.

| **Period ended (in millions of euro)** | **31 December 2010** | **30 December 2009** | **31 December 2008** |
|---|---|---|---|
| **NET CSG REVENUES (Article 6)** | **2,262.64** | **2,221.52** | **-** |

| | | | |
|---|---|---|---|
| CSG contributions levied on wages and salaries (ACOSS) | 2,035.38 | 1,987.67 | - |
| CSG contributions levied on property assets | 91.70 | 99.24 | - |
| CSG contributions levied on investment income | 131.15 | 123.74 | - |
| CSG contributions on gaming proceeds | 4.20 | 10.84 | - |
| CSG exemption offsets | 0.21 | 0.03 | - |

CSG revenues, net of collection costs, amounted to €2,262.64 million.

CSG levied on wages and salaries (which is collected by ACOSS) represents 89.96% of the total. The remaining CSG (which is collected by the Treasury offices) is levied mainly on investment income and gaming income, this income representing respectively 5.79% and 0.18% of the total.

The table below provides a breakdown of income and charges relating to the CSG.

| **CSG REVENUES (in millions of euro)** | **(a)** | **CSG COSTS** | **(b)** | **Net revenues (a-b)** |
|---|---|---|---|---|
| CSG levied on wages and salaries (ACOSS) | 2,047.74 | Write-offs, waivers, cancellation and forgiveness of debt | 2.32 | **2,035.38** |
| | | Assessment and collection costs | 10.04 | |
| CSG levied on property assets | 95.62 | Assessment and collection costs | 3.92 | **91.70** |
| CSG levied on investment income | 131.81 | Assessment and collection costs | 0.66 | **131.15** |
| CSG levied on gaming proceeds | 4.22 | Assessment and collection costs | 0.02 | **4.20** |
| CSG exemption offsets | 0.21 | | - | **0.21** |
| Reversal of provisions on outstanding CSG | - | Provisions on outstanding CSG | 28.69 | (28.69) |
| **Total** | **2,279.60** | **Total** | **45.65** | **2,233.95** |

***Note 13: General operating charges***

| **Period ended (in millions of euro)** | **31 December 2010** | **31 December 2009** | **31 December 2008** |
|---|---|---|---|
| **STAFF COSTS** | **0.89** | **0.85** | **0.78** |
| Wages and salaries | 0.64 | 0.61 | 0.56 |
| Social security charges | 0.25 | 0.24 | 0.22 |
| **OTHER ADMINISTRATIVE EXPENSES** | **1.61** | **1.78** | **1.63** |
| Taxes and duties | 0.08 | 0.07 | 0.07 |
| External services | 1.53 | 1.71 | 1.56 |
| **Total** | **2.50** | **2.63** | **2.41** |

General operating charges correspond to expenditure falling with the scope of the administrative budget. They do not include the acquisition and the amortization and depreciation of fixed assets (see Note 2). They decreased by 4.94% compared with 2009.

**List of staff positions at 31 December 2010**

Non-civil servant employees:

- 1 senior front office manager (grade A)
- 3 assistant front office managers (grade A)
- 1 senior back office manager (grade A)
- 1 assistant back office manager (grade A)
- 1 bilingual executive secretary (grade C)

Civil servants:

- 1 general office manager (grade A)
- 1 administrative manager (grade A)

***Note 13.1: Property assets and property management***

| Period ended<br>(in millions of euro) | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| **REVENUES FROM PROPERTY ASSETS** | **-** | **-** | **0.19** |
| Property sales | - | - | - |
| Rental income | - | - | 0.19 |
| Exceptional income | - | - | - |
| **CHARGES ON PROPERTY ASSETS** | **-** | **0.01** | **(0.10)** |
| Expenses on property sales | - | - | - |
| Change in unsold inventory | - | - | - |
| Staff costs | - | - | - |
| External services | - | 0.01 | 0.01 |
| Taxes | - | - | - |
| Exceptional charges | - | - | 0.37 |
| Provisions set aside | - | - | - |
| Provisions reversed | - | - | (0.48) |

All the properties transferred to CADES on 1 January 2000 were sold over the next three years. Since 2007, CADES has managed the run-off of the last properties and of disputes.

**Note 14: Other non-banking operating charges**

| Period ended<br>(in millions of euro) | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| Payments to the State | - | - | - |
| Payments to social security agencies | - | | - |
| **Total** | **-** | **-** | **-** |

***Note 15: Exceptional income***

| Period ended<br>(in millions of euro) | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| Statutory limitation of debt - administrative budget | - | - | - |
| Statutory limitation of debt - financing budget | - | - | - |
| Other exceptional income | - | - | - |
| **Total** | **-** | **-** | **-** |

## OFF-BALANCE SHEET COMMITMENTS

Off-balance sheet commitments, as reported, distinguish between commitments given and commitments received and are analyzed between loan commitments, guarantee obligations and guarantees on securities. Certain commitments are not recorded on the face of the accounts, being commitments in respect of currency transactions and forward financial instruments. Information regarding these commitments is provided in Notes 16 and 17 below.

### ***Note 16: Currency transactions***

| At (in millions of euro) | 31 December 2010 | | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|---|---|
| | 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** | **34,197.24** | **-** | **29,644.04** | **-** | **21,279.89** | **-** |
| **Hedging transactions over the counter** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Forward exchange against euro** | **8,425.44** | | **9,196.08** | | **7,125.99** | **-** |
| Up to 1 year | 8,425.44 | | 9,196.08 | | 7,125.99 | - |
| From 1 to 5 years | - | - | - | - | - | - |
| Over 5 years | - | - | - | - | - | - |
| **Currency swaps against euro** | **25,771.80** | **-** | **20,447.96** | **-** | **14,153.90** | **-** |
| Up to 1 year | 7,953.50 | - | 2,424.34 | - | 2,337.77 | - |
| From 1 to 5 years | 15,264.00 | - | 16,277.42 | - | 10,414.17 | - |
| Over 5 years | 2,554.30 | - | 1,746.20 | - | 1,401.96 | - |

Forward exchange contracts against euro correspond to forward purchases entered into for the purpose of hedging commercial paper denominated in foreign currencies, which decreased in 2010.

The increase in currency swaps against euro is attributable to the increase in foreign currency EMTN issues.

***Note 17: Forward financial instruments***

| At<br>(in millions of euro) | 31 December<br>2010 | 31 December<br>2009 | 31 December<br>2008 |
|---|---|---|---|
| **INTEREST RATE INSTRUMENTS** | | | |
| **Organized markets and equivalents** | **-** | **-** | **-** |
| Firm transactions entered into for hedging purposes | - | - | - |
| Euro Bobl futures contracts (5 years) | - | - | - |
| Euro Bund futures contracts (10 years) | - | - | - |
| Other firm transactions | - | - | - |
| Options entered into for hedging purposes | - | - | - |
| Other options | - | - | - |
| **Over the counter** | **17,496.71** | **17,910.30** | **14,014.44** |
| Firm transactions entered into for hedging purposes | | | |
| Interest rate swaps in euro | **17,496.71** | **17,910.30** | **14,014.44** |
| Micro hedging | **16,306.57** | **16,546.77** | **12,107.53** |
| - Up to 1 year | 6,708.91 | 2,500.87 | 175.00 |
| - From 1 to 5 years | 8,042.12 | 12,690.36 | 10,316.99 |
| - Over 5 years | 1,555.54 | 1,355.54 | 1,615.54 |
| Macro hedging | **1,190.14** | **1,363.53** | **1,906.91** |
| - Up to 1 year | 435.00 | 130.00 | 500.00 |
| - From 1 to 5 years | 755.14 | 1,233.53 | 1,406.91 |
| - Over 5 years | - | - | - |
| Isolated positions | **-** | **-** | **1,000.00** |
| - Up to 1 year | - | - | - |
| - From 1 to 5 years | - | - | - |
| - Over 5 years | - | - | 1,000.00 |
| Currency swaps | **-** | **-** | **-** |
| - Up to 1 year | - | - | - |
| - From 1 to 5 years | - | - | - |
| - Over 5 years | - | - | - |

Interest rate swaps entered into by CADES as at 31 December 2010 comprise:

- Swaps entered into for macro hedging purposes, consisting of inflation swaps amounting to €1,190.14 million, two having matured; and
- Swaps amounting to €16,306.57 million entered into for micro hedging purposes, including swaps cancellable by counterparties of €7,940 million.

In 2007 and 2008, CADES entered into swaps under which it receives 3-month Euribor less a haircut and pays a fixed rate. These swaps may be rescinded by the counterparties six months after inception and

then every three months.

These cancellable swaps, which qualify as micro hedges, are used to transform CADES's adjustable rate structured transactions into fixed rate transactions for at least six months. Each swap is therefore systematically backed to a swap already held in portfolio by CADES. If the swaps are cancelled, CADES reverts to its initial refinancing level.

These swaps were authorized by the Board of Directors on 28 November 2007. They are designated as micro hedges (Category b of Regulations No. 90-15 and 88-02) pursuant to French banking regulations (*Réglementation Bancaire*).

***Note 18: Other off-balance sheet commitments***

| At<br>(in millions of euro) | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| **FINANCING COMMITMENTS** | | | |
| **Commitments received** | | | |
| ***From credit institutions*** | | | |
| - Back-up credit lines | 700.00 | 700.00 | 700.00 |
| - Multi-currency credit lines | - | - | - |
| - Other credit lines | - | - | 2,500.00 |
| ***Sundry*** | | | |
| - Retirement reserve fund (*Fonds de Réserve des Retraites*) | 29,400.00 | - | - |
| **Commitments given** | | | |
| Payments to the State | - | - | - |
| Payments to social security agencies | 130,000.00 | - | 17,000.00 |

Commitments received consist of:

- four back-up credit lines totaling €700 million that are cancellable by the counterparty at 30 days' notice;
- a total of €29.4 billion in payments from the Retirement reserve fund, corresponding to annual payments of €2.1 billion for the period from 2011 to 2024, pursuant to the 2011 Social Security Funding Act 2010-1594 of 20 December 2010.

Commitments given correspond to debts assumed pursuant to the 2011 Social Security Funding Act 2010-1594 of 20 December 2010, namely:

- The deficits of 2009 and 2010 and the forecast deficit for 2011 for the health, maternity, incapacity and death insurance branch, the senior citizens, widows and widowers insurance branch and the family insurance branch of the French social security system, up to a maximum of €68 billion. Decree 2011-20 of 5 January 2011 set the following dates and amounts to be paid in respect of social security debts assumed:

| Payments by CADES to ACOSS | | Allocation by ACOSS of the amounts paid by CADES to the branches and funds concerned | | | |
|---|---|---|---|---|---|
| | | General system | | | |
| Date | Amount (in millions of euro) | Branch mentioned in paragraph 1 of Article L.200-2 of the social security code | Branch mentioned in paragraph 3 of Article L.200-2 of the social security code | Branch mentioned in paragraph 4 of Article L.200-2 of the social security code | Funds mentioned in Article L.135-1 of the social security code |
| 10/01/2011 | 5,000 | 2,217 | 1,594 | 465 | 724 |
| 25/01/2011 | 5,000 | 2,217 | 1,594 | 465 | 724 |
| 09/02/2011 | 5,000 | 2,217 | 1 594 | 465 | 724 |
| 25/02/2011 | 3,000 | 1,330 | 956 | 279 | 435 |
| 09/03/2011 | 5,000 | 2,217 | 1,594 | 465 | 724 |
| 25/03/2011 | 3,000 | 1,330 | 956 | 279 | 435 |
| 11/04/2011 | 5,000 | 2,217 | 1,594 | 465 | 724 |
| 21/04/2011 | 4,000 | 1,773 | 1,275 | 372 | 580 |
| 09/05/2011 | 10,000 | 4,433 | 3,188 | 930 | 1,449 |
| 27/05/2011 | 5,000 | 2,217 | 1,594 | 465 | 724 |
| 09/06/2011 | 5,000 | 3,621 | 375 | 832 | 172 |
| 09/09/2011 | 4,000 | 3,244 | 0 | 756 | 0 |
| 10/10/2011 | 4,000 | 3,244 | 0 | 756 | 0 |
| 09/12/2011 | 2,300 | 1,865 | 0 | 435 | 0 |
| Total | 65,300 | 34,142 | 16,314 | 7,429 | 7,415 |

- the deficits of 2011 to 2018 for the senior citizens, widows and widowers insurance branch (branch 3) of the French social security system, subject to an overall maximum of €62 billion and a yearly maximum of €10 billion. These payments are to be made by 30 June each year as from 2012. The dates and amounts to be paid will be set by decree.

***Note 19: Abridged statements***

| **BALANCE SHEET** | |
|---|---|
| **At** | **31 December** |
| **(in millions of euro)** | **2010** |
| **PROFIT AND LOSS ACCOUNT BROUGHT FORWARD AT 1 JANUARY 2010** | **(91,991.84)** |
| **PROFIT FOR THE YEAR ENDED 31 DECEMBER 2010** | **5,134.67** |
| **PROPERTY ENDOWMENT** | **181.22** |
| **DEBT TO BE REPAID AT 31 DECEMBER 2010** | **(86,675.95)** |
| **Represented by:** | |
| Liabilities towards third parties | |
| - Borrowings falling due within 1 year | **20,819.31** |
| - Borrowings falling due after 1 year | **80,425.62** |
| - Other creditors, accruals and deferred income | **2,643.21** |
| Less assets held by CADES | |
| - Financial investments | **14,497.06** |
| - Other debtors, prepayments and accrued income | **2,715.13** |

| **PROFIT AND LOSS ACCOUNT** | |
|---|---|
| **Period ended** | **31 December** |
| **(in millions of euro)** | **2010** |
| **NET CRDS AND CSG REVENUES** | **8,151.28** |
| **NET REVENUES FROM PROPERTY** | **-** |
| Interest payable and similar charges | **(3,347.19)** |
| Fees | **(17.37)** |
| Interest receivable and similar income | **350.51** |
| **NET FINANCIAL CHARGES** | **(3,014.05)** |
| **Operating charges** | **(2.57)** |
| **OPERATING PROFIT** | **5,134.67** |
| Payments to the State | **-** |
| Exceptional income | **-** |
| **NET PROFIT FOR THE YEAR ENDED 31 DECEMBER 2010** | **5,134.67** |

## OTHER INFORMATION

The table below provides information on market value, comparing the debt at repayment value as at 31 December 2010 with the debt at market value.

Debt at repayment value as at 31 December 2010 comprises the following elements:

(a) The nominal value of fixed rate, variable rate and adjustable rate borrowings in euro.

(b) The nominal value of the fixed rate, variable rate and adjustable rate euro legs of basis swaps representing perfect transformation of foreign currency-denominated borrowings into euro-denominated borrowings.

(c) The accrued nominal value of inflation indexed bonds as at 31 December 2010.

Debt at repayment value at maturity comprises the following elements:

(a) The nominal value of fixed rate, variable rate and adjustable rate borrowings in euro.

(b) The nominal value of the fixed rate, variable rate and adjustable rate euro legs of swaps representing perfect transformation of foreign currency-denominated borrowings into euro-denominated borrowings.

(c) The projected nominal value at maturity of inflation indexed bonds.

(d) The market value of swaps used for macro hedging.

Debt at market value comprises the following elements:

(a) The value of the fixed rate bonds and inflation indexed bonds based on the average market price on 31 December 2010.

(b) The value of unlisted securities issued by CADES obtained using the CADES zero coupon curve as at 31 December 2010. Options embedded in certain of these securities are valued using an internal model based on standard valuation software developed and marketed by an independent service provider.

(c) The value of derivatives used to transform part of the debt through micro hedging. Options embedded in certain of these instruments are valued using the same internal model.

(d) The value of derivatives used for macro hedging.

(e) The present value at 31 December 2010 of collateral, repurchase agreements and bank balances.

| (in millions of euro) | Debt at repayment value | | Debt at market value | Market value of hedging transactions |
|---|---|---|---|---|
| | At maturity | At 31 December 2010 | At 31 December 2010 | At 31 December 2010 |
| Up to 1 year | 6,648.84 | 6,617.70 | 6,810.23 | 429.01 |
| From 1 to 5 years | 41,555.57 | 41,363.83 | 43,591.25 | 915.26 |
| Over 5 years | 39,232.81 | 38,317.61 | 40,501.10 | 206.94 |
| Swaps | (28.58) | - | (28.58) | 28.58 |
| **Total** | **87,408.64** | **86,299.15** | **90,874.00** | **1,579.79** |
| Adjustable rates | 7,095.17 | 7,004.05 | 7,084.28 | 521.39 |
| Indexed rates | 12,512.20 | 11,203.73 | 12,090.32 | - |
| Fixed rates | 67,829.85 | 68,091.37 | 71,727.99 | 1,029.82 |
| Swaps | (28.58) | - | (28.58) | 28.58 |
| **Total** | **87,408.64** | **86,299.15** | **90,874.01** | **1,579.79** |

Compared with prior years, there was a relative increase in medium-term debt at 31 December 2010, as indicated by the table below:

| Debt | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| Short-term (under 1 year) | 7.67% | 13.62% | 23.89% |
| Medium-term | 47.93% | 43.61% | 38.46% |
| Long-term (over 5 years) | 44.40% | 42.77% | 37.65% |

As regards the breakdown between issues denominated in euro and other currencies, there was a relative decrease in euro debt at 31 December 2010 compared with 31 December 2009, as indicated by the table below:

| Debt | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| In foreign currencies | 34.24% | 30.47% | 25.60% |
| In euro | 65.76% | 69.53% | 74.40% |

*Lastly, the table below shows the relative decrease in adjustable rate issues compared with fixed rate issues compared with the previous two years:*

| Debt | 31 December 2010 | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| Adjustable rate | 8.12% | 13.49% | 21.93% |
| Indexed rate | 12.98% | 12.22% | 12.84% |
| Fixed rate | 78.90% | 74.29% | 65.23% |

Explanation of variances between market value and repayment value of debt:

The difference between the market value of the debt and its repayment value is explained by the following factors:

- The market value of fixed rate loans increased because of the decline in interest rates;

- Market value factors in the present value of future coupons whereas the repayment value excludes coupons; and

- Gains and losses on macro hedging and inflation swaps impact market value one way or the other.

The above information covers a significant part of CADES's main activity, which is to repay in the best possible conditions the debt it raises on the financial markets.

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**CADES**

# English translation of the independent Auditors' Report

Period ended December 31, 2010
CADES
15, rue Marsollier - 75002 Paris
*This report contains 39 pages*
Reference : HV-112-02

KPMG S.A.,
société française membre du réseau KPMG
constitué de cabinets indépendants adhérents de
KPMG International Cooperative, une entité de droit suisse.

Société anonyme d'expertise
comptable et de commissariat
aux comptes à directoire et
conseil de surveillance.
Inscrite au Tableau de l'Ordre
à Paris sous le n° 14-30080101
et à la Compagnie Régionale
des Commissaires aux Comptes
de Versailles.

Siège social :
KPMG S.A.
Immeuble Le Palatin
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92939 Paris La Défense Cedex
Capital : 5 497 100 €.
Code APE 6920Z
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This is a free translation into English of the auditor's report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

**CADES**
15, rue Marsollier - 75002 Paris

**English translation of the independent Auditors' Report on the Financial Statements**

Period ended December 31, 2010

In accordance with your arrangement letter dated July 30, 2010, we have audited the accompanying financial statements of Caisse d'Amortissement de la Dette Sociale (CADES), which comprise the balance sheet as at December 31, 2010, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

The "Agent Comptable de la CADES" is responsible for the preparation and fair presentation of these financial statements 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of CADES as at December 31, 2010, 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.

Without qualifying our opinion expressed above, we draw attention to the note 5.1 of the accounting principles and methods which describes the applicable accounting treatment of the social security debt repayment contribution (CRDS) and the generalised social contribution (CSG). The revenues of CRDS and CSG recorded which also includes the amounts relating to the year ended that have not yet been collected are provided by ACOSS and Public Treasury which are the collectors of CRDS and CSG. The role of CADES in connection to the revenues of CRDS and CSG only consists of ensuring that the amounts included in the supports provided by the collectors are properly recorded.

Paris La Défense, 28 April 2011

KPMG Audit
*A division of KPMG S.A.*

Hubert de Vaumas
*Partner*

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**CADES**

# Rapport de l'auditeur indépendant

Exercice clos le 31 Décembre 2010
CADES
15, rue Marsollier - 75002 Paris
*Ce rapport contient 39 pages*
Référence : HV-112-01

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**CADES**
15, rue Marsollier - 75002 Paris

**Rapport de l'auditeur indépendant sur les états financiers**

Exercice clos le 31 Décembre 2010

*Mesdames, Messieurs,*

En exécution de la mission qui nous a été confiée par lettre en date du 30 Juillet 2010, nous avons effectué l'audit des états financiers ci-joints de la Caisse d'Amortissement de la Dette Sociale (CADES) comprenant le bilan au 31 décembre 2010 ainsi que le compte de résultat pour l'exercice clos à cette date, et des notes contenant un résumé des principales méthodes comptables et d'autres notes explicatives.

*Responsabilité de la direction dans l'établissement et la présentation des états financiers*

Ces états financiers ont été établis sous la responsabilité de l'Agent Comptable de la CADES conformément au Plan Comptable des Etablissements de Crédit, applicable à la CADES, en vertu de l'avis 99-04 du CNC. Cette responsabilité comprend : la conception, la mise en place et le suivi d'un contrôle interne relatif à l'établissement et la présentation sincère d'états financiers ne comportant pas d'anomalies significatives, que celles-ci résultent de fraudes ou d'erreurs, ainsi que la détermination d'estimations comptables raisonnables au regard des circonstances.

*Responsabilité de l'auditeur*

Notre responsabilité est d'exprimer une opinion sur ces états financiers sur la base de notre audit. Nous avons effectué notre audit selon les Normes Internationales d'Audit. Ces normes requièrent de notre part de nous conformer aux règles d'éthique et de planifier et de réaliser l'audit pour obtenir une assurance raisonnable que les états financiers ne comportent pas d'anomalies significatives.

Un audit implique la mise en œuvre de procédures en vue de recueillir des éléments probants concernant les montants et les informations fournies dans les états financiers. Le choix des procédures relève du jugement de l'auditeur, de même que l'évaluation du risque que les états financiers contiennent des anomalies significatives, que celles-ci résultent de fraudes ou d'erreurs. En procédant à ces évaluations du risque, l'auditeur prend en compte le contrôle interne en vigueur dans l'entité relatif à l'établissement et la présentation sincère des états financiers afin de définir des procédures d'audit appropriées en la circonstance, et non dans le but d'exprimer une opinion sur l'efficacité de celui-ci.


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Un audit comporte également l'appréciation du caractère approprié des méthodes comptables retenues et le caractère raisonnable des estimations comptables faites par la direction, de même que l'appréciation de la présentation d'ensemble des états financiers.

Nous estimons que les éléments probants recueillis sont suffisants et appropriés pour fonder notre opinion.

*Opinion*

A notre avis, les états financiers donnent une image fidèle de la situation financière de l'établissement au 31 décembre 2010, ainsi que du résultat de ses opérations pour l'exercice clos à cette date, conformément au Plan Comptable des Etablissements de Crédit, applicable à la CADES, en vertu de l'avis 99-04 du CNC.

Sans remettre en cause la conclusion exprimée ci-dessus, nous attirons votre attention sur le paragraphe 5.1 des principes et méthodes comptables qui précisent les modalités de comptabilisation de la contribution au remboursement de la dette sociale (CRDS) et de la contribution sociale généralisée (CSG). Les revenus de CRDS, les revenus de CSG et les montants à recouvrer comptabilisés sont issus des notifications envoyées à la CADES par l'ACOSS et le Trésor Public qui sont les organismes collecteurs de la CRDS et de la CSG. Les compétences de la CADES en matière de recettes se limitent à une vérification comptable formelle des pièces produites par les organismes recouvreurs.

Paris La Défense, le 28 avril 2011

KPMG Audit
*Département de KPMG S.A.*

Hubert de Vaumas
*Associé*

**Annual Statements 2011**

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## GENERAL INFORMATION

### 1. MISSION STATEMENT

Order No. 96-50 dated 24 January 1996[1] established the Social Security Debt Repayment Fund (*Caisse d'Amortissement de la Dette Sociale – CADES*) on 1 January 1996. CADES is an administrative public agency (*Etablissement Public à Caractère Administratif – 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 (*Agence Centrale des Organismes de Sécurité Sociale – ACOSS*); and
- Make payments to various social security funds and organisations.

CADES' mandate has been extended beyond 31 January 2014 as decided initially 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 social security debt repayment contribution (*Contribution pour le Remboursement de la Dette Sociale – CRDS*), introduced in Chapter 2 of the aforementioned Order. It also received the proceeds from the sale of property assets owned and leased by the national agencies falling under the basic social security scheme and ACOSS.

Since 2009, a 0.2% portion of the supplementary social security contribution (*Contribution Sociale Généralisée – CSG*) had been paid to CADES. From 2011 this portion was increased to 0.48% for CSG on all taxable employment income, unemployment and similar benefits, income from property and investment proceeds; and to 0.28% for profits from gaming.

Starting in 2011, two new resources have been allocated to CADES:

- a 1.3% share of the social levies on income from property and investments;
- an annual payment of €2.1 billion from the Retirement Reserve Fund (*Fonds de Réserve pour les Retraites – FRR*) until 2024 inclusive.

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

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[1] As modified by Social Security Finance Act No. 97-1164 of 19 December 1997, Act No. 98-1194 of 23 December 1998, the 2001, 2002, and 2006 Finance Acts, the 2003, 2004, 2006 and 2008 Social Security Finance Acts, Act No. 2004-810 of 13 August 2004 relating to health insurance, Organic Law No. 2005-881 of 2 August 2005, Act No. 2008-1249 of 1 December 2008, Order No. 2009-80 of 22 January 2009, Act No. 2009-1646 of 24 December 2009, Act No. 2010-476 of 12 May 2010, Organic Law No. 2010-1380 of 13 November 2010, Act No. 2010-1594 of 20 December 2010, Act No. 2010-1657 of 29 December 2010, Act No. 2010-1658 of 29 December 2010 and Act No. 2011-1906 of 21 December 2011.

Moreover, CADES benefits from repayments of receivables from foreign social security agencies to the national health insurance fund for salaried workers (*Caisse Nationale d'Assurance Maladie des Travailleurs Salariés – CNAMTS*).

Lastly, in accordance with Act No. 2004-810 of 13 August 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 define the terms under which this transfer will take place.

## 2. ORGANIZATION OF THE AGENCY

CADES is overseen by a Board of Directors and a Supervisory Board.

The composition of the Board of Directors was altered by Decree No. 2011-458 of 26 April 2011. It now comprises a majority of representatives of social security bodies, whereas it was previously composed solely of government representatives.

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

Pursuant to the provisions of the aforementioned Decrees, financial and accounting transactions fall under the responsibility of Mr. Patrice Ract Madoux, the Authorising Officer of CADES and Chairman of the Board of Directors, and Mr. Frank Mordacq, its Chief Accounting Officer and Head of CBCM Finances until 31 October 2011 and Mr. Didier Maupas from 1 November 2011.

CADES' annual budget is drawn up by 30 November 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 the accounts drawn up by the Accounting Officer. The financial statements are then forwarded to the General Director of the Public Finances Directorate (*Direction Générale des Finance Publiques – DGFiP*) prior to submission to the Government Audit

Office (*Cour des Comptes*).

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 its revenue forecasts on the basis of changes in the amortisation 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 of 19 May 2009; and audits carried out by the Government Audit Office.

Accounting transactions are recorded by CADES in an information system managed using software that is shared by the Authorising Officer and the Accounting Officer. The system is networked and features a single database. Authorisations for displaying and processing data have been clearly defined so as to enable the Accounting Officer and the Authorising Officer to exercise their respective powers.

## 3. GENERAL PROVISIONS FOR RECORDING ACCOUNTING AND FINANCIAL TRANSACTIONS

### Accounting framework

Article 7 of Decree No. 96-353 of 24 April 1996, relating 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 Public Finances Directorate).

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

Consequently, both the transactions and the annual financial statements submitted by the Accounting Officer are presented in accordance with standards specific to credit institutions. In addition, separate financial statements are drawn up in accordance with the regulatory standard set out in Instruction M 9-1, for submission to audit organisations.

This specific accounting framework was recommended by an independent consulting firm and approved by the Authorising Officer, the Accounting Officer, the General Directorate of Public Accounting and the French Accounting Standards Board (*Conseil National de la Comptabilité – CNC*) (Opinion No. 99-04,

plenary session of 18 March 1999).

**Transactions executed by the Accounting Officer**

Transactions executed by CADES' Accounting Officer differ from those traditionally executed by Accounting Officers at other administrative public agencies.

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

**1. Financing transactions**

The administrative workflow of financing transactions reflects the existence of Front Office, Middle Office and Back Office services.

The Front Office is responsible for transactions in the financial, interest rate and currency markets, in accordance with defined limits and procedures. These routine transactions relate to financing, investment and the 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 verifies and validates the ticket before forwarding it to the Accounting Officer.

The Middle Office gathers information on cash positions, draws up forecasts, provides repayment schedules, and performs a first-level plausibility check of Front Office transactions.

The Back Office records and validates the transactions processed by the Front Office after verifying that formal presentation and threshold requirements are met. 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**

Performance of the administrative section of the budget is done in compliance with the provisions of the Decree of 29 December 1962, which sets forth general public-sector accounting policies. Administrative expenses are evidenced by payment orders and income by receipt 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, items of expenditure and income are recognised in the accounts and the amounts are paid or collected.

**3. Cash movements**

CADES has opened a euro-denominated deposit account in the books of SCBCM Finances that is listed in the register of government accounts.

In the books of CADES, entries to the debit of this account record expenses falling within the administrative budget. Only the Accounting Officer may authorize these payments. Entries to the credit of this account record revenue from CRDS, CSG and social levies on property and investment income paid over by the Public Treasury network. This takes the form of daily transfers from General Treasury offices.

Since 1 September 2005, CADES has had its own remunerated account with the Banque de France that is distinct from the dedicated Treasury account. Movements to this account comprise all euro-denominated financial transactions completed by CADES and all CRDS and CSG revenue paid over by ACOSS. Once again, only the Accounting Officer may authorize expenditures.

The balance on the deposit account is transferred to CADES' own account twice weekly.

In addition, CADES has opened accounts with foreign financial institutions in New York, London and Frankfurt. These are intended to be zero-balance accounts. They record all transactions related to CADES issues in currencies other than the euro and their transformation into euro-denominated structures on the international markets.
Due to management constraints attributable primarily to the time lag between the European, Asian, American and Australian markets, CADES has been dispensed from applying the provision of the Decree of 29 December 1962, which states that only public accounting officers may authorize transactions affecting the financial accounts. Accordingly, the Back Office carries out transactions on CADES' foreign currency accounts.

## FINANCIAL HIGHLIGHTS

**NET DEBT AT REPAYMENT VALUE**

**(€ millions)**

| | |
|---|---|
| At 31 December 2011 | **142,475** |
| At 31 December 2010 | **86,299** |
| At 31 December 2009 | **91,660** |

| | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|
| **Net profit** | **11,678** | **5,135** | **5,260** |
| Primarily reflecting the following items: | | | |
| CRDS and CSG net revenue | **11,796** | **8,151** | **8,082** |
| Social levies on income from property and investments net of expenses | **1,576** | **-** | **-** |
| Retirement Reserve Fund (*Fonds de Réserve pour les Retraites – FRR*) | **2,100** | **-** | **-** |
| Payments to the French State | **-** | **-** | **-** |
| Payments to social security agencies | **-** | **-** | **-** |
| Interest expenses | **(3,794)** | **(3,016)** | **(2,822)** |

## BALANCE SHEET

| At<br>(€ millions) | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in hand, balances with central banks and post office banks (Note 1) | 8,438.91 | 1,200.34 | 983.44 |
| Treasury bills and other bills eligible for refinancing with central banks (Note 1) | 150.01 | 12,166.95 | 2,284.57 |
| Loans and advances to credit institutions (Note 1) | | | |
| - Repayable at sight | 0.75 | 0.29 | 0.37 |
| - Repayable at term | 5,165.53 | 1,129.48 | 1,686.34 |
| Intangible assets (Note 2) | 0.01 | 0.00 | 0.00 |
| Tangible assets (Note 2) | 0.16 | 0.17 | 0.21 |
| Property assets (Note 13a) | 0.00 | 0.00 | 0.00 |
| Other assets (Note 3) | 179.12 | 49.41 | 260.42 |
| Prepayments and accrued income (Note 4) | 5,463.10 | 2,665.73 | 1,751.19 |
| **Total assets** | **19,397.59** | **17,212.37** | **6,966.54** |
| | | | |
| **LIABILITIES & RESERVES** | | | |
| Amounts owed to credit institutions (Note 5) | | | |
| - Payable at sight | 0.00 | 0.00 | 0.00 |
| - Payable at term | 1,026.47 | 0.00 | 151.11 |
| Debts evidenced by securities (Note 6) | | | |
| - Negotiable debt instruments | 42,880.68 | 8,446.45 | 10,587.56 |
| - Bonds and similar instruments | 114,046.95 | 92,798.48 | 86,366.93 |
| - Other debts evidenced by securities | 0.00 | 0.00 | 0.00 |
| Other liabilities (Note 7) | 3,418.79 | 2,018.54 | 222.10 |
| Accruals and deferred income (Note 8) | 789.23 | 624.67 | 1,449.30 |
| **Sub-total – Debts** | **162,162.12** | **103,888.14** | **98,777.00** |
| Provisions (Note 8) | 0.21 | 0.18 | 0.16 |
| Property endowment | 181.22 | 181.22 | 181.22 |
| Retained earnings | (154,623.81) | (91,991.84) | (97,251.86) |
| Profit for the period | 11,677.85 | 5,134.67 | 5,260.02 |
| **Sub-total – Reserves** | **(142,764.74)** | **(86,675.95)** | **(91,810.62)** |
| **Total liabilities and reserves** | **19,397.59** | **17,212.37** | **6,966.54** |

## PROFIT AND LOSS ACCOUNT

| **Period ended** (€ millions) | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|
| ***Interest receivable and similar income (Note 9)*** | **318.08** | **350.79** | **279.63** |
| - From transactions with credit institutions | 77.84 | 29.51 | 44.70 |
| - From bonds and other fixed income securities | 10.83 | 12.28 | 1.97 |
| - Other interest receivable and similar income | 229.41 | 309.00 | 232.96 |
| ***Interest payable and similar charges (Note 10)*** | **(4,049.59)** | **(3,347.19)** | **(3,050.50)** |
| - On transactions with credit institutions | (152.85) | (11.04) | (46.15) |
| - On bonds and other fixed income securities | (3,896.74) | (3,336.15) | (3,004.35) |
| ***Fees payable (Note 10)*** | **(60.09)** | **(17.37)** | **(48.41)** |
| ***Gains and losses on trading securities (Note 11)*** | **(0.29)** | **(0.28)** | **(0.30)** |
| - Net profit (loss) on foreign exchange transactions | (0.29) | (0.28) | (0.30) |
| ***Gains and losses on investment securities (Note 11a)*** | **0.00** | **0.00** | **0.00** |
| - Net profit (loss) on investment securities | 0.00 | 0.00 | 0.00 |
| ***Other operating income – banking*** | **0.00** | **0.00** | **0.00** |
| ***Other operating charges – banking*** | **(0.02)** | **(0.02)** | **(0.02)** |
| **NET BANKING INCOME** | **(3,791.91)** | **(3,014.07)** | **(2,819.60)** |
| ***General operating charges (Note 13)*** | **(2.89)** | **(2.50)** | **(2.63)** |
| - Staff costs | (1.00) | (0.89) | (0.85) |
| - Other administrative expenses | (1.89) | (1.61) | (1.78) |
| ***Depreciation and impairment provisions - intangible and tangible assets*** | **(0.04)** | **(0.04)** | **(0.04)** |
| ***Other operating income*** | **15,656.58** | **8,312.03** | **8,253.66** |
| - Income relating to CRDS and CSG (Notes 12a and 12.1a) | 11,942.02 | 8,312.03 | 8,253.66 |
| - Income relating to social levies on income from property and investments Note 12.2a) | 1,607.38 | 0.00 | 0.00 |
| - Income from Retirement Reserve Fund (*Fonds de Réserve pour les Retraites – FRR*) Note 12.3) | 2,100.00 | 0.00 | 0.00 |
| - Income from property (Note 13a) | 0.43 | 0.00 | 0.00 |
| - Provisions reversed for CRDS and CSG loans (Notes 12a and 12.1a) | 6.75 | 0.00 | 0.00 |
| ***Other operating charges*** | **(184.48)** | **(160.75)** | **(171.37)** |
| - Charges relating to CRDS and CSG (Notes 12a and 12.1a) | (105.11) | (86.83) | (80.78) |
| - Charges relating to social levies on income from property and investments (Note 12.2a) | (31.47) | 0.00 | 0.00 |
| - Payments to the State (Note 14) | 0.00 | 0.00 | 0.00 |
| - Payments to social security agencies (Note 14) | 0.00 | 0.00 | 0.00 |
| - Provision for doubtful debts relating to CRDS and CSG (Notes 12a and 12.1a) | (47.89) | (73.92) | (90.58) |
| - Charges related to property (Note 13a) | (0.01) | 0.00 | (0.01) |
| **GROSS OPERATING PROFIT** | **11,677.26** | **5,134.67** | **5,260.02** |
| **OPERATING PROFIT** | **11,677.26** | **5,134.67** | **5,260.02** |

| | | | |
|---|---|---|---|
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | **11,677.26** | **5,134.67** | **5,260.02** |
| - Exceptional income (Note 15) | 0.59 | 0.00 | 0.00 |
| **NET PROFIT FOR THE PERIOD** | **11,677.85** | **5,134.67** | **5,260.02** |

## CASH FLOW STATEMENT

| **Cash flow (€ millions)** | **Period ended** | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|---|
| **Net banking income** | | **(3,792)** | **(3,014)** | **(2,820)** |
| Inflation premiums | | 287 | 170 | (18) |
| Provisions for financial instruments | | 0 | 0 | (6) |
| Amortisation of premiums and balancing payments | | (31) | (15) | (32) |
| Change in accrued interest | | 266 | 98 | 152 |
| ***Net cash from (used in) banking activities*** | ***(A)*** | ***(3,270)*** | ***(2,760)*** | ***(2,724)*** |
| **Net operating income** | | **15,469** | **8,151** | **8,082** |
| (Increase) decrease in accrued income from CRDS and CSG | | (447) | 88 | (284) |
| (Increase)/decrease in accruals on social levies set at 2.2% | | (76) | 0 | 0 |
| (Increase)/decrease in other accrued income | | 7 | (2) | 36 |
| Unearned income (FRR) | | 0 | 0 | 0 |
| ***Net cash from (used in) operating activities*** | ***(B)*** | ***14,953*** | ***8,237*** | ***7,835*** |
| ***Net cash from (used in) banking and operating activities*** | ***(C=A+B)*** | ***11,683*** | ***5,477*** | ***5,111*** |
| ***Net cash from (used in) financing activities*** | ***(D)*** | ***55,341*** | ***4,066*** | ***12,445*** |
| ***Debt assumed*** | ***(E)*** | ***(67,767)*** | ***0.00*** | ***(17,000)*** |
| ***Net cash flow for the year*** | ***(C+D+E)*** | ***(742)*** | ***9,543*** | ***557*** |
| *Cash and cash equivalents at 31 December Y-1* | | *14,497* | *4,955* | *4,398* |
| *Cash and cash equivalents at 31 December Y* | | *13,755* | *14,497* | *4,955* |
| **Net increase (decrease) in cash and cash equivalents** | | ***(742)*** | ***9,543*** | ***557*** |

The cash flow statement takes into account the following items:

- A – net cash from (used in) banking activities

This is net banking income (debts plus income from derivatives and cash instruments) less income and expenses with no effect on the cash position (provisions, amortisation of issuance and redemption premiums, accrued interest, revaluation of index-linked bonds, etc.).

- B – net cash from (used in) operating activities

This is the operating profit or loss (mainly income from CRDS and CSG, social levies on income from property and investments and from the FRR) less income and expenses with no effect on the cash position (accrued income or deferred expenses).

- C – net cash from (used in) banking and operating activities

This consists of net cash from (used in) banking and operating activities (C = A + B).

- D – net cash from (used in) financing activities

These are the cash flows resulting from debt issuance and debt repayment during the year.

- E – social security debt assumed

Social security debt assumed represents the disbursements made during the period by CADES in respect of debt assumed from social security funding organisations.

The net change in cash and cash equivalents reflects the following cash flows:

- net cash from (used in) banking and operating activities (C);

- net cash from (used in) financing activities (D); and

- social security debt assumed (E).

## OFF-BALANCE SHEET COMMITMENTS

| At (€ millions) (notes 16-18) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **COMMITMENTS GIVEN (note 18)** | | | |
| **Financing commitments** | | | |
| Annual payment to the State (Article 4.IV of Order 96-50 of 24 January 1996) | - | - | - |
| Payments to various social security bodies (Article 4.IV of Order 96-50 of 24 January 1996) | - | - | - |
| - First assumption of debt provided for by the 2011 Social Security Finance Act | 2,700.00 | 68,000.00 | - |
| - Second assumption of debt provided for by the 2011 Social Security Finance Act | 62,000.00 | 62,000.00 | - |
| Financing commitments given: acquired under repurchase agreements | 69.04 | - | - |
| **COMMITMENTS RECEIVED (note 18)** | | | |
| - From credit institutions: credit lines | 9,700.00 | 700.00 | 700.00 |
| - From credit institutions: credit lines in treasury bills | 5,000.00 | - | - |
| - Financing commitments received: borrowings | - | - | - |
| - Financing commitments received: commercial paper and lent under repurchase agreements | 81.98 | - | - |
| - Financing commitments received: payment from the Retirement Reserve Fund (*Fonds de Réserve pour les Retraites*) | 27,300.00 | 29,400.00 | - |

## NOTES TO THE FINANCIAL STATEMENTS

## HIGHLIGHTS OF THE YEAR

### ♦ Social security debts assumed

Under the 2011 Social Security Funding Act (*Loi de Financement de la Sécurité Sociale – LFSS*) 2010-1594 of 20 December 2010, CADES was required to take on the following new debts:

Firstly, up to a maximum of €68 billion and by 31 December 2011 at the latest:

- the 2009 and 2010 deficits for the three branches Sickness, Maternity, Incapacity and Death; Senior Citizens, Widows and Widowers; and Family.
- the provisional 2011 deficit for the two branches Sickness, Maternity, Incapacity and Death; and Family.

Decree 2011-20 of 5 January 2011 stipulated the dates and amounts to be paid in a total amount of €65.3 billion.

Secondly, the 2011 to 2018 deficits for the Senior Citizens, Widows and Widowers branch, subject to an overall maximum of €62 billion and a yearly maximum of €10 billion. These payments are to be made by 30 June each year as from 2012, and the details of these payments for 2012 were established by Decree 2012-329 of 7 March 2012.

This decree takes into account an adjustment of €3,080,545,413.15 in favour of CADES, arising from the difference between on the one hand the cumulative amount of the deficits recorded for 2009 and 2010 plus the provisional deficit for 2011 and, on the other hand, the amount of the payments made by CADES in 2011 under this heading.

The provisional amount of the transfers that CADES must make to ACOSS in 2012, initially set at €9,728,600,000, has been reduced by the amount of this adjustment and stands at €6,648,054,586.85.

Since the amount of the deficits for 2011 is still provisional and not approved, this adjustment has not been taken into account in the year ended 31 December 2011.

In accordance with the accounting policies which CADES applies, future deficits remaining to be assumed at 31 December 2011 have been recognised off-balance sheet as commitments given, in the

amount of €64.7 billion.

- **Other assumption of debts**

The 2012 Social Security Financing Act No. 2011-1906 of 21 December 2011 established a new assumption of debt by CADES from the Caisse Centrale de la Mutualité Sociale Agricole (CMSA) for an amount of €2,466,641,896.19, which was disbursed on 31 December 2011.

- **New resources allocated to debt coverage**

Act 2010-1594 of 20 December 2010 provides for the allocation of the following additional resources to CADES as from 2011:

- a larger share of the supplementary social security contribution (*Contribution Sociale Généralisée – CSG*), which will increase from 0.2% to 0.48% on all taxable employment income, unemployment and similar benefits, and income from property and investment proceeds; and to 0.28% on profits from gaming;
- a 1.3% share of the social levies on income from property and investments, for which the rate was set at 2.2% until 30 September 2011, then 3.4% from 1 October 2011 until 31 December 2011;
- an annual payment of €2.1 billion from the Retirement Reserve Fund (FRR) until 2024 inclusive, in accordance with the calendar established by the agreement entered into between the two institutions. The first payment was made on 26 April 2011.

♦ **Financing transactions**

**Issues**

CADES borrowed €35.22 billion:

- four new issues under the UK programme (two in USD and two in EUR) for an amount of €4.99 billion;
- eighteen new issues under the French programme (one in AUD, six in EUR, three in USD, three in GBP, two in CHF and three in NOK) for a total amount of €14.61 billion;
- twenty-seven tap issues under the French programme (twenty-three in EUR and four in GBP) for a total of €10.82 billion;
- three private placements under the German programme for a total of €1 billion;
- three issues of negotiable medium-term notes for a total of €3.8 billion.

**Redemptions**

CADES reimbursed €10.32 billion:

- six issues made under the French programme (one in EUR and five in USD) for a total of €6.23 billion;
- six issues made under the UK programme (one in EUR and five in USD) for a total of €1.24 billion;
- one issue made under the Australian programme in AUD for an amount of €0.3 billion:
- one issue made under the stand-alone programme for an amount of €2.55 billion.

**Inflation swaps**

Twelve inflation swaps matured in 2011 for a total of €485 million.

- **Credit lines**

Commitments received in 2011 comprise:

- four back-up credit lines totalling €700 million which are cancellable by the counterparty at 30 days' notice.
- four bilateral lines for the purchase of commercial paper issued by CADES for a total amount of €5 billion (€2 billion maturing on 23 August 2012, €1 billion on 17 January 2012, €1 billion on 9 March 2012 and €1 billion on 14 April 2012) ;
- a credit line of €9 billion due on 14 December 2012.

## ACCOUNTING POLICIES AND METHODS

### 1. Basis of valuation and presentation

The accounting policies adopted by CADES meet two requirements.

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

The presentation of the financial statements complies with Regulation 91-01 of 16 January 1991 as amended, issued by the French Banking and Financial Regulatory Committee (*Comité de la Réglementation Bancaire et Financière – CRBF*) relating to the preparation and publication of the individual accounts of credit institutions. In its opinion CNC 99-04, the French National Accounting Board (*Conseil National de la Comptabilité – CNC*) decided that CADES could present certain transactions in a manner specific to it. Accordingly, in its profit and loss account, CADES records operating income and expenses, which are mainly composed of the revenue drawn from the CRDS and CSG and from property transactions, and payments to the State and social security funding organisations.

These accounts are then aggregated to comply with the chart of accounts applicable to administrative public undertakings in accordance with the requirements of Instruction M9-1, before being submitted to the Government Audit Office.

### 2. Specific characteristics of CADES

CADES has been tasked with paying down the debt transferred to it. The profit or loss therefore measures its capacity to reduce its own debt, and corresponds to the resources allocated to it less the financial costs relating to its debt with third parties.

The profit and loss account should be interpreted in light of the specific mission entrusted to CADES, the sole purpose of which is to extinguish a debt over its scheduled term.

### 3. Changes in accounting policies and methods compared with previous years

No changes were made to accounting principles and methods in 2011.

## 4. Debts assumed from social security funding organisations

The payments CADES makes in respect of debts assumed from social security funding organisations in accordance with the social security deficit funding acts are recognised against the profit and loss account brought forward.

When CADES' payments to the social security bodies as determined on the basis of the provisional deficits are greater than the deficits subsequently established, an adjustment may be made in CADES' favour. These adjustments are recognised against the profit and loss account brought forward at the time of the payment.

Debts assumed in accordance with legal stipulations but for which payments have not yet been made to the organisations are recorded as off-balance sheet commitments (see Note 18).

## 5. CADES' resources

### 5.1 Contribution to the repayment of the social security debt

- Revenue explicitly allocated to CADES

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

- A broad-based tax

The tax is levied on multiple sources of income. One can distinguish:

- On the one hand, employment income and unemployment and similar benefits: salaried income, redundancy payments and retirement indemnities (under certain conditions), retirement and disability pensions, sickness and maternity benefits, housing benefits, family allowances, and child-minding benefits, etc., and
- On the other hand, income from property, from investments, from the sale of precious metals and gems, and from gaming.

Contributions assessed on employment income and employment income replacements are paid over daily by ACOSS to CADES as and when they are collected by the central agency.

Contributions assessed on other revenues are centralised by the State's financial agencies (tax collection offices, treasuries and customs and excise agencies) before being paid over to CADES.

- Collection costs borne by CADES

Article 8 of the Order of 24 January 1996 stipulates that CADES shall bear assessment and collection costs. These costs 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% withholding from the contribution paid over to CADES.

CRDS contributions levied on income from property entered in the tax assessment register by the offices of the DGFIP (*Direction Générale des Finances Publiques* or Public Finances Directorate) are paid over to CADES on the basis of register entries and not the amounts actually collected. In return, a 4.1% withholding is applied to the sums paid over to CADES to cover assessment and collection costs (0.5%) and the cost of tax reductions and bad debts (3.6%), as provided for by Article 1641 of France's General Tax Code (*Code Général des Impôts*).

Amounts collected by CADES in respect of the CRDS are reported under "Other operating income" in the profit and loss account. Assessment and collection costs are recorded under "Other operating charges".

- Accrual basis accounting

CADES applies the accruals principle in accordance with accounting standards applicable to credit institutions and Articles L114-5 and D-114-4-4 of the Social Security Code establishing the principle whereby social security agencies shall maintain accounting records on a receivable-payable basis.

Accordingly, CRDS contributions paid to collecting agencies are included in the accounts for the period regardless of the date on which these amounts were actually collected. So as to be able to recognize this income at the balance sheet date, CADES accrues this income on the basis of a notification provided by the collecting agencies indicating amounts assessed for the period not collected at the balance sheet date and CRDS contributions not yet collected by ACOSS. For the six-monthly closing at 30 June, as

CADES receives no notification from the collecting agencies it estimates accrued income based on payments received in July.

Provisions against outstanding CRDS contributions are notified to CADES by ACOSS. These provisions are calculated on a statistical basis applying an annual rate determined by reference to an ageing analysis of the receivables. They are deducted from gross amounts receivable as reported in the balance sheet. As CADES receives no notification from ACOSS for the position as at 30 June, it determines provisions against outstanding contributions on the same basis as at the previous year end.

Regarding the collection of the CRDS contributions, note that at no time does CADES act as primary collector; all the resources to which it is entitled are remitted by third parties, first and foremost ACOSS, followed by the offices of the DGFIP (*Direction Générale des Finances Publiques* or Public Finances Directorate).

CADES' responsibility is confined to verifying that the sums transferred agree to the accounting vouchers raised. The primary collecting agencies are responsible for transferring the funds, for verifying the tax base, for adjusting tax bases when applicable and for recovering past dues, in return for which these agencies receive a remuneration equivalent to 0.5% of the sums collected.

Accordingly, CADES' responsibility at revenue level is limited to substantive verifications of the accounting vouchers produced by the collecting agencies.

### 5.2 Supplementary social security contribution

Act No. 2008-1330 on the funding of the social security system for 2009 extended the mission of CADES by entrusting to it a further €27 billion of debt in respect of the health insurance deficit (€14.1 billion), old age pension deficit (€8.8 billion) and old age solidarity fund (€4 billion).

In accordance with the Organic Law of 2 August 2005, the French Parliament voted an increase in resources so as not to extend the life of CADES. This new resource corresponds to a portion of the supplementary social security contribution (*Contribution Sociale Généralisée – CSG*). Since 2009, this has been paid to CADES at the rate of 0.2%. From 2011 it was increased to 0.48% for CSG on all taxable employment income, unemployment and similar benefits, and income from property and investment proceeds; and to 0.28% on profits from gaming.

This is a broad-based tax levied on employment income and employment income replacements as well as income from property, investments and gaming.

The difference in tax base between the CRDS and CSG mainly concerns revenue from the sale of precious metals and gems, from gaming and from family benefits.

The payment circuits and methods of accounting for the CSG are the same as for the CRDS.

### 5.3 Social levies on income from property and investments

Act No. 2010-1594 of 20 December 2010 allocates to CADES, starting in 2011, a 1.3% share of the social levies on the income from property and investments referred to in Article 241-14 of the Social Security Code. The rate for these charges was set at 2.2% until 30 September 2011, then 3.4% from 1 October 2011 until 31 December 2011.

### 5.4 Resources from the Retirement Reserve Fund

Under the 2011 Social Security Funding Act (*Loi de Financement de la Sécurité Sociale – LFSS*) 2010-1594 of 20 December 2010, the Retirement Reserve Fund (*Fonds de Réserve pour les Retraites – FRR*) is required to pay CADES a total of €29.4 billion in yearly instalments of €2.1 billion no later than 31 October each year, with effect from 1 January 2011 until 2024. The two institutions concerned will draw up an agreement setting out the timing and terms and conditions governing these payments.

The annual income of €2.1 billion to be paid by the FRR as from 2011 is recognised under income for the period. It is paid in April of each year.

As at 30 June the income recognised in profit and loss corresponded to half the annual payment, or €1.05 billion.

FRR's commitment to pay amounts for subsequent years is recognised in off-balance sheet items under Other Commitments Received – Retirement Reserve Fund.

## 6. Private rental property

CADES has sold all the property transferred on 1 January 2000 to CADES in application of Article 9 of Order No. 96-50 of 24 January 1996 and recorded under "Property endowment" as a component of reserves.

Acting on behalf of CADES, CNAVTS managed the residual rights and obligations related to this property until the expiration of the agreement between the two parties on 31 December 2006. Signed in December 1999, this agreement empowered CNAVTS to do all that was necessary in connection with the administration of the properties.

Since 1 January 2007, disputes and claims have been managed internally by CADES.

CADES' Accounting Officer records expenses and revenue on the basis of the supporting documents submitted by the Authorising Officer.

## 7. Transactions denominated in foreign currencies

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

Foreign currency transactions involving balance sheet and off-balance sheet items are measured in euro at the rate of exchange ruling on the balance sheet date.

The rates used at 31 December 2011, which correspond to the reference rates communicated by the European Central Bank, are indicated in the table below:

| | | | | | |
|---|---|---|---|---|---|
| USD: | 1.2939 | SEK: | 8.9120 | GBP: | 0.8353 |
| AUD: | 1.2723 | NOK: | 7.7540 | MXN: | 18.0512 |
| CHF: | 1.2156 | NZD: | 1.6737 | HKD: | 10.0510 |
| CAD: | 1.3215 | TRY: | 2.4432 | JPY: | 100.2000 |
| ZAR: | 10.483 | | | | |

- Foreign currency income and charges are translated into euro at the exchange rate ruling on the date when they were recognised in the profit and loss account.
- Realised and unrealised foreign exchange gains and losses are recognised in the profit and loss account as operating income from banking transactions or operating charges on banking

transactions.

**8. Repurchase agreements with securities delivered**

Top-grade securities are acquired by CADES under repurchase agreements for the purpose of investing available cash balances.

Securities received under these agreements are reported under loans and advances to credit institutions.

**9. Tangible and intangible fixed assets**

Fixed assets are accounted for under the historical cost convention. Tangible fixed assets are depreciated and intangible fixed assets amortised over their estimated useful life.

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

Intangible fixed assets include software.

**10. Bonds**

Bonds issued by CADES are reported as a liability in the balance sheet at their nominal value (if redeemed at par) plus accrued interest. Foreign currency bonds are translated into euro at the exchange rate prevailing on the balance sheet date.

Bonds indexed to inflation (French consumer price index excluding tobacco for all households in Metropolitan France) are measured by reference to a predefined inflation benchmark on the balance sheet date, resulting in the recognition of a redemption premium that is reported as a liability.

Inflation benchmarks:

| | |
|---|---|
| CPI as at 31 December 2011: | 122.72226 |
| Cadesi 2013 index: | 1.22509 |
| Cadesi 2017 index: | 1.08214 |
| Cadesi 2019 index: | 1.12270 |

Cadesi 2021 index: 1.02261

When bonds are issued at a premium, this premium is accounted for as deferred charges and is therefore reported under prepayments and accrued income in the balance sheet. These charges are recognised to the profit and loss account over the life of the bonds under banking operating charges.

When bonds are issued at a discount, this discount is accounted for as deferred income. This income is recognised to the profit and loss account over the life of the bonds under banking operating income.

All costs relating to bond issues are charged to the profit and loss account on the date of issue and reported under "fees paid".

## 11. Interest rate and currency swaps

Transactions involving forward financial instruments, entered into for the purpose of hedging interest rate and currency exposure, are recognised in accordance with the regulations issued by the French Banking and Financial Regulatory Committee. Commitments in respect of these transactions are reported as off-balance sheet commitments at the contract's nominal value. Accounting principles applied differ according to the nature of these instruments and management intention at inception.

Transactions consist mainly of interest rate swaps and currency swaps entered into for hedging purposes. Interest rate swaps are entered into in compliance with the risk management policy defined by the Board of Directors. Currency swaps are entered into only for the purpose of hedging CADES' foreign exchange exposures.

Income and charges arising on forward financial instruments entered into for the purpose of hedging or managing the global interest rate exposure are recognised to profit or loss *pro rata temporis*.

Gains and losses on hedging designed to reduce the risk resulting from a particular asset or liability are taken to profit or loss and included under interest receivable and similar income or interest payable and similar charges to match income or charges recognised in respect of the hedged item.

As regards balancing cash payments arising from swaps entered into to hedge a debt instrument on inception, the portion covering issuance costs in respect of the underlying instrument is taken to profit and loss when the cash payment is recognised. This accounting method fairly reflects the asset value of issues transformed by entering into swaps involving cash payments and results in the amount equivalent to the issuance costs being recognised to profit and loss *pro rata temporis*.

## 12. Interest rate futures

Firm macro hedging transactions on organised markets (German Bund and Bobl) are recognised in accordance with the regulations issued by the French Banking and Financial Regulatory Committee. Sales of financial futures (Euro Bund and Euro Bobl futures) are recognised as off-balance sheet items for their nominal value. Margin calls are recognised directly to profit or loss. Initial margins are accounted for as deposits paid and reported as assets in the balance sheet. Finally, brokerage fees – which represent trading fees on the sale or purchase of Bunds or Bobls – are recognised directly to profit or loss.

## 13. Provisions

No general provisions for liabilities and charges are recognised by CADES. When appropriate, provisions in respect of identified risks are set aside in accordance with applicable accounting principles.

## 14. Taxation

CADES is not assessed to business taxes (corporation tax, value added tax and local business tax) or to apprenticeship tax. The only tax it pays is the payroll tax.

Note that profits on the sale of property transferred by the social security agencies did not give rise to the payment of corporation tax.

## 15. Counterparty risk

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

For both types of transactions, CADES has signed market agreements modelled on the master agreement drawn up by the French Banking Association (*Fédération Bancaire Française – FBF*) providing for daily margin calls (for investment transactions) and weekly margin calls (for off-balance sheet transactions).

1. Investment transactions

CADES invests cash balances mainly in securities delivered under repurchase agreements but may also buy government securities outright. In exchange for the loan extended to a counterparty, CADES

receives full ownership of a government security (OAT, BTAN, BTF) or government-guaranteed security over the term of the repurchase agreement. Most repurchase agreements are negotiated with French Treasury bond dealers (*Spécialiste en Valeurs du Trésor – SVT*) or with counterparties with a double-A rating.

Margins calls are carried out daily by CADES to provide additional protection against significant fluctuations in market prices for the securities received as collateral.

2. Off-balance sheet transactions

To manage its interest rate risk and eliminate the currency risk, CADES enters into transactions in the derivatives markets involving instruments such as interest rate swaps, currency swaps and asset swaps. By using triggers set by reference to each counterparty's rating and by carrying out weekly margin calls, CADES significantly reduces the residual risk of default on these instruments.

## 16. Transactions involving investment securities

The portfolio of investment securities is valued in accordance with Regulation 90-01 (as amended) issued by the French Banking and Financial Regulatory Committee. This portfolio, which consists of fixed income government securities, is reported in the balance sheet under treasury bills and other bills eligible for refinancing with central banks.

Securities are reported in the balance sheet at their acquisition cost. Interest income is reported under interest receivable and similar income from bonds and other fixed income securities.

Unrealised losses give rise to a provision for impairment determined by reference to the most recent quoted price. These provisions are determined individually.

Provisions for impairment set aside and reversed and gains and losses on the sale of investment securities are reported in the profit and loss account under gains and losses on investment securities.

**NOTES**

## BALANCE SHEET

*At 31 December 2011, the balance sheet showed total assets of €19.40 billion for total debt of €162.16 billion resulting in negative reserves of €142.76 billion.*

***ASSETS***

***Note 1: Treasury and interbank transactions***

| At (€ millions) | | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|---|
| **CENTRAL BANKS** | | **8,438.91** | **1,200.34** | **983.44** |
| Central banks | | 8,438.91 | 1,200.34 | 983.44 |
| **TREASURY BILLS AND OTHER BILLS ELIGIBLE FOR REFINANCING WITH CENTRAL BANKS** | | **150.01** | **12,166.95** | **2,284.57** |
| Government securities with a maturity of less than 3 months | | 150.00 | 12,157.00 | 2,284.10 |
| Accrued interest | | 0.01 | 9.95 | 0.47 |
| **LOANS AND ADVANCES TO CREDIT INSTITUTIONS** | | **5,166.28** | **1,129.77** | **1,686.71** |
| **Repayable at sight** | | **0.75** | **0.29** | **0.37** |
| Debit balances on ordinary accounts | | 0.75 | 0.29 | 0.37 |
| Securities received under open repurchase agreements | | 0.00 | 0.00 | 0.00 |
| Accrued interest | | 0.00 | 0.00 | 0.00 |
| **Repayable at term** | | **5,165.53** | **1,129.48** | **1,686.34** |
| Securities received under term repurchase agreements with a maturity of less than 3 months | | 5,164.82 | 1,129.34 | 1,686.16 |
| Of which: | Treasury bills | 0.00 | 0.00 | 442.67 |
| | Bonds | 1,500.00 | 403.41 | 1,163.74 |
| | Own securities | 3,664.82 | 725.93 | 79.75 |
| Accrued interest | | 0.71 | 0.14 | 0.18 |
| **Total** | | **13,755.20** | **14,497.06** | **4,954.72** |

Balances with central banks correspond to the euro-denominated account held by CADES with Banque

de France.

***Note 2: Intangible and tangible fixed assets***

| ***At (€ millions)*** | ***Gross value at 1 January 2011*** | ***Acquisitions*** | ***Disposals*** | ***Gross value at 31 December 2011*** | ***Amortisation and depreciation*** | ***31 December 2011 Net book value*** | ***31 December 2010 Net book value*** | ***31 December 2009 Net book value*** |
|---|---|---|---|---|---|---|---|---|
| ***Intangible assets*** | ***0.22*** | ***0.01*** | ***0.00*** | ***0.23*** | ***0.22*** | ***0.01*** | ***0.00*** | ***0.00*** |
| Software | 0.22 | 0.00 | 0.00 | 0.22 | 0.22 | 0.00 | 0.00 | 0.00 |
| Other | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.00 |
| ***Tangible assets*** | ***0.69*** | ***0.03*** | ***0.00*** | ***0.72*** | ***0.56*** | ***0.16*** | ***0.17*** | ***0.21*** |
| Sundry equipment | 0.69 | 0.03 | 0.00 | 0.72 | 0.56 | 0.16 | 0.17 | 0.21 |
| ***Total*** | ***0.91*** | ***0.04*** | ***0.00*** | ***0.95*** | ***0.78*** | ***0.17*** | ***0.17*** | ***0.21*** |

*Intangible and tangible assets reflect the value of the software and equipment acquired by CADES, net of related amortisation and depreciation.*

***Note 3: Other assets***

| At<br>(€ millions) | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **SUNDRY DEBTORS** | **179.12** | **49.41** | **260.42** |
| Deposits paid by way of initial margins | 113.72 | 0.00 | 213.22 |
| *- Deposits* | *113.54* | *0.00* | *212.99* |
| *- Accrued interest* | *0.18* | *0.00* | *0.23* |
| Outstanding CRDS and CSG contributions to be collected by ACOSS | 65.40 | 49.41 | 47.20 |
| *- Gross amounts receivable* | *449.77* | *392.65* | *316.52* |
| *- Provisions* | *(384.37)* | *(343.24)* | *(269.32)* |
| Other debtors in respect of financial transactions | 0.00 | 0.00 | 0.00 |
| Other debtors in respect of operating charges | 0.00 | 0.00 | 0.00 |
| Other sundry debtors – CNAV | 0.00 | 0.00 | 0.00 |
| *- Gross amounts receivable* | *1.18* | *1.61* | *1.61* |
| *- Provisions* | *(1.18)* | *(1.61)* | *(1.61)* |
| **Total** | **179.12** | **49.41** | **260.42** |

Other assets comprise:

- Deposits paid by way of initial margins in connection with forward contracts entered into to hedge counterparty risk amounting to €113.72 million.
- Outstanding CRDS and CSG contributions to be collected by ACOSS amounting to €65.40 million. Provisions totalling €384.37 million have been deducted from the gross amounts receivable of €449.77 million.
- A receivable of €1.18 million, consisting of the balance of damages and interest amounting to €1.04 million claimed from a buyer who reneged on a commitment to purchase a group of buildings and sundry debtor balances totalling €0.14 million due from tenants and buyers for which legal proceedings are being managed by CNAVTS. These amounts were provisioned in full at 31 December 2011.

Movements in provisions against outstanding CRDS and CSG contributions to be collected by ACOSS and in respect of sundry debtors are detailed in the table below:

| At<br>(€ millions) | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **Provisions brought forward** | **344.85** | **270.93** | **180.77** |
| Provisions set aside – property | 0.00 | 0.00 | 0.00 |
| Provisions set aside – CRDS and CSG | 47.89 | 73.92 | 90.58 |
| Provisions reversed – property | (0.43) | 0.00 | 0.00 |
| Provisions reversed – CRDS and CSG | (6.75) | 0.00 | (0.42) |
| **Provisions carried forward** | **385.56** | **344.85** | **270.93** |

**Note 4: Prepayments and accrued income**

| At<br>(€ millions) | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **ACCRUED INCOME** | **1,729.96** | **1,315.90** | **1,384.73** |
| On forward interest rate instruments | 158.52 | 225.09 | 221.39 |
| On forward currency instruments | 275.06 | 320.30 | 305.04 |
| On CRDS and CSG revenues | 1,217.68 | 770.51 | 858.30 |
| On revenue from social levies on income from property and investment | 76.27 | 0.00 | 0.00 |
| On property sales | 0.00 | 0.00 | 0.00 |
| Other accrued income | 2.43 | 0.00 | 0.00 |
| **CONTINGENT LOSSES AND LOSSES TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS** | **22.63** | **13.34** | **19.22** |
| **DEFERRED CHARGES** | **249.94** | **237.74** | **268.51** |
| Issuance premiums on bonds and EMTN | 294.94 | 237.74 | 268.51 |
| Other deferred charges | 0.00 | 0.00 | 0.00 |
| **PREPAYMENTS** | **42.52** | **12.01** | **8.16** |
| Prepaid administrative expenses | 0.06 | 0.01 | 0.05 |
| Prepaid interest on negotiable debt instruments | 42.46 | 12.00 | 8.11 |
| Other prepayments | 0.00 | 0.00 | 0.00 |
| **OTHER** | **3,373.05** | **1,086.74** | **70.57** |
| Currency adjustment accounts | 3,373.05 | 1,086.54 | 70.40 |
| Property rental adjustment account | 0.00 | 0.00 | 0.00 |
| Sundry | 0.00 | 0.20 | 0.17 |
| **Total** | **5,463.10** | **2,665.73** | **1,751.19** |

Prepayments and accrued income consist of transactions affecting the profit and loss account independently of the date on which the corresponding income is paid or collected. They include:

- accrued income relating to CRDS and CSG contributions for €1,217.68 million, social levies for €76.27 million, financial (interest rate) instruments for €158.52 million, currency instruments for €275.06 million and interest on the account with Banque de France for €2.43 million.
- issuance premiums on bonds and EMTN amounting to €294.94 million to be recognised in profit and loss over time.
- prepayments amounting to €42.52 million, which consist mainly of prepaid interest on the issue of negotiable debt instruments.
- currency adjustment accounts amounting to €3,373.05 million, being technical accounts used to recognize to profit and loss adjustments arising on the measurement of off-balance sheet commitments.

## *LIABILITIES AND RESERVES*

Reserves consist of the profit and loss account brought forward, the profit or loss for the period and the property endowment.

At 31 December 2011, CADES had negative reserves of €142,764.74 million. These negative reserves correspond to the debt transferred to CADES amounting to €34,148.5 million, €47,310 million pursuant to the Act of 13 August 2004, €27,000 million pursuant to the Act of 17 December 2008, €65,300 million pursuant the Act of 20 December 2010 and €2,466.65 million pursuant to the Act of 21 December 2011, less amounts that have been credited to reserves and which are composed of the accumulated profits generated by CADES since 1996 amounting to €33,214.49 million, of which €11,677.85 in 2011, the property endowment on 1 January 2000 amounting to €181.22 million, and the payment received from ACOSS amounting to €64.7 million by way of an adjustment of the deficits assumed by CADES from 1999 to 2006.

Liabilities, which amounted to €162,162.12 million at 31 December 2011, consist mainly of debts to credit institutions amounting to €1,026.47 million, debts evidenced by securities totalling €156,927.63, deposits in guarantee received and others totalling €3,418.79 million and accruals and deferred income totalling €789.23 million.

### ***Note 5: Treasury and interbank transactions***

| **At** | **31 December 2011** | | | | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|---|---|---|---|
| **(€ millions)** | **Up to 3 months** | **Over 3 months and up to 1 year** | **Over 1 year and up to 5 years** | **Over 5 years** | **Total** | **Total** | **Total** |
| **AMOUNTS OWED TO CENTRAL BANKS** | | | | | | | |
| **Amounts owed to credit institutions** | **26.56** | **999.91** | **0.00** | **0.00** | **1,026.47** | **0.00** | **151.11** |
| **At sight** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| Credit balances on ordinary accounts | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **At term** | **26.56** | **999.91** | **0.00** | **0.00** | **1,026.47** | **0.00** | **151.11** |
| Securities given under repurchase agreements | 26.00 | 0.00 | 0.00 | 0.00 | 26.00 | 0.00 | 0.00 |
| Accounts and deposits | 0.00 | 998.00 | 0.00 | 0.00 | 998.00 | 0.00 | 151.11 |
| Of which: Euro | 0.00 | 998.00 | 0.00 | 0.00 | 998.00 | 0.00 | 50.00 |
| Other currencies | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 101.11 |
| Accrued interest | 0.56 | 1.91 | 0.00 | 0.00 | 2.47 | 0.00 | 0.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total** | **26.56** | **999.91** | **0.00** | **0.00** | **1,026.47** | **0.00** | **151.11** |

***Note 6: Debts evidenced by securities***

| **At** | **31 December 2011** | | | | | **31 December 2010** | **31 December 2009** |
|---|---|---|---|---|---|---|---|
| **(€ millions)** | **Up to 3 months** | **Over 3 months and up to 1 year** | **Over 1 year and up to 5 years** | **Over 5 years** | **Total** | **Total** | **Total** |
| **NEGOTIABLE DEBT INSTRUMENTS** | **31,166.08** | **11,714.60** | **0.00** | **0.00** | **42,880.68** | **8,446.45** | **10,587.56** |
| Treasury bills denominated in euro | 7,892.50 | 2,273.00 | 0.00 | 0.00 | 10,165.50 | 10.00 | 100.00 |
| Treasury bills denominated in other currencies | 186.96 | 164.78 | 0.00 | 0.00 | 351.74 | 0.00 | 348.98 |
| MTN denominated in euro | 3,806.00 | 0.00 | 0.00 | 0.00 | 3,806.00 | 11.00 | 11.00 |
| Commercial paper denominated in euro | 2,489.55 | 1,970.50 | 0.00 | 0.00 | 4,460.05 | 0.00 | 1,279.30 |
| Commercial paper denominated in other currencies | 16,790.35 | 7,302.04 | 0.00 | 0.00 | 24,092.39 | 8,425.45 | 8,848.28 |
| Other negotiable debt instruments denominated in foreign currencies | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Accrued interest | 0.72 | 4.28 | 0.00 | 0.00 | 5.00 | 0.00 | 0.00 |
| **BONDS** | **1,580.14** | **10,627.52** | **55,941.93** | **45,897.36** | **114,046.95** | **92,798.48** | **86,366.93** |
| Bonds and EMTN denominated in euro | 0.00 | 6,500.00 | 32,922.78 | 43,633.86 | 83,056.64 | 65,656.21 | 64,764.41 |
| Bonds and EMTN denominated in other currencies | 154.57 | 3,890.23 | 23,019.15 | 2,263.50 | 29,327.45 | 25,773.15 | 20,346.85 |
| Accrued interest | 1,425.57 | 237.29 | 0.00 | 0.00 | 1,662.86 | 1,369.12 | 1,255.67 |
| **Total** | **32,746.22** | **22,342.12** | **55,941.93** | **45,897.36** | **156,927.63** | **101,244.93** | **96,954.49** |

One of the euro issues, for €200 million with a €100 million tap maturing in 2025, is subject to early redemption at the counterparty's option from 2021. The four medium-term negotiable notes totalling €3,806 million are subject to optional partial or total early redemption on each coupon date.

**Debts evidenced by certificates are analyzed below:**

They comprise negotiable debt instruments totalling €42,880.68 million, and bonds and similar instruments totalling €114,046.95 million.

Bonds and similar instruments are issued under:

- a French issuance programme for which the limit is €75 billion;
- a UK issuance programme for which the limit is €65 billion;
- an Australian issuance programme for which the limit is AUD 6 billion;
- a stand-alone programme consisting of bond issues, private placements and MTN issues.

All in all, debts evidenced by securities maturing within one year totalled €55,088.34 million and by those maturing at over five years €45,897.36 million, compared with €20,819.31 million and €38,386.29 million respectively at 31 December 2010. Debt due to mature between at between one and five years went from €42,039.33 million at 31 December 2010 to €55,941.93 million at 31 December 2011.

The tables below detail borrowings by programme.

€ millions

| Programme | Issue date | Maturity date | Nominal value (issue currency) | Currency | Type | Nominal interest rate | ISIN code |
|---|---|---|---|---|---|---|---|
| **Australia** | 10/12/2009 | 10/12/2012 | 500 | AUD | EMTN | BBSW + 0.4% | AU3FN0009650 |
| | 28/02/2008 | 28/02/2013 | 1,000 | AUD | EMTN | 7.50% | AU3CB0058196 |
| **Stand-alone** | 27/03/1998 | 25/10/2012 | 3,000 | EUR | bond | 5.25% | FR0000571366 |
| | 21/11/2011 | 22/11/2012 | 1,860 | EUR | BMTN | 3-month Euribor-margin | FR0120251238 |
| | 28/11/2011 | 28/11/2012 | 1,340 | EUR | BMTN | 3-month Euribor-margin | XS0710324186 |
| | 28/11/2011 | 28/05/2013 | 595 | EUR | BMTN | 3-month Euribor-margin | FR0120251253 |
| | 01/04/1999 | 25/07/2013 | 3,100 | EUR | bond | CADESI 3.15% | FR0000492308 |
| | 11/10/2004 | 25/10/2014 | 4,400 | EUR | bond | 4.00% | FR0010120410 |
| | 09/02/2005 | 25/04/2015 | 3,000 | EUR | bond | 3.625% | FR0010163329 |
| | 09/12/2004 | 25/07/2019 | 2,400 | EUR | bond | CADESI 1.85% | FR0010137554 |
| | 21/12/2004 | 25/10/2019 | 5,000 | EUR | bond | 4.00% | FR0010143743 |
| | 27/05/2005 | 25/10/2020 | 4,000 | EUR | bond | 3.75% | FR0010198036 |
| | 19/07/2004 | 30/12/2013 | 11 | EUR | BMTN | 3-month Euribor-0.17% | FR0107096036 |
| **Germany** | 28/11/2011 | 25/04/2022 | 151 | EUR | Private Plct | 4% | |
| | 29/07/2011 | 19/12/2025 | 615 | EUR | Private Plct | 3.91% | |
| | 25/11/2011 | 19/12/2025 | 232 | EUR | Private Plct | 4.50% | |
| **UK** | 27/01/2009 | 27/01/2012 | 200 | USD | EMTN | 1.97% | XS0410258916 |
| | 13/04/2004 | 13/04/2012 | 100 | USD | EMTN | 3.72% | XS01899224003 |

€ millions

| Programme | Issue date | Maturity date | Nominal value (issue currency) | Currency | Type | Nominal interest rate | ISIN code |
|---|---|---|---|---|---|---|---|
| UK | 16/04/2004 | 16/04/2012 | 100 | USD | EMTN | 3.80% | XS0190054618 |
| | 23/12/2002 | 20/12/2012 | 26 | USD | EMTN | 0.50% | XS0159498640 |
| | 06/08/2007 | 06/03/2013 | 50 | EUR | EMTN | 4.442% | XS0314647149 |
| | 25/11/2008 | 25/10/2013 | 200 | USD | EMTN | 3.40% | XS0400917349 |
| | 15/12/2004 | 16/12/2013 | 100 | USD | EMTN | 4.51% | XS0207591271 |
| | 15/12/2008 | 16/12/2013 | 250 | USD | EMTN | 2.66% | XS040503800 |
| | 17/03/2011 | 17/03/2014 | 500 | EUR | bond | 1.09% | XS0605979870 |
| | 11/07/2011 | 11/07/2014 | 2,500 | USD | bond | 1.25% | US12802NAB01 |
| | 30/06/2005 | 30/06/2015 | 25 | AUD | EMTN | 5.64% | XS0222727058 |
| | 31/03/2011 | 31/03/2016 | 2,500 | USD | bond | 2.375% | US12802DAA46 |
| | 07/03/2011 | 07/03/2018 | 1,000 | EUR | bond | 3.25% | XS0599789343 |
| | 27/06/2007 | 27/06/2020 | 10 | EUR | EMTN | Formula-based variable rate | XS0306775528 |
| | 27/06/2007 | 27/12/2021 | 20 | EUR | EMTN | Formula-based variable rate | XS0307053271 |
| France | 29/01/2009 | 25/04/2012 | 3,500 | EUR | bond | 2.625% | FR0010718338 |
| | 22/06/2009 | 22/06/2012 | 2,000 | HKD | EMTN | 3-month Hibor + 0.05% | FR0010772442 |
| | 23/06/2009 | 25/06/2012 | 1,000 | HKD | EMTN | 3-month Hibor + 0.05% | FR0010772459 |
| | 06/07/2009 | 06/07/2012 | 1,000 | USD | EMTN | 2.25% | FR0010776674 |
| | 17/07/2007 | 17/07/2012 | 1,000 | USD | EMTN | 5.375% | FR0010500843 |
| | 25/02/2009 | 25/07/2012 | 200 | CHF | bond | 1.50% | CH0012600398 |
| | 27/10/2009 | 26/10/2012 | 700 | USD | EMTN | 3-month USD LIBOR | FR0010816264 |
| | 27/11/2009 | 27/11/2012 | 1,000 | USD | EMTN | 1.625% | FR0010827246 |
| | 23/03/2006 | 15/01/2013 | 1,000 | USD | EMTN | 5% | FR0010306340 |
| | 21/01/2010 | 21/03/2013 | 500 | EUR | EMTN | 2.125% | FR0010844563 |
| | 04/11/2005 | 25/04/2013 | 3,000 | EUR | bond | 3.25% | FR0010249763 |
| | 17/06/2011 | 17/06/2013 | 600 | GBP | bond | 3-month GBP Libor + 0.15% | FR0011062504 |
| | 08/04/2008 | 15/07/2013 | 1,000 | USD | EMTN | 3.25% | FR0010606442 |
| | 28/07/2010 | 29/07/2013 | 2,000 | USD | bond | 1.375% | FR0010925446 |
| | 04/09/2008 | 04/09/2013 | 3,000 | EUR | bond | 4.500% | FR0010660100 |
| | 15/10/2010 | 15/10/2013 | 1,500 | USD | bond | 0.875% | FR0010950675 |
| | 18/11/2011 | 18/11/2013 | 2,000 | EUR | bond | 1.750% | FR0011147701 |
| | 25/01/2011 | 27/01/2014 | 2,500 | USD | bond | 1.375% | FR0010998104 |
| | 12/03/2009 | 12/03/2014 | 12,000 | JPY | EMTN | 3-month JPY LIBOR + 0.45% | FR0010734327 |
| | 25/02/2011 | 17/03/2014 | 1,500 | USD | bond | 1.625% | FR0011012731 |

€ millions

| Programme | Issue date | Maturity date | Nominal value (issue currency) | Currency | Type | Nominal interest rate | ISIN code |
|---|---|---|---|---|---|---|---|
| | 18/03/2011 | 18/03/2014 | 1,000 | USD | bond | 3-month USD LIBOR + 0.125% | FR0011023126 |
| | 08/04/2009 | 08/04/2014 | 34,000 | JPY | EMTN | 3-month JPY LIBOR + 0.55% | FR0010745299 |
| | 30/06/2011 | 30/06/2014 | 400 | GBP | bond | 3-month GBP LIBOR + 0.25% | FR0011071323 |
| | 01/07/2009 | 01/07/2014 | 1,000 | USD | EMTN | 3.50% | FR0010775239 |
| | 02/07/2009 | 02/07/2014 | 1,200 | USD | EMTN | 3-month USD LIBOR + 0.4% | FR0010776054 |
| | 18/06/2009 | 08/09/2014 | 525 | GBP | EMTN | 3.750% | FR0010770511 |
| | 22/10/2009 | 22/10/2014 | 1,250 | USD | EMTN | 2.875% | FR0010815332 |
| | 13/09/2011 | 24/11/2014 | 200 | AUD | bond | 3-month AUD Libor + 0.4% | FR0011113307 |
| | 08/12/2009 | 15/01/2015 | 3,375 | EUR | bond | 2.625% | FR0010831669 |
| | 26/01/2010 | 26/01/2015 | 95 | GBP | EMTN | 3-month GBP LIBOR + 0.02% | FR0010850156 |
| | 25/02/2009 | 25/02/2015 | 150 | CHF | bond | 2.125% | CH0012601446 |
| | 02/03/2010 | 02/03/2015 | 1,000 | USD | bond | 2.875% | FR0010862581 |
| | 22/04/2010 | 22/04/2015 | 156 | AUD | EMTN | BBSW + 0.28% | FR0010889725 |
| | 15/09/2010 | 15/09/2015 | 1,500 | USD | EMTN | 1.875% | FR0010941732 |
| | 16/09/2010 | 07/12/2015 | 700 | GBP | EMTN | 2.250% | FR0010942086 |
| | 08/04/2009 | 08/04/2016 | 25,000 | JPY | EMTN | 3-month JPY LIBOR + 0.65% | FR0010745307 |
| | 16/02/2011 | 25/02/2016 | 4,000 | EUR | bond | 3% | FR0011008366 |
| | 08/03/2006 | 25/04/2016 | 5,300 | EUR | bond | 3.625% | FR0010301747 |
| | 02/11/2006 | 02/11/2016 | 1,250 | USD | EMTN | 5.25% | FR0010394452 |
| | 14/12/2009 | 14/12/2016 | 150 | USD | EMTN | 3-month USD LIBOR + 55bp | FR0010831891 |
| | 20/03/2007 | 20/03/2017 | 450 | MXN | EMTN | 7.93% | FR0010449355 |
| | 12/04/2007 | 25/04/2017 | 3,800 | EUR | bond | 4.125% | FR0010456434 |
| | 28/07/2006 | 25/07/2017 | 2,000 | EUR | bond | CADESI 1.85% | FR0010359679 |
| | 07/03/2008 | 20/12/2017 | 35 | GBP | EMTN | 3-month GBP LIBOR - 0.3705% | FR0010594366 |
| | 20/01/2011 | 15/10/2018 | 300 | GBP | bond | 3.75% | FR0010994376 |
| | 26/10/2006 | 26/10/2018 | 400 | CAD | EMTN | 4.45% | FR0010386110 |
| | 10/06/2009 | 25/04/2020 | 4,250 | EUR | bond | 4.250% | FR0010767566 |
| **France** | 02/07/2010 | 02/07/2020 | 200 | EUR | EMTN | 3-month Euribor + 0.23% | FR0010917534 |
| | 25/10/2004 | 25/07/2020 | 1,000 | EUR | EMTN | Max[0;((1+TEC100-1%)^0.25)-1] | FR0010120436 |
| | 26/10/2010 | 26/10/2020 | 1,000 | USD | bond | 3.00% | FR0010956565 |
| | 21/04/2009 | 21/04/2021 | 200 | CHF | bond | 3.00% | CH0100525382 |
| | 29/06/2010 | 25/04/2021 | 5,750 | EUR | bond | 3.375% | FR0010915660 |
| | 10/02/2011 | 25/07/2021 | 3,255 | EUR | bond | CADESI | FR0011003672 |

€ millions

| Programme | Issue date | Maturity date | Nominal value (issue currency) | Currency | Type | Nominal interest rate | ISIN code |
|---|---|---|---|---|---|---|---|
| | 25/07/2006 | 25/10/2021 | 5,430 | EUR | bond | 4.375% | FR0010347989 |
| | 19/04/2011 | 19/04/2023 | 200 | CHF | bond | 2.375% | CH0127860192 |
| | 18/04/2011 | 25/04/2023 | 4,424 | EUR | bond | 4.125% | FR0011037001 |
| | 01/12/2011 | 01/12/2025 | 800 | NOK | bond | 5.120% | FR0011153097 |
| | 18/08/2011 | 18/08/2025 | 262.5 | EUR | bond | 3.625% | FR0011092261 |
| | 15/11/2011 | 15/11/2025 | 800 | NOK | bond | 4.700% | FR0011142215 |
| | 09/03/2011 | 09/12/2025 | 150 | CHF | bond | 2.50% | CH0124739902 |
| | 12/07/2011 | 19/12/2025 | 800 | NOK | bond | 4.80% | FR0011074178 |
| | 01/04/2011 | 20/12/2025 | 300 | EUR | bond | 3.80% | FR0011027929 |

## ***Note 6a: Analysis of transactions in euro and foreign currencies before and after hedging***

This note analyzes the effect of hedging transactions on the initial debt and breaks down interest rates before and after hedging. It provides both accounting and financial information related to the value and hedging of instruments at maturity.

| € millions | Initial debt | | Hedging transactions | | Final debt | |
|---|---|---|---|---|---|---|
| | Foreign currencies | Euros | Foreign currencies | Euros | Foreign currencies | Euros |
| **Euro-denominated debt** | | **102,486** | | **50,480** | | **152,966** |
| **Foreign currency denominated debt** | | **€ equiv. at 31 Dec. 2011** | | **€ equiv. at 31 Dec. 2011** | | |
| CHF | 1,765 | 1,452 | -1,765 | -1,452 | 0 | 0 |
| GBP | 6,922 | 8,287 | -6,922 | -8,287 | 0 | 0 |
| JPY | 80,620 | 805 | -80,620 | -805 | 0 | 0 |
| USD | 51,862 | 40,082 | -51,862 | -40,082 | 0 | 0 |
| HKD | 3,404 | 339 | -3,404 | -339 | 0 | 0 |
| SEK | 70 | 8 | -70 | -8 | 0 | 0 |
| AUD | 2,495 | 1,961 | -2,495 | -1,961 | 0 | 0 |
| NOK | 2,400 | 310 | -2,400 | -310 | 0 | 0 |
| NZD | 203 | 121 | -203 | -121 | 0 | 0 |
| SGD | 20 | 12 | -20 | -12 | 0 | 0 |
| CAD | 490 | 371 | -490 | -371 | 0 | 0 |
| MXN | 450 | 25 | -450 | -25 | 0 | 0 |
| **Sub-total foreign currencies** | | **53,772** | | **-53,772** | | **0** |
| **Total** | | **156,258** | | **-3,292** | | **152,966** |

The table above provides a breakdown of the initial nominal debt by issuance currency. Since all transactions in foreign currencies have been hedged, the debt of CADES is effectively entirely in euro. Hedging transactions have enabled CADES to eliminate the impact of exchange rate fluctuations on its debt.

The table below shows the breakdown of debt by interest rate type. Hedging impacts the initial breakdown, such that in the final analysis, 51%(1) of the debt bears fixed rates, 41% floating rates and 8% rates indexed to inflation.

**Breakdown of debt in euro and foreign currencies before and after hedging**

| | Initial debt | | | | Hedging transactions | | Final debt | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(€ millions)** | **Foreign currencies** | **Euros** | **Total** | **%** | **Foreign currencies** | **Euros** | **Foreign currencies** | **Euros** | **Total** | **%** |
| **Fixed rates** | | | | | | | | | | |
| Negotiable debt instruments | 0 | | 0 | | 0 | 0 | 0 | 0 | 0 | |
| Bonds, EMTN and MTN | 23,698 | 69,342 | 93,040 | | -23,698 | 8,757 | 0 | 78,099 | 78,099 | |
| Private placements | 0 | | 0 | | 0 | 0 | 0 | 0 | 0 | |
| Macro hedging swaps | 0 | | 0 | | 0 | 0 | 0 | 0 | 0 | |
| **Total fixed rates** | **23,698** | **69,341** | **93,040** | **59** | **-23,698** | **8,757** | **0** | **78,099** | **78,099** | **51** |
| **Floating rates** | | | | | | | | | | |
| Negotiable debt instruments | 24,444 | 14,626 | 39,070 | | -24,444 | 23,172 | 0 | 37,797 | 37,797 | |
| Bonds, EMTN and MTN | 5,629 | 5,536 | 11,165 | | -5,629 | 18,550 | 0 | 24,086 | 24,086 | |
| Private placements | | 998 | 998 | | 0 | 0 | 0 | 998 | 998 | |
| Macro hedging swaps | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | |
| **Total floating rates** | **30,073** | **21,160** | **51,233** | **33** | **-30,073** | **41,722** | **0** | **62,882** | **62,882** | **41** |
| **Indexed rates** | | | | | | | | | | |
| Bonds | 0 | 11,985 | 11,985 | | 0 | 0 | 0 | 11,985 | 11,985 | |
| Macro hedging swaps | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | |
| **Total indexed rates** | **0** | **11,985** | **11,985** | **8** | **0** | **0** | **0** | **11,985** | **11,985** | **8** |
| **Total** | **53,772** | **102,486** | **156,258** | **100** | **0** | **-3,292** | **0** | **152,966** | **152,966** | **100** |

(1) Includes €3,061 million that corresponds to the hedging of swaps cancellable at the initiative of the counterparties. If the swap is cancelled by the counterparty, the hedged position reverts to a variable rate. Based on market rates at 31 December 2011, the swap cancellation options held by counterparties were significantly out of the money, making the likelihood of a reversion to a variable rate virtually nil.

**Note 7: Other liabilities**

| At (€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **DEPOSITS RECEIVED BY WAY OF INITIAL MARGINS** | **3,352.60** | **1,971.38** | **173.16** |
| - Deposits | 3,351.43 | 1,970.82 | 173.14 |
| - Accrued interest | 1.17 | 0.56 | 0.02 |
| **OTHER CREDITORS IN RESPECT OF FINANCIAL TRANSACTIONS** | **3.09** | **2.24** | **1.67** |
| **OTHER CREDITORS IN RESPECT OF OPERATING CHARGES** | **63.10** | **44.92** | **47.27** |
| Payments to the State | 0.00 | 0.00 | 0.00 |
| Tax | 0.02 | 0.02 | 0.02 |
| Social security | 0.00 | 0.07 | 0.07 |
| Trade creditors | 0.01 | 0.00 | 0.01 |
| Sundry creditors – ACOSS | 63.07 | 44.83 | 47.17 |
| Other sundry creditors | 0.00 | 0.00 | 0.00 |
| **Total** | **3,418.79** | **2,018.54** | **222.10** |

Other liabilities correspond to:

- Deposits received by way of initial margins in respect of contracts on forward markets and repurchase agreements put in place to hedge counterparty risk, amounting to €3,351.43 million at 31 December 2011;
- Accrued interest on margin calls amounting to €1.17 million;
- Commission payable on commercial paper amounting to €3.09 million;
- Credit balance with ACOSS amounting to €63.07 million, consisting of taxpayer credit notes received from ACOSS;
- Tax payable amounting to €0.02 million;
- Trade creditors in the amount of €0.01 million.

***Note 8: Accruals, deferred income and provisions***

| At (€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **ACCRUALS** | **340.49** | **354.06** | **351.57** |
| Accruals on forward interest rate instruments | 192.48 | 286.57 | 297.82 |
| Accruals on forward currency instruments | 139.27 | 59.70 | 46.02 |
| Fees payable in respect of market transactions | 0.00 | 0.01 | 0.01 |
| Accruals in respect of operating charges | 0.15 | 0.24 | 0.14 |

| | | | |
|---|---|---|---|
| Accruals in respect of CRDS and CSG collection costs | 6.82 | 4.53 | 4.90 |
| Accruals in respect of revenue from social levies on income from property and investments | 1.36 | 0.00 | 0.00 |
| Other accruals | 0.41 | 3.01 | 2.68 |
| **CONTINGENT GAINS AND GAINS TO BE SPREAD ON FORWARD FINANCIAL INSTRUMENTS** | **45.53** | **34.21** | **33.25** |
| **UNEARNED INCOME** | **397.40** | **214.61** | **190.40** |
| Issuance premiums on bonds | 397.39 | 201.65 | 189.61 |
| Issuance premiums on government securities | 0.01 | 12.96 | 0.79 |
| Other unearned income | 0.00 | 0.00 | 0.00 |
| **OTHER** | **5.81** | **21.79** | **874.08** |
| Currency adjustment accounts | 5.73 | 21.71 | 874.04 |
| Sundry | 0.08 | 0.08 | 0.04 |
| **Total** | **789.23** | **624.67** | **1,449.30** |

Accruals and deferred income consist of transactions affecting the profit and loss account independently of the date on which the corresponding income is paid or collected. They include notably:

- Accrued expenses in respect of interest rate swaps amounting to €192.48 million, forward currency transactions for €139.27 million, CRDS and CSG for €6.82 million and social levies on income from property and investment for €1.36 million.
- Balancing cash payments on currency swaps amounting to €45.53 million that are to be spread.
- Unearned income amounting to €397.40 million, corresponding to premiums on bond issues and on government securities.
- Currency adjustment accounts amounting to €5.73 million, being technical accounts used to recognize to profit and loss adjustments arising on the measurement of off-balance sheet commitments.

Provisions for liabilities and charges include a provision for redundancy indemnities. The provision in respect of unrealised losses on swaps designated as isolated open positions was reversed after the swaps in question were rescinded.

| **At (€ millions)** | **31 December 2010** | **Set aside** | **Reversed** | **31 December 2011** |
|---|---|---|---|---|
| **Provisions** | **0.18** | **0.03** | **0.00** | **0.21** |
| Provision for redundancy indemnities | 0.18 | 0.03 | 0.00 | 0.21 |
| Provision for liabilities | 0.00 | 0.00 | 0.00 | 0.00 |

| | | | | |
|---|---|---|---|---|
| **Total** | **0.18** | **0.03** | **0.00** | **0.21** |

## PROFIT AND LOSS ACCOUNT

In arriving at the profit for the period, net banking income is reported separately from other operating income and charges.

| (€ millions) | |
|---|---|
| Net banking income: | (3,791.91) |
| Exceptional income items: | 0.59 |
| Other operating income and charges: | 15,469.17 |
| Gross operating profit and net profit for the period: | 11,677.85 |

A specific mission has been entrusted to CADES, which is to extinguish a debt over its scheduled term. The profit for the year measures its capacity to reduce its own debt.

### Net banking income

Net banking income consists of the cost of debt, the income generated from cash positions and the net profit or loss on financial transactions.

***Note 9: Banking income***

| **Period ended (€ millions)** | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|
| **INTEREST RECEIVABLE AND SIMILAR INCOME FROM TRANSACTIONS WITH CREDIT INSTITUTIONS** | **77.84** | **29.51** | **44.70** |
| **Interest receivable – Demand loans and advances and open repurchase agreements** | **10.33** | **4.71** | **5.22** |
| Interest from ordinary accounts in debit | 8.69 | 4.43 | 5.09 |
| Interest from loans | 0.00 | 0.00 | 0.00 |
| Interest from securities delivered under open repurchase agreements | 1.64 | 0.28 | 0.13 |
| **Interest receivable – Term loans, advances and repurchase agreements** | **47.75** | **14.48** | **33.55** |
| Interest from loans denominated in euro | 0.00 | 0.00 | 0.00 |
| Interest from loans denominated in other currencies | 0.00 | 0.00 | 0.00 |

| | | | |
|---|---|---|---|
| Interest from securities delivered under repurchase agreements | 47.75 | 14.48 | 33.55 |
| **Other interest receivable** | **19.76** | **10.32** | **5.93** |
| **INTEREST RECEIVABLE AND SIMILAR INCOME FROM BONDS AND OTHER FIXED INCOME SECURITIES** | **10.83** | **12.28** | **1.97** |
| Interest from fixed income securities | 0.00 | 0.00 | 0.00 |
| Interest from government securities | 10.83 | 12.28 | 1.97 |
| **OTHER INTEREST RECEIVABLE AND SIMILAR INCOME** | **229.41** | **309.00** | **232.96** |
| Amortisation of premiums on issue | 64.03 | 51.56 | 39.89 |
| Net profit on hedging transactions | 165.38 | 257.44 | 193.07 |
| Profit on repurchase of own securities | 0.00 | 0.00 | 0.00 |
| **Total** | **318.08** | **350.79** | **279.63** |

Banking income, which amounted to €318.08 million, consists of:

- Net profit on hedging transactions amounting to €165.38 million;
- Interest receivable and similar income from transactions with credit institutions amounting to €77.84 million, of which €47.75 million from investing surplus cash balances via repurchase agreements with delivery of the securities;
- Interest from fixed income securities amounting to €10.83 million; and
- The amortisation of bond premiums on issue amounting to €64.03 million.

***Note 10: Cost of debt***

| Period ended<br>(€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **INTEREST PAYABLE AND SIMILAR CHARGES ON TRANSACTIONS WITH CREDIT INSTITUTIONS** | **152.85** | **11.04** | **46.15** |
| **Interest payable - Demand loans and open repurchase agreements** | **0.06** | **0.04** | **0.05** |
| Interest on ordinary accounts in credit | 0.05 | 0.03 | 0.03 |
| Interest on overnight loans | 0.00 | 0.00 | 0.00 |
| Interest on securities delivered under open repurchase agreements | 0.01 | 0.01 | 0.02 |
| **Interest payable – Term loans and repurchase agreements** | **12.30** | **0.22** | **1.95** |
| Interest on CDC loan (transfer of debt) | 0.00 | 0.00 | 0.00 |
| Interest on multi-currency credit | 0.00 | 0.00 | 0.00 |
| Interest on securities delivered under repurchase agreements | 0.40 | 0.17 | 0.35 |
| Interest on private placements | 11.90 | 0.05 | 1.60 |
| **Other interest payable and similar charges** | **140.49** | **10.78** | **44.15** |
| **INTEREST PAYABLE AND SIMILAR CHARGES ON BONDS AND OTHER FIXED INCOME SECURITIES** | **3,896.74** | **3,336.15** | **3,004.35** |
| **Interest on debts evidenced by certificates** | **3,896.74** | **3,336.15** | **3,004.35** |
| Interest on negotiable debt instruments denominated in euros | 50.63 | 2.94 | 86.65 |
| Interest on negotiable debt instruments denominated in other currencies | 1,05.11 | 24.85 | 115.45 |
| Interest on bonds and equivalents denominated in euros | 2,665.72 | 2,334.51 | 2,126.42 |
| Interest on bonds and equivalents denominated in other currencies | 730.94 | 753.05 | 648.98 |
| Other charges on debt evidenced by securities | 344.34 | 220.80 | 26.85 |
| **Other interest payable and similar charges** | **0.00** | **0.00** | **0.00** |
| **FEES PAYABLE** | **60.09** | **17.37** | **48.41** |
| Fees on term loans with credit institutions | 6.49 | 0.00 | 4.67 |
| Fees on negotiable debt instruments issued | 11.18 | 2.75 | 6.35 |

| | | | |
|---|---|---|---|
| Fees on bonds | 42.12 | 14.49 | 37.21 |
| Other fees on securities transactions | 0.30 | 0.13 | 0.18 |
| Other fees | 0.00 | 0.00 | 0.00 |
| **Total** | **4,109.68** | **3,364.56** | **3,098.91** |

Interest payable and similar charges on CADES' debt, which amounted to €4,109.68 million, increased by 22.14% from 31 December 2010 and consists of:

- Charges amounting to €3,896.74 million in respect of debts;
- Interest amounting to €152.85 million on transactions with credit institutions, consisting of interest on private placements, securities delivered under repurchase agreements and margin calls; and
- Fees amounting to €60.09 million.

The increase in interest and similar charges payable compared with 31 December 2010 was due partly to the effects of inflation and partly to new bond issues.

***Note 11: Gains and losses on trading securities***

| Period ended<br>(€ millions) | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **NET GAIN (LOSS) ON FOREIGN EXCHANGE TRANSACTIONS** | **(0.29)** | **(0.28)** | **(0.30)** |
| Other foreign exchange transactions | (0.29) | (0.28) | (0.30) |
| **Total** | **(0.29)** | **(0.28)** | **(0.30)** |

In accordance with the requirements of Regulation 2000-03 on the presentation of financial statements issued by the French Accounting Standards Committee, gains and losses on instruments used to hedge interest rate and currency risks are reported under interest receivable and similar income or interest payable and similar charges (see Note 9). The net profit on foreign exchange transactions comprises solely gains and losses determined on the periodic measurement of foreign currency accounts that have not been hedged.

***Note 11a: Gains and losses on investment securities***

| Period ended<br>(€ millions) | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **Gains (losses) on investment securities** | **0.00** | **0.00** | **0.00** |
| Net gain (loss) on investment securities | 0.00 | 0.00 | 0.00 |

## Other operating income and charges

Other operating income and charges consist mainly of specific income and charges dealt with by Order No. 96-50 of 24 January 1996 (CRDS contributions, CSG, social levies on income from property and investments, payments from the Retirement Reserve Fund, property asset sales and payments to the State and social security funding organisations), general operating charges and depreciation, amortisation and impairment charges on non-current assets.

***Note 12: CRDS revenues***

The table below details revenue allocated to CADES under Article 6 of Order No. 96-50 of 24 January 1996 after deducting assessment and collection costs and losses on outstanding CRDS contributions (write-offs, waivers, cancellation and debt forgiveness).

| **Period ended (€ millions)** | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|
| **NET CRDS REVENUES (Article 6)** | **6,290.29** | **5,962.56** | **5,950.94** |
| CRDS contributions levied on wages and salaries (ACOSS) | 5,577.75 | 5,278.07 | 5,276.78 |
| CRDS contributions levied on property assets | 242.13 | 230.95 | 251.82 |
| CRDS contributions levied on investment income | 326.96 | 321.86 | 298.12 |
| CRDS contributions levied on sales of precious metals and gems | 5.22 | 4.04 | 2.68 |
| CRDS contributions on gaming proceeds | 138.19 | 127.11 | 121.47 |
| CRDS exemption offsets (travel vouchers and voluntary community services) | 0.04 | 0.53 | 0.07 |

CRDS revenues, net of collection costs, amounted to €6,290.29 million.

CRDS levied on wages and salaries (which is collected by ACOSS) represents 88.67% of the total. The remaining CRDS proceeds (which are collected by the offices of the Public Finances Directorate) are levied mainly on capital (property and investment income, 9.05%) and on gambling (2.20%).

Repayments relating to amounts written off prior to 31 December 1999 (pursuant to EC regulations and bilateral social security agreements) received from foreign countries have been paid over by CNAMTS to CADES since 31 December 1997 to the extent this does not create a new deficit or increase an existing deficit in the books of CNAMTS. Given that CNAMTS has been in deficit from 1998 to 2011,

the €216.77 million recovered during this period was not paid over to CADES.

Since Act No. 2004-810 of 13 August 2004, no surplus has been generated by the health insurance branch of the French social security system.

**Note 12a**

The table below provides a breakdown of income and charges relating to the CRDS.

| **CRDS REVENUES (€ millions)** | **(I)** | **CRDS COSTS** | **(II)** | **Net revenues (I-II)** |
|---|---|---|---|---|
| CRDS levied on wages and salaries (ACOSS) | 5,628.92 | Write-offs, waivers, cancellation and debt forgiveness | 23.17 | **5,577.75** |
| | | Assessment and collection costs | 28.00 | |
| CRDS levied on property assets | 252.48 | Assessment and collection costs | 10.35 | **242.13** |
| CRDS levied on investment income | 328.60 | Assessment and collection costs | 1.64 | **326.96** |
| CRDS levied on sale of precious metals and gems | 5.25 | Assessment and collection costs | 0.03 | **5.22** |
| CRDS levied on gaming proceeds | 138.88 | Assessment and collection costs | 0.69 | **138.19** |
| CRDS exemption offsets (travel vouchers and voluntary community services) | 0.04 | | 0.00 | **0.04** |
| Reversal of provisions on outstanding CRDS | 6.62 | Provisions on outstanding CRDS | 0.04 | **6.58** |
| **Total** | **6,360.79** | **Total** | **63.92** | **6,296.87** |

***Note 12.1: CSG revenues***

Supplementary social security contributions (*Contribution Sociale Généralisée – CSG*) are a resource allocated to CADES at the rate of 0.48% for CSG on income from employment, unemployment and other similar benefits and on taxable income from property and investments, and at 0.28% for CSG on profits from gaming since 1 January 2011.

The tax base is the same as for the CRDS, with the exception that no contributions are levied on the sale of precious metals and gems.

| Period ended<br>(€ millions) | 31 December<br>2011 | 30 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **NET CSG REVENUES (Article 6)** | **5,546.62** | **2,262.64** | **2,221.52** |
| CSG contributions levied on wages and salaries (ACOSS) | 4,956.38 | 2,035.38 | 1,987.67 |
| CSG contributions levied on property assets | 230.48 | 91.70 | 99.24 |
| CSG contributions levied on investment income | 352.54 | 131.15 | 123.74 |
| CSG contributions on gaming proceeds | 7.19 | 4.20 | 10.84 |
| CSG exemption offsets | 0.03 | 0.21 | 0.03 |

CSG revenues, net of collection costs, amounted to €5,546.62 million.

CSG levied on wages and salaries (which is collected by ACOSS) represents 89.36% of the total. The remaining CSG (which is collected by the offices of the Public Finances Directorate) is levied mainly on income from investment (6.36%) and property (4.16%).

**Note 12.1a**

The table below provides a breakdown of income and charges relating to the CSG.

| **CSG REVENUES (€ millions)** | **(I)** | **CSG COSTS** | **(II)** | **Net revenues (I-II)** |
|---|---|---|---|---|
| CSG levied on wages and salaries (ACOSS) | 4,985.97 | Write-offs, waivers, cancellation and debt forgiveness | 4.83 | **4,956.38** |
| | | Assessment and collection costs | 24.76 | |
| CSG levied on property assets | 240.33 | Assessment and collection costs | 9.85 | **230.48** |
| CSG levied on investment income | 354.31 | Assessment and collection costs | 1.77 | **352.54** |
| CSG levied on gaming proceeds | 7.23 | Assessment and collection costs | 0.04 | **7.19** |
| CSG exemption offsets | 0.03 | | 0.00 | **0.03** |
| Reversal of provisions on outstanding CSG | 0.13 | Provisions on outstanding CSG | 47.85 | **(47.72)** |
| **Total** | **5,588.00** | **Total** | **89.10** | **5,498.90** |

***Note 12.2: Social levies on income from property and investment***

Social levies on income from property and investment established are a new source of revenue allocated to CADES with effect from 1 January 2011. CADES receives a 1.3% portion of these levies, the rate of which was set at 2.2% until 30 September 2011, then at 3.4% from 1 October 2011 to 31 December 2011.

| **Period ended (€ millions)** | **31 December 2011** | **31 December 2010** | **31 December 2009** |
|---|---|---|---|
| **NET REVENUE FROM SOCIAL LEVIES** | **1,575.91** | **0.00** | **0.00** |
| On income from property | 624.26 | 0.00 | 0.00 |
| On income from investment | 951.65 | 0.00 | 0.00 |

**Note 12.2a**

The following table shows the breakdown of revenue and costs associated with social levies on income from property and investment.

| REVENUES FROM SOCIAL LEVIES (€ millions) | (I) | COSTS RELATING TO SOCIAL LEVIES | (II) | Net revenues (I-II) |
|---|---|---|---|---|
| Social levies on income from property | 650.95 | Assessment and collection costs | 3.26 | **624.26** |
| | | Write-offs, waivers, cancellation and debt forgiveness | 23.43 | |
| Social levies on income from investment | 956.43 | Assessment and collection costs | 4.78 | **951.65** |
| **Total** | **1,607.38** | **Total** | **31.47** | **1,575.91** |

***Note 12.3: payments by the Retirement Reserve Fund (FRR)***

The Retirement Reserve Fund paid €2.10 billion on 26 April 2011 in respect of the year 2011.

| Period ended (€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **REVENUE FROM THE RETIREMENT RESERVE FUND** | **2,100.00** | **0.00** | **0.00** |
| Revenue for the year | 2,100.00 | 0.00 | 0.00 |

***Note 13: General operating charges***

| Period ended (€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **STAFF COSTS** | **1.00** | **0.89** | **0.85** |
| Wages and salaries | 0.72 | 0.64 | 0.61 |

| | | | |
|---|---|---|---|
| Social security charges | 0.28 | 0.25 | 0.24 |
| **OTHER ADMINISTRATIVE EXPENSES** | **1.89** | **1.61** | **1.78** |
| Taxes and duties | 0.09 | 0.08 | 0.07 |
| External services | 1.80 | 1.53 | 1.71 |
| **Total** | **2.89** | **2.50** | **2.63** |

General operating charges correspond to expenditure falling within the scope of the administrative budget. They do not include the acquisition and the amortisation and depreciation of fixed assets (see Note 2). They increased by 15.60% compared with 2010.

**List of staff positions at 31 December 2011**

Non-civil servant employees:

- 1 senior front office manager (grade A)
- 1 assistant front office manager (grade A)
- 2 market operators (grade A)
- 1 asset and liabilities matching strategist (grade A)
- 1 senior back office manager (grade A)
- 1 assistant back office manager (grade A)
- 1 bilingual executive secretary (grade C)

Civil servants:

- 1 general office manager (grade A)
- 1 administrative manager (grade A)

***Note 13a: Property assets and property management***

| Period ended (€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **REVENUES FROM PROPERTY ASSETS** | **0.43** | **-** | **-** |
| Property sales | - | - | - |
| Rental income | - | - | - |
| Exceptional income | - | - | - |
| Provisions reversed | 0.43 | - | - |
| **CHARGES ON PROPERTY ASSETS** | **0.01** | **-** | **0.01** |
| Expenses on property sales | - | - | - |
| Change in unsold inventory | - | - | - |
| Staff costs | - | - | - |
| External services | 0.01 | - | 0.01 |
| Taxes | - | - | - |
| Exceptional charges | - | - | - |
| Provisions set aside | - | - | - |

All the properties transferred to CADES on 1 January 2000 were sold over the next three years. Since 2007, CADES has managed the run-off of the last properties and of disputes.
The reversal of provisions was a result of two payments collected in respect of the Saint-Pray lawsuit, for a total amount of €0.43 million.

**Note 14: Other non-banking operating charges**

| Period ended (€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| Payments to the State | - | - | - |
| Payments to social security agencies | - | | - |
| **Total** | **-** | **-** | **-** |

***Note 15: Exceptional income***

| Period ended (€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| Statutory limitation of debt – administrative budget | 0.13 | - | - |
| Statutory limitation of debt – financing budget | 0.46 | - | - |
| Other exceptional income | - | - | - |

| | | | |
|---|---|---|---|
| **Total** | **0.59** | **-** | **-** |

The exceptional income corresponds to the statutory limitation on charges payable on the administrative and financing budgets (essentially commissions on commercial paper).

## OFF-BALANCE SHEET COMMITMENTS

Off-balance sheet commitments, as reported, distinguish between commitments given and commitments received and are analyzed between loan commitments, guarantee obligations and guarantees on securities. Certain commitments are not recorded on the face of the accounts, being commitments in respect of currency transactions and forward financial instruments. Information regarding these commitments is provided in Notes 16 and 17 below.

### ***Note 16: Currency transactions***

| At (€ millions) | 31 December 2011 | | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|---|---|
| | 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** | **53,772.58** | **-** | **34,197.24** | **-** | **29,644.04** | **-** |
| **Financing in foreign currency** | | | | | | |
| **Hedging transactions over the counter** | | | | | | |
| **Forward exchange against euros** | **20,887.66** | | **8,425.44** | | **9,196.08** | **-** |
| Up to 1 year | 20,887.66 | | 8,425.44 | | 9,196.08 | - |
| From 1 to 5 years | - | - | - | - | - | - |
| Over 5 years | - | - | - | - | - | - |
| **Currency swaps against euros** | **32,884.92** | **-** | **25,771.80** | **-** | **20,447.96** | **-** |
| Up to 1 year | 7,602.27 | - | 7,953.50 | - | 2,424.34 | - |
| From 1 to 5 years | 23,019.15 | - | 15,264.00 | - | 16,277.42 | - |
| Over 5 years | 2,263.50 | - | 2,554.30 | - | 1,746.20 | - |
| **FORWARD TRANSACTIONS** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Foreign currency financing commitments received** | | | | | | |
| **Hedging transactions over the counter** | | | | | | |
| **Forward exchange against euros** | | | | | | **-** |
| Up to 1 year | - | - | - | - | - | - |
| From 1 to 5 years | - | - | - | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Currency swaps** | | | | | | |
| **against euros** | **-** | **-** | **-** | **-** | **-** | **-** |
| Up to 1 year | - | - | - | - | - | - |
| From 1 to 5 years | - | - | - | - | - | - |
| Over 5 years | - | - | - | - | - | - |

Forward exchange contracts against euro correspond to forward purchases entered into for the purpose of hedging commercial paper denominated in foreign currencies. The increase of 147.91% in outstandings as at 31 December 2011 compared with 31 December 2010 is due to increased borrowing (from taking on ACOSS debts).

The increase in currency swaps against euro is attributable to the increase in foreign currency EMTN issues.

***Note 17: Forward financial instruments***

| At<br>(€ millions) | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 |
|---|---|---|---|
| **INTEREST RATE INSTRUMENTS** | | | |
| **Organised markets and equivalents** | - | - | - |
| Firm transactions entered into for hedging purposes | - | - | - |
| Euro Bobl futures contracts (5 years) | - | - | - |
| Euro Bund futures contracts (10 years) | - | - | - |
| Other firm transactions | - | - | - |
| Options entered into for hedging purposes | - | - | - |
| Other options | - | - | - |
| **Over the counter** | **12,926.38** | **17,496.71** | **17,910.30** |
| Firm transactions entered into for hedging purposes | | | |
| Interest rate swaps in euro | **12,823.42** | **17,496.71** | **17,910.30** |
| Micro hedging | **12,161.66** | **16,306.57** | **16,546.77** |
| - Up to 1 year | 4,280.86 | 6,708.91 | 2,500.87 |
| - From 1 to 5 years | 6,325.26 | 8,042.12 | 12,690.36 |
| - Over 5 years | 1,555.54 | 1,555.54 | 1,355.54 |
| Macro hedging | **661.76** | **1,190.14** | **1,363.53** |
| - Up to 1 year | 50.00 | 435.00 | 130.00 |
| - From 1 to 5 years | 611.76 | 755.14 | 1,233.53 |
| - Over 5 years | - | - | - |
| Isolated positions | - | - | - |
| - Up to 1 year | - | - | - |
| - From 1 to 5 years | - | - | - |
| - Over 5 years | - | - | - |
| Currency swaps | **102.96** | - | - |
| Micro hedging | 102.96 | - | - |
| - Up to 1 year | 102.96 | - | - |
| - From 1 to 5 years | - | - | - |
| - Over 5 years | - | - | - |

Interest rate instruments entered into by CADES as at 31 December 2011 comprise:

- Swaps entered into for macro hedging purposes, consisting of inflation swaps amounting to €661.76 million, 12 having matured;
- Swaps amounting to €12,161.66 million entered into for micro hedging purposes, including swaps cancellable by counterparties of €3,060.60 million and
- €102.96 million in interest rate swaps in GBP.

In 2007 and 2008, CADES entered into swaps under which it receives 3-month Euribor less a haircut and pays a fixed rate. These swaps may be rescinded by the counterparties six months after inception and then every three months.

These cancellable swaps, which qualify as micro hedges, are used to transform CADES' adjustable rate structured transactions into fixed rate transactions for at least six months. Each swap is therefore systematically backed to a swap already held in portfolio by CADES. If the swaps are cancelled, CADES reverts to its initial refinancing level.

These swaps were authorised by the Board of Directors on 28 November 2007. They are designated as micro hedges (Category b of Regulations No. 90-15 and 88-02) pursuant to French banking regulations (*Réglementation Bancaire*).

***Note 18: Other off-balance sheet commitments***

| At<br>(€ millions) | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **FINANCING COMMITMENTS** | | | |
| **Commitments received** | | | |
| ***From credit institutions*** | | | |
| - Back-up credit lines | 700.00 | 700.00 | 700.00 |
| - Multi-currency credit lines | - | - | - |
| - Credit lines in treasury bills | 5,000.00 | - | - |
| - Other credit lines | 9,000.00 | - | - |
| ***Sundry*** | | | |
| - Retirement Reserve Fund (*Fonds de Réserve pour les Retraites*) | 27,300.00 | 29,400.00 | - |
| - Borrowings | - | - | - |
| - Commercial paper and lent under repurchase agreements | 81.98 | - | - |
| **Commitments given** | | | |
| Payments to the State | - | - | - |
| Payments to social security agencies | - | - | - |
| - First assumption of debt provided for by 2011 Social Security Finance Act | 2,700.00 | 68,000.00 | - |
| - Second assumption of debt provided for by 2011 Social Security Finance Act | 62,000.00 | 62,000.00 | - |
| Financing commitments given under repurchase agreements | 69.04 | - | - |

Commitments received consist of:

- four back-up credit lines totalling €700 million that are cancellable by the counterparty at 30 days' notice;
- four bilateral lines for the purchase of commercial paper issued by CADES for a total amount of €5 billion (€2 billion maturing on 23 August 2012, €1 billion on 17 January 2012, €1 billion on 9 March 2012 and €1 billion on 14 April 2012) ;
- a credit line of €9 billion due 14 December 2012.
- a total of €27.3 billion in payments from the Retirement Reserve Fund, corresponding to the annual payments of €2.1 billion for the period from 2012 to 2024, pursuant to the 2011 Social Security Funding Act 2010-1594 of 20 December 2010.
- a transaction dated 29 December 2011, value 2 January 2012, under a repurchase agreement for an amount of €65.98 million, and a commercial paper issue of €16 million carried out on 30 December 2011, value 4 January 2012.

Commitments given consist of:

- the debts assumed pursuant to the 2011 Social Security Funding Act 2010-1594 of 20 December

2010, namely:

- the balance of €2.7 billion of the €68 billion deficit forecast for 2009 and 2010 for the Health, Maternity, Incapacity and Death Insurance branch, the Senior Citizens, Widows and Widowers Insurance branch and the Family Insurance branch of the French social security system and of the forecast 2011 deficit for the Health, Maternity, Incapacity and Death Insurance branch and the Family insurance branch;

  Decree 2012-329 of 7 March 2012 stipulates that the difference between on the one hand the cumulative amount of the deficits recorded for 2009 and 2010 plus the provisional deficits for 2011 referred to in Article 4 II quater of the abovementioned Order of 24 January 1996 and, on the other hand, the amount of the payments made by CADES in 2011 under this heading, gives rise to an adjustment of €3.1 billion in its favour.

  Since this adjustment has been determined on the basis of a provisional deficit for 2011, it is not shown under commitments received.

- the €62 billion forecast for the deficits of 2011 to 2018 for the Senior Citizens, Widows and Widowers Insurance branch (branch 3) of the French social security system, subject to an overall limit of €62 billion for the period and a yearly maximum of €10 billion. These payments are to be made by 30 June each year as from 2012.

Decree No. 2012-329 of 7 March 2012 established the following calendar for taking on the social security debt concerning the year 2012.

| ***Payments by CADES to ACOSS*** | | ***Allocation by ACOSS of the amounts paid by CADES to the branches and funds concerned*** | | | |
|---|---|---|---|---|---|
| *Date* | *Amount (€)* | ***General system*** | | | *Funds referred to in Article L.135-1 of the Social Security Code* |
| | | *Branch referred to in para. 1 of Article L.200-2 of the Social Security Code* | *Branch referred to in para. 3 of Article L.200-2 of the Social Security Code* | *Branch referred to in para. 4 of Article L.200-2 of the Social Security Code* | |
| *9 March 2012* | *2,000,000,000.00* | *(750,000,000.00)* | *1,750,000,000.00* | *(100,000,000.00)* | *1,100,000,000.00* |
| *23* | *2,000,000,000.* | *(750,000,000.00* | *1,750,000,000.* | *(100,000,000.* | *1,100,000,000.* |

| | | | | | |
|---|---|---|---|---|---|
| *March 2012* | *00* | *)* | *00* | *00)* | *00* |
| *10 April 2012* | *1,000,000,000.00* | *(350,000,000.00)* | *850,000,000.00* | *(50,000,000.00)* | *550,000,000.00* |
| *9 May 2012* | *1,648,054,586.85* | *(589,378,596.07)* | *1,451,444,141.23* | *(57,526,219.63)* | *843,515,261.32* |
| ***Total*** | ***6,648,054,586.85*** | ***(2,439,378,596.07)*** | ***5,801,444,141.23*** | ***(307,526,219.63)*** | ***3,593,515,261.32*** |

- *two repurchase agreements dated 29 December 2011, value 2 January 2012, for an amount of €69.04 million.*

***Note 19: Abridged statements***

| **BALANCE SHEET** | |
|---|---|
| **At** | **31 December** |
| **(€ millions)** | **2011** |
| **PROFIT AND LOSS ACCOUNT BROUGHT FORWARD AT 1 JANUARY 2011** | **(154,623.81)** |
| **PROFIT FOR THE YEAR ENDED 31 DECEMBER 2011** | **11,677.85** |
| **PROPERTY ENDOWMENT** | **181.22** |
| **DEBT REMAINING TO BE REPAID AT 31 DECEMBER 2011** | **(142,764.74)** |
| **Represented by:** | |
| Liabilities towards third parties | |
| - Borrowings falling due within 1 year | **56,114.81** |
| - Borrowings falling due after 1 year | **101,839.28** |
| - Other creditors, accruals and unearned income | **4,208.03** |
| Less assets held by CADES | |
| - Financial investments | **13,755.20** |
| - Other debtors, prepayments and accrued income | **5,642.18** |

| **PROFIT AND LOSS ACCOUNT** | |
|---|---|
| **Period ended** | **31 December** |
| **(€ millions)** | **2011** |
| **NET REVENUE FROM CRDS, CSG AND SOCIAL LEVIES** | **13,371.68** |
| **NET REVENUE FROM RETIREMENT RESERVE FUND (FRR)** | **2,100.00** |
| **NET REVENUE FROM PROPERTY** | **0.42** |
| Interest payable and similar charges | **(4,049.59)** |
| Fees | **(60.09)** |
| Interest receivable and similar income | **317.79** |
| **NET FINANCIAL CHARGES** | **(3,791.89)** |
| **Operating charges** | **(2.95)** |
| **OPERATING PROFIT** | **11,677.26** |
| Payments to the State | **0.00** |
| Exceptional income | **0.59** |
| **NET PROFIT FOR THE YEAR ENDED 31 DECEMBER 2011** | **11,677.85** |

## OTHER INFORMATION

The table below provides information on market value, comparing the debt at repayment value as at 31 December 2011 with the debt at market value.

Debt at repayment value as at closing date comprises the following elements:

(a) The nominal value of fixed rate, variable rate and adjustable rate borrowings in euros;

(b) The nominal value of the fixed rate, variable rate and adjustable rate euro legs of basis swaps representing perfect transformation of foreign currency-denominated borrowings into euro-denominated borrowings;

(c) The accrued nominal value of inflation indexed bonds as at 31 December 2011.

(d) Interest accrued but not yet due is excluded from debt at repayment value.

Debt at repayment value at maturity comprises the following elements:

(a) The nominal value of fixed rate, variable rate and adjustable rate borrowings in euro.

(b) The nominal value of the fixed rate, variable rate and adjustable rate euro legs of swaps representing perfect transformation of foreign currency-denominated borrowings into euro-denominated borrowings.

(c) The projected nominal value at maturity of inflation indexed bonds.

(d) The market value of swaps used for macro hedging.

Debt at market value comprises the following elements:

(a) The value of the fixed rate bonds and inflation indexed bonds based on the average market price on 31 December 2011.

(b) The value of unlisted securities issued by CADES obtained using the CADES zero coupon curve as at 31 December 2011. Options embedded in certain of these securities are valued using an internal model based on standard valuation software developed and marketed by an independent service provider.

(c) The value of derivatives used to transform part of the debt through micro hedging. Options embedded in certain of these instruments are valued using the same internal model.

(d) The value of derivatives used for macro hedging.

(e) The present value at 31 December 2011 of collateral, repurchase agreements and bank balances.

| (€ millions) | Debt at repayment value | | Debt at market value | Market value of hedging transactions |
|---|---|---|---|---|
| | At maturity | At 31 December 2011 | At 31 December 2011 | At 31 December 2011 |
| Up to 1 year | 41 259,55 | 41 247,95 | 40 806,47 | 1 733,55 |
| From 1 to 5 years | 54 573,65 | 54 456,95 | 57 144,74 | 1 986,77 |
| Over 5 years | 48 371,03 | 46 770,38 | 49 243,17 | 315,93 |
| Swaps | -10,39 | 0,00 | -10,39 | -10,39 |
| **TOTAL** | 144 193,84 | 142 475,29 | 147 183,98 | 4 025,87 |
| Adjustable rate | 51 789,31 | 51 925,26 | 51 792,84 | 3 207,49 |
| Indexed rate | 13 702,48 | 13 934,36 | 12 199,11 | 0,00 |
| Fixed rate | 78 712,44 | 76 615,68 | 83 202,42 | 828,77 |
| Swaps | -10,39 | 0,00 | -10,39 | -10,39 |
| **TOTAL** | 144 193,84 | 142 475,29 | 147 183,98 | 4 025,87 |

Compared with prior years, there was a considerable increase in short-term debt at 31 December 2011, as indicated by the table below:

| Debt | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| Short-term (under 1 year) | 28.95% | 7.67% | 13.62% |
| Medium-term | 38.22% | 47.93% | 43.61% |
| Long-term (over 5 years) | 32.83% | 44.40% | 42.77% |

As regards the breakdown between issues denominated in euro and other currencies, there was a slight increase in euro debt at 31 December 2011 compared with 31 December 2010, as indicated by the table below:

| Debt | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| In foreign currencies | 33.00% | 34.24% | 30.47% |
| In euros | 67.00% | 65.76% | 69.53% |

*Lastly, the table below shows the substantial decrease in fixed rate issues compared with adjustable rate issues relative to 2010:*

| Debt | 31 December 2011 | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| Adjustable rate | 36.45% | 8.12% | 13.49% |
| Indexed rate | 9.78% | 12.98% | 12.22% |
| Fixed rate | 53.77% | 78.90% | 74.29% |

Explanation of variances between market value and repayment value of debt:

The difference between the market value of the debt and its repayment value is explained by the following factors:

- The market value of fixed rate loans increased because of the decline in interest rates;
- Market value factors in the present value of future coupons whereas the repayment value excludes coupons; and
- Gains and losses on macro hedging and inflation swaps impact market value one way or the other.

The above information covers a significant part of CADES' main activity, which is to repay in the best possible conditions the debt it raises on the financial markets.

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**CADES**

# English translation of the independent Auditors' Report

Period ended December 31, 2011
CADES
15, rue Marsollier - 75002 Paris
*This report contains 41 pages*
Reference : HV-122-04

KPMG S.A.,
société française membre du réseau KPMG
constitué de cabinets indépendants adhérents de
KPMG International Cooperative, une entité de droit suisse.

Société anonyme d'expertise
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aux comptes à directoire et
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Inscrite au Tableau de l'Ordre
à Paris sous le n° 14-30080101
et à la Compagnie Régionale
des Commissaires aux Comptes
de Versailles.

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This is a free translation into English of the auditor's report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

**CADES**
15, rue Marsollier - 75002 Paris

**English translation of the independent Auditors' Report on the Financial Statements**

Period ended December 31, 2011

In accordance with your arrangement letter dated July 30, 2010, we have audited the accompanying financial statements of Caisse d'Amortissement de la Dette Sociale (CADES), which comprise the balance sheet as at December 31, 2011, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

The "Agent Comptable de la CADES" is responsible for the preparation and fair presentation of these financial statements 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of CADES as at December 31, 2011, 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.

Without qualifying our conclusion expressed above, we draw the attention to the paragraph 5 of the accounting principles and methods and to the note 12 which describe the applicable accounting treatment of the social security debt repayment contribution (CRDS), the generalised social contribution (CSG) and the 1.3% levy tax on capital income. The revenues of CRDS, CSG and 1.3% levy tax on capital income recorded are provided by ACOSS and DGFIP which are the collectors. The role of CADES in connection to the revenues of CRDS, CSG and 1.3% levy tax on capital income only consists of ensuring that the amounts included in the supports provided by the collectors are properly recorded.

Paris La Défense, April 25, 2012

KPMG Audit
*A division of KPMG S.A.*

Hubert de Vaumas
*Partner*

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**CADES**

# Rapport de l'auditeur indépendant

Exercice clos le 31 Décembre 2011
CADES
15, rue Marsollier - 75002 Paris
*Ce rapport contient 41 pages*
Référence : HV-122-03

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**CADES**
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**Rapport de l'auditeur indépendant sur les états financiers**

Exercice clos le 31 Décembre 2011

*Mesdames, Messieurs,*

En exécution de la mission qui nous a été confiée par lettre en date du 30 Juillet 2010, nous avons effectué l'audit des états financiers ci-joints de la Caisse d'Amortissement de la Dette Sociale (CADES) comprenant le bilan au 31 décembre 2011 ainsi que le compte de résultat pour l'exercice clos à cette date, et des notes contenant un résumé des principales méthodes comptables et d'autres notes explicatives.

*Responsabilité de la direction dans l'établissement et la présentation des états financiers*

Ces états financiers ont été établis sous la responsabilité de l'Agent Comptable de la CADES conformément au Plan Comptable des Etablissements de Crédit, applicable à la CADES, en vertu de l'avis 99-04 du CNC. Cette responsabilité comprend : la conception, la mise en place et le suivi d'un contrôle interne relatif à l'établissement et la présentation sincère d'états financiers ne comportant pas d'anomalies significatives, que celles-ci résultent de fraudes ou d'erreurs, ainsi que la détermination d'estimations comptables raisonnables au regard des circonstances.

*Responsabilité de l'auditeur*

Notre responsabilité est d'exprimer une opinion sur ces états financiers sur la base de notre audit. Nous avons effectué notre audit selon les Normes Internationales d'Audit. Ces normes requièrent de notre part de nous conformer aux règles d'éthique et de planifier et de réaliser l'audit pour obtenir une assurance raisonnable que les états financiers ne comportent pas d'anomalies significatives.

Un audit implique la mise en œuvre de procédures en vue de recueillir des éléments probants concernant les montants et les informations fournies dans les états financiers. Le choix des procédures relève du jugement de l'auditeur, de même que l'évaluation du risque que les états financiers contiennent des anomalies significatives, que celles-ci résultent de fraudes ou d'erreurs. En procédant à ces évaluations du risque, l'auditeur prend en compte le contrôle interne en vigueur dans l'entité relatif à l'établissement et la présentation sincère des états financiers afin de définir des procédures d'audit appropriées en la circonstance, et non dans le but d'exprimer une opinion sur l'efficacité de celui-ci.

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Un audit comporte également l'appréciation du caractère approprié des méthodes comptables retenues et le caractère raisonnable des estimations comptables faites par la direction, de même que l'appréciation de la présentation d'ensemble des états financiers.

Nous estimons que les éléments probants recueillis sont suffisants et appropriés pour fonder notre opinion.

*Opinion*

A notre avis, les états financiers donnent une image fidèle de la situation financière de l'établissement au 31 décembre 2011, ainsi que du résultat de ses opérations pour l'exercice clos à cette date, conformément au Plan Comptable des Etablissements de Crédit, applicable à la CADES, en vertu de l'avis 99-04 du CNC.

Sans remettre en cause la conclusion exprimée ci-dessus, nous attirons votre attention sur le paragraphe 5 des principes et méthodes comptables et la note 12 qui précisent les modalités de comptabilisation de la contribution au remboursement de la dette sociale (CRDS), de la contribution sociale généralisée (CSG), et des prélèvements sociaux de 1,3% sur les revenus du patrimoine et les produits de placement. Les revenus de CRDS, les revenus de CSG et les revenus sur prélèvements sociaux sur les revenus du patrimoine et les produits de placement comptabilisés sont issus des notifications envoyées à la CADES par l'ACOSS et la direction générale des finances publiques (DGFIP) qui sont les organismes collecteurs. Les compétences de la CADES en matière de recettes se limitent à une vérification comptable formelle des pièces produites par les organismes recouvreurs.

Paris La Défense, le 25 avril 2012

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