FONDS DE RESERVE POUR LES RETRAITES

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ANNUAL REPORT 2006

FONDS DE RESERVE POUR LES RETRAITES

PROFILE

Set up in the early 2000's, the FRR (Fonds de réserve pour les retraites) is a public agency dedicated to ensuring the long-term viability of the French pension system. Its role, as of 2020, is to cover a significant portion of the funding needs of basic pension plans for employees in the private sector, as well as self-employed craftspeople and retailers, through optimal management of the public resources entrusted to its care.

CONTENTS

KEY FIGURES

THROUGH DECEMBER 31, 2006

Total amount of public funds entrusted to the FRR

24.1

billion euros

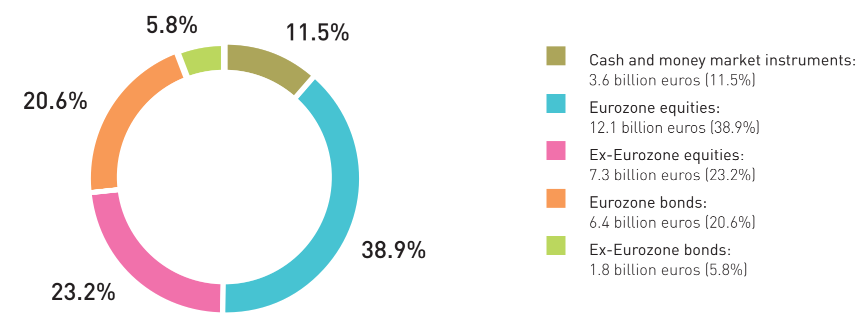
The FRR's total assets

31.2

billion euros

Breakdown in the FRR's assets

88.5% of its assets are invested in marketable securities



The FRR's performance history

	Annualized performance since inception	Aggregate ytd performance since 01/01/06
Total asset performance	10.5%	11.2%
Performance of assets invested in marketable securities	16.3%	11.0%

MESSAGE FROM THE CHAIRMEN OF THE SUPERVISORY AND EXECUTIVE BOARDS

Raoul Briet
Chairman of
the Supervisory Board

Augustin de Romanet
Chairman of
the Executive Board

In 2006, the FRR once again turned in a very satisfying performance, adapted its strategic asset allocation through significant diversification, and undertook new initiatives aimed at further developing its identity as a responsible investor. As important as these achievements are, the key event in 2006 remains the passing of Francis Mayer, who had served as chair of the FRR's Executive Board since the Fund's inception. Francis Mayer passed away in December 2006 after a long battle with illness that he conducted with courage and strength of character that cannot but inspire great respect. For the FRR, he generously offered the expertise, experience and energy that were his trademark throughout his career, displayed in the many eminent and varied positions of responsibility he occupied for the greater good of the country. And the FRR's initial results have come in, attesting to his role in firmly installing the institution on solid pillars.

At year end 2006, the FRR had net assets valued at 31.2 billion euros, compared with 26.6 billion euros at the end of 2005.

One third of this 4.6 billion euro increase over one year is attributable to endowments received during the period (1.5 billion euros), while the remaining two-thirds (more than 3 billion euros) reflects management performance—i.e., investment income net of expenses and unrealized capital gains on the assets invested. In other words, as was the case in 2005, the FRR's global performance was extremely positive in 2006. Indeed, net of all expenses (which represent only 0.2% of total managed assets), the global return was 11.2%, which is 6.8% more than the cost to the public of the resource that is entrusted to its care. Over thirty months, which is to say since the Fund began making its first investments in the summer of 2004, its annualized performance net of all expenses is 10.5%, even though these investments have been made gradually and were still not fully completed at the end of 2006.

This performance is primarily driven by excellent returns on equity investments, particularly those of the Eurozone. Conversely, the global performance of bonds was slightly negative, due to the rise in interest rates observed in most of the world's markets. The FRR's tactical management policy, which was fully implemented for the first time in 2006, also made a positive contribution to these results.

When the first strategic asset allocation was defined in the spring of 2003, it was stated that this allocation was subject to revision. The year 2006 was marked by the adoption in June—after extensive and demanding technical work conducted by the Executive Board, as well as substantive discussions among the members of the Supervisory Board—of the revised strategic asset allocation. A characteristic feature of this revision is the increase in the level of diversification, via the introduction of new asset classes (commercial real estate, the commodities index, infrastructures) and the expansion of the geographic universe for asset classes already represented in the portfolio.

We have begun the process of reorienting the portfolio toward the three targets (60% equities, 30% bonds, 10% diversification assets) and expect it to continue over the next eighteen months, with a particular focus on diversification assets.

Last but not least, the FRR continued in 2006 to build—step-by-step but resolutely and effectively—its identity as a responsible investor. The proxy voting policy, which was started in 2005, was both widened and deepened. Following an extensive RFP process, five specialized managers able to integrate the extra-financial criteria developed by the Fund into their investment process were selected and the related mandates were activated in the summer of 2006. The FRR continued to play an active role in domestic and global initiatives in this area, and is among the first parties to sign the PRI (principles for responsible investment), a program developed under the auspices of the UN. The Fund also selected the outside providers, both French and foreign, to assemble the elements constitutive of its first extra-financial report, for the period ended December 31, 2006, covering the totality of its portfolio and intended to assess how this portfolio factors in the investment principles that it has defined.

After four years of existence, and thanks in large measure to the dedication and professionalism of its staff, the FRR has demonstrated to one and all that it is a high-performing and reliable tool the public can count on to consolidate the long-term outlook of our nation's pension system and give tangible evidence of its desire to take account of the interest of future generations.

As lawmakers decided in 2003, the months ahead will be marked by a new phase of concerted action and then decisions aimed at allowing our pension system to rise to the long-term challenges that it faces. For the FRR, the period 2007-2008 should be of major importance, because it puts the nation's taxpayers in a position to give a more detailed and explicit definition of the role it intends the FRR to play as of 2020 and, consecutively, the endowment policy that should be followed to allow the Fund to fulfill its mission.

THE FRR AND THE FRENCH PENSION SYSTEM

The FRR is a tool that was designed to consolidate the French pension system after 2020. The French retirement system has undergone a series of adjustments in the last decade, all of them aimed at achieving and maintaining a healthy balance over the long term. The system, which is made up of mandatory plans for workers in various fields, is built on the related notions of pay-as-you-go (commonly referred to as "PAYG" or "PAYGO") and inter-generational solidarity. It faces a number of key economic challenges, notably those resulting from shifting demographic realities. These changes are embodied in two phenomena of roughly equal importance. The first is the arrival of the so-called baby boomers on the retirement scene, which means that, as of 2005, some 800,000 retirees will be newly entitled to pensions each year, as opposed to around 500,000 today. The second salient phenomenon is the steady increase in life expectancy—and hence in the duration of the retirement payout period—for those approaching 60 years of age today. In fact, from an average of 22 years today, retirees in 2040 will be receiving retirement benefits for an average of just over 28 years, an average increase over the period of roughly two months per annum.

In a report published in March 2006, the COR *(Conseil d'orientation des retraites)* estimated in its basic scenario that the funding requirement for all pension plans combined would be equal to around 0.8% of GDP in 2020, rising to 2.8% in 2040 and 3.1% in 2050. The COR considers that using the FRR starting in 2020 will help to spread more evenly over time the efforts that will need to be made to achieve a better balance between plans over the long term (2040-2050).

Inspired by this global forecast and expected timeframe for France's pension system, the decision to establish the FRR was made in 1999. The aim of the Fund is to set aside and invest a significant volume of financial resources between now and 2020, making the accrued resources gradually available thereafter to eligible plans, in particular—and in accordance with applicable law—the basic mandatory retirement plan set up for wage earners in the private sector. This external contribution is intended to provide for a better distribution, over time and between generations, of the efforts that will be required to ensure the long-term financial equilibrium of such plans. Hence, the explicit purpose of the FRR is to act as a "smoothing mechanism". This means that, given its deliberately transitory nature, the FRR is not intended as a substitute for the necessary reform of existing retirement plans. Instead, the Fund's dual aim is to render these adjustments more gradual and avoid passing an unacceptably large portion of the burden on to future generations.

PRACTICE IN OTHER COUNTRIES

In the past few years, a number of the world's industrialized nations have set up reserve funds in order to pre-finance all or a portion of future public liabilities, in particular those related to the impacts of demographic aging on the balanced growth path of public PAYGO retirement systems.

In some countries, these funds have been established ex nihilo and are subject to various rules regarding administration, topping up and financial management that arise directly from the structure of prevailing retirement system and fiscal policy practices. This is the case in the Netherlands, Spain, Ireland, Norway, New Zealand and France. In countries whose PAYGO retirement systems had previously accumulated financial reserves, system reform provided an opportunity to change the regulations pertaining to investment and financial management, with the aim of optimizing returns and investment strategy.

This is the case in Sweden, Finland, Japan and Canada. Differences in local culture and practice notwithstanding, these funds are always founded on the underlying notion of inter-generational solidarity and a communal vision.

THE FRR'S INVESTMENT POLICY

THE NEW STRATEGIC ASSET ALLOCATION OF MAY 2006

Presentation of key elements

In academic literature on the subject, it is generally accepted that the structure of the strategic asset allocation—i.e., the target weights of the principal asset classes in its portfolio—has a major impact (often estimated to be 90%) on the long-term return and risk of investors.

The FRR's first strategic allocation was decided on in April 2003. At the time, the preferred allocation was 55% equities and 45% bonds (government and corporate issuers).

In 2003, the FRR's Supervisory Board intended to subject that initial allocation to a review within three years. Planned for early 2006, this review appeared to be all the more necessary in that:

- a portfolio comprised exclusively of stocks and bonds remains vulnerable to any market correction that would simultaneously lead to significant and other than temporary depreciation of the value of equities and debt instruments;
- the most recent work of the COR *(Conseil d'orientation des retraites)* in March 2006 supplied more precise details on the levels and structure over time of the probable funding requirements of the PAYGO retirement plans falling within the scope of the FRR;
- the long-term risk criterion, compliance with which served as the basis for determining the optimal allocation in April 2003, needed to be either reexamined or supplemented by a criterion that was better adapted to the FRR's challenges.

Further, any change in this long-term risk criterion could lead to substantial changes in the optimal composition of the strategic allocation.

The FRR's public service mission warrants its inclusion within the broadest possible vision of French public finances. The global debt of the nation may be viewed as the sum total of its long-term financial liabilities and the social security debt. The foreseeable and probable funding requirements of the PAYGO retirement systems constitute a substantial portion of these liabilities. Accordingly, the average cost to the French State of the sums allocated to the FRR over the period running from 2006-2020 was used as the minimum profitability threshold to be surpassed over the long term. In fact, if the FRR manages to obtain a return over the long run that exceeds this threshold, it will generate a financial surplus for the national community that will serve to cover some of the funding requirements of the PAYGO retirement systems, authorizing an equivalent reduction in the nation's long-term debt.

The average cost of the resources allocated to the FRR has been estimated to be 4.4%. A new long-term risk criterion was therefore defined in addition to the first one, which was adopted in 2003 (the quasi-nil probability of a capital loss at the 2020 horizon). It consisted of maximizing the probability (at least 80% initially) of obtaining an average annualized net return over the 2006-2040 period that exceeds 4.4% in nominal terms.

In any case, the latter figure is not a long-term target return for the FRR (it is implicitly much higher), but rather the threshold from which the risk criterion is expressed. This threshold is subject to revision on the basis of market conditions.

On these premises, a very large number of allocations were modeled in order to identify those that respected these risk criteria in the most efficient way (i.e., by offering the highest expected return). These allocations ranged over a very broad spectrum of assets: various indices representative of the developed and emerging equity and bond markets, as well as listed and unlisted real estate—both residential and commercial, infrastructure investments, private equity, hedge funds via mono- or multi-strategy vehicles, commodities—via the indices or equities issued by companies that produce commodities, and structured products.

Overall, and by integrating certain operational and legal constraints that prevented the FRR from investing rapidly in new asset classes, the Fund's strategic asset allocation was adapted in the spring of 2006 as follows:

- the relative weight of equities was raised slightly, from 55% to 60% of the portfolio as a whole. This increase is due in part to a modest upward revision in the risk premium assumption that should boost the return on equities over the long term. It is also due to the constraints placed on new assets in the initial allocation;
- a diversification assets category was introduced for up to 10% of the FRR's strategic asset allocation. This category includes private equity, commodities indices, unlisted real estate and infrastructure financing;
- the relative weight of bonds was sharply reduced, from 45% to 30% of total assets. This significant decrease is not the result of a downward revision in long-term yield assumptions, since the macro-financial scenario selected in 2003 was already very conservative in this respect. In fact, it is primarily due to the replacement of bond securities by other asset classes whose properties responded better to the aforementioned risk objectives.

Within each of these classes, the goal was to achieve greater international diversification, the key to better risk management, within the confines of applicable regulatory limitations. The weight of the Eurozone within the equity and bond portfolios was decreased, from 70% to 55% and from 84% to 70%, respectively. In addition, new markets and emerging markets were introduced in parallel. Conversely, among the asset classes considered, structured products or hedge funds did not appear to warrant inclusion in the long-term asset allocation of an investor like the FRR. Indeed, the very long investment timeframe of the FRR allows it to invest in assets that, taken individually, are fairly risky and offer a relatively high return, and that present relatively low long-term correlations among themselves. Structured products and hedge funds, while they are appealing from a risk diversification perspective, have expected returns that are lower relative to these other asset classes. As a result, they were ruled out when simulations were made. Given the need to create new physical vehicles, by awarding new management mandates via RFPs, the Supervisory Board of the FRR has decided that the Executive Board should roll out the new strategic asset allocation between now and the end of 2007.

THE FRR'S SRI STRATEGY

In 2006, the FRR stepped up the rollout of the socially responsible investment (SRI) strategy it had initiated three years earlier. In particular, the FRR completed the process of selecting asset managers with an established SRI process and activated the corresponding mandates.
The Fund also laid the foundations of the extra-financial reporting system for the equity portfolio and renewed its support for and participation in a number of key SRI initiatives.
The principal pillars of its strategy are indicated below:

- an active policy of voting proxies at the shareholder meetings of corporations in which the FRR invests via its managers, based on the guidelines that were made public in 2005;
- the incorporation of environmental, social and governance (ESG) criteria into the Fund governance process—whether via mainstream European management or via management that is more specifically specialized in integrating the FRR's ESG criteria;
- the FRR's support for and participation in domestic and global initiatives that seek to promote more widespread integration by the financial community of ESG criteria in their decision-making processes.

IMPLEMENTING SOCIALLY RESPONSIBLE INVESTMENT MANAGEMENT

In 2006, the FRR closed its RFP for the allocation of specialized SRI management mandates for an initial amount of 600 million euros.
After an in-depth analysis conducted in early 2006 of the proposals submitted, the Fund's Executive Board decided to award the mandates to the following five asset management firms: AGF Asset Management, Dexia Asset Management, Morley Fund Management, Pictet Asset Management and Sarasin Expertise Asset Management.
What differentiates these mandates is that the five asset managers in question have strongly integrated ESG considerations into their stock-picking process, inspired by the FRR's SRI principles that were made public in the fall of 2005. These principles express the FRR's expectations with respect to the companies whose stock is part of its portfolio, in terms of both strategic orientation and the environmental record of their own key stakeholders (suppliers, clients, employees, shareholders, market).
The SRI mandates were activated in the second half of 2006. At the end of December 2006, assets under SRI management totaled nearly 0.7 billion euros, in addition to the 6 billion euros in European equities in the FRR's portfolio managed with the understanding that managers will take ESG research and analysis into consideration, that integrating extra-financial criteria into the management process will be discussed, and that collaboration with the FRR will be close and transparent.

EXTRA-FINANCIAL REPORTING

In the fall of 2005, the FRR began the process and discussing and selecting outside service providers to meet the extra-financial reporting needs of its equity portfolio (around 18 billion euros at the end of 2006). The goal is to allow the FRR's executive management to assess the environmental, social and governance quality of its portfolio, as well as to assess to what extent its approach contributes to sustainable development and, in the final analysis, to identify the extra-financial threats and opportunities to which the Fund may be exposed.

After completing a selection process, the FRR decided to retain the complementary services of Eiris, Trucost and Vigeo. Their responsibilities are summarized below:

- to analyze the Eurozone equity portfolio on the basis of the FRR's five SRI principles (assignment entrusted to Vigeo);
- to assess the environmental footprint of the global equity portfolio, as well as the environmental threats and opportunities (assignment entrusted to Trucost);
- to complete (for the global equity portfolio) a report on compliance with the principles underlying international agreements—in particular those related to the first principle of the FRR: "Respect basic human and worker rights" (assignment entrusted to Eiris).

The FRR may consolidate its responsible investor approach in light of the results obtained for the first quarter of 2007.

PROMOTE THE DEVELOPMENT AND INTEGRATION OF ESG VALUES IN FINANCING AND MANAGEMENT

Socially responsible investment principles

After having actively participated in the UN initiative for the implementation of principles for responsible investment (PRI), the FRR officially signed them on April 27, 2006. This initiative brings together a group of international investors who are committed to serving beneficiaries to the best of their ability and to aligning their investment policies with the interests of society and sustainable development. These principles are fully consistent with the long-term investment strategy of the FRR. The FRR is currently a member of the PRI Board of Directors and participates actively in its task forces and workgroups as well as in efforts to promote PRI in the financial sector. One of the work groups in which the FRR is particularly active concerns the assessment of the ability of signing parties to roll out the PRI using an electronic tool.

The Carbon Disclosure Project (CDP)

In support of efforts to improve the level of disclosure on corporate behavior with respect to the environment, energy consumption and the impact of climate change on their business, the FRR is an active supporter of the Carbon Disclosure Project (CDP). This is one of the most important initiatives in the area of the environment and climate change, supported by the UNEP (United Nations Environment Programme).

Research on responsible investing

In addition to its support of international projects, the FRR backs the French management association's launch of an SRI Chair in France. This will entail the constitution of a theoretical base for analyzing investor demand and how financial professionals should address it. It also seeks to establish a set of operational asset evaluation rules that combine financial, social and environmental criteria. The results of this work will be validated scientifically via international publications. The Chair will be made up of specialists in finance, econometrics and industrial economy at the Institut d'économie industrielle (IDEI), in association with the University of Toulouse 1, and the Economics department of the École polytechnique. Research work will begin in the first quarter of 2007.

OUTLOOK FOR 2007

The focal point for 2007 will be results. The various measures that the FRR has taken all year long should generate a wide array of information, tied to:

- extra-financial reporting on the Funds, which should open up new vistas for a responsible investor;
- difficulties encountered and obstacles overcome in the deployment of the PRI by the signing parties;
- whether or not French and international companies will continue their efforts to publish environmental data;
- initial results of SRI Chair research.

As a responsible investor, the FRR pledges to continue working on and sharing the fruits of these projects with its stakeholders and the French and international financial communities.

Lastly, over and above its responsible financial strategy, in 2007 the FRR should call its own practices and internal operations into question and adopt measures fostering sustainable development.

REPORT ON THE 2006 EXERCISE OF VOTING RIGHTS SEASON

The FRR Supervisory Board discussed and agreed to a number of principles related to the voting of proxies. Accordingly, the right of the FRR as a shareholder to vote in general meetings is systematically exercised by each one of the Fund's managers, who in turn vote in accordance with the general guidelines set forth by the Fund. Positions taken in the name of the Fund reflect the Fund's interest alone, and are taken in full independence. These guidelines, made public after the Supervisory Board adopted them in January of 2005 and updated by the Supervisory Board in 2006, were sent out to the FRR's asset managers to enable them to actually vote proxies on behalf of the shareholder at the annual general meetings.

After the 2005 season, which saw the implementation of a system leaving a great deal of latitude to FRR portfolio management companies, 2006 shifted the focus to the gradual coordination of voting rights between the FRR and its managers in cases where the latter have different voting preferences on the same resolution.

The FRR created an internal committee to follow up on voting proxy rights at the beginning of the year. This group is to oversee coordination and report on the 2006 season, drawing on a detailed report reviewing manager votes.

Participation in general meetings

In 2006, by virtue of the composition of its investment portfolios, the FRR participated via its fund managers in 1,306 annual general shareholders meetings out of the 1,464 that were actually held, or 90% of the global portfolio. Managers voted on average over 92.6% of their portfolio. Proxies were voted in the Eurozone, Europe and the United States. At meetings held during the 2006 season, some 10,115 resolutions were submitted to discussion and vote. They can be broken down as follows: 8,833 votes FOR (87.33%), 1,099 votes AGAINST (10.87%) and 183 ABSTENTIONS (1.80%).

Analysis of the votes

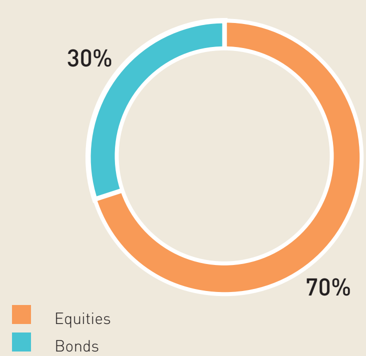
The 2006 season differed to some extent from the trend set the previous year, with a slight decline in the negative vote rate at CAC 40 company general shareholders meetings (5.37%, down from 6.46% in 2005), due to better communication between issuers and investors. The types of resolutions eliciting negative votes on behalf of the FRR were those authorizing companies to buy their own shares, including in the event of a public takeover bid, authorizations to issue bonds with warrants (BSA) during a takeover, authorizations to increase capital by issuing equities with no preferred subscription rights, the allotment of free shares to directors and officers, and regulated agreements regarding add-ons to supplemental retirement plans and compensation for directors.

At the close of the 2006 season, the first featuring active FRR follow-up on voting proxies, it would appear that managers are generally acting in accordance with the guidelines defined by the Fund.

PORTFOLIO COMPOSITION

At 31 December 2006, after new mandates had been activated and additional funds made available for investment, the FRR's invested portfolio (excluding activities related to overlay and cash management) was distributed as follows: 17.1 billion euros invested in European, US and Asian equities, and 7.5 billion euros invested in European and international bonds, both nominal and inflation linked. Initial commitments—which are not significant at this stage—were made at the very end of the year in capital investments, on secondary buyback operations.

Equity-bond asset investment breakdown (excluding those held in treasury)



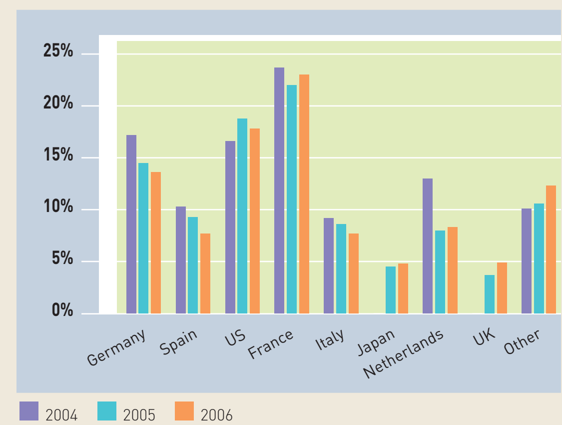
THE EQUITY PORTFOLIO

On December 31, 2006, the fair market value of the FRR's equity portfolio was 17,135 billion euros. In geographic terms, and in descending order of importance, this portfolio was principally exposed to the French, US, German, Italian, Dutch and Spanish stock markets. The allocation to French equities, which largely exceeded the relative weight of French market capitalization (the FRR's allocation in French equities 23%, whereas the market capitalization of the Paris Bourse is equal to 4% of total market capitalization worldwide) was primarily the result of deliberate overweighting to the euro area in the FRR's strategic allocation.

The changes made to this allocation in 2006 reflect appreciation in the various equity markets and decisions to activate, withdraw from and terminate a number of different mandates throughout the year. At the conclusion of a request for proposal at the end of the first half of the year, five mandates for European equities managed using a responsible investment process were activated for a total of 600 million euros. Two stand-by mandates, selected after the first FRR RFP, were also activated at that time, respectively on Pacific Rim equities and on US equities managed using a value strategy.

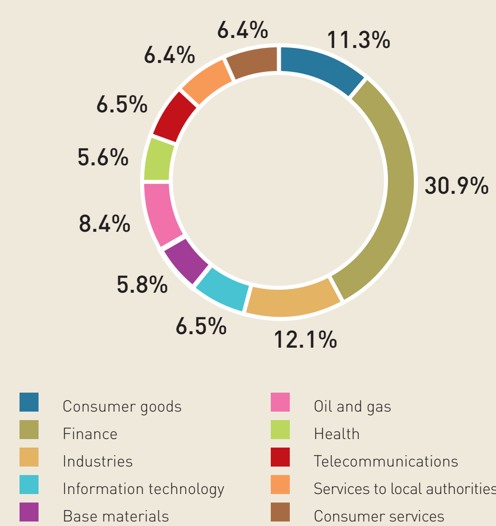
A mandate for US midcaps was terminated due to durably below-par performances. At the end of the year, withdrawal from equity mandates in the Eurozone brought geographical exposure closer to the new targets set when strategic allocations when they were revised in the spring of 2006.

Geographical equity exposure trends (excluding SRI)



From a sector standpoint, on December 31, 2006, the portfolio was chiefly invested in financial and industrial equities and companies operating in the consumer goods sector. Apart from some tactical movements made by the managers, it reproduces the composition of the benchmark indices—which serve to measure manager performance—for each mandate.

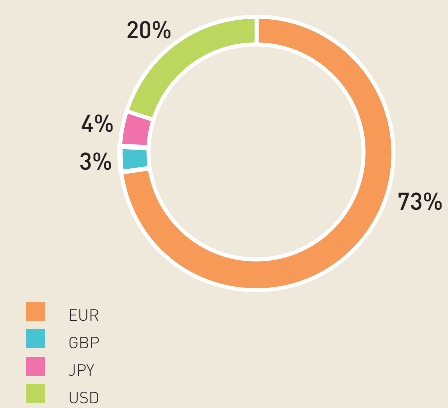
Equity breakdown by sector (excluding SRI)



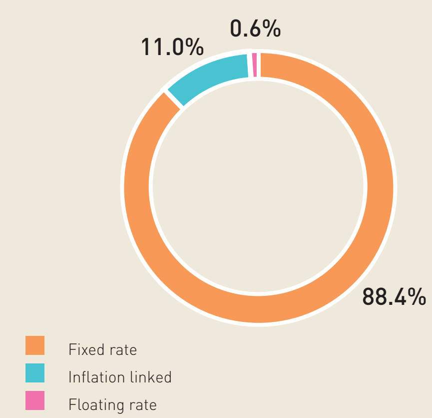
THE BOND PORTFOLIO

On December 31, 2006, the fair market value of the bond portfolio was 7,450 billion euros. The bond portfolio was primarily invested in euro bonds and the currency breakdown was very close to the benchmark for bond mandates.
Some 11% of the bond portfolio was invested in inflation linkers, while the remainder was almost exclusively invested in nominal, fixed-income bonds. The percentage invested in floating rate instruments—included in the investment universe of managers but not represented in their benchmark index—was marginal.

Bond breakdown by currency

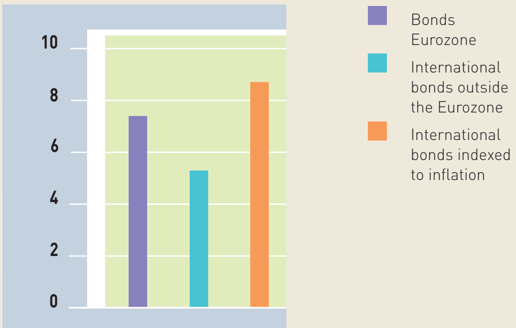


Fixed rate, inflation linked and floating rate breakdown

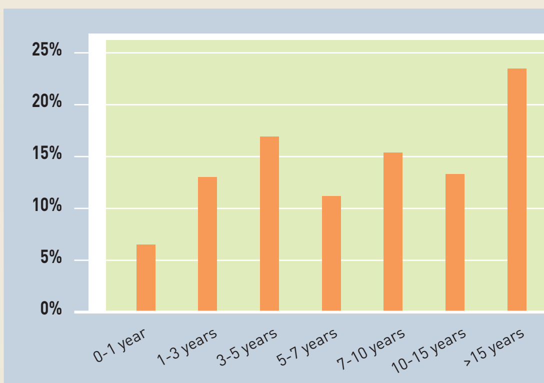


A substantial 23.5% of the bond portfolio maturities at December 31, 2006 exceeded fifteen years, reflecting the composition of the benchmark indices, which were constructed to ensure consistency with the extended duration of the FRR's liabilities.

Bond index sensitivity

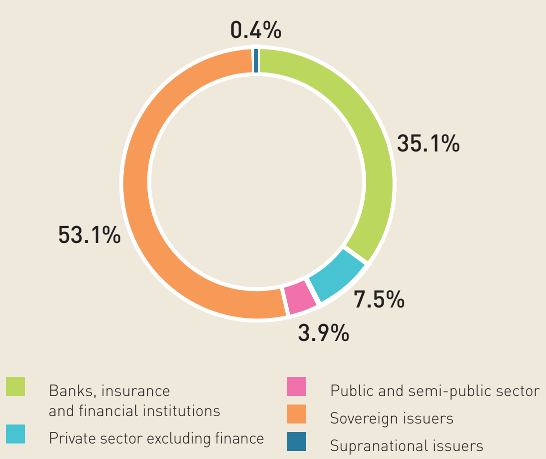


Structure of mandates by maturity



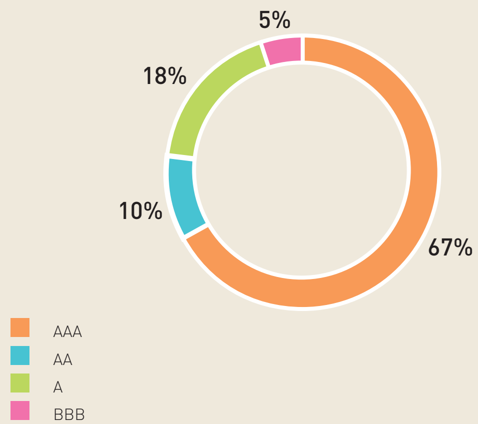
Slightly over 53% of the bond portfolio was composed of sovereign issues. This percentage is significantly higher than the benchmark indices of the activated mandates.

Bond breakdown by category



The heavy weighting of government bonds is reflected in the very high proportion of AAA rated bonds in the portfolio.

Bond by rating



PRIVATE EQUITY

The RFP process initiated by the FRR in December of 2005 to select the managers for its first private equity or venture capital program led in late 2006 to the awarding of a first lot, centered on secondary transactions in funds that have already made long-term investments in recent years in unlisted companies. These secondary transactions, which were carried out via a specialized fund of funds, will involve a total committed amount of 150 million euros. It will enable, in addition to a diversification of the FRR's private equity portfolio to encompass funds that were set up before the RFP was launched, to lessen the impact of the J curve, which traditionally characterizes the return on private equity investment programs, the return on financed businesses emerging only several years after the initial engagement is made.

On the December 31, 2006 reporting date, the FRR had initiated its first commitments to secondary funds for a non-material amount of less than 200,000 euros.

FINANCIAL MARKET TRENDS AND THE FRR GLOBAL PERFORMANCE IN 2006

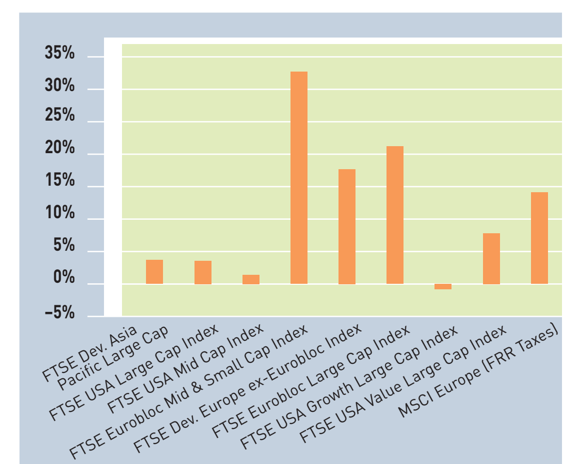
2006 will go down as another year of global growth. However, against a backdrop of global cycle maturity and mounting uncertainty—over the magnitude and nature of the US slowdown, the strength of the recovery in Europe, the apparent end of deflation in Japan and the monetary policy fallout that could ensue—market trends were less linear than those observed since the late summer of 2004.

After a spectacular start in the first quarter, boosted more by the sharp rise in merger and acquisition activity and outlook than by another upward revision in corporate earnings guidance, the equity markets entered a phase of heavy turbulence beginning in the spring. Initially triggered by the sharp rise in long-term yields over the first four months of the year, the movement gained momentum on the possibility of an impending slowdown in the US economy. A rise in risk aversion caused this movement to spread throughout the equity markets. Markets that had made the strongest gains in 2005 and early 2006—particularly those in the Eurozone, experienced the sharpest corrections between mid-May and mid-June 2006, with French equities losing up to 14% of their value.

With the arrival of summer, this abrupt rise in investor risk aversion just as suddenly changed course. Belief that the Fed was going to take a long break from its gradual tightening of intervention rates (or even that a new phase of rate cuts was once again a credible scenario), combined with the sentiment that the observed US slowdown —at least in 2006— would not jeopardize sustained global growth finally encouraged investors to return in massive numbers to the equity markets. As a result, the second half of the year saw these markets once again rise on a par with the pace observed since the fall of 2004.

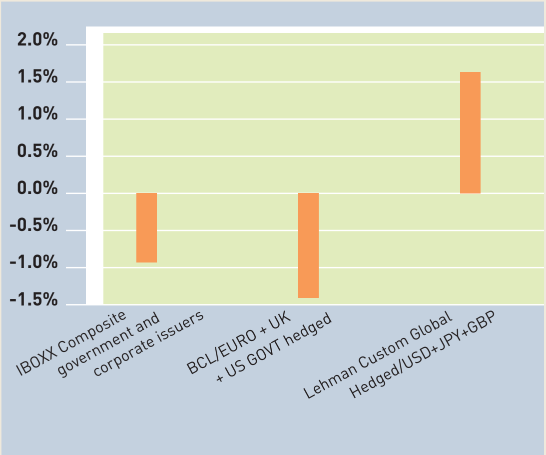
Overall, and despite the breaks in established trends seen over the course of the year, the main equity markets to which the FRR's portfolio was exposed in 2006 once again advanced substantially. However, the strongest gains were observed on European markets, particularly in the small- and mid-cap range. In fact, the FRR's strategic asset allocation gives it structural over-exposure to these markets. In local currency terms, Asian and American markets posted clearly more limited growth rates. However, the return on these investments, which are 90% hedged by the FRR, were more favorable.

Equity strategy performances in 2006 (non-hedged indices)



While the bond markets also had a bumpy ride in 2006, the final outcome was clearly less positive. In the first four months of the year, long-term yields in the main OECD countries rose sharply, fuelled by a reassessment of inflation risks as oil prices began to creep up again. This rise naturally led to a drop in bond prices and a significant decline in the performance of the fixed-rate indices that serve as benchmarks for FRR managers. Index performance hardly improved with the rapid correction in the equity markets observed in the spring of 2006. However, once investors were finally convinced that the Fed planned to leave its key rates unchanged for some time, and that it might even consider cutting them if the US slowdown proved to be more pronounced than forecast, this performance began to improve. Long-term yields then began to recover throughout the second half, displaying virtual symmetry with the steady rebound in the equity markets. Unfortunately, for the full year 2006, this change in direction was not enough to carry the performance of bond strategies followed by FRR managers to levels in line with their long-term assumptions.

Bond strategy performances in 2006



The FRR's tactical management attempted to take profit from these mixed trends among the main asset classes, in the interest of reducing the risks to which the Fund's portfolio was exposed and improving the global performance over and above the gain procured from market trends alone. Encouraged by a longer investment timeframe than that of the average investor, the FRR was able in late spring to increase its exposure to equity markets once it became clear that the correction was excessive in light of fundamentals. At the same time, the FRR remained substantially under exposed to bonds, managing thereby to limit the impact of significantly rising yields on its performance. This under exposure was automatically reduced at the end of the year, when the new strategic benchmark —characterized by a considerably lower weighting for bonds—went into effect.

Taken together, these various factors explain the FRR's performance gross of fees (+11.4%) in 2006. This performance is primarily attributable to equity market appreciation, which contributed 9.2 percentage points to the total annual performance.
Foreign exchange hedging also played a positive role in a context of substantial depreciation in the US dollar over the year. The third driver of this performance was the FRR's tactical management. Net of all interest and administrative expenses, the FRR's performance was 11.2% in 2006.

In cumulative terms, since the FRR began investing on June 28, 2004, its performance in annualized terms is 10.5%.

RISKS

FINANCIAL RISK

This performance was achieved without generating excessive risk, as we can see by looking at two complementary indicators: the beta coefficient and the VaR (value at risk).

At year-end 2006, the beta coefficient (which measures the correlation between changes in the strategic benchmark and the value of the portfolio) was very close to 1. This means that any variation of x% in the level of the benchmark leads to a 1x% variation in the value of the portfolio.
VaR measures the maximal risk of loss in the theoretical, hypothetical event that the portfolio is liquidated in one year, with a 95% probability of occurrence. In December 2006, this risk of loss was 10% of the value of the portfolio on this same date. The magnitude of this risk can be compared to the percentage of unrealized capital gains in the equity portfolio on this same date, which was around 9%.

REGULATORY RISK

The legislator has set up a set of rules governing FRR investments:

1. the FRR cannot allocate more than 5% of its assets to any single issuer's financial instruments – excluding EU member states or states that are parties to the EEA agreement and excluding CADES;
2. the FRR cannot allocate more than 25% of its assets to equities issued by companies headquartered outside the Eurozone, or not traded on a regularly functioning market in an OECD member country;
3. the FRR cannot own more than 3% of a single issuer's equities;
4. the FRR's total commitment to financial futures cannot exceed the value of its assets;
5. exposure to foreign currency exchange risk cannot exceed 20% of total FRR assets.

All ratios tracking compliance with these rules showed that on December 31, 2006, these risks were perfectly managed.

THE FRR'S OPERATING EXPENSES

2006 marked the end of a three-year transition period, which was devoted to laying the FRR's institutional, operational and financial foundations. In 2006, the FRR's operating expenses came to 68.3 million euros. They reflect the Fund's arrival at cruising speed:

- the FRR's organizational model, which was initially project-driven, was scaled to handle more industrialized operations, with a workforce adjustment aimed at strengthening the ability to supervise mandates, devise investment strategies and steer tactical management. Certain operational functions were pooled with those of *Caisse des dépôts* to achieve efficiency and reduce costs. The Fund employed 35 people at year-end 2006;
- in all, 83% of the FRR's operating costs consist of expenditures related to the management of mandates: administrative/custody costs (17%), commissions paid to managers (43%), broker-dealer transaction costs and stock market taxes (23%).

Most of these expenses are best estimates only, due to the uncertainty surrounding the pace of the next mandate activations and manager performance. Pursuing efforts to reduce and disclose these costs —a project that has been under way since 2004— the FRR endeavored to draft a budget for 2006 that both supported these efforts and was consistent with the economic path ratified by its governing bodies, calling for a gradual return to a benchmark calibrated on a sample of international peer institutions.

A study undertaken in 2005 in collaboration with an international firm specialized in the asset management industry, which situated the global cost of the Fund's benchmark at around 16 basis points[1], was supplemented last year by another study[2] commissioned by the FRR.

The findings of these two studies converge, situating the ratio of the FRR's costs to the total amount under management at 20.6 basis points in 2006. The Fund's cost spread is thus around 5 basis points over the benchmark of 16 basis points. Around 3 basis points of the spread is structural, attributable to the outsourcing of Fund management, combined with its statutory limitations.

The budget approved by the FRR's Supervisory Board for 2007, in anticipation of forecasts, should lead to a reduction of this structural 3 basis points spread (the ratio of FRR costs to amounts under management come to 19 basis points).

The Fund also made an effort in 2006 to contain administrative management costs other than those tied up with the operational management of mandates (payroll expense, securities management charges and general expense). CDC's administrative management performance and key performance indicators are tracked by the Fund on a regular basis.

The FRR's operating expenses for 2006 are mainly comprised of the following items:

Operating expenses

in million of euros	2005	2006
Payroll expense	5.267	5.478
Financial management	37.171	45.089
Custodial services/Fund administration	13.285	11.471
Information systems and technology	1.267	1.369
Consultants	1.743	1.005
Other general expenses	1.711	3.834
Total operating expenses	**60.444**	**68.246**

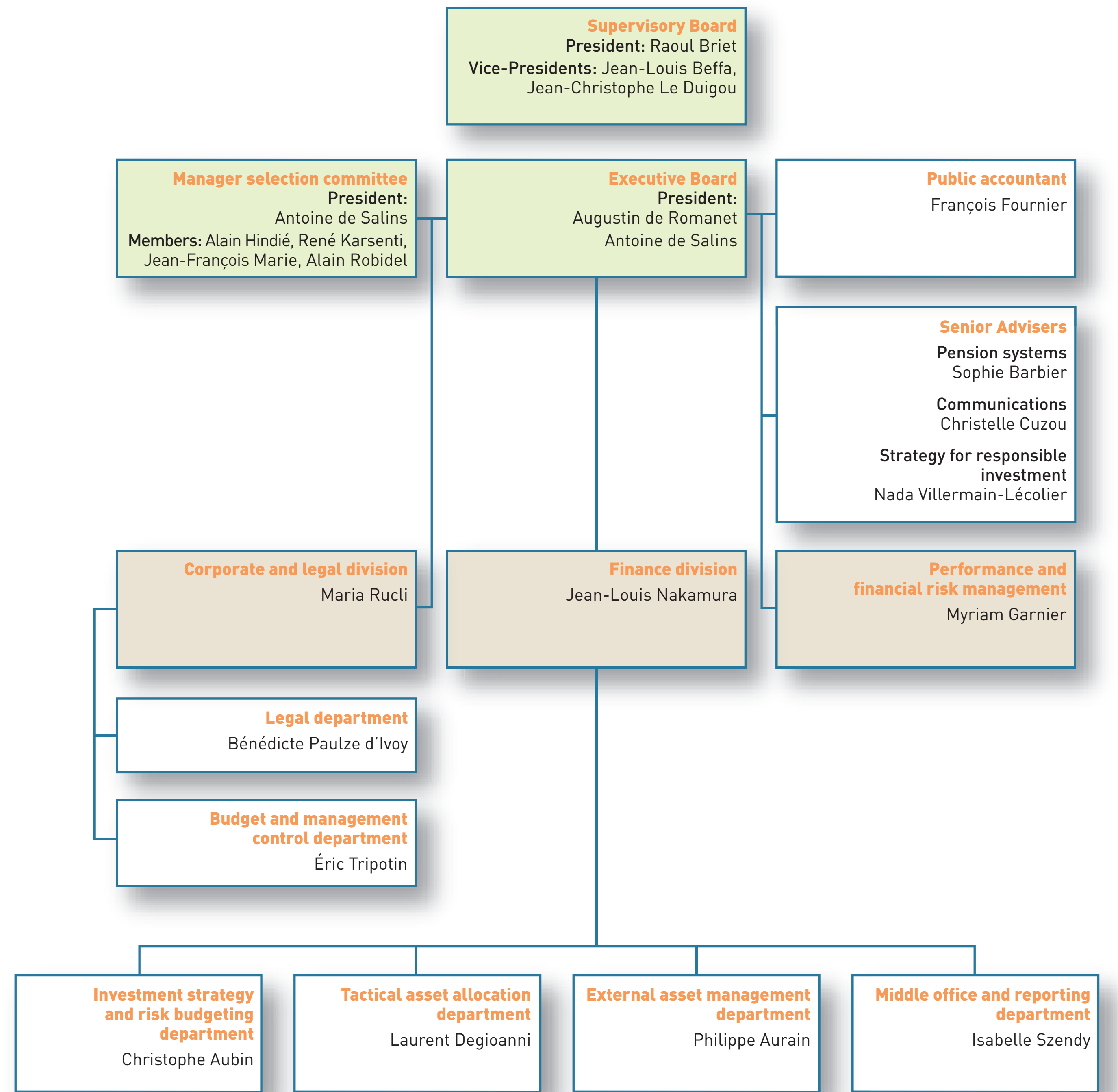
Benchmark calculation

in millions of euros	2005	2006
Total restated costs/benchmark	38.8	49.4
Average assets under management	14,130	24,000
Basis points – bp	**27**	**20.6**

(1) FRR costs expressed in basis points: ratio of the global budget (with VAT on financial commissions and outperformance commissions eliminated) and average funds under management.

(2) Benchmark study of the Fund's costs conducted by a Canadian organization —Cost Effectiveness Measurement/CEM— comparing the FRR's costs in 2005 to a control group of twenty international funds, fifteen of which are European funds whose size is comparable to the FRR.

ORGANIZATION



As of June 1, 2007

FUND GOVERNANCE

FUND GOVERNANCE

Chairman
Raoul Briet

Vice-Chairman
Jean-Louis Beffa,
Chairman and CEO, the Saint-Gobain Group

Vice-Chairman
Jean-Christophe Le Duigou
Representing the Confédération générale du travail (CGT)
Alternate: Pierre-Yves Chanu

Board members

Members from the French *Assemblée nationale*
Yves Bur
Alternate: Pierre Hellier
Marc Laffineur
Alternate: Jean-Yves Chamard

Members from the French *Sénat*
Jean-Jacques Jegou
Alternate: Claude Domeizel
Dominique Leclerc
Alternate: Yves Freville

Representatives of Social Security insured appointed by nationally representative trade unions

Confédération générale du travail-Force ouvrière (CGT-FO)
Jean-Jacques Poujade
Alternate: Bernard Devy

Confédération française démocratique du travail (CFDT)
Jean-Paul Le Bail
Alternate: Philippe Le Clezio

Confédération française des travailleurs chrétiens (CFTC)
Isabelle Sancerni
Alternate: Michel Moise-Mijon

Confédération française de l'encadrement (CGC)
Solange Morgenstern
Alternate: Danièle Karniewicz

Representatives of self-employed employers and workers

Mouvement des entreprises de France
Jean-René Buisson
Alternate: Catherine Thibier
Véronique Cazals
Alternate: Agnès Lepinay
Alain Leclair
Alternate: André Renaudin
Association française de la gestion financière

Confédération générale des PME
Jean-François Veysset
Alternate: Georges Tissié

Union professionnelle artisanale
Dany Bourdeaux
Alternate: Berthe Duguey

Representatives of the Minister in charge of Social Security, appointed by government order issued by the Minister in charge of Social Security
Dominique Libault
Alternate: Stéphane Seiller
Jean-Louis Rey
Alternate: Franck Le Morvan

Representing the Minister of the Economy, Finance and Industry, appointed by governement order issued by the Minister of the Economy, Finance and Industry
Xavier Musca
Alternate: Thierry Francq

Representing the Minister in charge of the Budget, appointed by governement order issued by the Minister in charge of the Budget
Philippe Josse
Alternate: Henri Lamotte

EXECUTIVE BOARD

Chairman
Augustin de Romanet

Other member
Antoine de Salins

MANAGER SELECTION COMMITTEE

Chairman
Antoine de Salins

Alain Hindié
Consultant

René Karsenti
Chairman and CEO of the ICMA (International Capital Market Association)

Jean-François Marie*
Vice-President of Montpensier Finance

Alain Robidel
Associate Director of AC2F Consultants

** With effect from September 2006, Jean-François Marie has replaced Christopher Nowakowski.*

FINANCIAL AND ACCOUNTING OVERVIEW

2006 FINANCIAL STATEMENTS

In fiscal year 2006, the FRR's total financial assets increased substantially, reflecting the results of financial management (3 billion euros) and the Fund's endowments (1.5 billion euros).
On December 31, 2006, the aggregate value of the Fund's marketable securities and cash on hand totaled 31.28 billion euros, up by 4.63 billion euros compared with year-end 2005.
This global performance is attributable to the satisfactory performance of equities managed under the FRR's strategic asset allocation.

EXTERNAL SOURCES OF FUNDING

The resources provided for under the act of July 19, 2001 were stable in 2006 (1.5 billion euros), as was the case in 2005. They are mainly comprised of social levies that are allocated to the Fund.
The total amount of endowments received by the FRR since inception is 20.966 billion euros, which represents 76.33% of its shareholders' equity, compared with 83.52% the previous year. This relative decline confirms that financial management, which was particularly productive in 2006, assumed a preponderant place in the FRR's financing in the course of the year. The one-off contribution of 3.06 billion euros that was paid to the FRR in 2005 by the CNIEG *(Caisse nationale des industries électriques et gazières)* had reached 3.7 billion euros at the end of 2006.
These funds, to which are added the financial proceeds generated by the FRR's management, are carried as liability and will be turned over to the CNAV *(Caisse nationale d'assurance vieillesse)* in 2020.

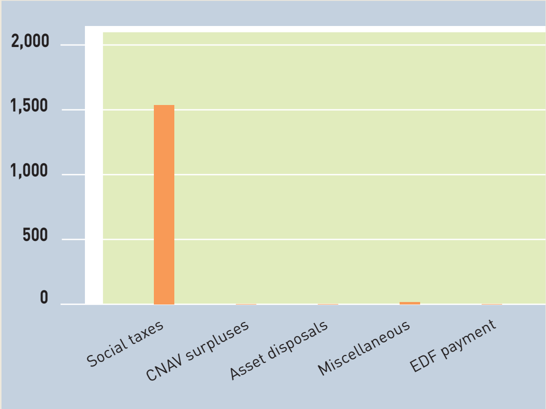
RESULTS OF FINANCIAL MANAGEMENT

According to the FRR's chart of accounts, which is set forth in CNC *(Conseil national de la comptabilité)* opinion No. 2003-07 dated June 24, 2004, the accounting treatment of interest income and expense differs from that of unrealized capital gains and losses. The FRR's trading portfolio is carried on the balance sheet at its fair market value. All of the differences between the price paid to acquire securities and their fair market value on the year-end accounting cut-off date are unrealized capital gains or losses, as the case may be, and are recorded under equity by the FRR, with the exception of the percentage of the return earned on the one-off contribution that is attributable to CNAVTS.
On December 31, 2006, unrealized capital gains recorded under equity totaled 2.59 billion euros, versus 2.05 billion euros on December 31, 2005.
The total value of the trading portfolio on this same date was 20.77 billion euros.
Both interest expense and income are charged against or credited to the income statement, as the case may be. Taken together, income earned on marketable securities and capital gains or losses made on disposals totaled 2.201 billion euros, versus 785.62 million euros in 2005.

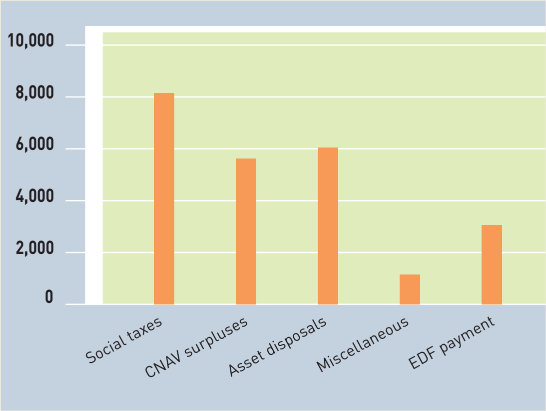
Total investment income less total operating expenses (68.3 million euros) provides a result for 2006 of 2.133 billion euros, which is carried by the FRR as equity.

In accordance with article L. 135-12 of the French Social Security Code *(Code de la Sécurité sociale)*, the financial statements for 2006 were submitted to and certified by the independent auditors of the FRR.

FRR financing in 2006 (in millions of euros)



FRR aggregate financing by type at December 31, 2006 (in millions of euros)



FRR financing by year (in millions of euros)

BALANCE SHEET

DECEMBER 31, 2006

in euros

Assets

	12/31/2006	12/31/2005
Long-term assets	**501,001.73**	**1,690.28**
Receivables	**8,322,058,561.93**	**5,202,444,159.95**
Endowments allocated to the FRR receivable	7,023,837.84	2,607,175.98
Receivables from operations		91,923.75
Receivables on financial instruments	48,841,691.53	24,220,303.70
Receivables on forex transactions	8,242,940,817.51	5,170,335,241.47
Receivables on financial futures	23,252,215.05	5,189,515.05
Marketable securities	**26,080,455,841.53**	**19,540,213,460.85**
Equities	17,134,936,100.06	14,859,006,789.73
Bonds	7,365,747,479.42	4,091,131,600.06
Negotiable debt instruments	1,579,589,831.53	590,075,071.06
Private equity	182,430.52	
Cash	**5,201,919,851.48**	**7,118,883,247.53**
Prepaid expenses	**6,975.37**	**2,837.46**
Total assets	**39,604,942,232.04**	**31,861,545,396.07**

Liabilities

	12/31/2006	12/31/2005
Equity capital	**27,465,678,650.35**	**23,251,188,881.19**
Endowments	20,966,500,857.88	19,421,244,676.10
Reserves	1,779,916,957.31	1,054,083,549.67
Valuation variance	2,586,003,816.78	2,050,027,247.78
Net income for the year	2,133,257,018.38	725,833,407.64
Payables	**12,128,928,156.13**	**8,609,324,617.66**
CNIEG non-recurring contribution	3,700,705,528.28	3,321,990,853.24
Payables from operations	41,325,764.85	41,099,012.90
Payables on financial instruments	236,758,175.87	43,710,784.28
Payables on forex transactions	8,143,931,411.79	5,198,506,062.35
Payables on financial futures	6,207,275.34	4,017,904.89
Deferred income	**10,335,425.56**	**1,031,897.22**
Total liabilities	**39,604,942,232.04**	**31,861,545,396.07**

INCOME STATEMENT

DECEMBER 31, 2006

in euros

Expenses

	2006	2005
Outside services	67,218,006.19	59,816,767.20
Taxes	61,653.59	53,991.61
Payroll expenses	626,888.50	572,789.55
Amortization	339,533.75	982.87
Operating expenses	**68,246,082.03**	**60,444,531.23**
Currency translation losses	178,963,988.30	347,071,047.34
Expenses on financial futures	88,646,885.22	995,409.08
Expenses on the sale of securities	284,333,098.71	129,594,549.80
Other financial expenses	9,509.90	25,629.79
Interest expense on CNIEG	297,265,732.96	84,343,161.10
Financial expenses	**849,219,215.09**	**562,029,797.11**
Non-recurring expenses		**216,427.53**
Total expenses	**917,465,297.12**	**622,690,755.87**
Net income for the period	**2,133,257,018.38**	**725,833,407.64**
Total	**3,050,722,315.50**	**1,348,524,163.51**

Income

	2006	2005
Income from marketable securities	671,262,201.28	355,455,955.68
Currency translation gains	456,097,578.50	121,025,204.14
Income on financial futures	185,387,006.41	5,765,636.43
Income on the sale of securities	1,588,583,256.59	659,247,120.26
Other financial income	149,222,441.47	206,165,418.04
Financial income	**3,050,552,484.25**	**1,347,659,334.55**
Non-recurring income	**169,831.25**	**864,828.96**
Total income	**3,050,722,315.50**	**1,348,524,163.51**
Total	**3,050,722,315.50**	**1,348,524,163.51**

NOTES TO THE FINANCIAL STATEMENTS

1. LEGISLATIVE AND REGULATORY CHANGES

The Social Security Financing Act for 2007 (printed in the official gazette on December 21, 2006) supplements existing legislation applicable to the FRR on three points:

- allocation to the FRR of unclaimed benefits from life insurance policies;
- access to the FRR's RFPs by credit institutions;
- option for the FRR to assume direct management of its assets, either to safeguard these assets or invest in pooled investment funds.

2. SIGNIFICANT ACCOUNTING POLICIES AND METHODS

The financial statements of the FRR are drawn up based on the generally accepted accounting principles set out in the chart of accounts for Social Security organizations and in opinion No. 2003-07 of June 24, 2003 issued by the CNC *(Conseil national de la comptabilité).* The generally accepted accounting standards have been applied with the aim of ensuring that the financial statements reflect the conservatism principle and provide a true and fair view of the Fund's financial position, in accordance with the basic principles of going concern, consistent accounting policies and accrual accounting.
Transaction recording dates are the trading dates for those transactions in the portfolio. Transactions are recorded at cost (accrued coupon interest and fees excluded), and the PRMP rule (*prix de revient moyen pondéré*—weighted average cost price) is used for realized capital gains or losses. Asset values are calculated on the basis of positions held on Friday evening or the last TARGET business day of the week, and the last TARGET business day of the month. The default price is the closing price on the issuer's benchmark market, case by case on the principal quotation market.

Because the FRR's accounts are stated in euros, positions of FRR mandates in foreign currencies are valued and accounted for on the basis of exchange values calculated using WM/Reuters closing spot rates (4:00 pm London time). Forex futures are valued on the basis of both a straight-line amortization of the initial swap points for the transaction and by the valuation of the foreign currency position based on WM/Reuters closing spot rates (4:00 pm London time). For unlisted securities, valuation is based on the acquisition price (or the redemption value for unlisted bonds close to maturity).
In the event that price quotes are not available on the day of valuation, assets are valued on the basis of the last known price or using a predefined procedure in the case of previously established prices.
For fixed-income instruments, accrued coupon interest on the transaction or at valuation are expressed with respect to the value date. This accounting policy is related to the fact that operations are accounted for as of the date of the trade.
Euro area government and corporate bonds are valued on the basis of ISMA prices.
Global bonds are valued on the basis of Merrill Lynch prices for the US, and of quoted prices for UK and Japanese bonds.
Inflation-index linked bonds are valued on the basis of closing prices, using the appropriate index rate, on the basis of quoted prices for the UK and on the basis of prices contributed by ISMA and Merrill Lynch for Euro Area and for US bonds, respectively.
BTF and BTAN French sovereign debt securities are valued on the basis of published *Banque de France* rates on the date of valuation. Values for negotiable debt instruments stated in a currency other than the euro that will mature in less than three months from the accounting cut-off date are established on a straight-line basis.
Futures contracts are valued closing settlement prices. Unrealized gains and losses on financial instruments are accounted for as valuation variances. As such, they have no effect on the Fund's net earnings. Realized gains and losses are credited to or charged against income. The fees paid to management firms are based on a rate scale that assigns basis points to lots of assets under management. Certain mandates receive variable fees for outperforming their benchmark index by a given margin. Balance sheet assets are amortized over three years. The non-recurring, lump-sum contribution mentioned in article 19 of L. 2004-803 of August 9, 2004 and paid to the FRR by the CNIEG, pursuant to the April 20, 2005 decision by the *Haut Conseil interministériel de la comptabilité des organismes de Sécurité sociale,* is accounted for and carried as a liability in the FRR's financial statements.

3. FINANCIAL STATEMENT PRESENTATION

For reader convenience, certain classifications have been made with respect to these financial statements:

Balance sheet

The various line items are presented as net values and take into account amortization (for long-term fixed assets) and valuation variances (for financial assets and liabilities).
Payable endowments allocated to the FRR include the total endowments allocated to the FRR in 2006 and known at the accounting cut-off date, but not yet received on December 31, 2006.
Payables and receivables on financial instruments include securities transactions carried out by investment firms but for which settlement is pending (coupon interest due and payable or receivable, sales or purchases pending settlement).
Payables and receivables on forex transactions include pending transactions involving currencies, regardless of whether they are over-the-counter cash transactions or related to futures contracts.
Payables and receivables on financial futures include pending transactions related to futures (margin payable or receivable, security deposit).
Marketable securities fall under one of three categories: equities, bonds and negotiable debt instruments (NDI). They are recorded and carried at their fair market value, including accrued coupon interest for bonds and NDIs.
The line item "Cash and equivalent" includes all of the FRR's cash accounts stated in euros or in other currencies (at their year-end exchange values) as well as accrued interest on these demand and term deposits.
At the December 31, 2006 reporting date, they also include French government issues (OAT and BTAN notes) that are considered to be cash on hand due to the nature of the transactions involved: buy-sell transactions whose term (one month) and interest are agreed to from the outset. They are measured at cost, including accrued interest and pro rata interest.
Equity includes:

- endowments, which are the monies the Fund has received since the date of its inception in 1999;
- reserves, which correspond to the aggregate returns the Fund has generated since its inception;
- valuation variances, which represent the unrealized capital gains and losses recorded for all assets on the December 31, 2005 reporting date;
- net income for the year.

The line item "CNIEG non-recurring contribution" includes:

- the terms and conditions under which the CNIEG electricity and gas industry fund *(Caisse nationale des industries électriques et gazières)* is to pay the FRR the non-recurring, lump-sum contribution mentioned in article 19 of L. 2004-803 of August 9, 2004 were set by order of the Minister of Solidarity, Health and the Family on January 31, 2005. Pursuant to this order, the CNIEG was to pay the FRR the sum of 3,060,000,000 euros by June 30, 2005;
- interest paid to the FRR by the CNIEG pursuant to the order dated January 31, 2005;
- a proportionate share of the income for the period, net of management fees, which corresponds to interest earned by the FRR on the cash sum provided by the CNIEG;
- the share in the FRR's total unrealized capital gains or losses at December 31, 2006 represented by the aforementioned cash sum.

The financial statements at the December 31, 2006 cut-off date are compared with the certified financial statements for the year ended December 31, 2005.

4. CHANGE IN THE VALUE OF MARKETABLE SECURITIES IN THE PORTFOLIO

Portfolio on December 31, 2005 (in euros)

	Purchase price	Valuation differential*	Accrued interest	Book price
Equities	12,687,579,110.16	2,171,427,679.57		14,859,006,789.73
Bonds	3,951,809,281.20	75,723,400.77	63,598,918.09	4,091,131,600.06
NDI	587,083,442.88	–1,597,001.95	4,588,630.13	590,075,071.06
Total	**17,226,471,834.24**	**2,245,554,078.39**	**68,187,548.22**	**19,540,213,460.85**

Portfolio on December 31, 2006 (in euros)

	Purchase price	Valuation differential*	Accrued interest	Book price
Equities	14,196,979,194.91	2,937,956,905.15		17,134,936,100.06
Bonds	7,434,102,157.20	–202,657,390.85	131,985,989.24	7,363,430,755.59
NDI	1,581,488,940.01	–4,628,868.72	1,465,667.13	1,578,325,738.42
Private equity	182,585.66	–155.14		182,430.52
Total	**23,212,752,877.78**	**2,730,670,490.44**	**133,451,656.37**	**26,076,875,024.59**

** Valuation differentials before allocation of CNIEG share.*

	12/31/2005	12/31/2006	Change
Equities	14,859,006,789.73	17,134,936,100.06	+15.31%
Bonds	4,091,131,600.06	7,363,430,755.59	+79.98%
NDI	590,075,071.06	1,578,325,738.42	+167.47%
Private equity	–	182,430.52	n/m
Total	**19,540,213,460.85**	**26,076 875,024.59**	**+33.45%**

5. ANALYSIS OF PORTFOLIO BY REMAINING TERM TO MATURITY

	12/31/2005	12/31/2006
<1 year	14.25%	22.03%
1-3 years	13.02%	10.84%
3-5 years	10.80%	14.13%
5-7 years	11.93%	9.36%
7-10 years	13.79%	12.89%
10-15 years	12.55%	11.12%
>15 years	23.66%	19.63%
Total	**100.00%**	**100.00%**

6. ANALYSIS OF PORTFOLIO BY COUPON TYPE

	12/31/2006
Fixed	90.34%
Indexed	9.15%
Floating	0.51%
Total	**100.00%**

7. ANALYSIS OF PORTFOLIO BY CURRENCY OF LISTING

Currency	Equities	Bonds	NDI(1)	LP(2)	Total
AUD	198,527,559.32	0.00	0.00	0.00	198,527,559.32
CHF	274,087,971.45	0.00	0.00	0.00	274,087,971.45
DKK	25,749,452.76	0.00	0.00	0.00	25,749,452.76
EUR	11,623,733,230.22	5,372,221,708.46	1,501,764,453.44	0.00	18,497,719,392.12
GBP	835,349,706.99	223,979,860.94	10,603,205.94	0.00	1,069,932,773.87
HKD	99,583,703.78	0.00	0.00	0.00	99,583,703.78
JPY	822,495,922.55	268,964,715.55	0.00	0.00	1,091,460,638.10
NOK	47,734,661.66	8,809,496.71	0.00	0.00	56,544,158.37
NZD	2,349,504.59	0.00	0.00	0.00	2,349,504.59
SEK	101,601,957.60	9,238,210.64	0.00	0.00	110,840,168.24
SGD	55,567,131.29	0.00	0.00	0.00	55,567,131.29
USD	3,048,155,297.85	1,480,216,763.29	55,622,653.48	182,430.52	4,584,177,300.28
Total	**17,134,936,100.06**	**7,363,430,755.59**	**1,567,990,312.86**	**182,430.52**	**26,066,539,599.03**

8. ITEMIZED STATEMENT OF SECURITIES AT DECEMBER 31, 2006

Securities (in euros)	Total
Equities	**17,134,936,100.06**
Europe Euro Area	11,623,733,230.22
Europe ex Euro Area	1,284,523,750.46
US	3,048,155,297.85
Asia ex-Japan	356,027,898.98
Japan	822,495,922.55
Bonds	**7,363,430,755.59**
Europe Euro Area	5,372,221,708.46
Europe ex Euro Area	242,027,568.29
US	1,480,216,763.29
Japan	268,964,715.55
Negotiable debt instruments(1)	**1,567,990,312.86**
Europe Euro Area	1,501,764,453.44
Europe ex Euro Area	10,603,205.94
US	55,622,653.48
Private equity	**182,585.66**
US	182,585.66

(1) Net value of prepaid interest = 10,335,425.56 euros.

(2) Limited Partnership = private investment fund.

9. ENDOWMENTS RECEIVABLE (EARMARKED FOR THE FRR)

	12/31/2006
CDC – prescribed consignments	3,370,000.00
UMTS royalties/license fees	2,846,757.00
Employee savings	807,080.84
Total	**7,023,837.84**

10. CURRENT LIABILITIES

Liabilities	12/31/2006	>1 year	<1 year
Government and Social Security	4,057.65		4,057.65
Other	41,321,707.20		41,321,707.20
Total	**41,325,764.85**		**41,325,764.85**

11. RECEIVABLE ON FINANCIAL MANAGEMENT

Related to financial instruments	12/31/2006
Interest coupons due and immediately payable	29,288,526.56
Sales pending settlement	19,553,164.97
Total	**48,841,691.53**

Related to forex transactions	12/31/2006
Futures purchases	469,666,592.92
Forex forward receivables	7,752,034,132.16
Forex spot receivables	9,913,547.13
Discount/deport	11,326,545.30
Total	**8,242,940,817.51**

Related to financial futures	12/31/2006
Security deposits	22,359,763.36
Margin receivable	892,451.69
Total	**23,252,215.05**

12. PAYABLE ON FINANCIAL MANAGEMENT

Related to financial instruments	
Securities purchased, settlement pending	236,757,966.41
Other overdraft fees	209.46
Total	**236,758,175.87**

Related to forex transactions	
Forward sales	7,644,247,701.60
Forex forwards payable	484,619,255.73
Forex spots payable	9,900,821.30
Report	5,163,633.16
Total	**8,143,931,411.79**

Related to financial futures instruments	
Margin payable	6,207,275.34
Total	**6,207,275.34**

13. CHANGE IN EQUITY

	12/31/2005	12/31/2006	Change
Endowments	19,421,244,676.10	20,966,500,857.88	1,545,256,181.78
Reserves	1,054,083,549.67	1,779,916,957.31	725,833,407.64
Valuation variance	2,050,027,247.78	2,586,003,816.78	535,976,569.00
Net income for the year	725,833,407.64	2,133,257,018.38	1,407,423,610.74
Total	**23,251,188,881.19**	**27,465,678,650.35**	**4,214,489,769.16**

14. CNIEG NON-RECURRING CONTRIBUTION

Enforcement of the CNAV-FRR agreement	
FRR's total equity on 06/30/2006	24,182,551,306.94
Endowments in 3Q 2006	**260,362,359.32**
CNIEG payment on 06/30/2006	3,385,484,378.80
	27,828,398,045.06
CNAV share, 12/31/2006	**12.17%**

Endowments		
06/30/2006	19,900,954,789.17	3Q 2006
09/30/2006	20,161,317,148.49	260,362,359.32

Analysis as of December 31, 2006	06/30/2006	12/31/2006	To be allocated
Operating expenses	31,480,076.48	68,246,082.03	36,766,005.55
Investment income	1,019,432,148.95	2,498,599,002.12	1,479,166,853.17
Non-recurring income or expense	113,603.90	169,831.25	56,227.35
Global income	**988,065,676.37**	**2,430,522,751.34**	**1,442,457,074.97**
Valuation variance on private equity	0.00	–155.14	–155.14
Valuation variance – foreign exchange	108,137,285.64	–33,879,742.25	–142,017,027.89
Valuation variance – forex futures	0.00	107,213,758.65	107,213,758.65
Valuation variance – derivatives	17,315,033.48	6,664,865.47	–10,650,168.01
Valuation variance – securities	1,451,655,090.53	2,645,743,055v54	1,194,087,965.01
Valuation variance – total	**1,577,107,409.65**	**2,725,741,782.27**	**1,148,634,372.62**

Investment and non-recurring income less operating expenses	1,442,457,074.97
% share	12.17%
CNAV share	**175,483,183.99**
Valuation variance	1,148,634,372.62
% share	12.17%
CNAV share	**139,737,965.48**
Recap	
Investment income less operating expenses	175,483,183.99
Valuation variance (unrealized capital gains)	139,737,965.48
	315,221,149.47
CNIEG contribution at 06/30/2006	3,385,484,378.80
Total at 12/31/2006	**3,700,705,528.28**

15. CASH AND EQUIVALENT

Currency	Total
AUD	20,034,330.36
CHF	20,530,413.30
DKK	285,154.66
EUR	4,834,432,482.87
GBP	24,069,017.27
HKD	11,244,923.93
JPY	74,806,849.01
NOK	1,830,097.03
NZD	11,516.57
SEK	953,118.57
SGD	51,932.02
USD	190,925,798.41
Total	**5,179,175,634.00***

** Excluding accrued interest.*

Assets in foreign currencies	344,743,151.13
Accrued interest on cash accounts	26,325,034.42
Assets in euros	4,834,432,482.87
Total	**5,205,500,668.42**

16. OPERATING EXPENSES

Outside services	Amount
Administrative management CDC	20,689,439.49
Compensation paid to investment firms	29,640,268.87
Other outside services	16,888,297.83
of which brokerage fees	15,449,164.40
Taxes	61,653.59
Payroll expense	626,888.50
Amortization	339,533.75
Total	**68,246,082.03**

17. PREPAID INTEREST

Prepaid interest came to 10,335,425.56 euros at the end of the year. This total corresponds to prepaid interest on certain negotiable debt instruments (BTF, CDN).

18. OFF-BALANCE SHEET COMMITMENTS

Indexed futures
Buy position

ID	Description	Currency	Amount	Price	O-BS commitment value
AP0307	SYD FUTURE SPI2 0307	AUD	1,297	5,646.00	109,427,106.99
EMD0307	CHI FUTURE SPI4 0307	USD	5,492	811.30	337,895,544.70
FCE0307	MAR CAC40 0307	EUR	11,310	5,581.00	631,211,100.00
FESX0307	EUR DJ EURO STO 0307	EUR	93	4,157.00	3,866,010.00
FSMI0307	EUR FUTURE SMI 0307	CHF	612	8,777.00	33,370,757.62
HSI0107	MAR HANG SENG I 0107	HKD	700	20,018.00	68,317,821.26
SP0307	CHI SP500 0307	USD	2,323	1,428.40	629,085,276.63
TP0307	TOK TOPIX 0307	JPY	3,479	1,682.50	372,535,500.42
Z0307	LIF FTSE100 0307	GBP	1,100	6,216.00	101,485,714.29
Indexed futures					**2,287,194,831.91**

Sell position

ID	Description	Currency	Amount	Price	O-BS commitment value
FESX0307	EUR DJ EURO STO 0307	EUR	5,125	4,157.00	213,046,250.00
Indexed futures					**213,046,250.00**

Fixed-income futures
Buy position

ID	Description	Currency	Amount	Price	O-BS commitment value
FGBL0307	EUR EURO BUND F 0307	EUR	3,199	116.03	371,179,970.00
FGBM0307	EUR EURO BOBL F 0307	EUR	3,397	108.82	369,661,540.00
FGBS0307	EUR EURO SCHATZ 0307	EUR	2,632	103.47	272,319,880.00
FGBX0307	EUR FUTURE EURO 0307	EUR	1,827	98.40	179,776,800.00
Fixed-income futures					**1,192,938,190.00**

Sell position

ID	Description	Currency	Amount	Price	O-BS commitment value
FGBL0307	EUR EURO BUND F 0307	EUR	279	116.03	32,372,370.00
JGB0307	TOK JPN 10Y BON 0307	JPY	55	134.05	46,923,205.30
R0307	LIF GILT FUTURE 0307	GBP	149	108.13	23,912,979.59
TY0307	CBO T NOTE US 1 0307	USD	1,812	107.47	147,676,316.69
Fixed-income futures					**250,884,871.58**

Forex futures contracts

Currency code	Currency to be received	%	Currency to be delivered	%
AUD	220,504,394.54	2.84	22,488,261.29	4.64
CHF	276,634,542.87	3.57	9,499,161.33	1.96
DKK	22,293,198.41	0.29	223,535.00	0.05
GBP	1,023,294,679.22	13.20	31,187,738.39	6.44
HKD	101,604,558.44	1.31	0.00	0.00
JPY	1,228,363,937.65	15.85	108,994,139.00	22.49
NOK	47,535,017.77	0.61	0.00	0.00
NZD	2,565,702.89	0.03	479,609.58	0.10
SEK	97,636,934.02	1.26	118,628.68	0.02
SGD	49,272,114.97	0.64	0.00	0.00
USD	4,682,329,049.70	60.40	311,628,182.33	64.30
Total	**7,752,034,130.48**	**100.00**	**484,619,255.60**	**100.00**

Other commitments

Private equity

In a contract awarded to AXA Investment Managers Private Equity Europe on November 30, 2006, the FRR subscribed for a committed amount of 150 million euros to ASF IV, a private equity fund that is managed by AXA IM Private Equity Europe.

The currency of this investment program is the US dollar. The exchange value of the 150-million euro investment in US dollars, which was set on the day the mandate was officially awarded and rounded up to the nearest million dollars, is 198 million dollars.

The amount committed by the FRR to the ASF IV fund will be called within a period of five years as of the final closing date of the subscription period, which was scheduled for April 2007.

In fiscal year 2006, the FRR paid in 182,585.66 euros, which corresponds to the principal amount portion of its commitment (0.12%) and intermediate late penalties due and payable between the date of the first closing and the date on which the FRR subscribed for the fund.

Management fees. 30% variable commission for outperformance

Some of the FRR's management mandates provide for outperformance commissions that are determined at the end of each contract for the duration of the period under consideration.

To the extent that the real performance will only be known when the mandate expires, and where the probability of payment is not sufficient at the closing date, the 30% applicable to outperformance will not be recorded until the mandate in question expires.

At the December 31, 2006 reporting date, the amount pertaining to the 30% applicable to the variable commission was 2,363,028 euros.

Additional information

Transactions in futures markets

Securities pledged

ID	Description	Quantity	Market value
FR0107674006	BTAN 2.5% 07/12/10	5,000,000	4,829,745.34
FR01083554731	BTF 01/18/07	120,000,000	119,766,662.10
GB00B14J0R67	GBR Treasury Bill 02/26/07	7,200,000	10,603,205.94
US912795YP08	USA Treasury Bill 01/18/07	19,000,000	14,376,326.55
US912795YY15	USA Treasury Bill 03/22/07	40,000,000	29,997,328.33

Cash security deposits

Currency code	Amount
AUD	3,876,270.17
EUR	2,228,565.00
HKD	4,052,723.18
JPY	12,064,185.07
USD	138,019.94
Total	**22,359,763.36**

19. PRIOR PERIOD INCOME

	2004	2005	12/31/2006
Net income for the year	342,220,676.78	725,833,407.64	2,133,257,018.38

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS*

YEAR ENDED 31 DECEMBER 2006

In compliance with the assignment entrusted to us by the Executive Board, we hereby report to you, for the year ended 31 December 2006, on:
- the audit of the accompanying financial statements of Fonds de réserve pour les retraites;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the financial statements give a true and fair view of the Fund's financial position and its assets and liabilities, as of 31 December 2006, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

Justification of our assessments

In accordance with the requirements of article L.823-9 of the Commercial Code relating to the justification of our assessments, we bring to your attention the following matter:
As part of our assessment of the accounting principles used by the Fund and as described in the note "Significant accounting policies", we verified the correct application of the valuation methods applied to the financial instruments in the portfolio. The assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

Specific verifications and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France. We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the Executive Board with respect to the financial position and the financial statements.

Done in Paris and Paris-La-Défense, on 1st March 2007

Constantin Associés
Françoise Constant, Partner

KPMG Audit, Department of KPMG SA
Isabelle Bousquié, Partner

*This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

ASSET MANAGEMENT FIRMS SELECTED BY THE FRR(1)

AT DECEMBER 31, 2006

Eurozone large caps, passive management
Initial indicative mandate size:
1 billion euros for a period of three years
- Barclays Global Investors Limited
- Crédit Agricole Asset Management
- Vanguard Investments Europe SA

Eurozone small and caps, active management
Initial indicative mandate size:
200 million euros for a period of five years
- AXA Investment Managers Paris (AXA Rosenberg Investment Management Ltd)
- Crédit Agricole Asset Management
- HSBC Investments (France)*
- Société Générale Asset Management

Eurozone large caps, active management
Initial indicative mandate size:
620 million euros for a period of four years
- AXA Investment Managers Paris (AXA Rosenberg Investment Management Ltd)
- Capital International Limited
- Groupama Asset Management
- Lombard OdierDarier Hentch

Europe ex Eurozone large caps, active management
Initial indicative mandate size:
240 million euros for a period of four years
- AXA Investment Managers Paris (AXA Rosenberg Investment Management Ltd)
- Schroders Investment Management Ltd
- Invesco Asset Management*

European large and mid caps – SRI (socially responsible investment) management mandates
- AGF Asset Management
- Dexia Asset Management
- Morley Fund Management
- Pictet Asset Management
- Sarasin Expertise Asset Management

US large caps, passive management
Initial indicative mandate size:
640 million euros for a period of three years
- Barclays Global Investors Limited*
- Vanguard Investments Europe SA

US large caps, active value management style
Initial indicative mandate size:
460 million euros for a period of four years
- DWS Investments
- Robeco Institutional Asset Management (Boston Partners Asset Management LLC)

US large caps, active growth management style
Initial indicative mandate size:
460 million euros for a period of four years
- AGF Asset Management (RCM Capital Management LLC)
- Goldman Sachs Asset Management*

(1) The name of the firm to which the contracting entity has eventually delegated financial management is indicated in parentheses when the names of this firm and of the contracting entity are different.

** Standby mandate: the FRR reserves the right to activate standby management mandates as needed, in particular with the aim of ensuring an adequate risk spread or in the event that one or more managers appointed for the same mandate is unavailable.*

Pacific rim large caps, including Japan and excluding emerging countries, active management
Initial indicative mandate size:
240 million euros for a period of four years

- Capital International Limited
- Morgan Stanley Investment Management
- Nomura Asset Management UK Ltd

Eurozone bonds, sovereign and credit (investment grade), active management
Initial indicative mandate size:
960 million euros for a period of four years

- AGF Asset Management
- AXA Investment Managers Paris
- BNP Paribas Asset Management SA
- IXIS Asset Management SA
- Crédit Agricole Asset Management*
- HSBC Investments (France)
- Robeco Institutional Asset Management

International bonds pegged to inflation (2/3 euro and 1/3 international non-euro), active management
Initial indicative mandate size:
480 million euros for a period of four years

- AXA Investment Managers Paris*
- F & C Management Ltd

International bonds (non-euro denominated) government and corporate issuers (investment grade), active management
Initial indicative mandate size:
480 million euros for a period of four years

- Capital International Limited*
- IXIS Asset Management SA
(Loomis, Sayles & Company, LP)
- Aberdeen Fund Management

Tactical asset allocation and currency overlay
State Street Global Advisors

Printed in France using environmentally safe processes on paper that is 100% biodegradable and recyclable (pure EFC cellulose and selected preconsumer recycled fibers).

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