Annual Report
2007

FONDS DE RESERVE
POUR LES RETRAITES

Five years of activity summarized in a few historical highlights

2003

General investment policy guidelines (Supervisory Board decision)

FRR proxy voting policy (Supervisory Board decision)

Formation of Manager Selection Committee (MSC)

Request for proposals to award management mandates (€16 billion – 12 asset classes – 39 management mandates)

2004

Request for proposals to select a transition broker and an overlay manager

Appointment of statutory auditors

Start-up of investments

Selection of supplier for analysis of manager best execution and an overlay manager

2005

Publication of the FRR's guidelines for proxy voting

SRI mandates request for proposal

Start-up of tactical management

75% of the portfolio invested

Definition of the FRR's principles for socially responsible investment

Private equity request for proposals

2006

Participation in Carbon Disclosure Project (CDP)

Signature of the UN's PRI (Principles for Responsible Investment)

General investment policy guidelines

Supplier selection for the FRR's extra-financial reporting

2007

Six renewed requests for proposal

Completion of extra-financial reporting and preparation for the new responsible investment strategy

Gradual deployment of investments in diversification assets

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.

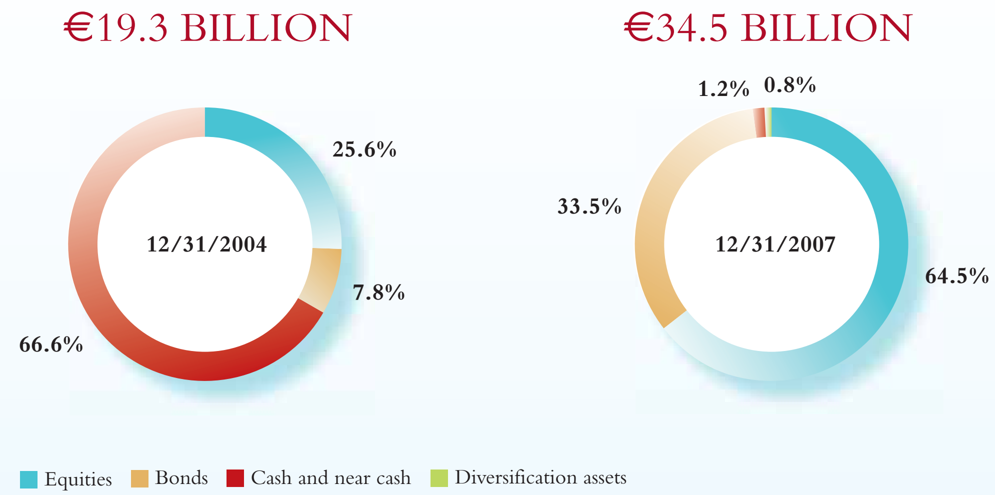
TOTAL AMOUNT OF PUBLIC FUNDS ENTRUSTED TO THE FRR AT 12/31/2007

€25.8 BILLION

THE FRR'S TOTAL ASSETS AT 12/31/2007

€34.5 BILLION

BREAKDOWN OF THE FRR'S ASSETS



ANNUALIZED ASSET PERFORMANCE SINCE INCEPTION

8.8%

2007 PERFORMANCE

4.8%

Message

from the Chairmen of the Supervisory and Executive Boards

For several reasons – related to the history of the FRR, macroeconomic conditions and French pension reform – this 2007 annual report is unlike its predecessors. First, its approach is unique. Sufficient time has now elapsed since the inception of the Fund, so we have used this annual report to assess the progress made in our early years, putting the FRR's strategies, results and projects into perspective. This report is also singular in content, which contrasts with the favorable financial conditions of the FRR's early years of investment. Our report describes the repercussions on the Fund in 2007 caused by the eruption of a crisis that has yet to be resolved. Lastly, this report will be released in a special context: the 2008 update on pensions, as provided for in France's 2003 pensions reform law. In this light, it seems essential to reiterate how the FRR can help consolidate the long-term financial outlook of our nation's pension system.

Today, five years after the Supervisory Board adopted the first strategic asset allocation – the moment when the FRR was truly born – this 2007 report proposes to review the Fund's early years, which were extremely active. The Fund's assets more than doubled during this period, growing from just under 17 billion euros in 2003 to over 34 billion euros by the end of 2007. This portfolio, invested as rapidly as possible, was gradually diversified, enabling the FRR to reap the benefits of a prosperous economy as well as to survive the U.S. subprime mortgage crisis in 2007. At the end of 2007, the Fund's net annualized performance since it began operations was 8.8%.

Since its inception, the FRR has also steadily reinforced its identity as a leading public investor (clear strategic orientation, rigorous request-for-proposals processes, transparent management) and a socially responsible investor (active ownership policy, integration of extra-financial criteria, participation in international initiatives).

Two conditions enabled the Fund to achieve these results in just five years: first, a unique governance structure, including a Supervisory Board which has proved to be a strong consensus-building forum for stakeholders (labor/management representatives, legislators, government representatives) when key decisions must be made; second, a flexible organization that has evolved to keep pace with the FRR's growth, thanks to the commitment and professionalism shown by all team members.

As should be expected, this annual report also describes the key events of the past year in detail.

In 2007, the FRR was able to gradually roll out the strategic asset allocation it revised in 2006, mainly through major research on the introduction of new asset classes. 2007 was also the year that the Supervisory Board's

Raoul Briet
Chairman of the Supervisory Board

Augustin de Romanet
Chairman of the Executive Board

> *"The FRR has demonstrated stability and professionalism during its first five years of operation."*

investment decisions were truly put to the test, as the FRR navigated through the first – but certainly not the last – financial crisis in its history. In spite of the financial market turmoil, the FRR's annual performance was a very respectable 4.8%. The FRR did not invest in the subprimes and securitized debt at the origin of the crisis, and its foreign exchange hedging policy protected its portfolio from the depreciation of the US dollar. Nevertheless, due to its equity exposure, which is consistent with its long-term strategy, the FRR felt the impact of the financial market crisis.

This annual report is also an opportunity to reaffirm the commitments that are an integral part of the mission assigned to us by law:

– support the long-term sustainability of the French pay-as-you-go (PAYGO) pension system. With its reserves, the FRR directly contributes to the system's financial consolidation;

– reinforce inter-generational solidarity. The FRR is an asset that we will pass on to our children to help them meet the challenges of "baby boomer retirement";

– strive for performance. Thanks to its investment strategy and the support of the CDC *(Caisse des Dépôts)*, which performs administrative management services, the FRR can extract the most benefit from market performance at least cost;

– assume the responsibility that goes with being a long-term public investor. The FRR has a fiduciary responsibility to retirement beneficiaries, which implies a need for a balanced investment policy, as well as a responsibility to its fellow citizens, which implies the rollout of an investment strategy that reflects certain group values regarding economic, social and environmental development;

– manage with transparency. The FRR, a leading investor, regularly reports to the nation's taxpayers on its management.

The FRR has demonstrated stability and professionalism during its first years of operation. It is now up to the public authorities to clearly define an ambitious role for the FRR to play in the consolidation of the retirement system as of 2020.

Support the long-term sustainability of the PAYGO pension system and inter-generational solidarity

THE AGING CHALLENGE

In France, mandatory retirement plans use the pay-as-you-go (commonly known as PAYGO) rule: those who are currently employed pay retiree pensions because they know that their own pensions will be paid by the following generations. This type of system ensures satisfactory pension growth without placing excessive strain on the income of the working population, provided that the populations of succeeding generations increase at a regular rate. In the decades to come, demographic aging will pose a challenge to PAYGO systems.
In France, in particular, mandatory pension plans are faced with the **onset of "baby boomer retirement"** as well as a steady increase in life expectancy. According to the latest projections by the COR *(Conseil d'orientation des retraites)*, the annual funding requirement of the basic retirement plan for private-sector employees, the CNAV *(Caisse nationale d'assurance vieillesse)*, will increase from about 13 billion euros in 2020 to nearly 39 billion euros in 2040 (in 2006 euros), based on a hypothetical unemployment rate of 7% starting in 2015. To meet this challenge, France – like many other countries – set up a pension reserve fund. By covering a portion of the future financial burden related to population aging (an "implicit commitment" of the PAYGO system), the FRR promotes the long-term sustainability of public funds[1].

THE FRR IS A TEMPORARY FOURTH TOOL

Three tools can be used to maintain the financial balance of the PAYGO pension system: contribution years, contribution rate and replacement rate. Reforms implemented in the past few years have used all three levers. The role of the FRR is to give France a temporary fourth tool as of 2020 to enable more **flexible and gradual** use of the permanent tools.
It is easy to explain why a reserve fund was created for a PAYGO system: to smooth out the impact of a demographic upheaval by building reserves to meet future financing needs. The Fund accrues and invests financial resources while the demographic situation is still favorable. Later, as the needs of PAYGO retirement plans grow in pace with the aging population, the Fund uses its resources to fund a portion of these pensions. Thanks to the Fund, the financing efforts required to ensure the long-term sustainability of our pension system are more evenly distributed over time and between generations.
Accordingly, as of 2020, the resources accrued and capitalized by the FRR will be employed to temporarily reduce the impact of demographic trends. Based on conservative assumptions – such as the assumption that endowments will not exceed the Fund's fraction of the proceeds from the social levy on capital returns – the sums accrued by the Fund should enable it to cover 20% to 30% of the additional financing needs expected to emerge between 2020 and 2040.

THE FRR FACILITATES REFORM

The FRR facilitates the implementation of essential reforms, because it allows the three other levers to be used more gradually. More importantly, the FRR reinforces inter-generational solidarity, a pillar of the PAYGO pension system: by setting aside a "nest egg" for the younger generations, we are helping them to meet the aging challenge.

RESERVE FUNDS TO MEET THE AGING CHALLENGE

Many aging developed nations have set up reserve funds, including social democracies in Northern Europe (Sweden, Norway), traditionally liberal States (Ireland, New Zealand), Southern European countries (Spain, Portugal) and Japan. Recently, certain emerging countries undergoing rapid demographic change – such as Korea or China – have followed in their footsteps.
These funds have a shared mission: to help PAYGO systems meet the aging challenge more rapidly and smoothly. The funds are usually of significant size, generally varying between 5 and 15 percentage points of GDP (OECD data), with the exception of the Norwegian petroleum fund (whose reserves represent over 80% of the annual national income). Against these criteria, the FRR is still a modestly sized fund (about 2 points of GDP).
There are many similarities in the way these funds are organized. Greater differences are observed regarding their role within the retirement system. Some are essential to the balance of the system (such as with Sweden's notional account system), some exist to facilitate reform (as in Ireland), and some are an integral part of the pension system (as in Canada) or even part of a general public finances strategy (as in New Zealand).

(1) Under Maastricht accounting rules, the allocation of resources to the FRR and the subsequent purchase of assets by the Fund only reduces government debt by the amount reinvested in bonds issued by the French government or CADES.

THE COR REPORTS ON THE FRR

The FRR is an instrument for ensuring inter-generational solidarity and a reform facilitator. "In no case is the FRR, given its transitory nature, intended as a subsitute for the necessary reform of existing retirement plans, but it can help render these adjustments more gradual and avoid passing an unacceptably large portion of the burden on to future generations. The FRR therefore sends a positive message to future generations."
The FRR's mission, however, must be more clearly defined. "This raises the question of the exact role that the FRR will play and, consequently, of the endowment policy that it should follow in upcoming years."
Additional sources of adequate financing must be explored. "More research should be conducted to identify new types of resources, drawing inspiration from other countries. In light of the role assigned to the FRR, which aims to ensure greater equity between generations, this work could be put in a broader, sustainable development context, in the event that environmental taxation is introduced."
Source: COR report – Sheet no. 19 on the FRR.

Solidarity

The FRR avoids passing an unacceptably large burden on to future generations.

As of 2020, the resources accrued and capitalized by the FRR will be employed to reduce the impact of demographic trends.

As the COR points out in each of its reports, this challenge is looming ahead. It will take time for the effects of successive reforms to be seen, so the younger generations will necessarily bear the brunt of the changes. As we know, without solidarity, a PAYGO pension system cannot survive. If upcoming generations consider the system to be unfair, or, worse, have doubts as to whether they will ever benefit from it personally, then its future is extremely insecure. The FRR **sends a positive message to the younger generations**, which says that today's generation is working to meet the aging challenge and ensure the long-term viability of the PAYGO system. The FRR therefore helps to restore the confidence that is needed to implement further reforms.

2008 PENSION UPDATE: TIME TO CLARIFY THE FRR'S REMIT

The French pension reform law dated August 21, 2003, introduced the notion of a pension "update" every four years. The first of these updates will take place in 2008. While the 2003 reform focused on the period running until 2020, attention will now be turned to the post-2020 period in 2008. This is the right time to clarify the FRR's remit. The law clearly defines the Fund's general aim:

"The Fund is being established for the purpose of managing the sums that are allocated to it in order to build up reserves intended to contribute to the long-term sustainability of PAYGO pension plans" (art. L. 135-6 of the French social security code). The lawmakers did not, however, specify how the FRR must achieve its aim. What portion of the financing needs of beneficiary (general and aligned) plans must it cover? The law specifies that the sums allocated to the FRR are to be held in trust until 2020: for how many years will the FRR operate after 2020? Year after year, how can this fourth tool be used along with the other three?

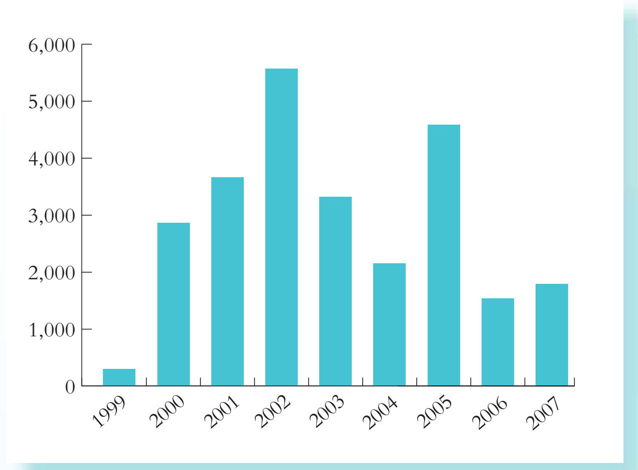
Long-term sustainability

The FRR is a temporary fourth tool in implementing a policy that aims to ensure the long-term sustainability of the PAYGO pension system.

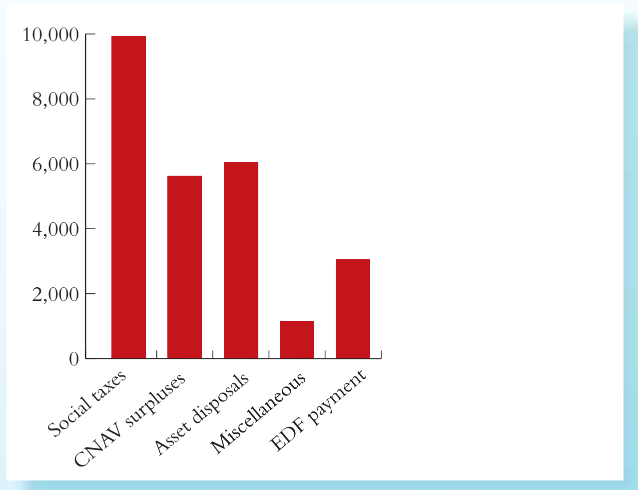
THE FRR'S RESOURCES

The FRR's resources, of diverse origins, can be grouped into four major categories: permanent tax resources (a fraction of the proceeds from the 2% social tax on capital returns); surpluses, if any, generated by certain French social funds (CNAV and FSV); proceeds from the sale of assets; and, lastly, miscellaneous endowments.
In practice, the tax income is the FRR's only reliable resource and the only one it has received for the past two years. Naturally, any change in the amount of its endowments will have a major impact on the role the FRR can play after 2020.
The FRR's endowment policy will depend on the exact mission that is assigned to the FRR.
Given the current constraints on public finances, it will also depend on available or potential budget resources (for example, new environmental resources, as suggested by the COR in its latest report – see inset, "The COR reports on the FRR").

ANNUAL ENDOWMENTS
(in millions of euros)



AGGREGATE ENDOWMENTS BY TYPE SINCE 1999
(in millions of euros)



The figures in these graphs include an exceptional one-off contribution paid by the CNIEG *(Caisse nationale des industries électriques et gazières)*. These funds, along with any investment income they generate, are recorded as a liability on the FRR's balance sheet, since they will be turned over to the CNAV in 2020.

Investing over the long term

The resources managed by the FRR will not be used to finance the deficits of old-age insurance funds until 2020. Its investment horizon is long term: it has not months, not years to maximize the returns on its investments, but decades – until its termination in 2040 or 2050, depending on the needs of the beneficiary plans. The FRR is therefore a long-term public investor. This particularity was a major factor in defining the 2003 strategic asset allocation and the revised allocation in 2006.

2003 ALLOCATION: THE BASICS

As of 2003, the FRR chose a diversified strategic asset allocation (equities and bonds, Eurozone and non-Eurozone), with a majority of equities (55%).
A diversified portfolio chiefly invested in equities offers high return potential with limited associated risk where the investment horizon is sufficiently long-term.

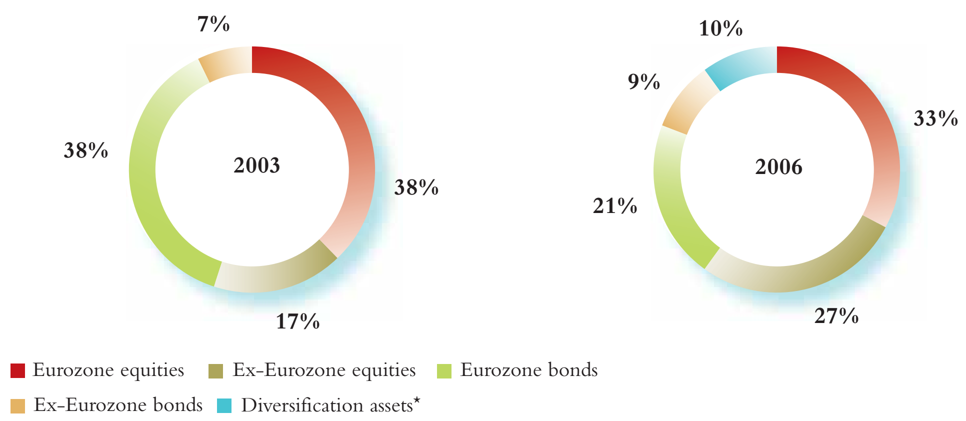
REVISED 2006 ALLOCATION: REFINEMENTS

The 2003 asset allocation was confirmed and refined in the spring of 2006 to produce a revised strategic asset allocation. The FRR took this opportunity to better define its liabilities – an indispensable step when using asset-liability managament (ALM) techniques. COR projections updated in March 2006 offered new data on the financial needs of eligible plans, in terms of amounts and timing. Based on these projections, in the absence of other new data, the Supervisory Board established the hypothesis that each year from 2020 to 2040 the FRR would pay a constant amount into beneficiary plans. The FRR also added a second risk criterion to the first one defined in 2003 (the quasi-nil probability of a capital loss at the 2020 horizon). The new criterion consists of maximizing the probability of obtaining an average annualized net return greater than the average cost to the nation of its public debt (an estimated 4.4% opportunity cost). Consistent with the extension of the reference period (from 2020-2030 to 2020-2040, in line with the FRR's long-term mission), the weight of equities in the portfolio was increased (from 55% to 60%). The revised asset allocation also enabled greater diversification of the FRR's portfolio, in two ways. The respective weights of investment targets in various geographic markets were readjusted, resulting in a decline in the share of securities invested in the Eurozone (although they are still overweighted in the FRR's target portfolio). In addition, diversification assets (real estate, infrastructure, commodities and private equity) were introduced into the asset allocation.

REVISED 2009 ALLOCATION: MAIN ISSUES AND CHALLENGES

Naturally, the FRR's strategic asset allocation is not intended to be permanent and must be revised on a regular basis. The next update, scheduled for early 2009, will provide an opportunity to re-examine the principal demographic, economic and financial assumptions on which it is based. This review will also enable the FRR to learn from its implementation of the preceding asset allocations. Lastly, it may be a chance to further refine estimates of the FRR's liabilities, especially if the 2008 pensions update clarifies its role in the long-term financial consolidation of the French pension system.

STRATEGIC ASSET ALLOCATION



* Unlisted Eurozone real estate, public infrastructure financing, commodities indices and private equity.

THE ROLE OF A LONG-TERM INVESTOR

As a long-term investor, the FRR has a positive impact on the economy.

- The FRR helps **improve the allocation of savings** on a national basis by increasing the portion of these savings invested in equities. Many studies indicate that French savings – especially household savings – are not optimally invested as a whole. For example, only 15% of life insurance assets are invested in equities. In contrast, the FRR's target weight for equities in its portfolio is 60%.
- The FRR acts as a **market stabilizer.** Unlike investors looking for short-term returns, the FRR does not constantly adjust its investment strategy in response to day-to-day market fluctuations. Freed of all liquidity constraints, it can support its financial decisions until they pay off.

The FRR can **incorporate into its strategy sources of long-term value** that markets are not always able to take advantage of. For example, by implementing a socially responsible investment policy, the FRR can better integrate externalities into its investment decisions.

Investing responsibly

2007 was a year of assessment and survey for responsible investment. The FRR assessed its operations since the Fund's inception and the first Supervisory Board meeting in April 2003. Investments were also assessed in this first year of annual extra-financial reporting. The FRR conducted its first UN Principles for Responsible Investment (PRI) evaluation. Lastly, 2007 was the year the FRR began to survey the practices adopted by the principal European pension and reserve funds.
The combination of these events should culminate, as of the beginning of 2008, with discussion and concrete proposals regarding the FRR's strategic orientations for the upcoming years.
The FRR also continued to actively participate in bodies promoting socially responsible investing (SRI) and related research, such as the "Sustainable finance and responsible investment" program under the umbrella of the *Institut d'économie industrielle* in Toulouse, France, and *École Polytechnique*.

THE FRR'S SRI STRATEGY

At the time the FRR was estabished, the Supervisory Board defined a responsible investment strategy. This commitment, made by the FRR to serve the public interest, implies a necessary coherence between investment policy and sustainable development and a strong belief that – provided certain conditions are fulfilled – investors who voluntarily integrate both financial and extra-financial criteria into their management processes can maximize their chances of delivering the best risk/return ratio to their beneficiaries. The FRR's strategy was built gradually and rationally.

AN ACTIVE OWNERSHIP POLICY

At its first meeting, the FRR Supervisory Board agreed to the principle that the FRR's right, as a shareholder, to vote in general meetings would be systematically exercised by each one of the Fund's managers, in accordance with the general guidelines set forth by the Fund. Positions taken in the name of the Fund reflect the Fund's interest alone, and are taken in full independence. These guidelines were made public after their adoption by the Supervisory Board on January 26, 2005. They were updated by the Supervisory Board in 2006 and 2007, and then communicated to the FRR's asset managers to enable them to vote by proxy on behalf of the FRR at annual general meetings.
In 2007, via its fund managers, the FRR participated in 2,107 annual general shareholders' meetings out of the 2,221 that were held, or 94.9% of the global portfolio (for operational reasons, the Fund does not vote in the shareholders' meetings of Asian issuers). On average, managers voted over 90% of their portfolio. The FRR voted for the proposed resolution 84.1% of the time, voted against the proposed resolution 12.1% of the time and abstained from voting 3.8% of the time.
In general, the resolutions most often subject to disagreement involved anti-takeover measures, capital increase and reduction transactions, the allotment of free shares to directors and officers, and regulated agreements regarding add-ons to supplemental retirement plans and compensation for directors.

The FRR takes a positive approach to responsible investment.

The pillars of this strategy are the incorporation of environmental, social and corporate governance issues into portfolio management and the development and implementation of an active voting policy in annual general meetings of shareholders. Both of these activities – managing portfolios and exercising voting rights – are entirely delegated to the FRR's asset managers.
The FRR's approach to responsible investment is a positive one because it promotes truly active selection by managers who are free to make their own assessments and decisions. It also upholds one of the basic principles of asset management, which is diversification.

HELPING TRADITIONAL MANAGERS MOVE FORWARD

The FRR set several goals for its European portfolios (six active management mandates in the Eurozone and Europe ex-Eurozone, representing a fair market value of about 6.5 billion euros at end-2007): to educate managers about extra-financial research, to encourage them to gradually integrate extra-financial criteria into their investment management and to share SRI data, analyses and experience with them.
In the three years since the launch of these mandates, **managers have made undeniable efforts** on several levels, including recruiting additional staff, improving the balance between financial and extra-financial competencies, facilitating access to extra-financial data, widening the scope of coverage and using broker research. By signing the PRI, the managers openly proclaimed their commitment to integrating extra-financial criteria into their management practices.
However, since managers employ very diverse processes (featuring significant gaps between qualitative and quantitative processes), their use of SRI research is uneven and its direct impact on portfolio construction deserves to be explored further.

AN OBJECTIVE ASSESSMENT OF SPECIALIZED SRI MANAGEMENT

By devoting a portion of its investments to specialized SRI management (five mandates with an initial value of 600 million euros and a fair market value of 677 million euros at end-2007), the FRR has taken an experimental approach, based on a reasonable and calculated assumption regarding this niche's ability to generate equivalent or superior returns compared with traditional management techniques.

Responsibility

The FRR integrates collective sustainable development values into its investment policy.

These mandates are managed with the goal of outperforming their benchmark index. Management processes should lead to the selection of companies whose practices best embody the SRI principles approved by the FRR Supervisory Board or who are making the strongest efforts to build best practices over time. The FRR promotes this positive "best in class" or "best effort" approach, rather than an exclusion-based approach. After nearly one year of management, results show that the overall relative performance of SRI mandates was comparable to that of non-specialized mandates in 2007. These data should be analyzed with care, however, given the lack of perspective and observed differences in asset range. Naturally, the FRR does not assess SRI mandates solely on the basis of performance. This year, it initiated research into other aspects (portfolio stability, sustainable nature of investments, etc.).

The FRR does not assess SRI mandates solely on the basis of performance.

THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 **We will incorporate ESG issues into investment analysis and decision-making processes.**
2 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**
3 **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
4 **We will promote acceptance and implementation of the principles within the investment industry.**
5 **We will work together to enhance our effectiveness in implementing the principles.**
6 **We will each report on our activities and progress towards implementing the principles.**

The principles for responsible investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the principles.

A diversified portfolio

Over the past few years, the FRR's assets have grown rapidly, from 16.5 billion euros in June 2004 to 34.5 billion euros in December 2007. Over the same period, the composition of its portfolio was diversified.

GRADUAL ROLLOUT OF THE STRATEGIC ASSET ALLOCATION

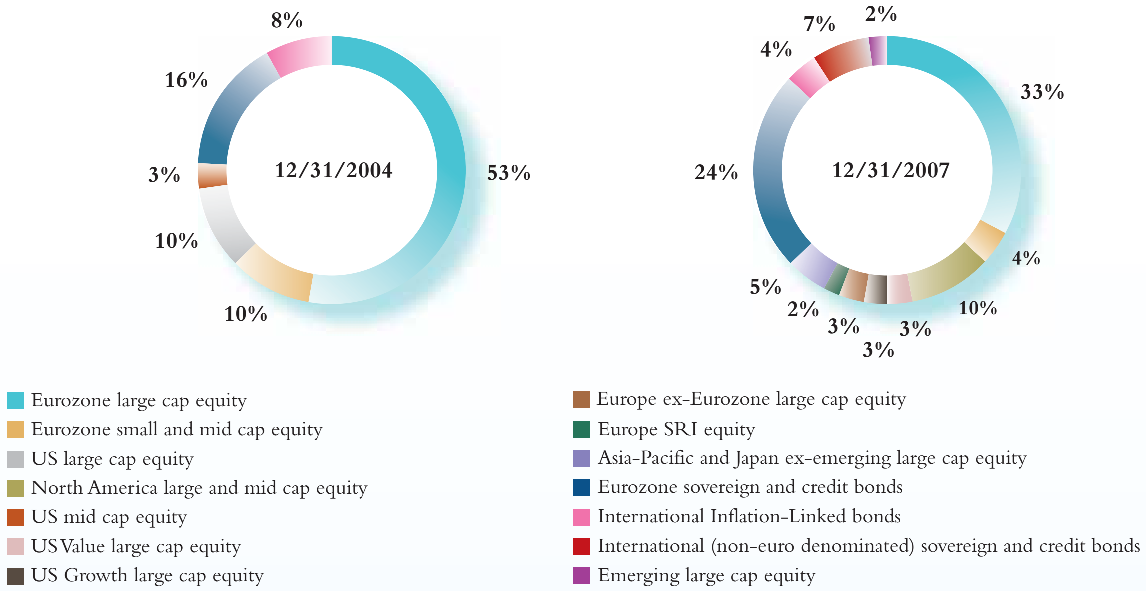
In accordance with the strategic orientations defined in 2003 and 2006, the FRR gradually diversified its investments and broadened its investment range, which now includes most existing asset classes. The FRR increased the diversification of its portfolios as a whole by increasing the number of lots, with each lot corresponding to an asset category (for example, Eurozone large cap equity), a management style (active or passive) and in some cases, an investment strategy (value, growth, etc.). The number of lots increased from 7 in 2004 to 14 in 2007. Due to the higher number of lots, the number of management mandates awarded through the public RFP process rose sharply from 11 at end-2004 to 37 at end-2007.

The FRR's first years of investment were characterized by the **move toward greater geographic and financial diversification** prompted by the change to its strategic asset allocation. Its first investments in 2004 mainly involved Eurozone equities and bonds. As of the beginning of 2005, the FRR activated international equity management mandates (United States, Asia-Pacific and Europe ex-Eurozone) while gradually and conservatively activating bond mandates in light of the unfavorable market conditions. In 2006, the FRR invested in SRI management mandates for European equities and launched a private equity RFP procedure, leading to the selection of four strategies in early 2007. Over the past year, the FRR renewed the first mandates activated in 2004 (Eurozone and US, passive management), selected a new overlay manager and initiated an RFP procedure for US small caps and commodities. New investments will be made, as of 2008, in diversification asset classes (emerging equity, emerging bonds, commodities, private equity, infrastructures and real estate).

37
management mandates allocated at end-2007.

At December 31, 2007, the FRR's invested portfolio (excluding activities related to overlay and cash management) was distributed as follows: 18.3 billion euros invested in European, US and Asian equities, and 10.4 billion euros invested in Eurozone and international bonds, both nominal and inflation-linked.
Although not yet significant at this stage (0.3% of invested assets), commitments were made during the year in diversification asset classes.

CHANGE IN PORTFOLIO COMPOSITION FROM 2004 TO 2007



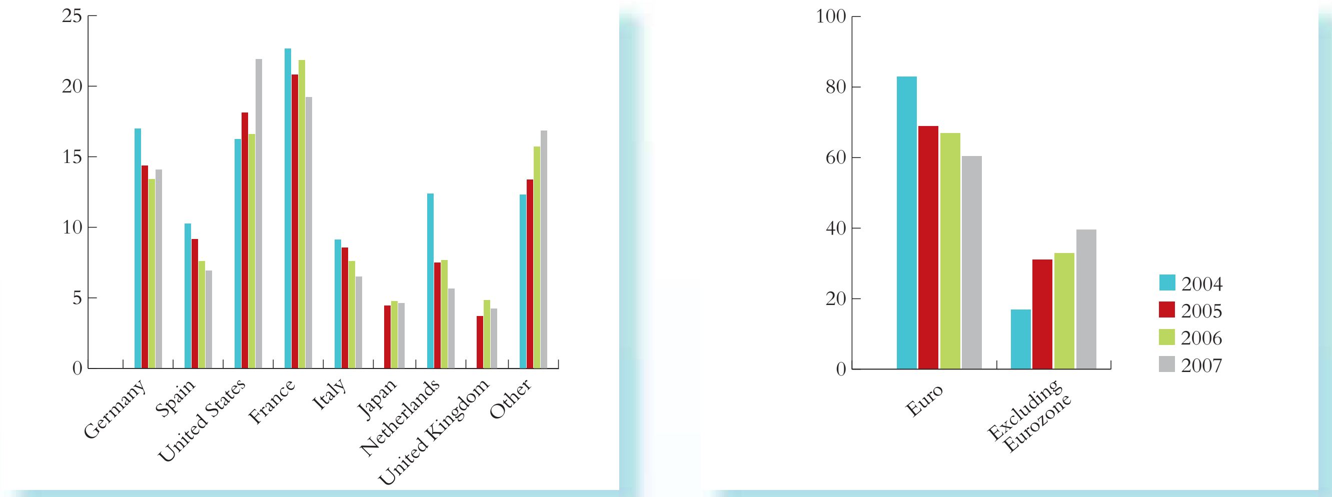
IS THE FRR A SOVEREIGN FUND?

The FRR is a long-term public investor, but it is not a sovereign fund in the general meaning of the term. Sovereign funds can be defined as funds that are directly or indirectly controlled by a government to meet national political objectives. They generally consist of the proceeds from the sale of natural resources (such as petroleum) or accrued foreign exchange reserves.
The FRR does not meet this definition. First of all, it manages public resources, but for the exclusive benefit of eligible pension plans. These funds are not managed, either directly or indirectly, by the government, but by an independent public agency dedicated to this purpose and created by law. The funds are managed with one aim only: to maximize long-term performance within risk parameters. Guided by this single rule, the Supervisory Board defines the Fund's investment strategy, which is implemented by the Executive Board, who reports back to the Supervisory Board. External asset managers – selected through a public RFP process – choose securities aligned with the FRR's strategy. The FRR's internal rules forbid it from holding more than 3% of an issuer's equity or other securities providing access to the issuer's equity, which excludes the FRR from seeking any controlling interest in a company. Unlike sovereign funds, the FRR has diverse resources (taxation, social funds, and assets): it plays no role in macroeconomic stability. Lastly, the FRR upholds very high standards regarding transparency since it reports on the management of its public funds to stakeholders and the nation's taxpayers in general, publishing data on investment strategy, asset manager selection, asset structure, performance, etc. on a regular basis. The Fund is also audited by independent third parties and statutory auditors.

REBALANCING THE EQUITY PORTFOLIO GEOGRAPHICALLY

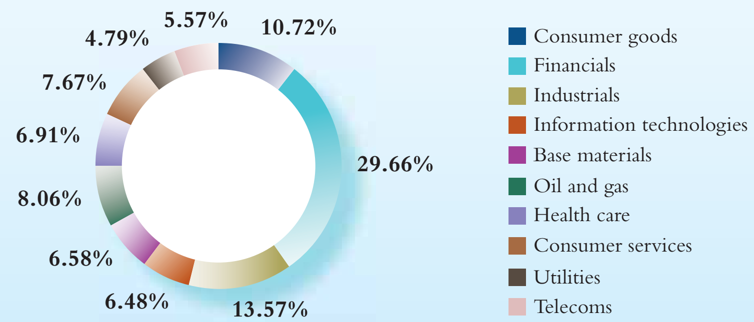
In geographic terms, the relative weight of the Eurozone remains preponderant, but has been gradually cut back. Conversely, the relative weight of global equities had increased to 40% of all investments in equities in 2007, versus less than 20% in 2004. This rebalance was achieved by increasing the relative weight of US equities (close to 22% in 2007, compared with around 16% in 2004).

GEOGRAPHIC ANALYSIS OF EQUITIES



From a sector standpoint, the portfolio is primarily invested in financials and industrials as well as in companies in the consumer goods sector. With respect to the tactical decisions implemented by the managers, this distribution remained close to the benchmark indices used to measure the performance of the managers of each mandate.
In terms of the size of the companies in which it is invested, the FRR continues to promote the development of small- and mid-sized businesses: funds invested in small and mid cap equities represent nearly 11% of all investments in equities for the Eurozone alone. The FRR decided to increase its exposure to this segment, and launched two requests for proposals of 500 million euros each for the management of US and French small cap equities.

ANALYSIS OF EQUITIES BY SECTOR

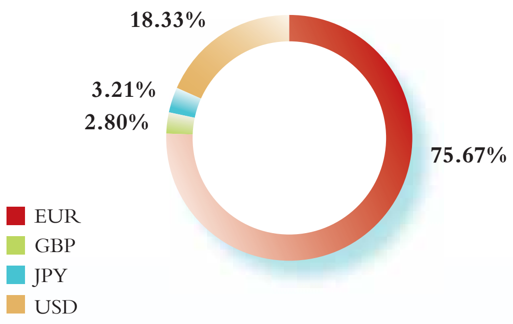


THE BOND PORTFOLIO

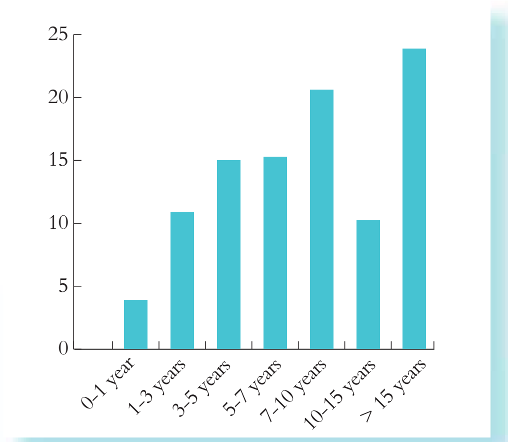
The FRR's bond portfolio is close to the benchmarks it seeks to replicate in terms of characteristics, with respect both to currency and maturity distributions (the benchmark indices themselves are structured to ensure consistency with the extended duration[2] of the FRR's liabilities). The bond portfolio thus contains a high percentage (24%) of bonds maturing in more than fifteen years.

2. Duration measures the average discounted life of the financial flows under consideration. The duration of the FRR's liabilities is high because the FRR will not begin to pay eligible beneficiaries until after 2020.

ANALYSIS OF BONDS BY CURRENCY

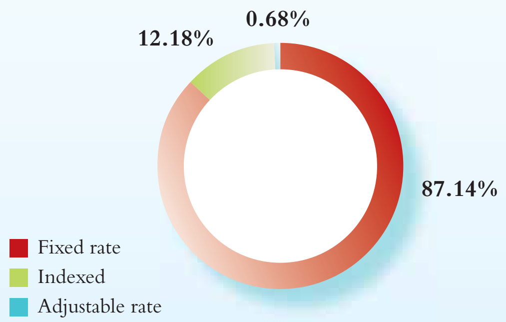


ANALYSIS OF BONDS BY MATURITY



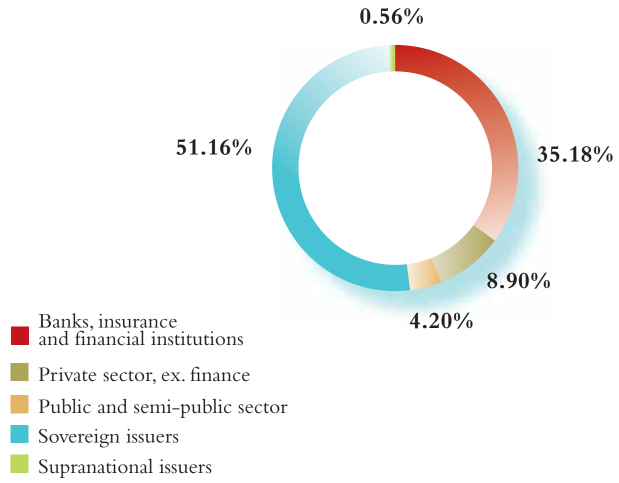
The percentage of the bond portfolio invested in inflation linkers was 12.2% at year-end 2007, with the remainder invested almost exclusively in nominal, fixed-income bonds. The percentage invested in floating rate instruments – included in the investment universe of managers but not represented in their benchmark index – remains marginal (0.7%).

ANALYSIS OF BONDS BY TYPE

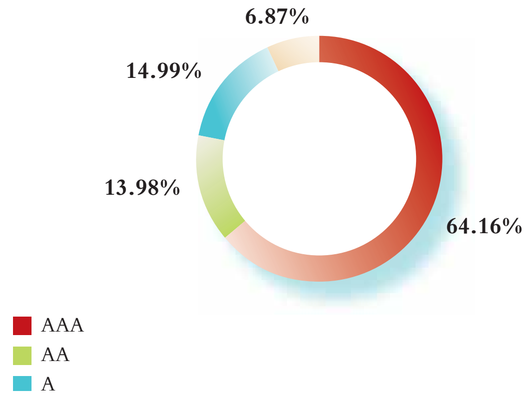


Conversely, more than half of the bond portfolio was made up of sovereign issues at year end, a percentage that is significantly higher than in the benchmark indices of the mandates. This over-weighting to government bonds naturally results in a high proportion on bonds rated AAA in the portfolio (64%).

ANALYSIS OF BONDS BY CATEGORY



ANALYSIS OF BONDS BY RATING



RISING PROPORTION OF DIVERSIFICATION ASSETS

In accordance with the decisions made in 2006, the FRR is gradually increasing its exposure to diversified asset classes that include commodities, private equity, real estate and infrastructures.

A request for proposal process launched in late 2005 to award private equity management mandates led to the attribution of four mandates in the summer of 2007. The mandate pertaining to investments in the secondary segment was implemented via a pooled investment vehicle in late December 2006. Later on, three dedicated vehicles were formed in early August 2007 to carry investments in three primary investment lines.

The four mandates awarded represent for the FRR a commitment capacity of 1.5 billion euros, to be deployed over the period running from 2007 through 2010. At year-end 2007, 300 million euros – i.e., 20% of the program – had been committed, including 29 subscriptions to primary funds for a total of 279 million euros and three transactions involving the secondary mandate for 21 million euros.

A request for proposal intended to award passive replication mandates for commodities benchmark indices was launched on October 16, 2007. Given the lag time between award and contract between the managers and the FRR, as well as between the managers and their own different counterparties, the first investments in this area are expected for the second half of 2008.

In 2007, the FRR began the process of defining its investment strategy for real estate assets. The first investments in this asset class are expected to gradually intensify over the course of 2008. Similarly, the FRR began an in-depth discussion on its investments in infrastructures in the second half of 2007, in the interest of defining the contours of this asset class, its economic and financial characteristics, and its value for a long-term investor like the FRR.

The FRR is gradually investing in diversified asset classes: commodities, private equity, real estate and infrastructures.

In search of performance

OVERALL, THE MACROECONOMIC BACKDROP WAS SUPPORTIVE IN 2007 – BUT DETERIORATING

Since it began investing, the FRR has enjoyed a supportive economic climate characterized by strong growth and low inflation.
This climate was positive for both the equity and corporate bond markets, against a backdrop of historically low volatility and particularly narrow spreads between non-government issuers – even those with less than investment grade ratings – and government issuers.
However, several signs of weakness began to emerge during the period: real estate price appreciation was sustained against a background of low long-term yields; the US trade deficit worsened, which weighed adversely on the US dollar against other currencies; some of the emerging economies were amassing considerable currency reserves; inflation returned to these same countries due to the overheating of their economies; commodity prices soared.
Financially, the abundance of liquidities in light of real needs, in an environment where bond yields were consistently unappealing, encouraged investors to seek returns at any price. Further boosted by the multiplication of increasingly innovative but complex financial instruments, investors gradually began to switch to assets with higher returns but also presenting a higher risk profile – in some cases, without knowing whether the return offered was worth the risk assumed.
Accordingly, the climate of financial crisis under which the year 2008 began may be viewed as a process of correction for past excesses, during which investors are reassessing risks. The first defaults on US subprime mortgage loans in late 2006 were the catalyst for this crisis.

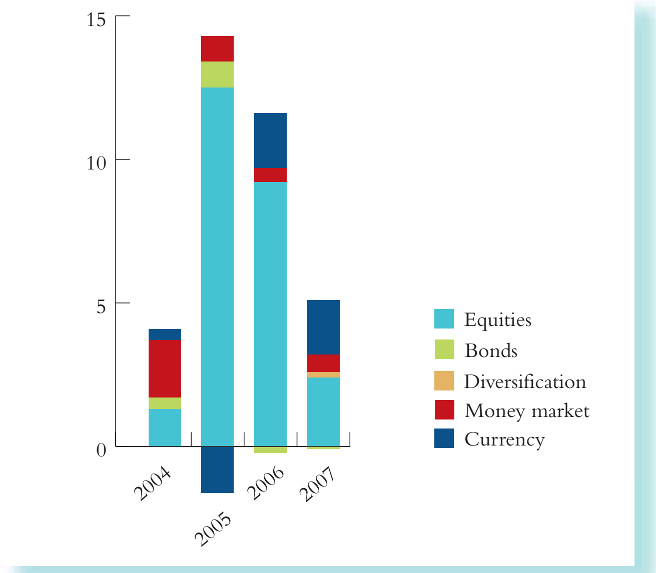
From a crisis confined to the US mortgage lending sector in 2007 to a full-blown market crash of global proportions.

The magnitude of the movement surprised the most pessimistic market observers. Indeed, it occurred in an environment where equities prices generally remained at levels deemed to be very reasonable. Outside certain specific asset classes, there was no bubble comparable to that which formed at the end of the 1990s.

PERFORMANCE OF BENCHMARK INDICES SINCE 2003

		2003-2007			2007	
		Aggregate performance (to date)	Annualized performance	Annualized risk	Performance	Risk
Equities	Eurozone equities	84%	13%	13%	7%	9%
	French equities	83%	13%	12%	1%	10%
	US equities	67%	11%	9%	4%	9%
	Japanese equities	75%	12%	14%	–12%	12%
	Emerging equities	247%	28%	15%	30%	14%
Bonds	European Bonds	22%	4%	4%	0%	3%
	Private bond placements (Europe)	20%	4%	2%	1%	2%
	US bonds	24%	4%	4%	7%	3%
Commodities	S&P GSCI Index	100%	15%	22%	33%	19%

GLOBAL PERFORMANCE BREAKDOWN BY MAJOR ASSET CLASS
(%)

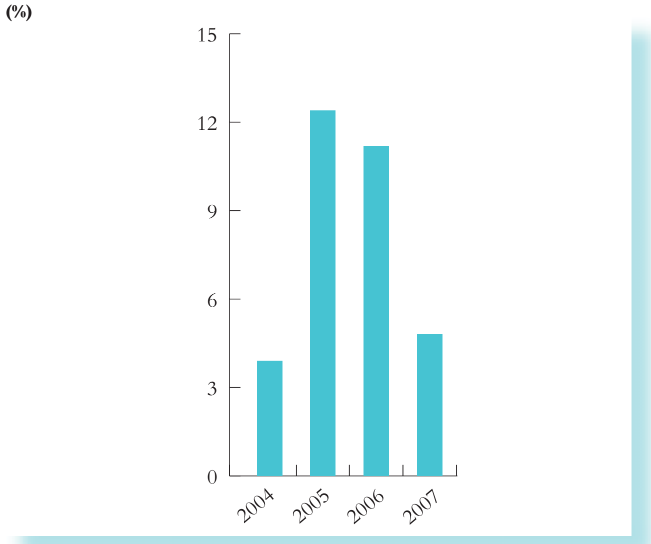


From 2004 to 2006, the breakdown was made on the basis of the physical composition of the portfolio. The contribution of currency therefore includes both the contribution of currency hedges and the contribution of the tactical allocation. In 2007, a more precise method was adopted, with the result that the breakdown is now made on the basis of the economic composition of the portfolio. The contribution of the tactical allocation is therefore no longer mixed in with the currency/forex contribution, but instead is allocated to the various underlying assets.

SOLID PERFORMANCES

Since its first investments in June 2004 and through December 31, 2007, **the FRR has provided a net average annual return of 8.8%.**
To assess this performance correctly, it is necessary to compare it against the average cost of the resources allocated to the FRR. In fact, all monies invested by the nation in the FRR could, alternatively, be used to pay down the gross public debt and, in so doing, reduce the interest expense borne by the state. In May 2006, when the new strategic asset allocation was defined and approved, this opportunity cost was estimated to be 4.4%. From June 2004 through December 2007, for every 100 euros invested in the Funds, a return of 8.8 euros was provided per year, which is 4.4 euros more than this opportunity cost (in aggregate terms, this comes to a total of 4.2 billions euros nets of the cost of the resource).
Thanks to its portfolio, which is diversified and mainly invested in equities – in accordance with the strategic decisions made in 2003 and in 2006 – the FRR has managed to turn in good performances.
In the first years of investment, equities appeared to be the principal source of performance for the FRR. The decision to hedge the currency risk was also an important factor in protecting most of the gains made abroad against the depreciative impact of the euro's rise against other major currencies.
This good performance can be attributed to the strategic asset allocation, which is based on a long horizon: the sums accumulated within the FRR cannot be disbursed before 2020, which means that the Fund can tolerate a certain degree of volatility in its short-term results in order to take full advantage of the risk premiums that are the highest over the long term. Apart from 2004 (because funds were not invested until mid-year), the next three years reflect the sensitivity of the FRR's performance to market fluctuations over the short term. In both 2005 and 2006, the FRR was able to fully leverage the positive financial backdrop, generating net annual performances of 12.4% and 11.2%, respectively. Conversely, in 2007 the FRR's performance was significantly diminished (+4.8%).

NET ANNUAL PERFORMANCE OF THE FRR
(%)



Considering the financial context, the FRR's performance in 2007 was certainly honorable. Although the FRR naturally felt the impact of the general deterioration in the capital markets, it is important to note that the Fund was not invested in any of the instruments directly affected by the liquidity crisis of the summer of 2007 (subprime), particularly securitized debt instruments. Above all, it is perfectly normal to expect the FRR's performances to fluctuate over the short term, in line with the financial and economic environment. Indeed, the Fund's performance can only be adequately assessed over the long term. From this perspective, its average net annual yield since inception of 8.8% attests to the strength of the FRR and its performances, regardless of market conditions.

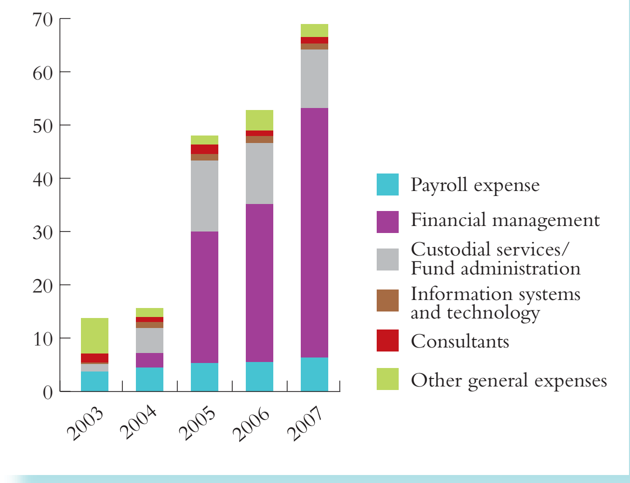
MANAGED RISKS

This performance was achieved without generating excessive risk, as we can see by looking at two complementary indicators: the beta coefficient and the VaR (value at risk). At year-end 2006, the beta coefficient (which measures the correlation between changes in the strategic benchmark and the value of the portfolio) was close to 1. This means that any change in the strategic benchmark leads to a change of a comparable magnitude in the value of the portfolio. This beta of close to 1 also reflects the fact that there is no leverage effect within the FRR. VaR measures the maximal risk of loss in the theoretical, hypothetical event that the portfolio is liquidated in one year, with a 95% probability of occurrence. In December 2007, this risk of loss was 10.7% of the value of the portfolio on this same date.
Moreover, the legislator has provided a set of rules governing FRR investments. Compliance with them is monitored on a regular basis:
– the FRR cannot allocate more than 5% of its assets to any single issuer's financial instruments – excluding EU member States or States that are parties to the EEA agreement and excluding CADES;
– the FRR cannot allocate more than 25% of its assets to equities issued by companies headquartered outside the Eurozone, or not traded on a regularly functioning market in an OECD member country;
– the FRR cannot own more than 3% of a single issuer's equities;
– the FRR's total commitment to financial futures cannot exceed the value of its assets;
– exposure to foreign currency exchange risk cannot exceed 20% of total FRR assets.

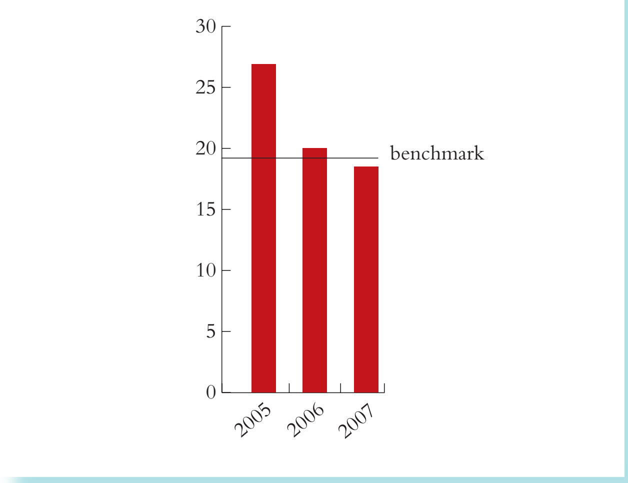
LOW COSTS, COMPARABLE TO THOSE OF SIMILAR FUNDS

In five years, the various steps in the FRR's development have led from the formation of a project team structured around the rollout of the first request for proposal, and the construction of the Fund's administrative and legal foundations, to the organization in place today, set up to ensure that the FRR's performance

COST STRUCTURE
in millions of euros



ADMINISTRATIVE AND FINANCIAL EXPENSES
as a percentage of assets under management



is sustained. The launch of the first request for proposal in the summer of 2003, the start-up of the first mandates in June 2004, the end of the investment build-up phase and the implementation of a new asset allocation in the course of 2006 together form the major milestones of growth.
In early 2003, the Fund had a project team of 22 employees. By the end of 2007, the total workforce – including the Executive Board and the accounting agency – amounted to 48 individuals. The total number of employees is expected to reach 55 by the end of 2008.
Administrative costs have evolved in line with growth in the workforce and in managed assets. For 2007, they came to 70 million euros, of which 84% in mandate management costs (management, custodial and fund administration fees).
From the outset, the Executive Board made cost control and cost benchmarking with other comparable European funds a top priority. In 2003, before the first investments were made, an initial study was carried out to compare costs with the help of an international audit firm specialized in asset management. This effort was taken a step further in 2005, with a more in-depth study that set 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. Moreover, each year with the help of a specialized organization, the FRR's costs and performances are compared with a benchmark group managing assets of a comparable size.
In 2007, under the dual impact of growth in assets and cost management efforts, **the FRR matched its benchmark.**
Most of the cost cutting is attributable to efforts on the part of the Caisse des Dépôts to lower its unit custodial costs (renegotiation of depositary fees, more favorable weighting of the considerable volume attributable to the FRR). The Fund's custodial/administration services are part of the administrative management of the Caisse des Dépôts, and represented 55% of total costs in 2007, excluding management fees.

Performance

The FRR seeks to reconcile best possible performance with effective management of risks.

A style of governance designed to guarantee transparency and responsibility

The governance structures of the FRR have been set up to ensure:

- **independence:** this spirit is reflected in the Fund's status, as well as in the fact that all reserves are allocated to its sole purpose, which is to consolidate the PAYGO system by 2020;
- **transparency:** due to the nature of the Fund's resources, its strategy and financial statements must be disclosed to the public at regular intervals. The process of awarding management mandates for the Fund's assets is conducted in compliance with official government regulations on public bidding and requests for proposals (RFPs);
- **close involvement of labor and management stakeholders and legislators in the operation of the FRR,** via its Supervisory Board.

The FRR is an original publicly owned, state-funded agency governed by an Executive Board and a Supervisory Board, a structure that separates the executive management function from the guidance and control function.

The Supervisory Board ensures that key stakeholders are represented because it is composed of legislators, labor/management stakeholders, representatives of the ministries under whose general supervision the FRR operates (i.e., the ministries of Labor, Social Relations and Solidarity; of the Economy, Industry and Employment; of the Budget, Public Finances and Civil Service) and individuals with recognized credentials in fields that are relevant to Fund's stated missions. The Board, which currently counts twenty members, is required to meet a minimum of twice yearly.
The Supervisory Board is responsible for defining, on the recommendation of the Executive Board, general investment policy orientations for the Fund's assets, in accordance with the objective and timeframe for use of the Fund's resources, as well as with the prudent man and risk diversification principles.
It also appoints the independent auditors of the Fund, audits Fund performance, approves the Fund's annual financial statements and prepares an annual report on Fund management for public disclosure.

An original model of governance ensures that all stakeholders are represented.

Transparency

The FRR provides full disclosure on the management of the funds that are entrusted to it by the nation.

The Executive Board is responsible for directing the agency and for ensuring its smooth operation. It executes investment policy guidelines and ensures compliance with them. The Executive Board reports regularly to the Supervisory Board on its management of the agency, and in particular relates information on the way in which investment policy guidelines take into account social, environmental and ethical considerations. The Executive Board has three members and is chaired by the Chief Executive Officer of the CDC *(Caisse des dépôts et consignations).*

The FRR has a designated accounting officer who is responsible for Fund accounting, including the maintenance of accounting records and all relevant supporting documents and vouchers.

The FRR is subject to audit by the government financial comptroller, as well as the French Government Audit Office *(Cour des Comptes)*, the French Tax Inspectorate *(Inspection Générale des Finances)* and the Social Security Inspectorate.

In addition, the Fund is assisted by two independent auditors, who are responsible for certifying the annual financial statements and issuing a report based on a limited examination of the interim financial statements, before they are submitted by the Executive Board to the Supervisory Board and then published.
These firms have also been commissioned to assist the FRR accounting sub-committee. This sub-committee, established in accordance with the Fund's internal operating policies and procedures, is responsible for preparing the Supervisory Board's proceedings on the approval of the annual financial statements. It also assists the Board in its review and audit of these disclosures.

A FLEXIBLE ORGANIZATION DESIGNED TO SUPPORT RAPID DEVELOPMENT

The FRR's organization choices were made to support and promote the Fund's development. The gradual adjustments made to the FRR's organization chart over time attest to the Executive Board's ongoing commitment to ensuring that the organization supports the Fund's investment capability. Accordingly, in February 2006 the investment steering and monitoring functions were strengthened.
In early 2008, similar adjustments were made to the risk function. A lean and easily adaptable structure, a small team of qualified human resources has joined an original project, combining a public interest mission and financial management, and this has enabled the FRR to handle the rapid rise in assets under management.

FRR governance

As of December 31, 2007

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 Freville

Qualified person
Jean-Louis Beffa,
Vice-chairman of the Supervisory Board

Representatives of Social Security beneficiaries appointed by nationally representative trade unions

• Confédération générale du travail
Jean-Christophe Le Duigou
Vice-chairman 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 Clezio

• Confédération française des travailleurs chrétiens
Isabelle Sancerni
Alternate
Michel Moise-Mijon

• Confédération française de l'encadrement – Confédération générale des cadres
Solange Morgenstern
Alternate
Danièle Karniewicz

Representatives of self-employed employers and workers

• Mouvement des Entreprises de France
Jean-René Buisson
Alternate
Catherine Thibier

Véronique Cazals
Alternate
Agnès Lepinay

Alain Leclair
Alternate
André Renaudin
Association française de la gestion financière

• Confédération générale des petites et moyennes entreprises
Jean-François Veysset
Alternate
Georges Tissié

• Union professionnelle artisanale
Dany Bourdeaux
Alternate
Berthe Duguey

Representatives of the French Minister in charge of Social Security
Dominique Libault
Alternate
Stéphane Seiller

Jean-Louis Rey
Alternate
Franck Le Morvan

Representatives of the French Minister of the Economy, Finance and Employment
Xavier Musca
Alternate
Thierry Francq

Representatives of the French Minister in charge of the Budget, Public Finances and Civil Service
Philippe Josse
Alternate
Henri Lamotte

EXECUTIVE BOARD

Chairman
Augustin de Romanet

Other members
Yves Chevalier
Antoine de Salins

MANAGER SELECTION COMMITTEE

Chairman
Antoine de Salins

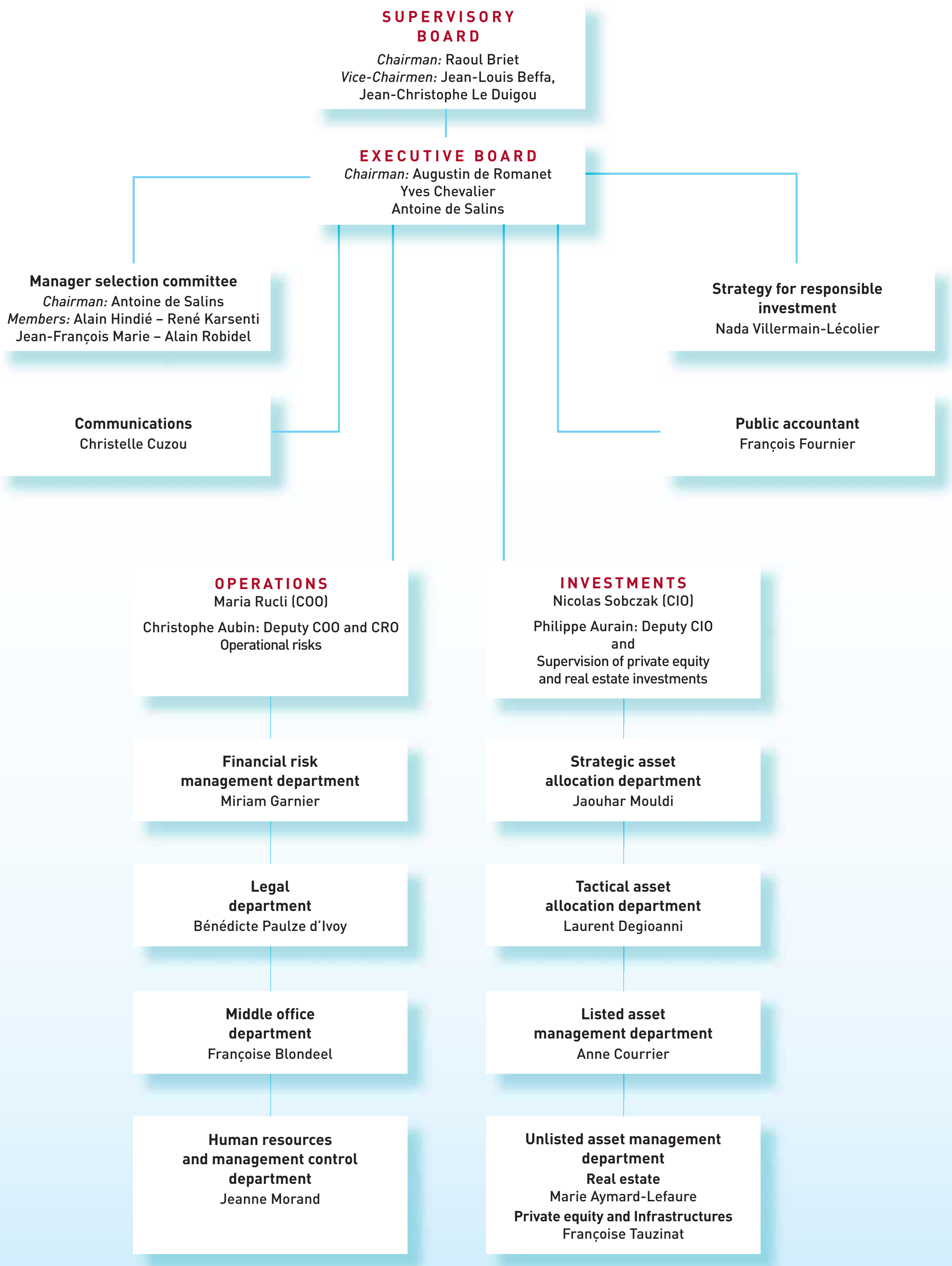
Other members
Alain Hindié
Consultant

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

Jean-François Marie
Vice-President of Montpensier Finance

Alain Robidel
Associate Director of AC2F Consultants

Organization



Financial and accounting overview

2007 FINANCIAL STATEMENTS

In fiscal year 2007, the FRR's total financial assets increased substantially, reflecting the Fund's endowments (+1.8 billion euros) and the result of the Fund's financial management (+2.7 billion euros). On December 31, 2007, the aggregate value of the Fund's marketable securities and cash on hand totaled 34.268 billion euros. In 2007, the valuation variance declined by more than one billion euros (1.191 billion euros).

EXTERNAL SOURCES OF FUNDING

The FRR's resources rose significantly in 2007, reflecting the dual impact of the increase in the mandatory social tax withheld on investment income and personal assets, and a change in the accounting treatment of the FRR's entitlements (interministerial order dated February 7, 2007).
Last year, the stability of the endowments, whose scope was enlarged to include profits from life insurance policies in echeat, was confirmed. The first payments relative to this expanded scope are expected in 2008.
The one-off CNIEG *(Caisse nationale des industries électriques et gazières)* contribution received in 2005 (3.06 billion euros) continues to grow thanks to the performances of the FRR, and had reached reaching 3.88 billion euros by year-end 2007.

RESULTS OF FINANCIAL MANAGEMENT

According to the FRR's chart of accounts, which is set forth in CNC *(Conseil national de la comptabilité)* opinion no. 2003-07 dated June 24, 2003, the accounting treatment of interest income and expense differs from that of unrealized capital gains and losses. The FRR's trading portfolio is carried on the balance sheet at its fair market value. All of the differences between the price paid to acquire securities and their fair market value on the year-end accounting cut-off date are unrealized capital gains or losses, as the case may be, and are recorded under equity by the FRR, with the exception of the percentage of the return earned on the one-off contribution that is attributable to CNAVTS.
The financial result for 2007 showed a 0.59 billion euros increase since year-end 2006, mainly due to the impact of forex transactions (+316 million euros) and income from investments in marketable securities (+208 million euros).
Pursuant to article L. 135-12 of the Social Security Code *(Code de la Sécurité sociale)*, the financial statements for 2007 were submitted to and certified by the Fund's statutory auditors.

FIVE YEARS OF FINANCIAL MANAGEMENT FOR THE FRR

The FRR's financial statements reflect the gradual build-up of the strategic asset allocation decided on by the Supervisory Board as well as dynamic tactical management. After several years of strong growth, the FRR faced the dual challenge of a less buoyant market environment in the second half of 2007 and a leveling off of its annual endowments.

- **Implementing the strategic asset allocation**
  In 2004, the Fund's assets were comprised of short-term money market investments (for 14.6 billion euros). At year-end 2007, these assets accounted for only 2.6 billion euros of the total. The diversification of these securities – equities, bonds, NDI – resulted in the addition of mutual fund and private equity investments. While the total was still modest at year-end 2007 (51 million euros), significant commitments have been made.

- **Dynamic tactical management** is evidenced by a steady rise in receivables and payables (around 10 billion euros on December 31, 2007), related to currency hedges that are attributable to the diversification of assets in foreign currencies.

- **The positive market dynamic,** which drove the Fund's performance until the summer of 2007, was disrupted. At the December 31, 2007 reporting date, this disruption had no significant impact on the Fund's global performance. Aggregate results and the valuation variance, which progressed steadily until year-end 2006, when they reached 4.719 billion euros, fell to 3.916 billion euros at year-end 2007.

- **Endowments: leveling off at more than 1.5 billion euros per year**
  Excluding the CNIEG contribution in 2005, the FRR's significant external resources are mainly composed of social taxes levied on income from personal assets and investments. The CNAV surpluses, which have been allocated to the Fund since 2005, have since dried up.

Balance sheet

in euros

ASSETS	12/31/2007	12/31/2006
Long-term assets	**467,827.88**	**501,001.73**
Receivables	**10,191,428,687.93**	**8,322,058,561.93**
Endowments allocated to the FRR receivable	72,306,914.11	7,023,837.84
Receivables from operations	0.00	0.00
Receivables on financial instruments	83,294,132.16	48,841,691.53
Receivables on forex transactions	10,002,351,699.80	8,242,940,817.51
Receivables on financial futures	33,475,941.86	23,252,215.05
Marketable securities	**31,644,441,797.98**	**26,076,875,024.59**
Equities	18,051,575,728.01	17,134,936,100.06
Bonds	10,372,379,983.36	7,363,430,755.59
Negotiable debt instruments	2,640,888,950.87	1,578,325,738.42
Mutual funds (OPCVM)	529,002,603.10	0.00
Private equity	50,594,532.64	182,430.52
Cash	**2,623,576,386.66**	**5,205,500,668.42**
Prepaid expenses	**104,035.32**	**6,975.37**
Total	**44,460,018,735.77**	**39,604,942,232.04**

LIABILITIES	12/31/2007	12/31/2006
Equity capital	**30,595,085,409.69**	**27,465,678,650.35**
Endowment	22,765,729,699.54	20,966,500,857.88
Reserves	3,913,173,975.69	1,779,916,957.31
Valuation variance	1,191,639,464.08	2,586,003,816.78
Net income for the year	2,724,542,270.38	2,133,257,018.38
Liabilities	**13,846,457,004.96**	**12,128,928,156.13**
CNIEG non-recurring contribution	3,879,535,179.02	3,700,705,528.28
Payables from operations	55,042,677.15	41,325,764.85
Payables on financial instruments	24,575,504.25	236,758,175.87
Payables on forex transactions	9,875,680,585.81	8,143,931,411.79
Payables on financial futures	11,623,058.73	6,207,275.34
Deferred income	**18,476,321.12**	**10,335,425.56**
Total	**44,460,018,735.77**	**39,604,942,232.04**

Income statement

in euros

EXPENSES	2007	2006
Outside services	67,971,177.29	67,218,006.19
Taxes	68,708.47	61,653.59
Payroll	727,430.18	626,888.50
Amortization	170,470.30	339,533.75
Operating expenses	**68,937,786.24**	**68,246,082.03**
Currency translation losses	234,443,909.08	178,963,988.30
Expenses on financial futures	398,469,309.73	88,646,885.22
Expenses on the sale of securities	624,317,142.18	284,333,098.71
Other financial expenses	2,660.65	9,509.90
Interest expense on CNIEG contribution	361,595,545.22	297,265,732.96
Financial expenses	**1,618,828,566.86**	**849,219,215.09**
Non-recurring expenses	**0.00**	**0.00**
Total expenses	**1,687,766,353.10**	**917,465,297.12**
Net income for the period	**2,724,542,270.38**	**2,133,257,018.38**
Total	**4,412,308,623.48**	**3,050,722,315.50**

INCOME	2007	2006
Income from marketable securities	879,258,010.50	671,262,201.28
Currency translation gains	826,679,752.75	456,097,578.50
Income on financial futures	536,880,220.73	185,387,006.41
Income from the sale of securities	2,016,324,640.90	1,588,583,256.59
Other financial income	153,107,119.54	149,222,441.47
Financial income	**4,412,249,744.42**	**3,050,552,484.25**
Non-recurring income	**58,879.06**	**169,831.25**
Total income	**4,412,308,623.48**	**3,050,722,315.50**
Total	**4,412,308,623.48**	**3,050,722,315.50**

Notes to the financial statements

for the year ended 12/31/2007

SIGNIFICANT ACCOUNTING POLICIES AND METHODS

The financial statements of the FRR are drawn up based on the generally accepted accounting principles set out in the chart of accounts for social security organizations and in opinion no. 2003-07 of June 24, 2003 issued by the CNC *(Conseil national de la comptabilité)*. The generally accepted accounting standards have been applied with the aim of ensuring that the financial statements reflect the conservatism principle and provide a true and fair view of the Fund's financial position, in accordance with the basic principles of going concern, consistent accounting policies and accrual accounting.

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 portfolios. 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 done on the basis of Bloomberg prices. For fixed-income instruments, accrued coupon interest on the transaction or at valuation are expressed with respect to the value date. This accounting policy is related to the fact that operations are accounted for as of the date of the trade.

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. Values for negotiable debt instruments that mature in less than three months from the accounting cut-off date are established on a straight-line basis.

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.

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 five 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.

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 2007 and known at the accounting cut-off date, but not yet received on December 31, 2007.
"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, 2007 reporting date;
- net income for the year.

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

- the terms and conditions under which the CNIEG electricity and gas industry fund *(Caisse nationale des industries électriques et gazières)* is to pay the FRR the non-recurring, lump-sum contribution mentioned in article 19 of L. 2004-803 of August 9, 2004 were set by order of the Minister of Solidarity, Health and the Family on January 31, 2005. Pursuant to this order, the CNIEG was to pay the FRR the sum of 3,060,000,000 euros by June 30, 2005;
- interest paid to the FRR by the CNIEG pursuant to the order dated January 31, 2005;
- a proportionate share of the income for the period, net of management fees, which corresponds to interest earned by the FRR on the cash sum provided by the CNIEG;
- the share in the FRR's total unrealized capital gains or losses at December 31, 2007.

CHANGES IN THE VALUE OF MARKETABLE SECURITIES IN THE PORTFOLIO

Portfolio on December 31, 2006

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

Portfolio on December 31, 2007

	Purchase price	Valuation differential[1]	Accrued interest	Book price
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
NDS	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**

	12/31/2007	12/31/2006	Evolution
Equities	18,051,575,728.01	17,134,936,100.06	5.35%
Bonds	10,372,379,983.36	7,363,430,755.59	40.86%
NDS	2,640,888,950.87	1,578,325,738.42	67.32%
Mutual funds	529,002,603.10	–	–
Private equity	50,594,532.64	182,430.52	–
Total	**31,644,441,797.98**	**26,076,875,024.59**	**21.35%**

(1) Valuation differentials before allocation of CNIEG share.

ANALYSIS OF PORTFOLIO BY REMAINING TERM TO MATURITY

	12/31/2007	12/31/2006
< 1 year	23.93%	22.03%
1-3 years	8.75%	10.84%
3-5 years	11.91%	14.13%
5-7 years	12.08%	9.36%
7-10 years	16.29%	12.89%
10-15 years	8.13%	11.12%
> 15 years	18.91%	19.63%
	100.00%	**100.00%**

ANALYSIS OF PORTFOLIO BY COUPON TYPE

	12/31/2007	12/31/2006
Fixed	89.96%	90.34%
Indexed	9.52%	9.15%
Floating	0.52%	0.51%
	100.00%	**100.00%**

ANALYSIS OF PORTFOLIO BY CURRENCY OF LISTING

Currency	Equities	Bonds	NDI	Mutual funds [2]	LP [3]	Total
AUD	280,472,547.39	13,571,361.14				294,043,908.53
CAD	206,312,197.48	–	–	–	–	206,312,197.48
CHF	265,874,038.98	–	–	–	–	265,874,038.98
DKK	22,501,958.33	–	–	–	–	22,501,958.33
EUR	11,085,571,444.79	7,767,988,973.22	2,588,426,815.31	13,851,242.00	22,759,424.00	21,478,597,899.32
GBP	759,695,889.24	312,649,577.47	–	28,861,424.70	–	1,101,206,891.41
HKD	176,994,706.41	–	–	–	–	176,994,706.41
JPY	845,189,761.49	341,632,610.57	–	–	–	1,186,822,372.06
NOK	44,011,607.45	–	–	–	–	44,011,607.45
NZD	2,200,307.55	–	–	–	–	2,200,307.55
SEK	84,232,440.25	9,415,324.32	–	–	–	93,647,764.57
SGD	64,209,613.34	–	–	–	–	64,209,613.34
USD	4,214,309,215.31	1,927,122,136.64	33,985,814.44	486,289,936.40	27,835,108.64	6,689,542,211.43
Total net of prepaid interest (PPI)	**18,051,575,728.01**	**10,372,379,983.36**	**2,622,412,629.75**	**529,002,603.10**	**50,594,532.64**	**31,625,965,476.86**
		PPI on NDI in EUR	18,232,236.44			
		PPI on NDI in USD	244,084.68			
		Total PPI	**18,476,321.12**			
Total portfolio	**18,051,575,728.01**	**10,372,379,983.36**	**2,640,888,950.87**	**529,002,603.10**	**50,594,532.64**	**31,644,441,797.98**

(2) Exchange traded funds: ETF emerging countries and commodities.
(3) Limited Partnership: Investment fund.

ITEMIZED STATEMENT OF SECURITIES AT DECEMBER 31, 2007

Marketable securities	Total net of PPI	PPI	Total portfolio
Europe (Eurozone)	11,072,455,528.98	–	11,072,455,528.98
Europe (ex-Eurozone)	1,194,472,420.29	–	1,194,472,420.29
US	4,425,226,178.60	–	4,425,226,178.60
Asia (ex-Japan)	514,231,838.65	–	514,231,838.65
Japan	845,189,761.49	–	845,189,761.49
	18,051,575,728.01	**–**	**18,051,575,728.01**
Bonds			
Europe (Eurozone)	7,767,988,973.22	–	7,767,988,973.22
Europe (ex-Eurozone)	322,064,901.79	–	322,064,901.79
US	1,927,122,136.64	–	1,927,122,136.64
Asia (ex-Japan)	13,571,361.14	–	13,571,361.14
Japan	341,632,610.57	–	341,632,610.57
	10,372,379,983.36	**–**	**10,372,379,983.36**
Negotiable debt instruments			
Europe (Eurozone)	2,588,426,815.31	18,232,236.44	2,606,659,051.75
US	33,985,814.44	244,084.68	34,229,899.12
	2,622,412,629.75	**18,476,321.12**	**2,640,888,950.87**
Mutual funds			
ETF (emerging countries world)	508,658,899.54	–	508,658,899.54
ETF (commodities)	20,343,703.56	–	20,343,703.56
	529,002,603.10	**–**	**529,002,603.10**
Private equity			
Europe	22,759,424.00	–	22,759,424.00
US	27,835,108.64	–	27,835,108.64
	50,594,532.64	**–**	**50,594,532.64**
Total	**31,625,965,476.86**	**18,476,321.12**	**31,644,441,797.98**

ENDOWMENTS RECEIVABLE

	12/31/2007
ACOSS – Employee savings	1,569,093.27
CDC – Prescribed consignments	3,119,019.47
SCBCM DCM [4]	67,355,324.60
– CRDS tax revenue on personal assets	*31,049,223.49*
– CRDS tax revenue on investment income	*36,306,101.11*
Other	263,476.77
Total	**72,306,914.11**

(4) Pursuant to the order dated February 8, 2007 defining the criteria governing the fiscal year of declaration for tax proceeds.

CURRENT LIABILITIES

Liabilities	12/31/2007	> 1 year	< 1 year
Government and social security	145,128.52	–	145,128.52
Other liabilities	54,897,548.63	–	54,897,548.63
Total	**55,042,677.15**	**–**	**55,042,677.15**

RECEIVABLE ON FINANCIAL MANAGEMENT

Receivables	12/31/2007
related to financial instruments	
Interest coupons due and immediately payable	38,572,228.79
Sales pending settlement	44,721,903.37
Total	**83,294,132.16**
related to forex transactions	
Futures purchases	619,658,403.88
Forex forward receivables	9,366,216,612.95
Forex spot receivables	760,073.32
Discount/Deport	15,716,609.65
Total	**10,002,351,699.80**
related to financial futures	
Security deposits	31,824,391.81
Margin calls receivable	1,651,550.05
Total	**33,475,941.86**

PAYABLE ON FINANCIAL MANAGEMENT

Payables	12/31/2007
related to financial instruments	
Purchased, settlement pending	24,575,504.25
Total	**24,575,504.25**
related to forex transactions	
Forward sales	9,247,413,288.75
Foreign forwards payable	622,931,699.28
Foreign spots payable	757,704.52
Report	4,577,893.26
Total	**9,875,680,585.81**
related to financial futures instruments	
Margin payable	11,623,058.73
Total	**11,623,058.73**

CHANGE IN EQUITY

	12/31/2007	12/31/2006	Evolution
Endowments	22,765,729,699.54	20,966,500,857.88	8.58%
Reserves	3,913,173,975.69	1,779,916,957.31	119.85%
Valuation variance	1,191,639,464.08	2,586,003,816.78	–53.92%
Net income for the year	2,724,542,270.38	2,133,257,018.38	27.72%
	30,595,085,409.69	**27,465,678,650.35**	**11.39%**

CNIEG NON-RECURRING CONTRIBUTION

	Enforcement of the CNAV-FRR agreement		
	Total equity on 06/30/2007		29,434,053,450.23
	Endowments 3rd quarter 2007		402,161,884.69
	CNIEG payment on 06/30/07		3,920,453,666.93
			33,756,669,001.85
	CNAV share, 12/31/2007		**11.60%**
		Endowments	
	06/30/2007	21,292,050,211.99	3rd quarter 2007
	09/30/2007	21,694,212,096.68	402,161,884.69
Breakdown on December 31, 2007			
	06/30/2007	**12/31/2007**	**Carried forward**
Operating expenses	35,636,285.90	68,937,786.24	33,301,500.34
Financial result	1,837,371,898.27	3,155,016,722.78	1,317,644,824.51
Non-recurring result	43,693.58	58,879.06	15,185.48
Global result	**1,801,779,305.95**	**3,086,137,815.60**	**1,284,358,509.65**
Valuation variance, private equity	–68,059.91	–4,749,974.23	–4,681,914.32
Valuation variance, forex	–331,205.50	–6,863,839.80	–6,532,634.30
Valuation variance, forex futures	22,204,040.61	130,495,360.18	108,291,319.57
Valuation variance, derivatives	–40,123,716.21	–29,738,295.94	10,385,420.27
Valuation variance, marketable securities	2,923,912,447.50	1,179,346,161.27	–1,744,566,286.23
Total valuation variance	**2,905,593,506.49**	**1,268,489,411.48**	**–1,637,104,095.01**
To be carried as a credit for CNAV			
Financial and non-recurring income – non-recurring expenses		1,284,358,509.65	
Percentage share		**11.60%**	
To be carried as a credit for CNAV		**148,985,587.12**	
Valuation variance		–1,637,104,095.01	
Percentage share		**11.60%**	
To be carried as a debit for CNAV		**–189,904,075.02**	
Recap			
Financial income – operating expenses		148,985,587.12	
Valuation variance (unrealized capital gains)		–189,904,075.02	
Total		**–40,918,487.90**	
CNIEG contribution on 06/30/2007		**3,920,453,666.92**	
Total on 12/31/2007		**3,879,535,179.02**	
Share in result allocated for 1st half		212,609,958.10	
Share in result allocated for 2nd half		148,985,587.12	
Total 2007		**361,595,545.22**	

CASH AND NEAR CASH

Currency	Total
AUD	18,542,968.39
CAD	16,265,003.33
CHF	18,017,503.79
DKK	849,357.65
EUR	2,080,365,734.93
GBP	88,633,526.98
HKD	16,164,445.71
JPY	87,595,550.55
NOK	9,961,384.47
NZD	7,265.32
SEK	7,873,934.52
SGD	827,006.16
USD	278,472,704.86
Total	**2,623,576,386.66**

OPERATING EXPENSES

	Amount
Outside services	**67,971,177.29**
Administrative management *(Caisse des dépôts et consignations)*	19,493,644.61
Fees paid to investment firms	43,916,964.28
Other outside services	4,560,568.40
– of which brokerage fees on financial futures instruments	*3,008,809.74*
Taxes	**68,708.47**
Payroll	**727,430.18**
Amortization	**170,470.30**
Total	**68,937,786.24**

PREPAID INTEREST

Prepaid interest came to 18,476,321.12 euros at the end of the year. This total corresponds to prepaid interest on certain negotiable debt instruments (BTF, CDN).

OFF-BALANCE SHEET COMMITMENTS

Forex futures

Currency code	Currency to be delivered	%	Currency to be received	%
AUD	15,804,696.64	2.54	298,693,445.86	3.19
CAD	13,170,980.93	2.11	217,621,980.96	2.32
CHF	20,422,247.15	3.28	279,620,078.16	2.99
DKK	4,863,573.09	0.78	24,173,920.44	0.26
GBP	71,542,852.35	11.48	1,133,681,527.18	12.10
HKD	35,145,924.50	5.64	204,971,418.81	2.19
JPY	75,084,061.95	12.05	1,146,462,500.16	12.24
NOK	2,911,453.62	0.47	52,808,860.72	0.56
NZD	–	–	1,916,339.47	0.02
SEK	6,819,718.97	1.10	99,866,369.94	1.07
SGD	7,531,154.61	1.21	67,244,497.17	0.72
USD	369,635,035.47	59.34	5,839,155,674.08	62.34
Total	**622,931,699.28**	**100.00**	**9,366,216,612.95**	**100.00**

OTHER COMMITMENTS

Off-balance sheet commitments valued on derivatives

Indexed futures

Buy position

ID	Description	Currency	Amount	Price	Off-balance sheet value
AP0308	SYD FUTURE SPI2 0308	AUD	739	6,348.00	70,431,672.82
EMD0308	CHI FUTURE SPI4 0308	USD	2,985	864.80	176,562,224.27
FCE0308	MAR CAC 40 0308	EUR	5,395	5,665.50	305,653,725.00
FDAX0308	EUR FUTURE DAX 0308	EUR	839	8,144.50	170,830,887.50
FESX0308	EUR DJ EURO STO 0308	EUR	16,091	4,435.00	713,635,850.00
FSMI0308	EUR FUTURE SMI 0308	CHF	3,133	8,470.00	160,317,233.05
GI0108	CHI FUTUR GOLDM 0108	USD	2,062	609.10	214,760,815.29
HSI0108	MAR HANG SENG I 0108	HKD	621	27,910.00	76,016,692.66
SP0308	CHI SP500 0308	USD	2,984	1,477.20	753,730,173.36
TP0308	TOK TOPIX 0308	JPY	3,968	1,470.00	357,120,946.13
YM0308	CBO FUTURE DJ M 0308	USD	2,616	13,328.00	119,236,852.36
Z0308	LIF FTSE100 0308	GBP	4,668	6,455.00	410,265,368.64
Total					**3,528,562,441,08**

Interest rate futures

Buy position

ID	Description	Currency	Amount	Price	Off-balance sheet value
FGBL0308	EUR EURO BUND F 0308	EUR	5,956	113.11	673,683,160.00
FGBM0308	EUR EURO BOBL F 0308	EUR	4,542	107.94	490,263,480.00
FGBS0308	EUR EURO SCHATZ 0308	EUR	5,943	103.36	614,238,765.00
FGBX0308	EUR FUTURE EURO 0308	EUR	2,905	90.46	262,786,300.00
I0908	LIF 3MO EURO EU 0908	EUR	60	95.65	14,347,500.00
SXF600308	MON FUTURE TSE6 0308	CAD	983	813.50	110,834,442.13
Total					**2,166,153,647.13**

Sell position

ID	Description	Currency	Amount	Price	Off-balance sheet value
FGBL0308	EUR EURO BUND F 0308	EUR	7	113.11	791,770.00
FV0308	CBO US NOTE 5 0308	USD	3,467	110.09	261,062,450.86
JGB0308	TOK JPN 10Y BON 0308	JPY	39	136.81	32,666,964.10
R0308	LIF GILT FUTURE 0308	GBP	376	110.23	56,431,996.73
TY0308	CBO T NOTE US 1 0308	USD	240	113.13	18,569,918.71
Total					**369,523,100.40**

PRIVATE EQUITY

In early August 2007, the FRR completely finalized its public request for proposal process for its first private equity investment program.
The managers that were selected began to invest as soon as the contracts were awarded.
The amounts committed by the FRR to these funds will be called gradually over a 5- to 6-year period, with the vehicles then moving into the divestment and liquidation phases over a 12-year timeframe.
The AXA IM PE Europe mandate, which was initialized in 2006, made its first payout in the course of 2007.

		Pantheon Ventures	Access Capital Partners	Total
Initial commitments	EUR	550,000,000	300,000,000	850 000,000
Balance from prior period	EUR	–	–	–
Payments during period	EUR	16,555,000	9,000,000	25,555,000
Distribution of assets	EUR	–	–	
Balance on accounting cut-off date	EUR	16,555,000	9,000,000	25,555,000
Valuation on accounting cut-off date	EUR	14,620,880	8,138,544	22,759,424

		Lehman Brothers Int. Europe	Axa IM Private Equity Europe	Total		Lehman Brothers Int. Europe	Axa IM Private Equity Europe	Total
Initial commitments	USD	679,993,200	198,000,000	878,000,000	EUR[5]	465,100,348	135,426,278	600,526,626
Balance from prior period	USD	–	237,600	237,600	EUR[6]	–	182,586	182,586
Payments during period	USD	20,459,160	21,659,633	42,118,793	EUR[6]	14,696,147	15,675,906	30,372,053
Distribution of assets	USD	–	−1,058,522	−1,058,522	EUR[6]	–	−765,132	−765,132
Balance on accounting cut-off date	USD	20,459,160	20,838,711	41,297,871	EUR[6]	14,696,147	15,093,360	29,789,507
Valuation on accounting cut-off date	USD	19,402,798	21,281,512	40,684,310	EUR[5]	13,270,954	14,564,155	27,835,109
Total initial commitments (EUR)								**1,450,519,826**
Total net payments on accounting cut-off date (EUR)								**55,344,507**
Total valuation on the accounting cut-off date (EUR)								**50,594,533**

(5) On the basis of a $ versus € exchange rate of 0.6839711 on the accounting cut-off date.
(6) On the basis of a $ versus € exchange rate on the transaction date.

ADDITIONAL INFORMATION

Transactions on futures markets

Securities and cash on deposit, 12/31/2007

ID	Description	Amount	Cost price	Market price
Securities				
AU0000XCLUI7	AUSTRALIA 8.75% 15/08/08	15,000	9,335,520.35	9,424,556.35
FR0010466938	OAT 4.25% 25/10/23	20,000,000	19,720,000.00	19,401,588.12
FR0109970477	BTF 17/01/08	155,000,000	155,000,000.00	154,702,477.59
FR0110979145	BTF 10/04/08	60,000,000	60,000,000.00	59,347,701.17
GB0031734154	GILT 5% S 07/03/08	19,000,000	27,887,690.16	26,288,156.16
JP10226317C7	JAPAN 0.8% 15/12/09 N.263	60,000	18,433,039.54	18,406,855.37
US912795D326	USA TREASURY BILL 13/03/08	50,000,000	34,094,783.50	33,985,814.44
US912828EY28	TREASURY NOTE 4.625% 29/02/08	50,000	38,175,717.59	34,820,871.89
US912828FZ83	TREASURY NOTE 4.625% 30/11/08	35,000	25,721,262.24	24,332,883.44
Securities subtotal			**388,368,013.38**	**380,710,904.53**
Cash				
ID	**Description**	**Amount**	**Cost price**	**Market price**
DG.CAD	DEPOSIT CAD	8,404,650	5,902,700.25	5,824,428.27
DG.CHF	DEPOSIT CHF	20,677,800	12,510,951.65	12,492,251.92
DG.EUR	DEPOSIT EUR	72,600	72,600.00	72,600.00
DG.EUR	DEPOSIT EUR	1,761,700	1,761,700.00	1,761,700.00
DG.EUR	DEPOSIT EUR	1,189,015	1,189,015.00	1,189,015.00
DG.EUR	DEPOSIT EUR	590,700	590,700.00	590,700.00
DG.HKD	DEPOSIT HKD	105,632,100	9,683,851.09	9,265,811.12
DG.USD	DEPOSIT USD	918,000	635,242.81	627,885.50
Cash subtotal			**32,346,760.80**	**31,824,391.81**
Total			**420,714,774.18**	**412,535,296.34**

MANAGEMENT FEES – 30% VARIABLE OUTPERFORMANCE FEE

Some of the FRR's management mandates provide for outperformance commissions that are determined at the end of each contract for the duration of the period under consideration.
To the extent that the real performance will only be known when the mandate expires, and where the probability of payment is not sufficient at the closing date, the 30% applicable to outperformance will not be recorded until the mandate in question expires.
At the December 31, 2007 reporting date, the amount pertaining to the 30% applicable to the variable commission was 3,816,823.91 euros.

PRIOR PERIOD RESULTS

	2005	2006	2007
Results for the period	**725,833,407.64**	**2,133,257,018.38**	**2,724,542,270.38**

Results for prior periods are set aside as reserves.

TABLE OF EMPLOYEES DIRECTLY PAID BY THE FRR

WORKFORCE BROKEN DOWN BY EMPLOYMENT CATEGORY

Category	Open-ended contracts	Fixed-terms contracts	Temporary staff	Other
Executive	2	–	–	–
Management	3	–	–	–
Non-management	3	–	–	–
Other	1	–	–	–
Total	**9**	**–**	**–**	**–**

LONG-TERM FIXED ASSETS

Table of long-term fixed assets and amortizations

	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	834,523.29	137,296.45	971,819.74	–338,474.85	–168,322.39	–506,797.24	465,022.50
Total	**834,523.29**	**137,296.45**	**971,819.74**	**–338,474.85**	**–168,322.39**	**–506,797.24**	**465,022.50**
Tangible assets	7,270.81	–	7,270.81	–2,317.52	–2,147.91	–4,465.43	2,805.38
Total	**7,270.81**	**–**	**7,270.81**	**–2,317.52**	**–2,147.91**	**–4,465.43**	**2,805.38**
Grand total	**841,794.10**	**137,296.45**	**979,090.55**	**–340,792.37**	**–170,470.30**	**–511,262.67**	**467,827.88**

Statutory auditors' report on the financial statements

Year ended at December 31, 2007

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

In compliance with the assignment entrusted to us by the Executive Board, we hereby report to you, for the year ended December 31, 2007, on:
– the audit of the accompanying financial statements of *Fonds de réserve pour les retraites*;
– the justification of our assessments;
– the specific verifications and information required by law.
These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

OPINION ON THE FINANCIAL STATEMENTS

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

JUSTIFICATION OF OUR ASSESSMENTS

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

SPECIFIC VERIFICATIONS AND INFORMATION

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

Done in Paris and Paris-La Défense, on March 25, 2008

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

Asset management firms selected by the FRR[1]

At December 31, 2007

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 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)
- Crédit Agricole Asset Management
- HSBC Investments (France)[3]
- Société Générale Asset Management

Eurozone large caps, active management
Initial indicative mandate size: 620 million euros for a period of 4 years[2].
- AXA Investment Managers Paris (AXA Rosenberg Investment Management Ltd)
- Capital International Limited
- Groupama Asset Management
- Lombard Odier Darier Hentch

Europe ex-Eurozone large caps, active management
Initial indicative mandate size: 240 million euros for a period of 4 years[2]
- AXA Investment Managers Paris (AXA Rosenberg Investment Management Ltd)
- Schroders Investment Management Ltd
- Invesco Asset Management[3]

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]
- AGF Asset Management
- 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[3]

US large caps, active value management style
Initial indicative mandate size: 460 million euros for a period of 4 years[2]
- DWS Investments
- Robeco Institutional Asset Management (Boston Partners Asset Management LLC)

US large caps, active growth management style
Initial indicative mandate size: 460 million euros for a period of 4 years[2]
- AGF Asset Management (RCM Capital Management LLC)
- Goldman Sachs Asset Management[3]

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

Eurozone bonds, sovereign and credit (investment grade), active management
Initial indicative mandate size: 960 million euros for a period of 4 years[2]
- AGF Asset Management
- AXA Investment Managers Paris
- BNP Paribas Asset Management SA
- IXIS Asset Management SA
- Crédit Agricole Asset Management[3]
- HSBC Investments (France)
- Robeco Institutional Asset Management

International bonds pegged to inflation (2/3 euro and 1/3 international non-euro), active management
Initial indicative mandate size: 480 million euros for a period of 4 years[2]
- AXA Investment Managers Paris[3]
- F & C Management Ltd

International bonds (non-euro denominated) government and corporate issuers (investment grade), active management
Initial indicative mandate size: 480 million euros for a period of 4 years[2]
- Capital International Limited[3]
- IXIS Asset Management SA (Loomis, Sayles & Company, LP)
- 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 portfolio)
- Lehman Brothers International Europe (North American diversified portfolio)
- AXA Private Equity Europe (International diversified portfolio of secondary positions)

(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.
(3) 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.

Design, layout and production: EURO RSCG C&O
Printed in France using environmentally safe processes on 100% biodegradable and recyclable paper (pure EFC cellulose).
Photo credits: Rapho/Pascal Dolémieux, Caisse des Dépôts/Jean-Marc Pettina.
English adaptation: Peggy Ganong.

FONDS DE RESERVE POUR LES RETRAITES

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