2008

INVESTING TODAY FOR TOMORROW'S RETIREMENTS

ANNUAL REPORT

FONDS DE RESERVE
POUR LES RETRAITES

FONDS DE RÉSERVE POUR LES RETRAITES
2008 ANNUAL REPORT

Contents

Message from the Chairmen of the Supervisory and Executive Boards

The choices made in 2003 and in 2006 with regard to the strategic asset allocation explicitly integrated the risk—which is inevitable for a long-term investor with significant holdings in equities—of generating negative annual performances due to exposure to the volatility of the global stock markets.

The financial crisis of 2008, the magnitude of which intensified dramatically when Lehman Brothers filed for Chapter 11 protection in September, nonetheless surpasses the scope of this entirely normal risk and resembles an extreme scenario. In just a few months, the four-and-a-half years of positive results that the FRR generated since it first became an active investor were wiped out by the negative performance of fiscal year 2008 (-24.9%). This brings the FRR back to its starting point with a slightly positive performance (+0.3%).

The reality is harsh, even though this result is entirely attributable to normal exposure to the markets and not to any dangerous or unwise investment decisions (the FRR has no investments in toxic securitization products, no investments in Madoff funds, etc.).

Raoul Briet
Chairman of the Supervisory Board

Augustin de Romanet
Chairman of the Executive Board

In the face of such a sudden collapse in the world's stock markets, against the backdrop of generalized corrections to asset values and extreme levels of volatility, the FRR took concrete steps as of October 2008 to limit the impacts by refraining from further investments in equities and by allocating its endowed funds to money market products.

As a result of these decisions, the percentage of funds invested in equities was significantly reduced, while investments in cash and near cash reached 10% by year-end 2008. In parallel to this conservative strategy, all of the FRR's energies were focused on understanding and learning from this period. This process is not quite complete, but it will certainly lead to an improved ability to factor these extreme scenarios into the strategic asset allocation, as well as to a shift toward more dynamic management of the latter, so that it can be adapted to uncertain capital markets.

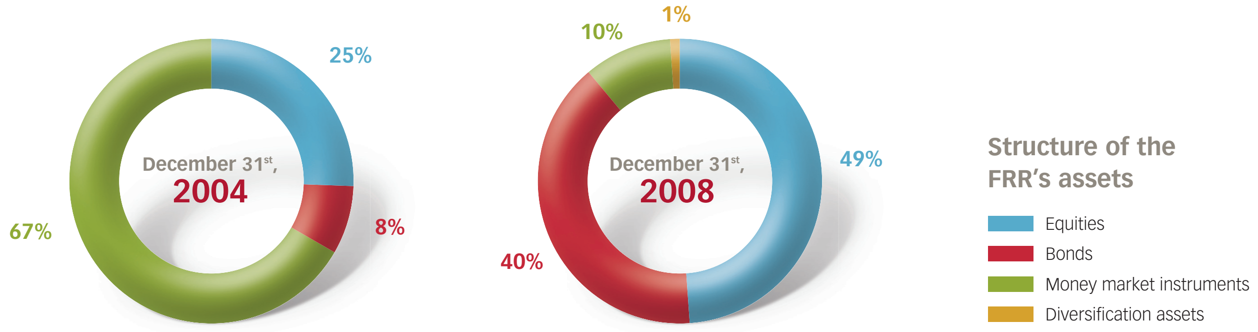
Throughout this financial storm and during numerous meetings held since September 2008, the Supervisory Board and the Executive Board have sought to avoid anything that could, through hasty and ill-timed decisions, possibly cast doubt on the FRR's cherished identity as a public, long-term investor subject to no liquidity constraints before 2008. As such, the FRR can take profit from the excess performance that equities generate over the long term.

This long-term ambition must naturally be reconciled with the need to take stock of the short-term risks that are related to the historically unprecedented level of uncertainty we are currently observing in the economic and financial sphere. By striking the right balance between these two considerations, and by continuing to fully assume its role as a responsible investor, the FRR will continue to deserve the trust bestowed on it by the public, for whom it symbolizes the will to consolidate the funding of our pension system in a way that safeguards inter-generational equity.

« Learning from the crisis and continuing to fully assume the role of responsible investor ».

Profile and key figures

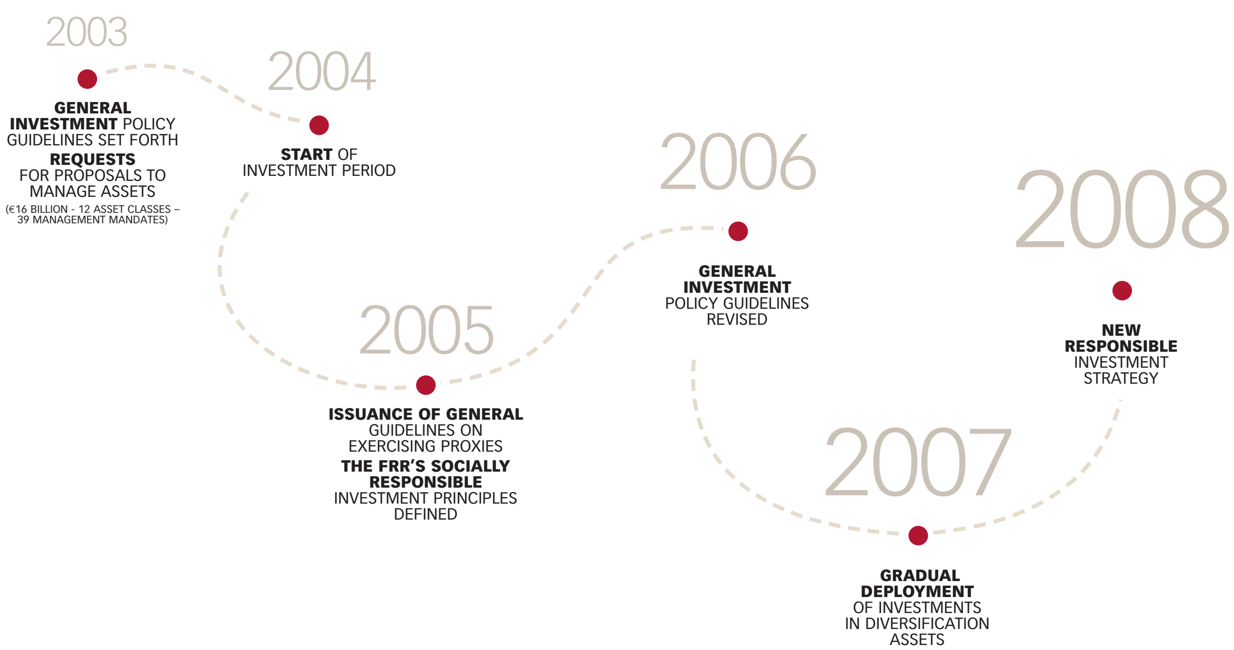
Set up in the early 2000's, the FRR (Fonds de réserve pour les retraites) is a public agency dedicated to ensuring the long-term viability of the French pension system. Its role, as of 2020, is to cover a significant portion of the funding needs of basic pension plans for employees in the private sector,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



€27.7 billion
The FRR's total assets
on 31/12/2008

+0.3%
Annualized asset performance since inception

-24.9%
2008 performance



2008: an exceptional crisis

The year 2008 saw the emergence of a financial crisis that was initially contained within the US residential real estate market before it spread to the entire financial sector and then the real global economy. The recession, which was moderate to begin with, took a sudden turn for the worse in the third quarter of 2008 in the Western nations, eventually taking the emerging countries—which had been spared until then—along with it.

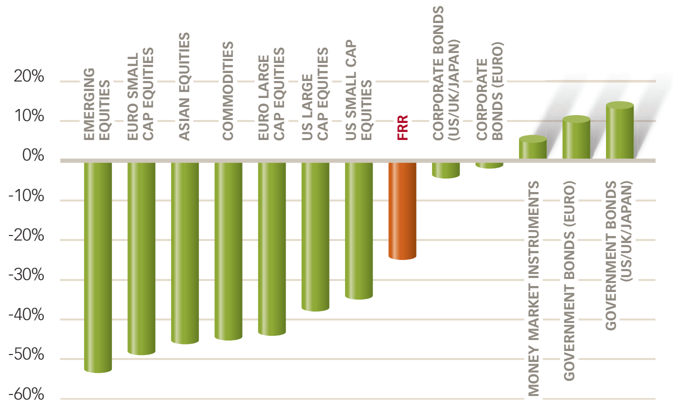
Global growth

From an American real estate crisis to a global financial crisis

The financial crisis appeared with the reversal of the US real estate market and the accumulation of defaults on home loans granted to the least creditworthy borrowers (subprime loans). These problems, which at first appeared to be confined to a limited number of American homeowners, and the related risks—at first glance diffuse and pooled through the use of mortgage backed securities—weakened financial institutions considerably, leading to tensions in the credit market, investor flight from the so-called risky assets, and a climate of suspicion among financial institutions.

Despite the rapid and vigorous involvement of the world's financial authorities and the relief measures introduced (monetary policy easing, direct intervention to assist the most distressed financial institutions, etc.), Lehman Brothers filed for Chapter 11 bankruptcy protection on September 15, 2008, pushing the global economy into a major recession and abruptly halting global growth at the end of the year.

Equity market



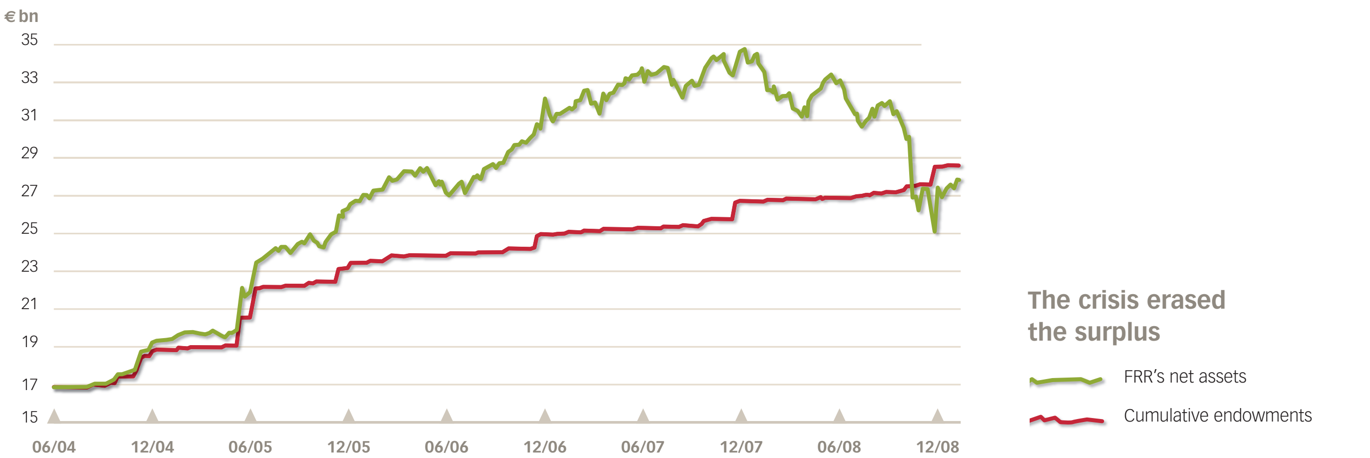
The FRR's performance and various asset classes

Significant impact on the FRR

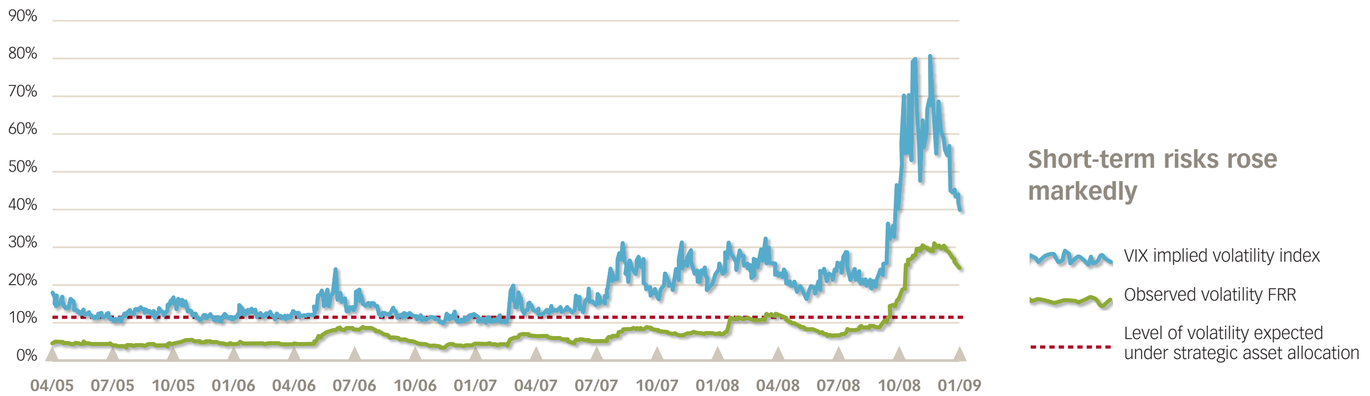
This major crisis had a significant impact on the FRR. With the exception of government bonds, which got a boost from the massive cuts in interest rates and the widespread flight of investors into the safe haven traditionally provided by these securities, all of the asset classes in which the Fund is invested were impacted by market depreciation.

As a result, the FRR's performance for the year ended December 31st, 2008 showed a decline of 24.9% compared with the previous year. The meltdown in the world's equity markets, which lost on average more than 45% of their value, erased the surpluses that had been accumulated since the Fund was created.

At year-end 2008, the FRR's net asset value was 27.7 billion euros – in other words, the equivalent of the total amount it has received for investment. From the start of managed investment in June 2004, the net annualized performance of the FRR is 0.3% as of December 31st, 2008.



The crisis erased the surplus



Short-term risks rose markedly

Much higher levels of risk

The year 2008 was tumultuous. The stock markets experienced several days of significant fluctuations of close to 10%. More generally, the volatility of risky assets increased since the end of 2007, to such an extent that the short-term volatility of the FRR's portfolio rose by a factor of between 4 and 6. In the first years of the FRR's existence, market volatility was extremely low (around 5% per year). However, it has been rising steadily, reaching levels of between 20% and 30% per year – which is much higher than the level on which the strategic asset allocation was based.

Additional drivers of performance generated a slight surplus

Thanks to two major drivers, the FRR was able to generate a surplus of around 1.5% compared with its strategic benchmark in 2008: tactical management (for almost 1.0%) and the performance of external managers (for 0.5%).

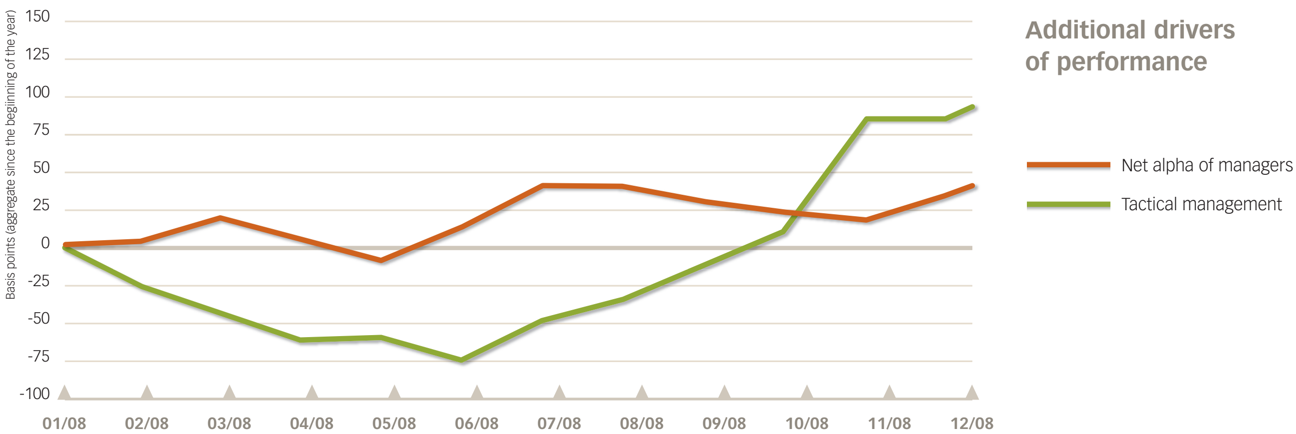
Tactical positioning becomes increasingly defensive

The FRR began the year 2008 with a slight tactical over-exposure to equities, around 3 to 4% of the portfolio (which made the total weight of equities close to 64% at year end 2007). The rationale behind this position involved considerations related to attractive equity market valuations against a general backdrop of a slowdown that, while marked, was still thought to be typical by the vast majority of analysts as well as by official government and multilateral observers.

The trends and developments observed in the equity markets at the beginning of 2008 led the FRR to reconsider the risk and to gradually cut back its position, with the aim of returning to a neutral weighting of 60% in this asset class.

In late March 2008, after the bailout of Bear Stearns by JP Morgan with the assistance of the US Federal Reserve Bank, it began to appear increasingly likely that the crisis into which the financial system was plunging, which had by then spread to segments of the real economy as well, was of a different nature than those observed in the recent past. Therefore, it was not a question of a simple one-off adjustment, but rather of reabsorbing excess debt and the effects of reckless risk taking, the gigantic magnitude of which is still not known for sure, but certainly runs in the hundreds of billions of dollars.

The FRR therefore began to gradually cut back its exposure to equity markets until it was under-exposed to them by between 2 and 4.5%, consuming – due to the increase in volatility – three-quarters of the tracking error risk budget authorized by the Supervisory Board. At the same time, it initiated a shift towards over-exposure to bonds for the same amount, and set out to reduce its policy for hedging the currency risk, in order to adjust for the fact that the euro was deemed to be too high (in particular, 1.60 versus the dollar).



Additional drivers of performance

> « Additional drivers of performance generated a slight surplus. »

The bailout of Fannie Mae and Freddie Mac by US authorities in the course of the month of July at first appeared to be a key turning point in the resolution of the financial crisis, which encouraged the FRR to return to a neutral position with regard to its index. But after staging a brief rally and gaining more than 20%, the dynamic ran out of steam and, with liquidity in the money markets quasi-inexistent, the announcement that Lehman Brothers needed bankruptcy protection led to an abrupt and steep fall in the world's equity markets. In taking yet another plunge, they led the way for a recessionary spiral and serious fears of deflation, which the equally abrupt plunge in the price of commodities seemed to be suggesting.

Going forward, the FRR changed the way in which its tactical risk was managed: first of all 4% under-exposed compared to its index, in late October 2008 the decision was made to suspend all references to a maximum risk budget versus an index, in order to suspend all decisions related to monthly re-balancing. As a result of this policy shift, the percentage of the portfolio invested in equities had fallen to 49% by the end of the year. In parallel, after the strong currency appreciation in its portfolio, the FRR re-established its currency hedges so that they were once again identical with its benchmark index.

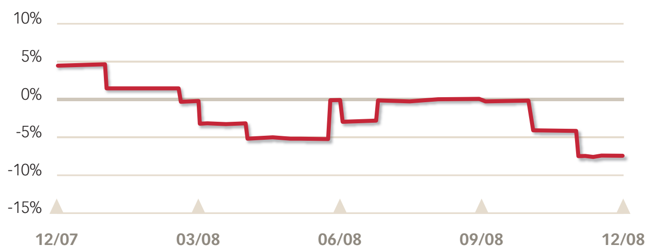
The FRR defined its first two strategic asset allocations, in 2003 and in 2006, on the basis of investment convictions that are the same as those held by all comparable reserve type funds: the absence of short-term liquidity constraints and the diversification of assets can lead to high returns while limiting the long-term risks without requiring the rollout of mechanisms designed to offer short-term capital protection.

This approach, which is considered conventional under current financial theory, allowed the FRR to deal successfully with the market's oscillations for more than four years. Faced with extreme financial and economic scenarios, such as those which appeared in September 2008, this approach turned out to be unworkable.

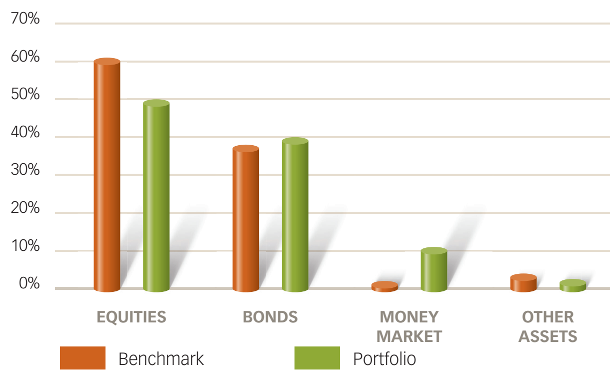
For all funds that are comparable to the FRR, the loss in the fair market value of assets was considerable, generally between 20 and 29% by the time this crisis, which got abruptly worse in the month of September 2008, was over. The annualized performance of the FRR was still 4.4% at the beginning of September 2008, but was just 0.3% on December 31st, 2008.

In this environment, the work required to develop the new strategic asset allocation will provide an opportunity to reexamine the assumptions driving the extreme scenarios and, even more important, to determine the ways and means supporting the dynamic management of this allocation in the interest of improving the battery of responses to short-term financial shocks.

Changes in the under- or over-exposure to equities versus the benchmark



Portfolio analysis (12/31/2008)



The FRR's portfolio is built on the basis of a long-term investment time frame

External management

The structure of the FRR's portfolio is based on a core-satellite approach. This portfolio is made of a core of index-based management and active mandates in markets or employing specific strategies. This architecture optimizes the rollout of the strategic asset allocation and the use of a risk budget dedicated to active management, by focusing it on those active strategies that are deemed to be most likely to provide returns.

The core-satellite approach was strengthened by the implementation of a passive management style for the most mature market segments and the best arbitrated ones, in search of more diversified index-driven management. As for active management, it is focused on market segments and management processes that deliver an alpha that is both recurring and well-adapted to the profile of a long-term investor.

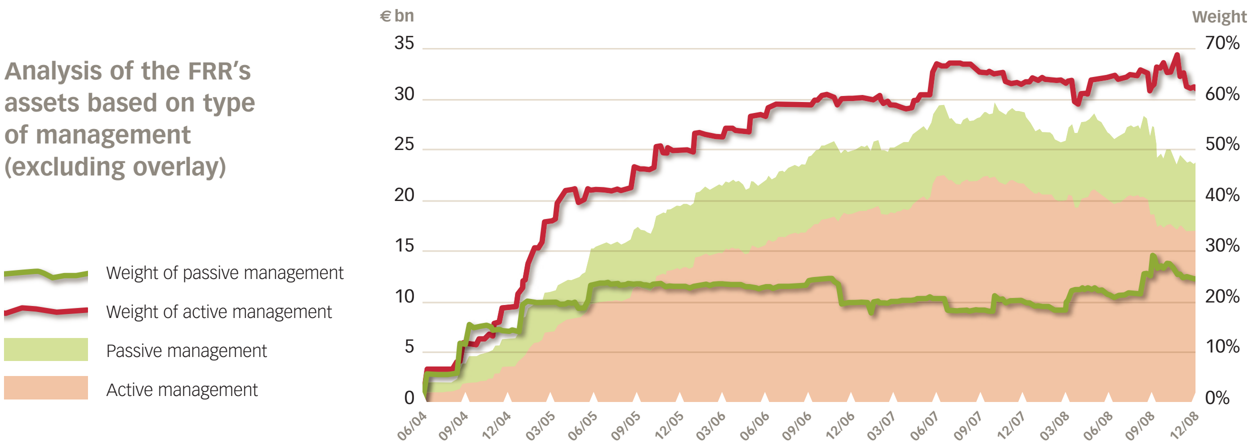
In this context, the FRR renewed some of its mandates invested in equities by launching a series of requests for proposals:

- Mid and large cap European equities (enhanced management, which means it has a low tracking error), mid and large cap Eurozone equities (passive management to a fundamental index) and European small caps (active management).
- Globally, all caps for Asia (Asia-Pacific ex-Japan, passive management, and Japan, active management) and mid and large cap US equities with an active value and growth management style.

In addition, the FRR completed the selection processes initiated in the second half of 2007 related to the awarding of passive mandates whose aim is to replicate a commodity index. It concluded a request for proposal involving the management of French equities and the active management of US small cap portfolios.

The selection of real estate investment funds for investment was initiated in the course of the year; however, due to the aggravation of the crisis over the last quarter, the decision was made to refrain from investing in funds that were already heavily invested. Despite the current situation in the real estate market, the FRR maintains its goal of building up exposure to real estate assets over the long term and will follow trends in this market closely in 2009.

Analysis of the FRR's assets based on type of management (excluding overlay)



Finally, in connection with the responsible investment strategy that was adopted in April 2008, all of the asset classes in which the FRR invests must first be reviewed to determine to what extent it is possible to integrate ESG criteria (environmental, social, governance) into the investment decisions and the process for selecting managers or accompanying funds. This strategy was employed for the process of renewing the equity mandates signed in the course of the previous year.

Performance of external managers

External management, which is defined and carried out within the confines of various management mandates, turned in a mixed performance in 2008, although the total net contribution for the year was positive. The relative global performance of management mandates was 0.7% (relative performance of the mandates gross of fees/total assets managed under these mandates), which net of fees is just over 0.5%. Equities and bonds

	Relative performance	Contribution to relative global performance
Equities	0.74%	0.47%
Bonds	0.47%	0.20%
Commodities	0.00%	0.00%
Relative global perf.	0.68%	

INVESTMENTS IN COMMODITIES

In a decision issued on May 16th, 2006, the Supervisory Board approved the introduction of commodities into the strategic asset allocation of the FRR, expanding it to include diversifying assets, for up to 3% of the Fund's total allocation.

The rationale behind introducing commodities into the strategic asset allocation is as follows:

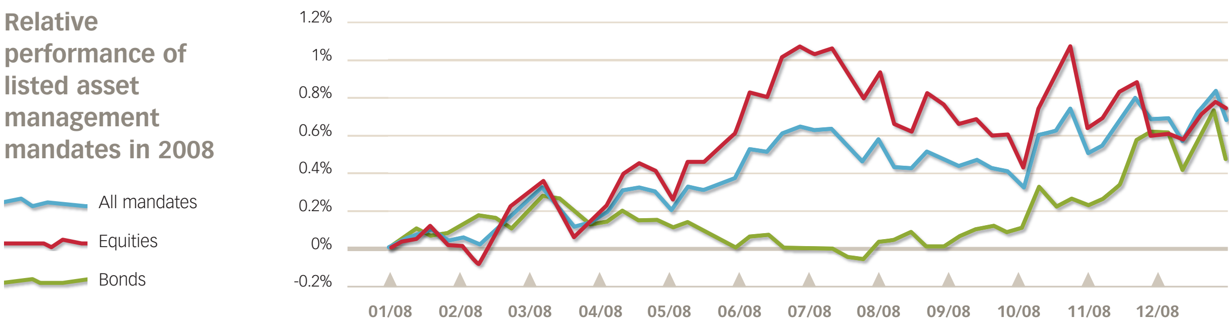
> To protect the FRR's portfolio against the risk of unanticipated increases in inflation (for example, due to an oil or food price shock)

> To achieve further diversification of assets (decorrelation of the sources of returns).

The FRR opted to gain exposure to a swap on an index of the GSCI range, which excludes all food/agricultural commodities (consistent with the guidelines adopted by the Responsible Investment Committee), SPGSCI – EM, Standard & Poor's Goldman Sachs Commodity Index – Energy and Metals.

Given the entry point for the commodity market, deemed not very attractive at this time (oil prices had reached nearly USD150 the barrel in the early summer of 2008), the FRR waited until the month of December before making its first investments. Accordingly, the mandate awarded to Lehman Brothers Asset Management (Europe) Limited was never activated.

Relative performance of listed asset management mandates in 2008



made a positive contribution to this outcome, and nearly 60% of its managers outperformed in 2008.

This rather encouraging observation should not occult the considerable disparities concerning relative performance which are between -7.9% and +12.3%. In addition, if performance is examined on the basis of the global management mandates, the top three contributors generated +0.70%, compared with -0.34% for the bottom three.

Globally, bond managers weathered the crisis fairly well. Their portfolios were not significantly impacted since they did not contain CDO-type products and most of the instruments they do hold are triple-AAA rated. This development was particularly significant starting in the month of October 2008 after Lehman Brothers filed for bankruptcy.

Because of the growing volatility and turbulence in the markets, managers of equity mandates saw a sharp deterioration in the relative performances of active management mandates in the second half of 2008. Although most mandates managed to generate an out-performance, a relatively high proportion also turned in a negative performance during the year. These mainly concern the Eurozone and European equity mandates, with the global equity mandates showing greater resilience during this period.

SUPERVISION OF MANDATES BY THE CSG (MANAGER SELECTION COMMITTEE) – EXECUTIVE BOARD DECISIONS

Pursuant to the laws in force, the quality of the execution and financial performances of management mandates delegated by the FRR is examined and submitted to a review by the Manager Selection Committee.
In addition, particular attention was paid to the possible repercussions of the banking and financial crisis for the financial solvency of the investment services providers that have been awarded management mandates by the FRR.

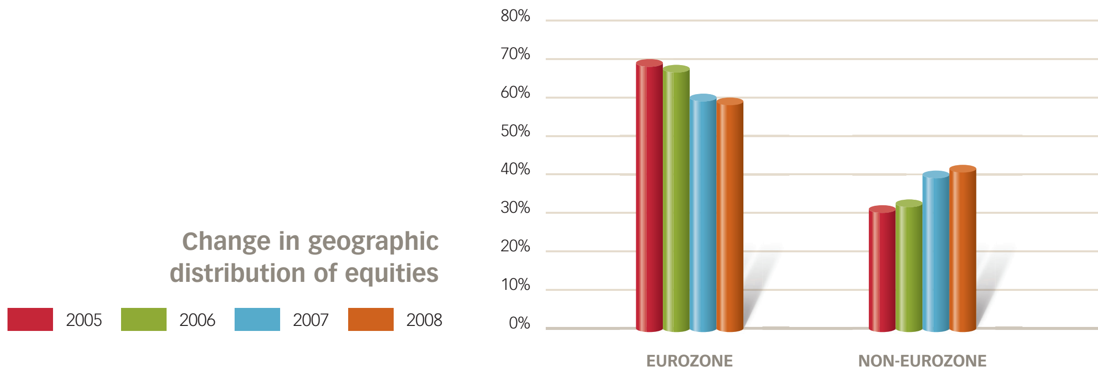
As a result, in the course of 2008, eight of its providers were placed under watch by the Executive Board of the FRR, acting on the recommendation of the CSG:
- Four for disappointing financial performances
- Two for a change in their shareholder base
- One for changes made to the dedicated team
- One because the manager was placed under receivership.

And two management mandates, whose disappointing financial performance showed no improvement, were terminated in the first quarter of 2008.

Fund selection process

In the course of 2008, the FRR began the process of selecting real estate investment funds and funds invested in the sovereign debt issues of emerging countries.
- As the crisis intensified at the end of the year, the decision was made to refrain from investing in real estate investment funds already heavily invested in equities. The FRR maintains its desire to build up exposure to real estate assets over the long term.
- The selection of emerging debt funds is also being pursued in 2009.

Change in geographic distribution of equities



THE FRR IS NOT EXPOSED TO TOXIC ASSETS

The FRR's policy entails that, prior to making any investment, a detailed and comprehensive analysis of the kind of financial assets it may hold must be carried out. The FRR is particularly attentive to the identification of the factors responsible for the performance of these assets and the need to map all known risks (direct and indirect) which are related to them. The FRR also endeavors to invest via vehicles that offer total transparency with regard to their own operations (principally in the form of management mandates wherein assets are entrusted to the *Caisse des Dépôts*). As a result, the FRR is not invested in the most risky financial assets (CDOs and other ABS products that bundle subprime loans, diverse structured products, speculative or offshore funds, etc.), which were the source of the sharp deterioration in the bond markets in both 2007 and 2008. Similarly, the FRR is not exposed to vehicles managed by Bernard Madoff and his financial group. Accordingly, no losses were recorded on products of this type.

Situation of the portfolio at year-end 2008

As of December 31st, 2008, the FRR's invested portfolio (excluding activity related to the overlay manager and to cash management) was broken down as follows: € 12.19 billion in European, US and Asian equities, and € 11.82 billion in Eurozone and international bonds, both nominal and indexed.

The equity portfolio

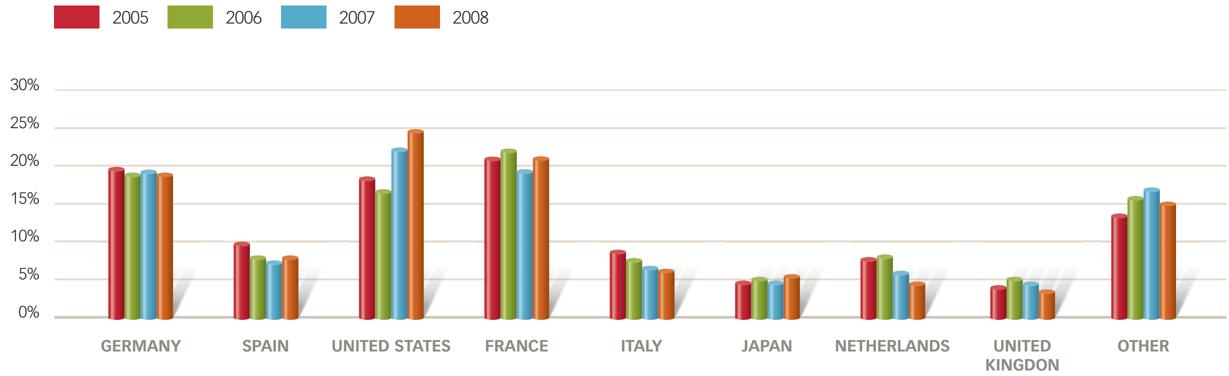
On December 31st, 2008, the fair market value of the equity portfolio was € 12.19 billion.

In geographic terms, changes in the portfolio over the past four years shows that the relative weight of the Eurozone, while still preponderant, has diminished, while the relative weight of investments in global markets has risen, from less than 20% in 2005 to more than 40% in 2008.

The relative weight of France (20.83% of the equity portfolio), which is far greater than the relative weight of

« The quality of the execution and the financial performances on management mandates delegated by the FRR are closely monitored by the CSG. »

Change in geographic distribution of equities

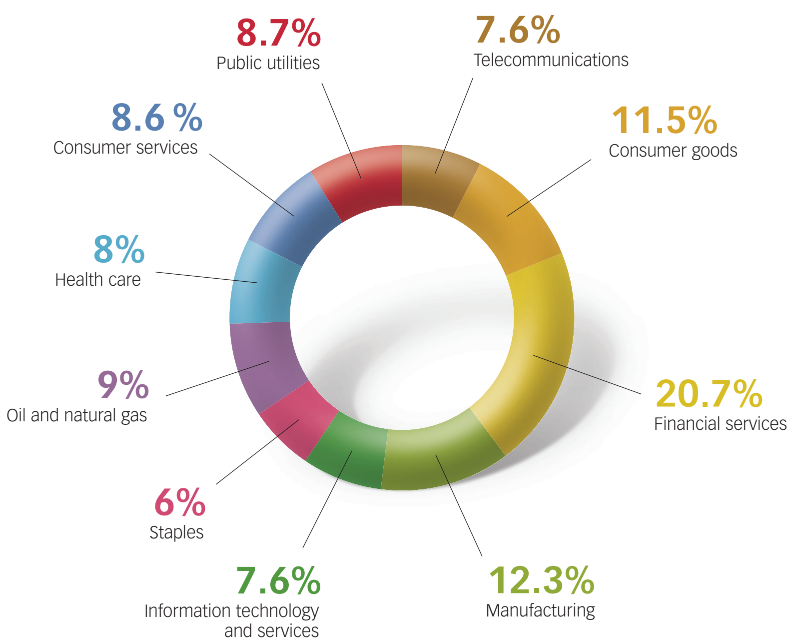


the country in terms of global capitalization (4%), is mainly the result of a deliberate over-exposure of the FRR's strategic equity asset allocation to the Eurozone (33% versus 27% for global equities). In the course of the year, the weight of equities from the US, which is the second largest region in terms of the portfolio's exposure, increased (24.4% versus 21.9% in 2007). This reason for this development was to take better account of the weight of the United States in total global capitalization.

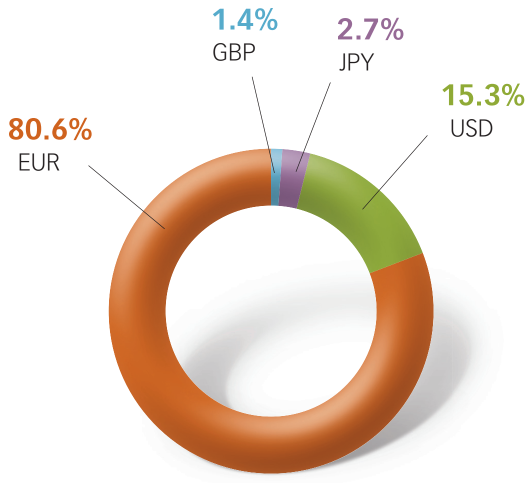
In terms of sectors, the portfolio is mainly invested in securities issued by companies in the consumer goods, manufacturing and financial services sectors.

This distribution remained close to the tactical bets implemented by the managers, close to that of the benchmark indices that serve to measure the performance of the managers of each mandate.

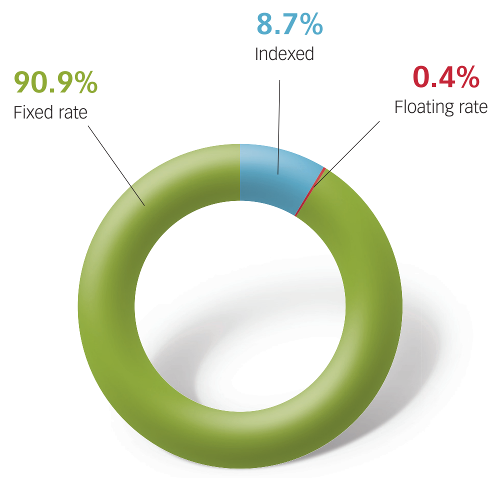
In terms of the size of the businesses in which it invests, in 2008 the FRR confirmed its role as a supporter of the development of small- and mid-sized businesses, with assets invested in small and mid cap mandates representing nearly 10% of all equities held in the portfolio. Exposure to this segment was stepped up in the course of the year with the closure of requests for proposals launched for US small caps and the French equity market (passive mandate corresponding to a broad index that includes mid-sized companies).



Equity investments by sector (12/31/08)



Analysis of bond mandates by currency (12/31/08)



Analysis of bonds by type: fixed rate, indexed, floating rate (12/31/08)

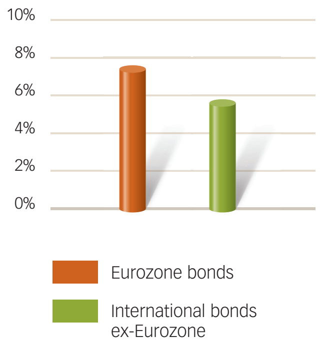
The bond portfolio

On December 31st, 2008, the fair market value of the bond portfolio was €11.82 billion. The portfolio was mainly composed of bonds stated in euros, and its breakdown by currency was very close to the benchmark index for fixed-income mandates.

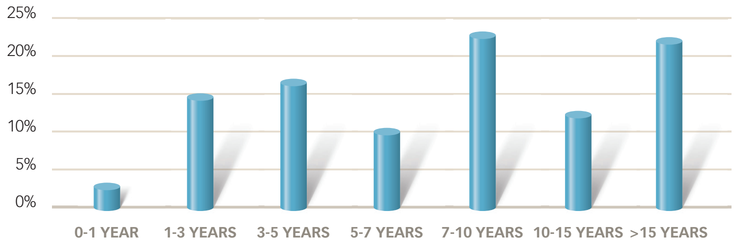
The percentage of indexed bonds was 8.7% of the bond portfolio, with the rest almost entirely invested in nominal fixed rate bonds. The percentage invested in floating rate bonds (included in the investment universe of managers but not represented in their benchmark index) remains marginal (0.4%).

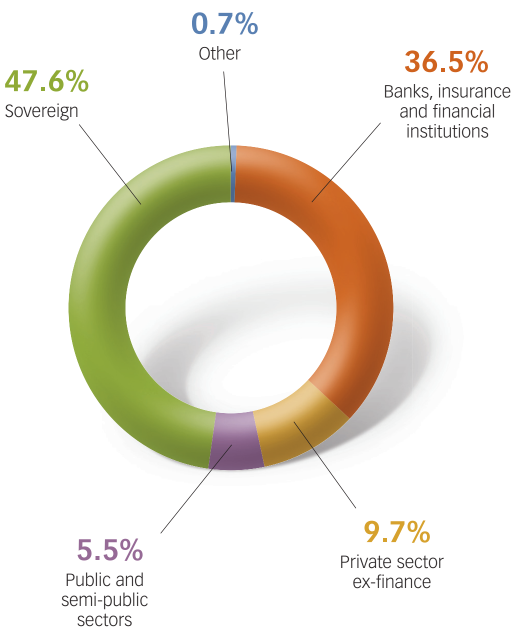
The bond portfolio includes a significant percentage (22%) of bonds maturing in more than fifteen years, which reflects the composition of the benchmark indices, themselves structured consistently with the long-tail nature of the FRR's liabilities.

Sensitivity of bond indices (12/31/08)

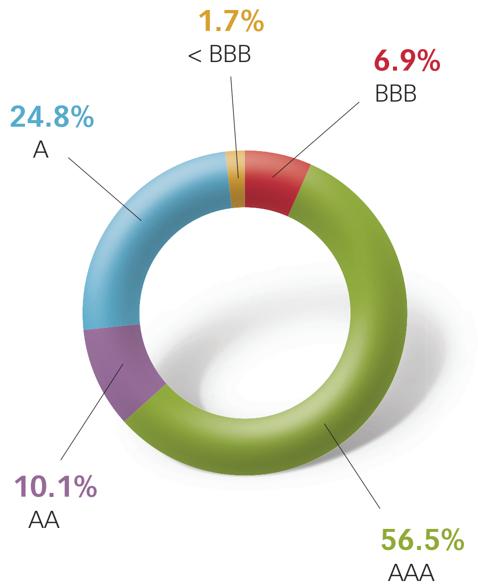


Structure of bond mandates by maturity (12/31/08)





Analysis of fixed income products by type of issuer (12/31/08)



Analysis of bonds by rating

More than half of the bond portfolio is made up of bonds issued by sovereign issuers, which is significantly higher than for the benchmark indices for related mandates.

This overweight to government bonds naturally means that the proportion of triple-A rated bonds in the portfolio is very high.

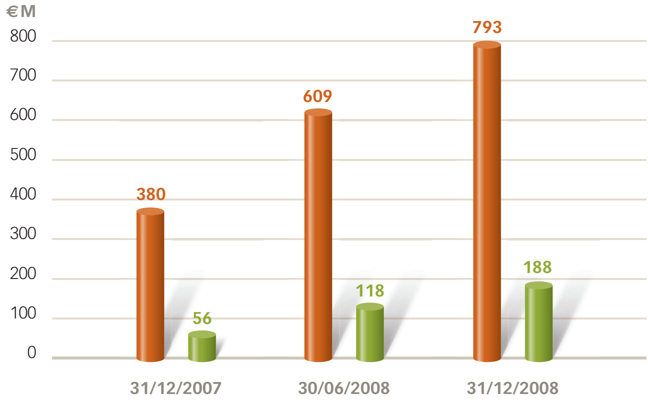
Private equity

The FRR's strategic asset allocation includes investments in unlisted companies, employing four distinct strategies: three primary segregated funds of funds (European mid caps, European small caps, North American small and mid caps), as well as a secondary strategy with international scope. Four managers of private equity funds of funds were selected in 2006 and 2007.

The four mandates that were awarded represent, for the FRR, a commitment capacity of €1.5 billion, to be deployed over the 2007-2010 period.

The private equity market has been significantly impacted by the financial crisis in several ways:

- companies in the portfolio were affected by the economic crisis and the tightening of the credit markets;
- investors, many of whom decided to put off investments or because of financial difficulties, refrained from making further commitments;
- portfolio allocation: as some investors decided to reallocate their investments opportunistically (for example, in the secondary market, recovery and distressed debt);
- future performance: the low valuations of the assets in the portfolio, only just visible in the accounts due to the traditional inertia of this asset class compared with listed equities, is anticipated.



Tracking of the commitment phase of the 2007 private equity program and capital called since start in mid-2007

Total commitments since start

Total calls since start

Concerning the deployment of the FRR's program, the fact that the latter is globally at the very beginning of its investment phase, limits exposure to this market reversal.

The FRR's program was rolled out in accordance with the timetable agreed upon with its management

At year-end 2008, a total of 793 million euros (i.e., 52% of the program), had been committed[1]. The amounts called correspond to the amounts actually invested in the underlying funds, for a total of € 188 million at year-end 2008 (i.e., 13% of the program).

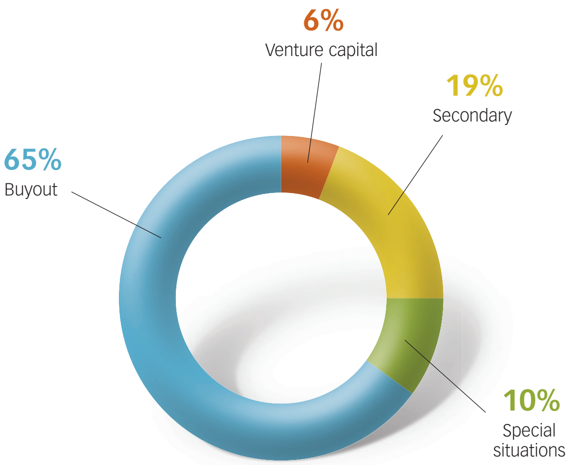
The diversification in the underlying funds is consistent with the target portfolio, i.e., 65% in transmission and development capital (the buyout small and mid market), 6% in venture capital, 10% in special situations and 19% in secondary. The committed portfolio is also highly diversified as expected in terms of geographic and fund allocations (57 primary funds).

The underlying companies held present a good degree of diversification, since very small stakes are held indirectly in around 100 companies, with a maximum interest of € 4.4 M (i.e., 2.2% of the funds called).

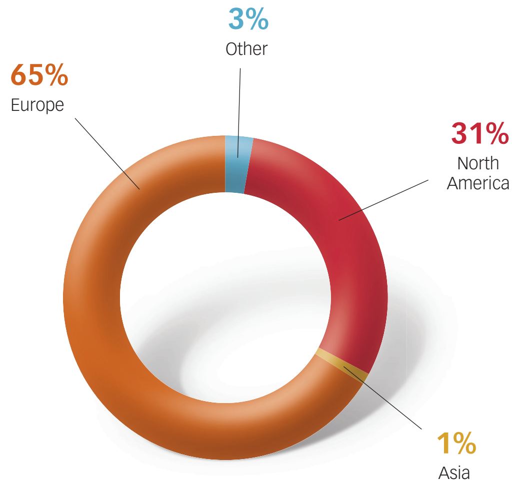
At year end 2008, the global net performance was negative (−21.5%), expressed in the form of IRR since inception. A J-curve effect at the beginning of the investment cycle, which is characteristic of investments in private equity, accentuated by the impact of the crisis, is observed.

Some of this performance is attributable to a fee effect (J-curve), and some is attributable to depreciation (impact of the financial crisis).

1/ Amounts committed mean that the FRR has agreed to respond to all cash calls in this budget (they include 100% secondary funds).



Breakdown of the commitment by investment segment (end 2008)



Breakdown of the commitment by geographic region (Q1 2009)

CONSEQUENCES OF CHAPTER 11 PROTECTION FOR LEHMAN BROTHERS ON THE PRIVATE EQUITY INVESTMENT MANDATE THAT WAS ENTRUSTED TO THE COMPANY

The parent company of the manager, Lehman Brothers holding Inc. filed for Chapter 11 bankruptcy protection on September 15, 2008.

The FRR's mandate holder, Lehman Brothers International (Europe), a company governed by the laws of the UK, was placed under temporary receivership on September 15, 2008.

The temporary receiver of LBIE, consented on October 13, 2008 to the temporary pursuit of the company's business. At this time, the FRR suspended the commitment phase of the mandate with the manager and conducted the due diligences needed to ensure that the management resources for investments already made were preserved.

At year-end 2008, the employees of some of the asset management entities of Lehman offered to take over the business in a new entity, Neuberger Investment Management, combining the traditional management of equities and bonds as well as a department for alternative investments (including venture capital and hedge funds). The offer made by the employees was accepted in December 2008 by the receivership judge.

After compliance visits, carried out in early 2009, verifying the viability of the new asset management firm, the FRR confirmed its decision to maintain its mandate with the new structure and also reduced the size of the mandate to commitments made up to end of September 2008.

The FRR: a responsible investor

Acting in the interest of the community and since it began investing, the FRR has always sought to ensure that its investment strategy is consistent with "*respect for certain shared values that promote balanced economic, social and environmental development*" (Supervisory Board Decision dated April 2, 2003). After conducting a review of the initiatives undertaken since 2003 in the area of responsible investment, the Supervisory Board adopted a strategy in April 2008 that defines the priority sources of improvement for the period 2008-2012. Now that it has been in place for several months, an initial progress report can be given for each of its key pillars.

How should responsible investment be defined?

By responsible investment, the FRR means taking steps to ensure that its investment decisions and related activities (in particular, research, analysis, voting at shareholder meetings, dialogue with businesses) take into account the so-called ESG criteria (for environmental, social and governance criteria).

Why does the FRR think it is important to be a responsible investor?

The first reason is related to its fundamental purpose and its objective, which is to optimize the return on the funds that are entrusted to it under the most secure conditions possible. To this end, the incorporation of ESG criteria into the management of these funds is required in order to fully apprehend the risks and opportunities that the companies in which the FRR is invested, and, in which it may invest in the future, face.

The second reason is economic in nature: the long-term return on investments does not depend solely on the impact of the financial and extra-financial strategy followed by businesses, but also on external outputs or results that these businesses generate for their entire industry or the economy. The analysis of these external outputs, whether positive or negative, and hence of the environmental and social sustainability of corporate strategies and their consequences for the community, is therefore necessary. This is particularly true of investors whose resources have been made available by public sources and which are intended for investment over a long period in a very large number of companies and industries.

The third reason is related to the role of the FRR as a public and long-term investor. As such, the FRR is obliged to detect and monitor the risks that some of its investments may have on its Fund's reputation. The FRR is also obliged to promote best investment practices within the financial community.

> « The Supervisory Board adopted a strategy that defines the priority sources of improvement for the period 2008-2012. »

What are the pillars of the FRR's responsible investment strategy?

This new strategy refines the guidelines that were agreed to five years ago and defines new sources of leverage for action to be developed over the period. It will be based in particular on compliance with the ten principles of the UN's Global Pact, which forms a unifying context that is recognized worldwide, sufficiently broad to take into account variations at the local and regional levels, and also clearly based on the basic standards recognized by the ILO (International Labour Organisation).

The FRR's responsible investment strategy is being developed around five key principles or objectives:

- Go further in the effort to include ESG issues in portfolio management
- Improve the prevention of extra-financial risks
- Continue to promote the active exercise of proxies at shareholder meetings in ways that contribute to better corporate governance
- Refine the analysis of the impact of environmental issues on the FRR's investment strategy
- Participate actively in research efforts in France and abroad on the issue of responsible investment

How should these strategic objectives be put in place?

Dialogue with all key stakeholders: The FRR seeks to strengthen its dialogue with all players in the investment chain, but in particular with asset managers, other institutional investors that face the same challenges and businesses, encouraging the latter to pursue their efforts to publicly disclose their ESG data.

Collaboration and partnership: The FRR is convinced that the promotion of responsible investment is more effective when the task is shared among several players. Accordingly, whenever it is possible and if interests with other institutional investors are convergent, the FRR may envision a pragmatic cooperative endeavor with the latter.

« Expand the responsible investment approach to encompass all asset classes in the portfolio. »

Go further in the effort to include ESG issues in portfolio management

The initial efforts made by the FRR in terms of incorporating ESG considerations into its asset management processes are part of a positive approach that gives preference to best practices in the area of responsibility (a best in class approach) and are specifically focused on listed companies in Europe (European mandates of 2003, SRI mandates of 2006).

On the strength of this first experience, the FRR decided to expand the responsible investment approach to encompass all asset classes in the portfolio: each asset class must be examined to determine the extent to which it is possible to incorporate ESG criteria into investment decisions and the selection of the managers or the funds that accompany them. This systematic approach should result in a pragmatic solution, adapted to the characteristics of each asset class.

THE RESPONSIBLE INVESTMENT COMMITTEE

Chaired by the Chairman of the Supervisory Board and made up of two vice presidents plus two outside experts (Jean-Claude Javillier and Daniel Lebègue), this Committee met three times in the course of 2008.
The Committee's first project was to define the scope of its intervention:
> Definition of extra-financial risks as risks that could have an adverse impact on the image of the FRR, i.e., that could have a long-term negative impact on the level of confidence that a public institutional investor working in the interest of inter-generational solidarity must inspire and maintain with its key stakeholders (public policymakers and social partners), represented on the Supervisory Board. Risks such as these are composed of serious, avowed and repeated assaults on the benchmark principles.
> Definition of benchmark principles: the principles of the Global Pact, the Universal Declaration of Human Rights, the fundamental agreements of the ILO, the OECD agreement on corruption, and agreements prohibiting the use of biological and chemical weapons as well as anti-personnel mines.
> On this basis, definition of needs in the areas of extra-financial analysis and selection of a supplier: at the end of 2008, the British firm EIRIS (Ethical Investment Research Service) was chosen to provide a detailed analysis of the FRR's portfolio with respect to the FRR benchmark principles.

This first principle was rolled out when the time came to renew equity mandates – both in connection with the selection process and within the mandates themselves – with a particular focus on the following points: research and integration of extra-financial criteria into management, reporting, proxy voting and, where applicable, assistance in the activity of corporate dialogue. This principle was also implemented during the preliminary work on the introduction of new asset classes. In every case, the approach remains positive (as opposed to based on exclusion), but also flexible and evolving – the objective being to encourage managers to move in the direction of integrating ESG considerations into their investment processes throughout the term of their mandates.

Improve the prevention of extra-financial risks

As a public investor, the FRR is particularly sensitive to the risk of image impairment. The FRR must take steps to ensure that it does not invest in businesses that violate the set of universally recognized, international principles. This is why, in 2007, the FRR decided to exclude from its portfolio those businesses involved in the production of anti-personnel mines (production is prohibited under the Ottawa Convention of 1997, ratified by France and by more than 150 nations).

In order to ensure systematic extra-financial risk monitoring and prevention, the strategy calls for the creation of a permanent structure connected to the Supervisory Board, called the Responsible Investment Committee. In 2008, the Committee focused its work on defining extra-financial risks, benchmark principles that will guide the FRR and analysis needs of the portfolio in this area (see inset).

In the course of 2009, EIRIS is expected to complete its initial analysis of the FRR's portfolio, and this data will be used by the Committee to recommend measures among "*an array of possible actions, from the pursuit of*

« The FRR's voting rights are always exercised by proxy at shareholder meetings. »

dialogue with businesses to—in extreme cases—the decision to remove the company from the investment portfolio for repeated violations that are not addressed and eliminated", according to the terms of the strategy.

Continue to promote the active exercise of proxies at shareholder meetings in ways that contribute to better corporate governance

In its earliest decisions, the Supervisory Board adopted the principle according to which the shareholder rights of the FRR must be exercised by proxy at shareholder meetings, by each of the managers, in accordance with guidelines set by the Fund, with positions taken in its name motivated solely by its interests and in strictly independent fashion. Made public as of 2005, these guidelines are gradually being adapted to reflect advances in corporate governance.

The exercise of proxies now concerns the entire portfolio and the attendance at shareholder meetings extends to nearly all of the companies that make up the portfolio. In fact, via its managers the FRR attended 3 623 shareholder meetings (versus 2 107 in 2007), out of a possible total of 3 770 (2 221 in 2007), which is on average 96% of their portfolio.

For the first time, the FRR exercised voting rights attached to its equity holdings in Asia Pacific including Japan. During the season, 34 641 resolutions were discussed and voted on, broken down as follows: 29 114 votes "for" (84.05%), 4 392 votes "against" (12.68%), 1 135 abstentions (3.28%). These results are fairly similar to those obtained in 2007.

Not surprisingly and as in prior years, the need for coordination between managers was felt in the three areas that elicit the liveliest debates between issuers and investors:

► **the means used to defend against hostile takeovers, such as allowing the company to buy up its own shares of stock, including during takeover periods, and authorizations to issue stock warrants, as well as other takeover defense mechanisms;**

► authorizations to buy back shares during periods of public takeover bids were not supported by the FRR's managers, except in cases where the related resolutions noted that they were being requested "for the purpose of allowing the company to comply with earlier commitments and only if buyback transactions are carried out in the pursuit of a program that already exists and not likely to lead to the failure of the bid";

► authorizations to issue stock warrants were supported if the warrants in question did not represent more than 25% of the company's share capital, which is the case for the majority of these resolutions;

► **authorizations to increase capital;**

► capital increases without preferential subscription rights maintained, whether or not the preferential period has a deadline, were supported by the FRR, except in cases where the amounts involved were more than 20% of the stated share capital of the company seeking to raise capital;

► the FRR supported share capital increased reserved for employees, unless the discount offered on the purchase price was deemed excessive;

► **stock-based compensation and free share allotments for directors and officers of the company, as well as regulated agreements on executive parachutes (enforcement of the TEPA Act);**

► the FRR's managers voted in favor of plans in the event of application of performance criteria, particularly in cases where directors and officers were concerned by the resolutions. A positive vote was also cast whenever the existence of performance conditions was mentioned but not spelled out.

« The FRR is a member of the Board of Directors for the PRI (Principles for Responsible Investment). »

This was a question of supporting progress, since the Fund's benchmark states that companies must show a higher degree of transparency by disclosing the performance criteria they use. Conversely, when no performance conditions have been set forth and no ceiling on grants is specified for executive officers, related resolutions are voted against by shareholders and the FRR alike;

▸ the TEPA Act requires companies to subject the executive compensation agreements they have made to performance criteria in the event of revocation, and obliges companies to present individual resolutions.

Resolutions that were not embraced by shareholders either called for excessive levels of compensation, posited performance criteria that were too easily attainable or did not offer criteria for assessing performance at all. The FRR has always voted against these resolutions.

Refine the analysis of the impact of environmental issues on the FRR's investment strategy

The fourth principle underlying the strategy pertains to a more refined and thorough analysis of environmental factors: "*Environmental concerns and, in particular, those related to the impact of global warming put forward by the international scientific community on the functioning of the global economy and its various components, pose many problems that a long-term investor cannot ignore when it is defining its global investment strategy. The FRR has set the objective of specifying them and of analyzing the various possible categories of impact on its investment policy by the end of 2009, in order to consider possible actions*".

A project in this area was launched in 2008, which led to the identification of the most important environmental issues for a long-term investor like the FRR: climate change, the non-renewability of fossil fuel resources, loss of biodiversity and water shortages. The results of this work will be presented to the Supervisory Board sometime in 2009.

Participate actively in research efforts in France and abroad on the issue of responsible investment

Throughout 2008, the FRR participated actively in the work done in connection with the Sustainable Finance and Responsible Investment Chair under the auspices of the *Institut d'économie industrielle de Toulouse and Ecole Polytechnique*. It also participated in the awarding of the prize given by the FIR (forum for responsible investment) which, each year, singles out the best academic work (theses, papers, articles, scholarships) done in the area.

Support for initiatives aimed at promoting responsible investment includes:

▸ at the national level, the FRR participated in the project carried out under the auspices of Paris Europlace, and has taken part in a number of diverse events held to promote socially responsible investment (particularly in connection with the French presidency of the European Union);

▸ at the international level, the FRR is a member of the Board of Directors for the PRI (Principles for Responsible Investment), a standard-setting organization that works under the auspices of the United Nations with and on behalf of institutional investors worldwide. As part of this process, the FRR takes part in international initiatives – like the Seoul Initiative[1].

1/ In October 2008, a letter signed by around fifty of the major institutional investors was sent to nearly 9 000 companies around the world, encouraging them to join the Global Compact. Launched in year 2000, the Global Compact asks businesses to adopt, support and enforce the 10 fundamental values in areas such as human rights, labor rights, the environment and the fight against corruption.

Risk audit and management

The risk management policy

The risk management function was overhauled in the course of 2008. The rising importance and role of this function derives from a policy statement issued in 2007 and is consistent with the development of the FRR. The risk function has direct reporting ties to the Operations Division since February. This department encompasses a financial risk and performance calculation department and an operational risk division. In 2008, four additional staff members were hired to reinforce the department, bringing the total number of full-time employees to seven.

The objectives of the FRR's global risk management function are the following:

▸ **analyze and manage** all risks in order to avoid vertical segmentation effects (financial, human, information system, strategic and other risks) as well as all of the potential impacts of these risks (financial and non-financial impacts such as reputation, image, knowledge, etc.). The scope of analysis is the FRR and its stakeholders: its trustee/custodian (Caisse des Dépôts), external asset managers, suppliers of indices and other suppliers. One of the sources of added value of this approach lies in aggregating all of the major risks and ensuring the global consistency of the risk analysis and action plans established for the organization:

▸ **alert the Executive Board** of the potential occurrence of major risks and risks deemed to be unacceptable;

▸ **propose and coordinate** the rollout of action plans designed to reduce or change the profile of these risks;

▸ **assist with the dissemination** of best practices and a risk management culture within the FRR;

▸ **give the Executive Board an independent** opinion on the management indices chosen by the Finance Division of the Fund for its own management;

▸ **propose or validate risk** thresholds by major risk type of area of activity;

▸ **prior to launch, analyze** new investment products/processes from the perspective of financial and operational risks. Set limits for these new investment products or processes.

One of last year's highlights was the production of a first map of operational risks, which was completed in early 2008. The action plans aimed at reducing the major risks emerging from this mapping were launched in the course of 2008 and are continuing in 2009. The resources and action plans designed to reduce major risks are now an integral part of the Fund's strategic and budgetary planning processes.

At the end of the month of June a global risk management policy—including a mission statement, clarification of resources and a road map for 2008 and 2009—was approved by the Executive Board. A first attempt at structuring internal control was also launched, with a focus in 2008 on internal accounting audits. In 2009 and 2010, this project will pursue new directions. Work was also carried out on personal and asset security policy.

The role of the risk committee was clarified and reinforced. This committee meets monthly, or more often as needed, and brings together the heads of the FRR's operational departments. The committee examines all of the financial and operational risks prior to the launch of any new product, strategy or management style.

Several requests for proposal were launched by the FRR last year:

▸ in June 2008, a process for the selection of software to calculate short-term financial risks,

▸ in November 2008, a selection process for an outside valuation specialist to ensure an external control in the valuation of complex OTC derivative products,

▸ in December 2008, a request for proposals was launched to hire a consulting firm to provide the Executive Board with an independent view of the progress made on the development of the FRR's risk management function. The objective is to achieve the highest standards in terms of risk management by the end of 2009 compared with similar institutions (pension funds, reserve funds and other long-term investors).

The principal risks to which the FRR is exposed

▸ The long-term asset/liability management risk: the primary risk for the FRR is of a mismatch between its strategic asset allocation and its long-term financial objectives. The FRR's asset allocation strategy is regularly reviewed (in 2003, 2006 and 2009), and is likely to be reviewed even more frequently so that the Fund can adapt to the sharp fluctuations that the financial markets have undergone since 2001.

▸ Financial risks: these risks can be further subdivided into two types:

Absolute risks: these are absolute losses to which the Fund may be subject over the short term. The level of these losses is measured on a regular basis by the risk management software that is used by FRR staff.

Relative risks: these risks relate to the under-performance of an asset manager versus the defined benchmark index. This relative loss is monitored and contained by enforcing compliance with a maximal ex-ante tracking error.

▸ Credit counterparty risk: via its managers, the FRR transacts with bank counterparties on OTC derivative products and money market investment products. In terms of counterparty selection, the FRR requires that its managers transact with counterparties that meet minimum financial rating requirements (Standard & Poor's, Fitch and Moody's) as well as the implementation of collateral mechanisms for certain derivative products that are sold OTC. It also requires that maximal exposure thresholds be respected and enforces disciplined monitoring of counterparties.

▸ Fraud and money-laundering risk: the FRR is particularly attentive when it comes to selecting investment vehicles to avoid running the slightest risk of coming into contact with practices that involve fraud or money laundering.

▸ Compliance risks: the FRR constantly monitors for compliance with the prudential regulations to which it is subject (related to the Act passed in 2001).

In addition to these regulations, the FRR has also adopted and enforces a set of internal rules.

▸ Forex risk: the FRR's portfolio is partially invested in foreign currencies. Accordingly, the FRR decided to hedge 90% of these exposures by contracting forex futures that are reviewed and updated on a regular basis. Statistically, this hedge improves the return/risk tradeoff significantly for the currencies of developed countries (the volatility of the portfolio is reduced with no significant impact on net performance).

▸ Business interruption risk: to ensure that the assets entrusted to the FRR's care by the public are effectively safeguarded, the FRR must track the financial markets on a daily basis (insofar as these markets can be extremely volatile) in order to be able to intervene rapidly when this proves necessary. In the accomplishment of its mission, it is therefore extremely important that the FRR be able to ensure business continuity over several days. Emergency business continuity and relief plans have been developed and are regularly tested for readiness to respond if needed.

▸ Supplier risks: the FRR selects a large number of external managers to manage its portfolio of assets. This risk is managed and contained through a rigorous selection process carried out within the context of an open and public RFP, procedure, combined with thorough due diligence audits of managers and regular monitoring (with a process for putting a manager on the watch list if necessary). Emergency back-ups are also in place, particularly at the asset management level.

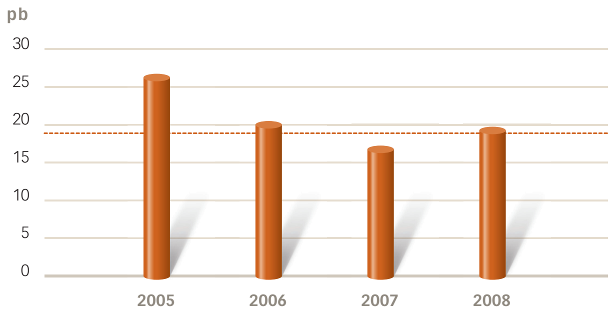
▸ Data risks: the calculation of performances and risks, and hence investment decisions, depend on the quality of the data populating the FRR's information system. In 2008, an effort was made to strengthen the internal system for verifying the quality and consistency of financial data.

Organization and costs

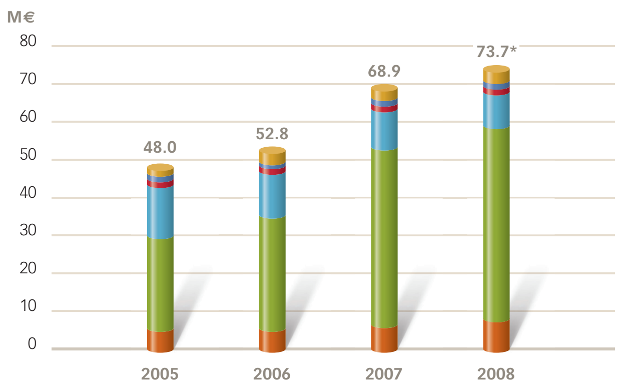
For the FRR, 2008 marked the end of a five-year period devoted to the rollout of its institutional, operational and financial foundations.

The Fund has set up a new organization that enables it to evolve as it moves at full speed, by grouping its teams around two central operational departments—Finance and Operations.

This organization is focused on the task of reinforcing the financial and operating risk management function.



Management costs



Cost structure

- Other overheads
- Consultants
- Informatique
- Custodial and administrative costs
- Management fees
- Payroll

* including €7.7 M provisioned for the VAT on UK asset management firms.

In order to improve its ability to prevent and manage the financial and operational risks it faces, the FRR had budgeted 7 additional staff positions in its 2008 forecasts[2]. With these new positions, the team has been able to consolidate the methods, management systems, risk mapping and Fund reporting. In addition, the creation of a new position focused on internal accounting audit is helping to structure the Fund's global risk management policy.

Several transversal functions also have direct reporting ties to the FRR's Executive Board (the division that is in charge of the responsible investment policy, communications and the accounting agency).

The FRR's costs

From the outset, the Executive Board has made cost control and cost benchmarking with other comparable European funds a top priority. To this end, in 2005, the Executive Board commissioned a survey to be carried out by McKinsey, setting the benchmark for the FRR at 19 basis points, including 3 basis points of structural costs related to the outsourcing of management and the Fund's statutory constraints. Since then, annual surveys have been conducted by a Canadian organization – Cost Effectiveness Measurement / CEM. The management costs analyzed are then compared with a benchmark panel of international funds, of which fifteen are located in Europe, with assets that compare in terms of size to those of the FRR.

Within the context of this global benchmark, the analysis of the cost structure shows that costs related to management fees are predominant.

Out of a total budget of 73.7 million euros in 2008, expenses related to financial management (50.8 million euros) represent 69% of total costs, expenses that are incidental to financial expenses and custody (10.8 million euros) account for 15%, and operating expenses[3] come to 16% (12.1 million euros).

2/ 55 positions at year-end 2008.
3/ payroll, property, IT and consulting expenses, plus other overheads.

FRR governance

As of December 31st, 2008

SUPERVISORY BOARD

Chairman

Raoul Briet

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 Fréville

Qualified person

Jean-Louis Beffa
Chairman and CEO, the Saint-Gobain Group
Vice President of the Supervisory Board

Representatives of Social Security beneficiaries appointed by nationally representative trade unions

- **Confédération générale du travail**

Jean-Christophe Le Duigou
Vice President of the Supervisory Board
Alternate
Pierre-Yves Chanu

- **Confédération générale du travail – Force ouvrière**

Jean-Jacques Poujade
Alternate
Bernard Devy

- **Confédération française démocratique du travail**

Jean-Paul Le Bail
Alternate
Philippe Le Clézio

- **Confédération française des travailleurs chrétiens**

Isabelle Sancerni
Alternate
Michel Moise-Mijon

- **Confédération française de l'encadrement – CGC**

Danièle Karniewicz
Alternate
Alain Dematons

Representatives of self-employed employers and workers

- **Mouvement des entreprises de France**

Jean-René Buisson
Alternate
Catherine Thibier
Julien Guez
Alternate
Véronique Cazals

Alain Leclair
Alternate
Jean-Claude Guéry
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

Dominique Libault

Alternate

Laurent Habert

Jean-Louis Rey

Alternate

Franck Le Morvan

Representing the Minister of the Economy, Finance and Industry

Ramon Fernandez

Alternate

Nicolas Carnot

Representing the Minister in charge of the Budget

Philippe Josse

Alternate

Guillaume Gaubert

EXECUTIVE BOARD

Chairman

Augustin de Romanet

Other members

Yves Chevalier

Antoine de Salins

MANAGER SELECTION COMMITTEE

Chairman

Antoine de Salins

Other members

Alain Hindié

Consultant

René Karsenti

Chairman and CEO of the ICMA

Jean-François Marie

Vice President of Montpensier Finance

Alain Robidel

Associate director of AC2F Consultants

Organization May 2009

SUPERVISORY BOARD

Chairman: **Raoul Briet**
Vice-Chairmen: **Jean-Louis Beffa, Jean-Christophe Le Duigou**

EXECUTIVE BOARD

Chairman: **Augustin de Romanet**
Yves Chevalier, Antoine de Salins

Assistants: Brigitte Dahan, Anna Louër

MANAGER SELECTION COMMITTEE

Chairman: **Antoine de Salins**
Members: **Alain Hindié, René Karsenti, Jean-François Marie, Alain Robidel**

COMMUNICATIONS

Christelle Cuzou

STRATEGY FOR RESPONSIBLE INVESTMENT

Nada Villermain-Lécolier
Sophie Barbier

PUBLIC ACCOUNTANT

François Fournier
Thierry Tacinelli, Marie-Christine Huguet

CHARGEE DE MISSION

Françoise Blondeel

OPERATIONS DIVISION

Maria Rucli

Deputy Director: **Christophe Aubin**
Head of global risk management

Assistants: Martine Carton, Nathalie Lalande

LEGAL DEPARTMENT

Bénédicte Paulze d'Ivoy

Anne-Marie Jourdan, François Calonne, Antoine Cuny

FINANCIAL RISK MANAGEMENT AND PERFORMANCE DEPARTMENT

Réka May

Arabelle Fontaine, Ronan Meunier, Antoine Peter

OPERATIONAL RISKS

Jean-Gabriel Balme

MIDDLE OFFICE DEPARTMENT

Isabelle Boublil

OPERATIONAL RELATIONS, MANAGERS AND SERVICE PROVIDERS
Christine Hamelin
Franck Temim, Paul Vongsavath

INFORMATION SYSTEMS, ORGANIZATION AND PROJECTS
Ronan Hénaff
Pranaesh Sethirakumar

HUMAN RESOURCES AND MANAGEMENT CONTROL DEPARTMENT

Jeanne Morand
Nicolas Umbach-Bascone, Marie Retault

FINANCE DIVISION

Nicolas Sobczak

Deputy Director: **Philippe Aurain**
Supervision of private equity and real estate investments

Assistants: Colette Cheuret, Karine Bocquet

STRATEGIC ASSET ALLOCATION DEPARTMENT

Jaouhar Mouldi
Pierre-Olivier Billard, Fabrice Montagné

TACTICAL ALLOCATION DEPARTMENT

Laurent Degioanni
Salwa Boussoukaya-Nasr, Sonia Ducasse, Pauline Mercier

LISTED ASSET MANAGEMENT DEPARTMENT

Anne Courrier

MANAGER SELECTION
Grégoire Badault, Olivier Blin

MANDATE MANAGEMENT
Antoine Beaugendre, Vincent Cordier, Cristel Kuczko, Jean-Philippe Olivier, Jeremy Willems

UNLISTED ASSET MANAGEMENT

REAL ESTATE
Marie Aymard-Lefaure
Guillaume Noël-Lefoulon

PRIVATE EQUITY AND INFRASTRUCTURES
Françoise Tauzinat

2008 financial statements

The net position of the FRR at year-end 2008 shows a decline in its permanent capital and in the value of its financial assets. The result for the year is a loss of €2.5 billion, and valuation variances are also a negative €3.97 billion. Marketable securities and cash came to €27.2 billion, compared with €34 billion at year-end 2007.

As for revenues, endowments from the government were at the same level as the previous year (€1.8 billion). The proceeds from abandoned life insurance policies, which have been allocated to the FRR since 2007, provided a contribution of €350 000 in 2008.

The contribution of the CNIEG (*Caisse nationale des industries électriques et gazières*) that was paid in 2005, €3.060 billion, reflects the market meltdown. On December 31st, 2008, it was valued at €2.912 billion.

Financial statements are drawn up on a fair market value basis, in compliance with the rules of the chart of accounts. However, the FRR is not subject to any liquidity constraints until 2020. As a result, the valuation of its assets on December 31st in terms of their fair market values is of very relative utility in assessing the long-term financial management of this type of fund.

At the same time, it is important to provide commentary about these results that indicates the principal factors behind their formation.

In this respect, while the change in valuation variances does not require any particular commentary, four observations are required to help readers understand the key changes in 2008.

Securities sold

During the two prior fiscal years (2006 and 2007), the balance of gains and losses on the sale of securities (equities and bonds) was very positive (more than €1.3 billion each year).

For 2008, the balance turned sharply negative, showing a net loss of €2.1 billion. This difference is primarily the result of these two factors:

▸ Some mandates that had reached their term were replaced. At this time, transitions were introduced that led to the total or partial sale of securities at their fair market value, which in turn generated substantial capital losses. Simultaneously, securities were purchased by managers in connection with new mandates at relatively low prices, which means that over a longer timeframe they can reasonably be expected to generate capital gains which, for as long as the securities are held rather than sold, will appear in the valuation variances recorded in the years ahead. It is important to keep this specific context of the FRR in mind at all times when attempting to correctly interpret the result that emerges on any particular date.

▸ The FRR observed that its asset managers, whose performance is assessed on the basis of the changes in a defined benchmark, made sector-driven arbitrages (cutting back to under-exposure to financial services or automotive securities, for example) that produced significant capital losses but also enable them to buy securities that they thought could appreciated substantially in the months ahead. These decisions explain a good part of the substantial increase in the relative performance of the managers of equity mandates over the final months of 2008.

These two factors are entirely dependent on the way in which the funds entrusted to the FRR are managed. The mandates signed between the FRR and the asset management firms constitute delegated management agreements and the FRR, which assesses and compensates the performance of its managers when the latter outperform with respect to their benchmark, cannot interfere in their management processes.

Similarly, because of the limited duration of mandates (which is set by the French Government Procurement Code) securities cannot be held for more than 4 or 5 years. When a mandate expires, a new request for proposals (RFP) must be held to select asset managers who may or may not agree to keep all or some of the securities that have already been acquired under other mandates on behalf of the FRR. Managing the transition period during which a mandate is changing hands can therefore lead to the sale of securities, generating a capital gain or loss as the case may be, in a given accounting period.

To offest this impact, it would be necessary to either change the rules of the French Government Procurement Code so that the length of mandates could be extended, or substantially change the FRR's management processes by authorizing direct management and hence allowing the Fund to hold securities longer when it deems them to be promising over the long term.

Ten multiple transitions involving 19 managers were completed in 2008, for a total amount of €8.5 billion.

Currency translation gains and losses

The FRR always hedges 90% of the exposure of its portfolio to foreign currencies, by making use of forward contracts that are carried on its balance sheet as payables and receivables.

Overall, hedging operations turned out to be somewhat costly in 2008, since all of the foreign currencies in the FRR portfolio had a tendency to appreciate against the euro throughout the year. But this loss was totally offset by gains generated on the physical portfolios stated in foreign currencies.

Gains and losses on financial futures instruments

The FRR completes the exposure of its physical portfolio with an exposure to derivatives. This supplement is necessary because the physical portfolios containing live securities do not allow it to refine its exposure to asset classes that are fixed under the strategic asset allocation (and any tactical positions).

With regard to these tactical positions, only the security deposits and margin calls receivable are recorded on the accounting balance sheet. On December 31st, 2008, receivables were €56.3 million for security deposits and €4.7 million for margin calls, for a total asset of €61 million. Liabilities include margins payable (€1.6 million), plus the cash payment due on the commodity swap (€14.3 million), for a total of €15.9 million.

The income statement reflects the realized losses and gains, i.e., the total of all margin calls under all contracts closed out in 2008. The net loss of €1.326 billion recognized on financial instruments corresponds for the most part to the losses recorded on futures transactions on the equity indices (due to substantial equity market depreciation). On average, the FRR carried outstanding futures totaling €2.094 billion on equities, €461 million on bonds (outstanding was positive until September 30th and then moved into negative territory), and €263 million on commodities (until November, since the swap mandate took over for futures positions as of December).

Comment on change in CNIEG contribution

The non-recurring, lump-sum contribution paid to the FRR by the CNIEG (*Caisse Nationale des Industries Electriques et Gazières*), pursuant to Act no. L. 2004-803 dated August 9th, 2004 and the government order dated January 21st, 2005, came to €3.060 billion and corresponds to an individualized debt of the FRR payable to the CNAV. The exact amount of this liability rises and falls based on the results of the FRR's financial management, as a function of the weight of the CNIEG contribution relative to the other endowments received by the FRR.

At six-month intervals, the FRR accordingly allocates a portion of its result (gain or loss) and, using the same distributive formula, allocates a percentage of the valuation variance versus estimates observed at the end of the period. The methods for calculating and sharing the return on investment with the CNAV are explained in more detailed fashion in the agreement by and between the two organizations dated July 12th, 2005.

On December 31st, 2008, the FRR's payable to the CNAV based on the CNIEG contribution was €2.912,325,327.14 billion in light of the results (both realized and unrealized), positive and then negative, of the FRR's financial management since this contribution was made in 2005.

Balance sheet

12/31/2008

in euros

ASSETS	12/31/2008	12/31/2007
Long-term assets	**477 005.48**	**467 827.88**
Receivables	**11 980 612 476.21**	**10 191 428 687.93**
Endowments allocated to the FRR receivable	35 697 158.35	72 306 914.11
Receivables from operations	0.00	0.00
Receivables on financial instruments	57 100 065.78	83 294 132.16
Receivables on forex transactions	11 826 364 529.39	10 002 351 699.80
Receivables on financial futures	61 450 722.69	33 475 941.86
Marketable securities	**24 405 802 774.09**	**31 644 441 797.98**
Equities	12 029 436 496.60	18 051 575 728.01
Bonds	11 674 659 166.91	10 372 379 983.36
Negotiable debt instruments	425 633 918.50	2 640 888 950.87
Mutual funds	118 533 302.42	529 002 603.10
Private equity	157 539 889.66	50 594 532.64
Cash	**2 745 592 624.84**	**2 623 576 386.66**
Prepaid expenses	**30 219.79**	**104 035.32**
TOTAL	**39 132 515 100.41**	**44 460 018 735.77**

LIABILITIES	12/31/2008	12/31/2007
Equity capital	**24 708 301 668.03**	**30 595 085 409.69**
Endowments	24 607 005 853.79	22 765 729 699.54
Reserves	6 637 716 246.07	3 913 173 975.69
Valuation variance	-3 976 932 489.63	1 191 639 464.08
Income or loss for the year	-2 559 487 942.20	2 724 542 270.38
Liabilities	**14 421 729 145.93**	**13 846 457 004.96**
CNIEG non-recurring contribution	2 912 325 327.14	3 879 535 179.02
Payables on operations	56 279 497.44	55 042 677.15
Payables on financial instruments	19 490 328.86	24 575 504.25
Payables on forex transactions	11 417 646 082.51	9 875 680 585.81
Payables on financial futures transactions	15 987 909.98	11 623 058.73
Prepaid income	**2 484 286.45**	**18 476 321.12**
TOTAL	**39 132 515 100.41**	**44 460 018 735.77**

Income statement

12/31/2008

EXPENSES	2008	2007
Outside services	72 452 264.64	67 971 177.29
Taxes	95 682.60	68 708.47
Payroll	1 020 631.76	727 430.18
Amortization	205 057.78	170 470.30
Operating expenses	**73 773 636.78**	**68 937 786.24**
Currency translation losses	1 620 683 643.02	234 443 909.08
Expenses on financial futures	1 827 246 408.21	398 469 309.73
Expenses on the sale of securities	2 940 815 447.88	624 317 142.18
Other financial expenses	2 668 838.41	2 660.65
Interest expense on CNIEG contribution	-318 546 041.77	361 595 545.22
Financial expenses	**6 072 868 295.75**	**1 618 828 566.86**
Non-recurring expenses	**1 987.63**	**0.00**
Total expenses	**6 146 643 920.16**	**1 687 766 353.10**
Net result for the period	**-2 559 487 942.20**	**2 724 542 270.38**
TOTAL	**3 587 155 977.96**	**4 412 308 623.48**

INCOME	2008	2007
Income from marketable securities	1 030 789 512.78	879 258 010.50
Currency translation gains	1 198 464 349.83	826 679 752.75
Income on financial futures	500 861 119.98	536 880 220.73
Income from the sale of securities	772 415 830.55	2 016 324 640.90
Other financial income	84 476 905.13	153 107 119.54
Financial income	**3 587 007 718.27**	**4 412 249 744.42**
Non-recurring income	**148 259.69**	**58 879.06**
Total income	**3 587 155 977.96**	**4 412 308 623.48**
TOTAL	**3 587 155 977.96**	**4 412 308 623.48**

Notes to the financial statements

for the year ended 12/31/2008

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), amended by opinion* no. 2008-10 dated June 5, 2008.

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.

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).

Transaction recording dates are the trading dates for those transactions in the portfolio. Since November 30, 2006, those used for short-term investments include related fees, pursuant to the CNC opinion issued on March 31, 2006.

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 on securities. For futures, the FIFO (first in first out) rule is used.

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.

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.

Bond valuations are based on the principle of a Bid quotation from contributed prices communicated by various financial services providers. Given the current state of the markets, the balance sheet carrying values for fixed-income products, measured as indicated above, may differ from the prices they would actually be sold for in the event that some portion of them had to be liquidated, although it should be noted that the FRR has an extremely long investment timeframe, extending to 2020 and beyond.

Accrued coupon interest on buy or sell transactions as well as at the end of period 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.

BTF and BTAN French sovereign debt securities are valued on the basis of published Banque de France rates on the date of valuation.

Negotiable debt instruments (and equivalent) for which transaction amounts are not significant are valued on an actuarial basis, based on the zero coupon rate of the same maturity, plus the issuer spread where applicable.

Mutual funds (MUTUAL FUNDS) are valued on the basis of the last known NAV. ETFs (exchange traded funds) are valued on the basis of the last price quotes.

Private equity funds are valued on the basis of the last valuation communicated by the managers.

Financial futures instruments traded on a regulated market or the equivalent and related commitments are valued on the basis of the settlement price.

Forex futures positions are valued and amortized on a straight-line basis based on the amount of the initial report/deport and the valuation of the currency position based on WM/Reuters closing spot rates.

Swaps are valued based on price information transmitted by the counterparty, under the supervision of the manager, and also formally controlled at various levels set up within the FRR.

Unrealized gains and losses and translation differences are accounted for as valuation variances and have no impact on the Fund's income statement

Realized gains and losses and definitive translation differences are credited to or charged against income.

Tangible fixed assets are amortized on a straight-line basis over three years.

Intangible fixed assets primarily related to the user licenses for the SPIRRIS software and related maintenance, are amortized over 5 years on a straight-line basis.

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.

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. Outperformance is defined as the positive mathematical difference between the performance of the portfolio and that of the benchmark.

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 2008 and known at the accounting cut-off date, but not yet received on December 31, 2008.

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 five categories: equities, bonds, negotiable debt instruments (NDI), mutual funds and private equity. 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.

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, 2008 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 the reporting date.

CHANGES IN THE VALUE OF MARKETABLE SECURITIES IN THE PORTFOLIO

PORTFOLIO ON DECEMBER 31, 2007

	Purchase price	Valuation differentials[1]	Accrued interest	Book value
Equities	16 515 177 305.60	1 536 398 422.41		18 051 575 728.01
Bonds	10 556 619 868.48	- 381 969 338.54	197 729 453.42	10 372 379 983.36
NDI	2 625 991 496.28	4 671 238.14	10 226 216.45	2 640 888 950.87
Mutual funds	508 756 763.84	20 245 839.26		529 002 603.10
Private equity	55 344 506.87	- 4 749 974.23		50 594 532.64
TOTAL	**30 261 889 941.07**	**1 174 596 187.04**	**207 955 669.87**	**31 644 441 797.98**

PORTFOLIO ON DECEMBER 31, 2008

	Purchase price	Valuation differentials[2]	Accrued interest	Book value
Equities	16 923 938 985.90	- 4 894 502 489.30		12 029 436 496.60
Bonds	11 405 710 335.49	36 298 802.14	232 650 029.28	11 674 659 166.91
NDI	450 406 670.52	- 25 097 160.29	324 408.27	425 633 918.50
Mutual funds	136 951 026.99	- 18 417 724.57		118 533 302.42
Private equity	187 542 618.18	- 30 002 728.52		157 539 889.66
TOTAL	**29 104 549 637.08**	**- 4 931 721 300.54**	**232 974 437.55**	**24 405 802 774.09**

	12/31/2008	12/31/2007
Equities	12 029 436 496.60	18 051 575 728.01
Bonds	11 674 659 166.91	10 372 379 983.36
NDI	425 633 918.50	2 640 888 950.87
Mutual funds	118 533 302.42	529 002 603.10
Private equity	157 539 889.66	50 594 532.64
TOTAL	**24 405 802 774.09**	**31 644 441 797.98**

1/ Valuation differentials before allocation of CNIEG share.
2/ Valuation differentials before allocation of CNIEG share.

ANALYSIS OF PORTFOLIO BY REMAINING TERM TO MATURITY

	12/31/2008	12/31/2007
< 3 months	2.71%	14.49%
> 3 months < 1 year	3.18%	9.44%
1 to 3 years	14.36%	8.75%
3 to 5 years	15.80%	11.91%
5 to 7 years	9.59%	12.08%
7 to 10 years	21.52%	16.29%
10 to 15 years	11.76%	8.13%
> 15 years	21.08%	18.91%
	100.00%	**100.00%**

ANALYSIS OF PORTFOLIO BY COUPON TYPE

	31/12/2008	31/12/2007
Fixed	91.14%	89.96%
Indexed	8.31%	9.52%
Floating	0.55%	0.52%
	100.00%	**100.00%**

ANALYSIS OF PORTFOLIO BY CURRENCY OF LISTING

Currency	Equities	Bonds	NDI	Mutual funds[3]	LP[4]	Total
AUD	152 634 338.56	4 251 164.89	-	-	-	156 885 503.45
CAD	122 177 369.35	-	-	-	-	122 177 369.35
CHF	179 703 911.26	-	-	-	-	179 703 911.26
DKK	24 502 264.32	-	-	-	-	24 502 264.32
EUR	7 259 566 988.22	9 385 856 849.40	113 944 206.35	-	78 748 959.00	16 838 117 002.97
GBP	391 531 130.88	185 450 982.90	-	-	-	576 982 113.78
HKD	83 142 576.91	-	-	-	-	83 142 576.91
JPY	627 757 492.77	323 066 709.24	-	-	-	950 824 202.01
NOK	21 588 364.31	11 275 711.83	-	-	-	32 864 076.14
NZD	925 182.72	-	-	-	-	925 182.72
SEK	46 932 138.81	-	-	-	-	46 932 138.81
SGD	28 019 896.15	-	-	-	-	28 019 896.15
USD	3 090 954 842.34	1 764 757 748.65	309 205 425.70	118 533 302.42	78 790 930.66	5 362 242 249.77
TOTAL NET OF PPI [5]	**12 029 436 496.60**	**11 674 659 166.91**	**423 149 632.05**	**118 533 302.42**	**157 539 889.66**	**24 403 318 487.64**
		PPI on BTF	1 921 574.31			
		PPI on foreign commercial paper	40 941.70			
		PPI on CDs	521 770.44			
		TOTAL PPI	**2 484 286.45**			
TOTAL PORTFOLIO	**12 029 436 496.60**	**11 674 659 166.91**	**425 633 918.50**	**118 533 302.42**	**157 539 889.66**	**24 405 802 774.09**

3/ Exchange Traded Funds. 4/ Limited Partnership. 5/ PPI: Prepaid interest.

ITEMIZED STATEMENT OF SECURITIES AT DECEMBER 31ST, 2008

MARKETABLE SECURITIES	TOTAL NET OF PPI	PPI	TOTAL PORTFOLIO
Equities			
Europe (Eurozone)	7 257 740 687.04	-	7 257 740 687.04
Europe (ex-Eurozone)	666 084 110.76	-	666 084 110.76
US	3 213 132 211.69	-	3 213 132 211.69
Asia (ex-Japan)	264 721 994.34	-	264 721 994.34
Japan	627 757 492.77	-	627 757 492.77
	12 029 436 496.60	**-**	**12 029 436 496.60**
Bonds			
Europe (Eurozone)	9 385 856 849.40	-	9 385 856 849.40
Europe (ex-Eurozone)	196 726 694.73	-	196 726 694.73
US	1 764 757 748.65	-	1 764 757 748.65
Asia (ex-Japan)	4 251 164.89	-	4 251 164.89
Japan	323 066 709.24	-	323 066 709.24
	11 674 659 166.91	**-**	**11 674 659 166.91**
Negotiable debt securities			
Europe (Eurozone)	113 944 206.35	2 443 344.75	116 387 551.10
US	309 205 425.70	40 941.70	309 246 367.40
	423 149 632.05	**2 484 286.45**	**425 633 918.50**
Mutual funds			
ETF Large Cap US	118 533 302.42	-	118 533 302.42
	118 533 302.42	**-**	**118 533 302.42**
Private equity			
Europe	78 748 959.00	-	78 748 959.00
US	78 790 930.66	-	78 790 930.66
	157 539 889.66	**-**	**157 539 889.66**
TOTAL	**24 403 318 487.64**	**2 484 286.45**	**24 405 802 774.09**

ENDOWMENTS RECEIVABLE

	12/31/2008
ACOSS – Employee savings	2 177 770.85
CDC – prescribed consignments	4 697 929.09
Caisse Centrale Mutuelles Sociales Agricoles	- 574 641.69
SCBCM MINEFE	29 396 100.10
CDRS tax on personal assets	*34 464 088.21*
CDRS tax on investment income	*37 030 126.92*
CDRS tax on investment income (prepaid)	*- 42 098 115.03*
TOTAL	**35 697 158.35**

CURRENT LIABILITIES

LIABILITIES	12/31/2008	> 1 YEAR	< 1 YEAR
Government and Social Security	62 066.31	-	62 066.31
Other liabilities	56 217 431.13	-	56 217 431.13
TOTAL	**56 279 497.44**	**-**	**56 279 497.44**

RECEIVABLE ON FINANCIAL MANAGEMENT

RECEIVABLES	31/12/2008
Related to financial instruments	
Interest coupons due and immediately payable	37 199 748.39
Sales pending settlement	19 900 317.39
TOTAL	**57 100 065.78**
Related to forex transactions	
Forward purchases	1 582 644 929.32
Forex forward receivables	10 232 496 542.51
Forex spot receivables	127 200.97
Discount/Deport	11 095 856.59
TOTAL	**11 826 364 529.39**
Related to financial futures	
Security deposits	56 288 508.98
Margin calls receivable	5 162 213.71
TOTAL	**61 450 722.69**

PAYABLE ON FINANCIAL MANAGEMENT

PAYABLES	31/12/2008
Related to financial instruments	
Purchased, settlement pending	19 490 328.86
TOTAL	**19 490 328.86**
Related to forex transactions	
Forward sales	9 707 741 184.05
Foreign forwards payable	1 688 812 489.75
Foreign spots payable	127 438.80
Report	20 964 969.91
TOTAL	**11 417 646 082.51**
Related to financial futures instruments	
Margin payable	1 630 825.70
Valuation variance on swap agreement	14 357 084.28
TOTAL	**15 987 909.98**

CHANGE IN EQUITY

	12/31/2008	12/31/2007	CHANGE (%)
Endowments	24 607 005 853.79	22 765 729 699.54	8.09%
Reserves	6 637 716 246.06	3 913 173 975.69	69.62%
Valuation variances	- 3 976 932 489.63	1 191 639 464.08	- 433.74%
Net income for the year	- 2 559 487 942.20	2 724 542 270.38	- 193.94%
	24 708 301 668.03	**30 595 085 409.69**	**- 19.24%**

CNIEG NON-RECURRING CONTRIBUTION

ENFORCEMENT OF THE CNAV-FRR AGREEMENT

Total equity on 06/30/2008		27 729 513 190.22	
Endowments 3rd quarter 2008		490 211 827.39	
CNIEG payment on 06/30/2008		3 488 796 105.23	
		31 708 521 122.84	
	CNAV share on 06/30/2008	**11.00%**	

Endowments			
	06/30/2008	201 467 489.31	1st quarter 2008
	09/30/2008	691 679 316.70	490 211 827.39

Breakdown on December 31, 2007			
	06/30/2008	**12/31/2008**	**Carried forward**
Operating expenses	36 150 905.88	73 773 636.78	37 622 730.90
Financial result	223 885 964.22	- 2 825 517 641.81	- 3 049 403 606.03
Non-recurring result	151 356.25	146 272.06	- 5 084.19
GLOBAL RESULT	**187 886 414.59**	**- 2 899 145 006.53**	**- 3 087 031 421.12**
Valuation variance, private equity	- 13 952 105.94	- 30 002 728.52	- 16 050 622.58
Valuation variance, forex	- 4 452 935.56	- 21 870 484.49	- 17 417 548.93
Valuation variance, forex futures	3 223 922.10	408 887 827.52	405 663 905.42
Valuation variance, derivatives	- 72 803 583.43	9 795 481.79	82 599 065.22
Valuation variance, swaps	0.00	- 14 357 084.28	- 14 357 084.28
Valuation variance, marketable securities	- 2 308 958 847.24	- 4 901 718 572.02	- 2 592 759 724.78
VALUATION VARIANCE, TOTAL	**- 2 396 943 550.07**	**- 4 549 265 560.00**	**- 2 152 322 009.93**

To be carried as a debit for CNAV	
[Financial and non-recurring income] – [operating expenses]	- 3 087 031 421.12
Percentage share	11.00 %
TO BE CARRIED AS A DEBIT FOR CNAV	**- 339 657 064.33**
Valuation variance	- 2 152 322 009.93
Percentage share	11.00 %
TO BE CARRIED AS A DEBIT FOR CNAV	**- 236 813 713.78**

Recap	
Financial income less operating expenses	- 339 657 064.33
Valuation variance (unrealized capital losses)	- 236 813 713.78
TOTAL	**- 390 739 073.79**

Reminder: CNIEG contribution on 06/30/2008 ***3 488 796 105.23***

CNIEG CONTRIBUTION ON 12/31/2008 **2 912 325 327.13**

CASH AND NEAR CASH

CURRENCIES	TOTAL
AUD	26 568 644.89
CAD	1 573 582.12
CHF	31 267 962.57
DKK	1 192 234.32
EUR	2 294 627 946.13
GBP	62 532 227.30
HKD	9 147 143.49
NOK	695 799.43
NZD	6 215.97
SEK	2 217 393.61
SGD	367 271.56
USD	235 002 864.49
JPY	80 393 338.96
TOTAL	**2 745 592 624.84**

OPERATING EXPENSES

	AMOUNT
Outside services	**72 452 264.64**
Administrative management *(CDC - Caisse des dépôts et consignations)*	20 166 450.77
Fees paid to investment firms	39 485 774.07
Expenses provisioned for VAT on UK asset management firms	7 748 300.57
Other outside services	5 051 739.23
Of which brokerage fees on financial futures	*3 528 379.19*
Taxes	**95 682.60**
Payroll	**1 020 631.76**
Amortization	**205 057.78**
TOTAL	**73 773 636.78**

PREPAID INTEREST

Prepaid interest came to €2 484 286.45. It mostly concerns prepaid interest on certain negotiable debt securities (BTF, CDN, foreign commercial paper).

OFF-BALANCE SHEET COMMITMENTS

FOREX FUTURES AGREEMENTS

Currency code	Currency to be delivered[7]	%	Currency to be received[8]	%
AUD	29 965 339.01	1.77%	206 718 883.95	2.02%
CAD	23 252 149.15	1.38%	246 817 892.90	2.41%
CHF	48 390 900.67	2.87%	401 848 537.33	3.93%
DKK	3 109 948.43	0.18%	24 348 932.58	0.24%
GBP	178 557 874.78	10.57%	941 918 149.45	9.20%
HKD	4 849 940.93	0.29%	91 266 374.09	0.89%
JPY	262 707 957.51	15.56%	1 317 687 281.55	12.88%
NOK	3 558 726.38	0.21%	29 704 249.43	0.29%
NZD	69 088.01	0.00%	48 150 035.14	0.47%
SEK	375 915.54	0.02%	39 878 072.69	0.39%
SGD	396 263.11	0.02%	26 621 675.31	0.26%
USD	1 133 578 386.23	67.12%	6 857 536 458.09	67.02%
TOTAL	**1 688 812 489.75**	**100.00 %**	**10 232 496 542.51**	**100.00 %**

7/ Corresponds to forward forex purchases. 8/ Corresponds to forward forex sales.

OTHER COMMITMENTS

VALUE OF OFF-BALANCE SHEET COMMITMENTS ON DERIVATIVES

Indexed futures

Buy position

ID	Description	Currency	Price	Off-balance sheet value
AP0309	SYD FUTURE SPI2 0309	AUD	3 746.00	15 547 661.44
BXF0109	MAR FUTURE BEL2 0109	EUR	1 900.00	28 367 000.00
ES0309	CHI FUTUR SPMIN 0309	USD	900.10	58 892 913.93
FCE0109	MAR CAC40 0109	EUR	3 221.00	105 745 430.00
FDAX0309	EUR FUTURE DAX 0309	EUR	4 834.50	238 461 712.50
FESX0309	EUR DJ EURO STO 0309	EUR	2 450.00	302 624 000.00
FSMI0309	EUR FUTURE SMI 0309	CHF	5 451.00	99 179 426.18
FTI0109	AEX FUTURE AEX 0109	EUR	246.35	100 165 910.00
HSI0109	HKF HANG SENG I 0109	HKD	14 405.00	9 560 411.77
NQ0309	CHI NASDAQ 100 0309	USD	1 212.50	33 878 997.16
SP0309	CHI SP500 0309	USD	900.10	54 716 341.14
TP0309	TOK TOPIX 0309	JPY	862.00	74 017 840.48
YM0309	CBO FUTURE DJ M 0309	USD	8 727.00	70 378 525.95
Z0309	LIF FTSE100 0309	GBP	4 390.00	211 860 578.16
TOTAL				**1 403 396 748.71**

Sell position

ID	Description	Currency	Price	Off-balance sheet value
EMD0309	CHI FUTURE SPI4 0309	USD	537.20	21 950 980.18
RTA0309	ICE RUSSELL 200 0309	USD	497.90	27 723 794.11
TOTAL				**49 674 774.29**

Interest rate futures

Buy position

ID	Description	Currency	Price	Off-balance sheet value
FGBL0309	EUR EURO BUND F 0309	EUR	124.84	213 726 080.00
FGBM0309	EUR EURO BOBL F 0309	EUR	116.21	212 780 510.00
FGBS0309	EUR EURO SCHATZ 0309	EUR	107.47	267 815 240.00
FGBX0309	EUR FUTURE EURO 0309	EUR	102.72	4 211 520.00
I0309	LIF 3MO EURO EU 0309	EUR	97.77	2 933 100.00
I0609	LIF 3MO EURO EU 0609	EUR	98.03	980 250.00
SXF600309	MON FUTURE TSE6 0309	CAD	539.90	6 355 466.20
TOTAL				**708 802 166.20**

Sell position

ID	Description	Currency	Price	Off-balance sheet value
FGBL0309	EUR EURO BUND F 0309	EUR	124.84	211 229 280.00
FGBM0309	EUR EURO BOBL F 0309	EUR	116.21	278 671 580.00
FGBS0309	EUR EURO SCHATZ 0309	EUR	107.47	156 691 260.00
FGBX0309	EUR FUTURE EURO 0309	EUR	102.72	102 103 680.00
FV0309	CBO UST NOTE 5 0309	USD	119.05	180 114 903.69
JGB0309	TOK JPN 10Y BON 0309	JPY	140.12	47 815 694.46
R0309	LIF GILT FUTURE 0309	GBP	123.47	18 133 878.06
TY0309	CBO T NOTE US 1 0309	USD	125.75	20 535 412.40
TOTAL				**1 015 295 688.61**

OFF-BALANCE SHEET COMMITMENTS ON SWAPS

Commodity swaps

ID	Description	Currency	Nominal commitment in €
SWAP335028	Swap SGGSCI Energy & Metals	USD	71 939 860.00
SWAP335031	Swap SGGSCI Energy & Metals	USD	183 446 643.00
TOTAL			**255 386 503.00**

		Panthéon Ventures	Access Capital Partners	Total
Initial commitments	EUR	550 000 000	300 000 000	850 000 000
Balance from prior period	EUR	16 555 000	9 000 000	25 555 000
Payments during the period	EUR	38 500 000	36 000 000	74 500 000
Distribution of assets	EUR	0	0	0
Balance on accounting cut-off date	EUR	55 055 000	45 000 000	100 055 000
Valuation on accounting cut-off date	EUR	42 816 558	35 932 401	78 748 959

		Lehman Brothers Int. Europe	Axa IM Private Equity Europe	Total		Lehman Brothers Int. Europe	Axa IM Private Equity Europe	Total
Initial commitments	USD	679 932 200	198 000 000	877 932 200	EUR [9]	489 142 129	142 440 923	631 583 052
Net calls during prior period	USD	20 459 160	20 838 711	41 297 871	EUR [10]	14 696 147	15 093 360	29 789 507
Payments during period	USD	54 394 560	32 306 692	86 701 252	EUR [10]	36 575 780	21 962 575	58 538 355
Distribution of assets	USD	0	- 1 077 949	- 1 077 949	EUR [10]	0	- 840 244	- 840 244
Net calls on accounting cut-off date	USD	74 853 720	52 067 454	126 921 174	EUR [10]	51 271 927	36 215 691	87 487 618
Valuation on accounting cut-off date	USD	64 881 002	44 630 909	109 511 911	EUR [9]	46 675 302	32 115 628	78 790 931
Total initial commitments (EUR)								**1 481 583 052**
Total payments on accounting cut-off date, net (EUR)								**187 542 618**
Total valuation on accounting cut-off date (EUR)								**157 539 890**

9/ On the basis of a $ vs. € exchange rate of 0.7193986 on the accounting cut-off date.
10/ On the basis of $ vs. € exchange rate on transaction date.

ADDITIONAL INFORMATION

Transactions on futures markets

SECURITIES AND CASH ON DEPOSIT, 12/31/2008

ID	Description	Amount	Cost price	Market price
AU300TB01216	AUSTRALIA 5.25% 15/08/10	8 000	4 688 597.71	4 251 164.89
FR0010415331	OAT 3.75% 25/04/17	10 000 000	9 548 787.95	10 599 043.50
FR0113872750	BTF 04/06/09	100 000 000	100 000 000.00	99 223 297.89
GB0032785924	GILT 4% S 07/03/09	25 000 000	31 652 020.15	26 358 543.10
JP1022551749	JAPAN 0.8% 15/04/09 N.255	12 000	4 703 056.41	4 776 454.73
JP10226317C7	JAPAN 0.8% 15/12/09 N.263	18 000	5 529 911.86	7 176 988.54
US912795Q955	USA TREASURY BILL 30/07/09	35 000 000	26 542 297.05	25 136 815.94
US912795S282	USA TREASURY BILL 27/08/09	40 000 000	30 334 053.77	28 739 691.38
SECURITIES SUBTOTAL			**212 998 724.90**	**206 261 999.97**

ID	Description	Amount	Cost price	Market price
DG.CAD	DEPOSIT CAD	1 893 750	1 235 415.20	1 103 583.91
DG.CHF	DEPOSIT CHF	16 492 538	10 737 202.08	11 146 996.04
DG.EUR	DEPOSIT EUR	2 145 900	2 145 900.00	2 145 900.00
DG.EUR	DEPOSIT EUR	2 094 730	2 094 730.00	2 094 730.00
DG.EUR	DEPOSIT EUR	1 091 890	1 091 890.00	1 091 890.00
DG.EUR	DEPOSIT EUR	1 996 780	1 996 780.00	1 996 780.00
DG.EUR	DEPOSIT EUR	2 133 730	2 133 730.00	2 133 730.00
DG.EUR	DEPOSIT EUR	134 400	134 400.00	134 400.00
DG.EUR	DEPOSIT EUR	25 458 236	25 458 236.09	25 458 236.09
DG.EUR	DEPOSIT EUR	801 870	801 869.50	801 869.50
DG.GBP	DEPOSIT GBP	4 853 395	5 490 681.12	5 019 801.71
DG.HKD	DEPOSIT HKD	23 115 950	2 059 944.37	2 145 700.18
DG.USD	DEPOSIT USD	1 410 750	1 022 531.73	1 014 891.55
CASH SUBTOTAL			**56 403 310.09**	**56 288 508.98**
TOTAL			**269 402 034.99**	**262 550 508.95**

MANAGEMENT FEES

30% VARIABLE OUTPERFORMANCE COMMISSION

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 reporting date, the amount pertaining to the 30% applicable to the variable commission was €2 565 965.42.

100% VARIABLE OUTPERFORMANCE COMMISSION

Lot number 22 (US Small Cap Equities) calls for a one-off payment of the outperformance fee (100%) at the end of the mandate. For this lot, at year-end 2008 the total came to €870 052.65.

PRIOR PERIOD RESULTS

	2005	2006	2007	12/31/2008
Results for the period	725 833 407.64	2 133 257 018.38	2 724 542 270.38	-2 559 487 942.20

Results for prior periods are set aside as reserves.

TABLE OF EMPLOYEES PAID DIRECTLY BY THE FRR

WORKFORCE BREAKDOWN BY EMPLOYMENT CATEGORY

CATEGORIE	OPEN-ENDED CONTRACTS	FIXED-TERM CONTRACTS	TEMPORARY STAFF	OTHER	TOTAL
Executives	2	-	-	-	2
Managers	3	-	-	-	3
Non-management	3	3	-	-	6
TOTAL	**8**	**3**	**-**	**-**	**11**
Other [11]	-	-	-	1	1

11/ Chairman of the Supervisory Board, payment of an indemnity.

LONG-TERM FIXED ASSETS

TABLE OF LONG-TERM FIXED ASSETS AND AMORTIZATIONS

	Long-term fixed assets			Amortizations			
Line items	Gross value, start of period	Increase	Gross value, end of period	Cumulative, start of period	Allowances	Cumulative, end of period	Net book value
Intangible assets	971 819.74	211 007.28	1 182 827.02	- 506 797.24	- 202 669.98	- 709 467.12	473 359.90
I - TOTAL	**971 819.74**	**211 007.28**	**1 182 827.02**	**- 506 797.24**	**- 202 669.98**	**- 709 467.12**	**473 359.90**
Tangible assets	7 270.81	3 228.10	10 498.91	- 4 465.43	- 2 387.90	- 6 853.33	3 645.58
II - TOTAL	**7 270.81**	**3 228.10**	**10 498.91**	**- 4 465.43**	**- 2 387.90**	**- 6 853.33**	**3 645.58**
TOTAL (I+II)I	**979 090.55**	**214 235.38**	**1 193 325.93**	**- 511 262.67**	**- 205 057.88**	**716 320.45**	**477 005.48**

Statutory auditor's report on the financial statements

Year ended 31 December 2008

In compliance with the assignment entrusted to us by the Executive Board, we hereby report to you, for the year ended 31 December 2008, 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 financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as 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 audit 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 2008, 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

The financial crisis which was gradually accompanied by an economic crisis has many consequences on the companies, particularly as regards their activity and their financing. The extreme volatility of the financial markets remaining active, the rarity of transactions on financial markets which are no longer active and the lack of visibility on the future create specific conditions this year for the preparation of the financial statements, especially with respect to the accounting estimates which are required under the accounting principles. Such is the context in which we made our own assessments that we bring to your attention in accordance with the requirements of article L. 823-9 of the French Commercial Code.

Our assessments concerned notably the correct application of the accounting principles used by the Fund as set out in the note n°2003-07 dated 24 June 2003 of the CNC and revised by the note n°2008-10 dated 5 June 2008 of the CNC.

As part of our assessment of the rules and accounting methods applied in relation to the financial instruments in the portfolio, we verified the appropriate character of these rules and methods and the information given in the note to the financial statements, particularly the specific information relating to the valuation of bonds. We also verified the correct application of these rules and methods.

These 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.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the management report with respect to the financial position and the financial statements.

Levallois-Perret, Paris La Défense, 29 April 2009.

Constantin Associés	KPMG Audit KPMG S.A. Department
Françoise Constant *Partner*	Isabelle Bousquié *Partner*

Asset management firms selected by the FRR

At December 31st, 2008

Eurozone large caps, passive management
Initial indicative lot size: 3 billion euros for a period of 3 years(2)
• Barclays Global Investors Limited
• UBS Global Asset Management France
• Vanguard Investments Europe SA

Eurozone small and mid caps, active management
Initial indicative mandate size: 200 million euros for a period of 5 years(2)
• AXA Investment Managers Paris (AXA Rosenberg Investment Management Ltd)
• HSBC Investments (France)*
• Société Générale Asset Management

Eurozone large caps, active management
Initial indicative mandate size: 620 million euros for a period of 4 years(2)
• Groupama Asset Management
• Lombard Odier Darier Hentch

European mid and large caps - management with a low tracking error
Initial indicative lot size: 2 billion euros for a period of 4 years(2)
• State Street Global Advisors France SA
• Robeco Institutional Asset Management BV

Europe ex-eurozone large caps, active management
Initial indicative mandate size: 240 million euros for a period of four years(2)
• 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
Initial indicative mandate size: 600 million euros for a period of 5 years(2)
• Allianz Global Investors France
• Dexia Asset Management
• Morley Fund Management
• Pictet Asset Management
• Sarasin Expertise Asset Management

North America (US and Canada) large and mid caps, passive management
Initial indicative lot size: 2.8 billion euros for a period of 3 years(2)
• BlackRock Asset Management Ltd
• Vanguard Investments Europe SA
• Barclays Global Investors Limited*

US large caps, active value management style
Initial indicative mandate size: 460 million euros for a period of 4 years(2)
• 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 4 years(2)

• Allianz Global Investors France (RCM Capital Management LLC)

• Goldman Sachs Asset Management*

Pacific rim large caps, including Japan and excluding emerging countries, active management

Initial indicative mandate size: 240 million euros for a period of 4 years(2)

• Capital International Limited

• Morgan Stanley Investment Management

• Nomura Asset Management UK Ltd

French equities, passive management

Initial indicative mandate size: 500 million euros for a period of 4 years(2)

• Crédit Agricole Asset Management

• BNP Paribas Asset Management*

US Small caps, active management

Initial indicative mandate size: 250 million euros for a period of 5 years(2)

• Allianz Global Investors France (Nicholas Applegate Capital Management)

• BlackRock Asset Management Ltd (BlackRock Capital Management, Inc.)

Eurozone bonds, sovereign and corporate issuers (investment grade), active management

Initial indicative mandate size: 960 million euros for a period of 4 years(2)

• Allianz Global Investors France

• AXA Investment Managers Paris

• BNP Paribas Asset Management SA

• Crédit Agricole Asset Management*

• HSBC Investments (France)

• Robeco Institutional Asset Management

International bonds (non-euro denominated) sovereign and corporate issuers (investment grade), active management

Initial indicative mandate size: 480 million euros for a period of 4 years(2)

• Capital International Limited*

• IXIS Asset Management SA (Loomis, Sayles & Company, L.P.)

• Aberdeen Fund Management

Tactical asset allocation and currency overlay

• State Street Global Advisors

Private equity

• Pantheon Ventures (European diversified portfolio)

• Access Capital Partners (European small and mid cap)

• Lehman Brothers International Europe (North American diversified portfolio)

• Axa private equity Europe (International diversified portfolio of secondary positions)

Commodities indices

• BNP Paribas 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.

(2) As of the date on which the mandate is activated.

** 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.*

FONDS DE RESERVE
POUR LES RETRAITES

84, rue de Lille - 75007 Paris
Tel. 33 (0) 1 58 50 99 86
wwww.fondsdereserve.fr