

French Public Service
Additional Pension Scheme

2010
Public report





Établissement de
Retraite additionnelle
de la Fonction publique
84 RUE DE LILLE
75007 PARIS



LEGAL REFERENCES

- Article 76 of the French pension reform
Law 2003-775 of 21 August 2003

- Decree 2004-569 of 18 June 2004 on
the French Public Service Additional
Pension Scheme

- Statutory order of 26 november 2004
implementing Decree 2004-569 of
18 June 2004 on the French Public
Service Additional Pension SHEME



Report on the administration and management of the French Public Service Additional Pension Scheme

Part I – Presentation and administrative management of the Scheme

A leading entity for civil servants' retirement savings	4
Scheme governance	7
Additional pension characteristics	9
Scheme operations	15
RAFP administrative management	21
Scheme information and communications	25

Part II – ERAFP, a responsible investor

Introduction	30
A prudential framework	31
Scheme equilibrium	31
Financial policy	35
An original and rigorous approach to SRI	38
An original SRI system	39
The SRI evaluation system	41
The role of the various bodies	43
SRI policy implementation and results	44
Overview	45
The bond portfolio	47
The equity portfolio	53
The ERAFP barometer	59
Fine-tuning, implementing and enhancing the SRI policy	60
Consolidating the Scheme's approach	61
Developing the engagement policy	64
Appendices	65

During the first half of each year, the Board of Directors deliberates on a detailed management report for the previous year that addresses, in particular, the Scheme's operations and financial equilibrium as well as the collection status of contributions. This report is submitted to the French Parliament and made available to the public.

Art. 22 of 18 June 2004 application decree
No. 2004-569 regarding the French Public Service
Additional Pension Scheme

RAFP OR ERAFP?

Article 76 of the 21 August 2003 pension reform law created a mandatory public service additional pension scheme – known as “*Retraite Additionnelle de la Fonction Publique*”, or RAFP – in the 18 June 2004 decree No. 2004-569. RAFP therefore generically describes the Scheme created through this law, but not the legal entity itself. ERAFP, or “*Etablissement de Retraite Additionnelle de la Fonction Publique*”, is the public-sector administrative entity in charge of the Scheme’s management.



Presentation and administrative management of the Scheme



A leading entity for civil servants' retirement savings

- A unique Scheme, operating since 2005
- 4.7 million people currently holding rights that will enable them to enjoy additional pension benefit.
- 40,900 public-sector employers making contributions on a regular basis
- €1.7 billion in contributions in 2010 – based primarily on bonuses
- Since 2005, nearly 540,000 retirees have already received a benefit.

A leading entity for civil servants' retirement savings

Operating since 2005, the French Public Service Additional Pension Scheme (RAFP) is an original pension scheme.

RAFP and the financial crisis

Like all institutional investors, ERAFP was affected by the financial crisis. The Scheme was nevertheless buoyed by:

- prudent asset and liability management;
- ongoing diversification of the asset allocation;
- a Socially Responsible Investment (SRI) policy consistent with a long-term view and a commitment to looking beyond immediate financial gain.

The Scheme's commitments to active contributors and pensioners are largely covered. This broad coverage is noteworthy because the Scheme calculates the likely present value of these commitments using a relatively low, and therefore very prudent, discount rate.

Finally, for RAFP, the crisis confirms the relevance of its SRI approach. Indeed, the SRI filter makes it possible to better assess risk and identify sectors and companies that will be the growth drivers of tomorrow.

A leading entity for civil servants' pensions

Nearly 4.7 million people currently hold rights entitling them to benefit from an additional pension. Some 40,900 public-sector employers¹ paid in contributions for the current year in 2010. However, this figure does not include employers with fewer than 10 civil servants who paid their

contributions during the first quarter of 2011 (in accordance with the provisions of the decree of 12 August 2009). Since 2005, nearly 540,000² people have received an RAFP benefit.

The inter-generational equity requirement

As the only mandatory French pension fund, RAFP has made inter-generational equity a core component of its governance and management. This commitment is reflected in particular through the implementation of a points-based system with one single purchase value.

Further development

After an initial period focused on the challenges of creating a new Scheme, the Board of Directors has initiated new measures on behalf of beneficiaries. It has therefore made adjustments in the asset allocation to favour greater diversification. Similarly, the Board plans to increase the Scheme's visibility through new information campaigns and to develop communication on the implementation of the SRI Charter.

¹ 2010 was the first year of annualised contributions for civil service employers with fewer than 10 employees. Pursuant to the decree of 12 August 2009, employers with fewer than 10 civil servants pay their contribution annually.

² - Number of pension liquidations processed since the inception of the Scheme.

The Work of the Board of Directors in 2010

At its meeting on 25 March 2010, the Board of Directors reviewed a regulatory change that enables the creation of two new technical provisions concerning ERAFP liabilities as well as a change in accounting for depreciation. Indeed, the directors wished to change the regulations governing ERAFP on several fronts:

- the specificity of the prudential and accounting rules, and
- the increase of ERAFP's authorised asset classes. The investment scope is expanded to include assets for an amount up to 10% of its total real-estate.

The 29 June 2010 meeting of the Board of Directors voted to adapt the SRI guidelines to SMEs.

The 29 November 2010 meeting of the Board of Directors reviewed whether it should switch to a triennial asset allocation. As it now stands, the annual framework is too restrictive for a long-term investor of ERAFP's size. The Board requested that a study be conducted and then presented on the conditions and methods for transition to such a new system. Meanwhile, anticipating the definition of active allocation, it authorised Management to invest in equities above and beyond the initially planned 25% threshold for 2010 contributions. The Board made this authorisation on two conditions:

- That the investments do not lead to allocations exceeding 35% of total annual (or €150 million),
- That the CAC 40 index does not exceed 3,936 points at the time the investments are made.

This new approach, which will be finalised in 2011, reflects the goal of enabling the Scheme to be more responsive and better align its investments with market signals as part of an active allocation, which is itself defined relative to a medium-term objective.

• In addition, a tri-partite working group co-chaired by the Chairman of the Audit Committee and the Chairman of the Collection Committee was created to prepare a new objectives and management agreement between ERAFP and CDC. Six meetings were held between February and October, which enabled the establishment of new objectives aimed at assessing the speed and quality of services provided to Scheme beneficiaries. The focus was mainly on the processing times for some types of correspondence: answers to beneficiaries, sending of accrued benefits statements to pensioners, sending of formal requests to employers still in arrears.

As regards pre-litigation matters and following the signature of a mutual support agreement in 2009, ERAFP and CDC continued their joint cooperation by signing a new service offer related to current management and for the purpose of processing existing cases.

Finally, the 14 December Board meeting issued an opinion on a rider to the agreement signed by the French State and the Chairman of ERAFP on the payment of the additional benefit to State retirees. The rider integrated an additional element in the calculation of management fees and specified the operating expenses and items related to billing.

ATTENDANCE AT BOARD OF DIRECTORS' MEETINGS

Qualified persons

Jean-François Rocchi	5
Alain Dorison	5
Jean-Jacques Marette	2

Representatives of employers

Fédération hospitalière de France 2	3
Fédération hospitalière de France 1	5
Association des régions de France	0
Assemblée des départements de France	1
Association des maires de France	1
La Poste	5
MINEFE	4
Ministère de la défense	5

Representatives of active contributors

UNSA	4
SOLIDAIRES	4
FSU	5
FO	5
CGT	5
CFTC	5
CFE-CGC	3
CFDT	5



Scheme governance

- 19 directors:
 - 8 representatives of active contributors, from the representative trade unions,
 - 8 employer representatives,
 - 3 qualified persons.
- 4 specialised committees.
- 5 meetings of the Board of Directors and 19 meetings of the specialised committees in 2010.



Scheme governance

The Board of Directors

In 2008, at the conclusion of the first term, a new Board of Directors was appointed. It comprises 19 members:

- eight representatives of active contributors, drawn from the representative trade unions,
- eight employer representatives, including three for the French State, three for the local and regional authorities and two for the public hospital sector,
- three qualified persons.

Jean-François Rocchi is the Chairman of ERAFP and Philippe Desfossés is its Chief Executive Officer.

Specialised committees

The Board has established four specialised committees. They assist the Board with the preparations and follow-up for its deliberations, especially as regards asset and liability management, auditing, collections (committees created by the decree of 18 June 2004) and investment policy monitoring (committee created by a decision of the 8 June 2006 meeting of the Board of Directors).

Activity report

The Board met five times in 2010. Attendance was again very strong, with an average attendance rate of 75%.

The Board deliberated on matters involving its regulatory responsibilities:

- determination of the asset allocation
- assessment of the Scheme's commitments
- determination of the amount of reserves to cover these commitments
- purchase and service values of points
- management entity's budget
- financial statements, etc.



Additional pension characteristics

- A mandatory, points-based Scheme created for civil servants working in the French central government (civilians and military), local and regional governments and public hospital sector as well as magistrates.
- An additional retirement benefit that takes into account bonuses and ancillary compensation.
- 4.7 million people have a RAFP individual retirement account.
- An overall contribution rate set at 10% of the amount of the bonus, split evenly between the employer (5%) and the civil servant (5%).
- A contribution basis comprised of all types of remuneration items not included in the calculation of the basic pension – bonuses, overtime hours, allowances and in-kind benefits – limited to 20% of the gross basic salary received by the civil servant in a calendar year.
- Contributions that are credited to an individual retirement account, which can be viewed online at www.rafp.fr
- Investments in bonds, equities, listed assets and real estate.
- Prudential rules as regards the investment of the assets:
 - at least 65% of the assets invested in bonds
 - assets invested in equities or unit trusts (OPCVM) limited to 25%
 - assets invested in real estate limited to 10%
 - securities issued by a single entity limited to 5%, etc.

CALCULATION OF CONTRIBUTIONS

- Bonus and allowance amounts used to calculate Scheme contributions and rights are capped at 20% of the gross annual basic salary.
- These amounts are subject to a 10% contribution rate, with 5% paid by the employer and 5% paid by civil servant beneficiaries.
- Note: two exceptions exist to the application of the 20% cap:

The “Individual Purchasing Power Guarantee” (GIPA)

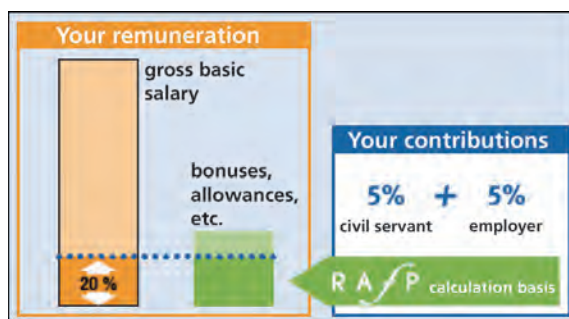
The GIPA is subject in full to RAFP’s contribution rate, so the 10% contribution rate applies accordingly.

Days listed on the time savings account

Time savings account days receive special treatment in accordance with the 28 August 2009 decree No. 2009-1065 pertaining to the French Central Government Civil Service and the 20 May 2010 decree No. 2010-531 pertaining to the French Local and Regional Civil Service. Thus depending on the civil servant’s statutory category, a lump sum allowance per time savings day is set. This allowance (following the deduction of CSG⁴ and the CRDS⁵ under the conditions set forth in the aforementioned decrees), is converted by the Scheme into RAFP points using the purchase value of the point in the year of the contribution. As part of this conversion, RAFP’s 10% contribution rate is not applicable.

RAFP may only take into account the number of days exceeding 20 on the time savings account at 31 December.

4 - Contribution sociale généralisée (CSG)
5 - Contribution pour le remboursement de la dette sociale (CRDS)



Additional pension characteristics

RAFP is a mandatory, points-based scheme benefiting civil servants working in the French central government (civilians and military), local and regional governments and public hospital sector as well as magistrates. The scheme makes it possible to pay an additional retirement benefit along with the basic pension, taking into account bonuses and ancillary compensation paid to civil servants during their careers.

A public pension fund

The public sector additional pension is based on the fully funded, pay-as-you-go model, which makes it possible to combine the advantages of a pay-as-you-go system with those of a funded system.

Comparable to collective funding, the system is based on the scheme's requirement to permanently cover all of its commitments with financial assets. Thus the rights vested by each beneficiary over the course of their career are fully guaranteed over time through the establishment of financial reserves, which themselves generate income.

Beneficiaries

At 31 December 2010, nearly 4.7 million people have an RAFP retirement account and receive from the Scheme benefits or will do in the future.

In order to acquire pension rights, beneficiaries must satisfy three conditions:

- be a civil servant in one of the three public-sector functions (French central government, local and regional authorities

or the public hospital sector), a magistrate, a person in the military or working for the military on a contractual basis

- contribute to the French State's civil or military pension scheme or the Caisse Nationale de Retraites des Agents des Collectivités Locales
- receive remuneration used to calculate the benefit.

Basis

The contribution calculation consists of all types of remuneration not included in the main pension calculation, such as bonuses, overtime hours, allowances and in-kind benefits. However, this basis may not exceed 20% of the gross basic salary received by the civil servant in the course of a calendar year.

The "Individual Purchasing Power Guarantee" (GIPA), created in 2008, is an exception to this principle. It is subject to the RAFP contribution in full⁶. The cap is also waived for time savings days transferable into RAFP points.

Contributions

The overall contribution rate is set at 10% of the eligible amount, split evenly between the employer (5%) and the civil servant (5%). Each euro paid in to RAFP by the civil servant is matched by an employer contribution. Contributions are usually paid in monthly.

6 - 16 September 2008 decree No. 2008-964.

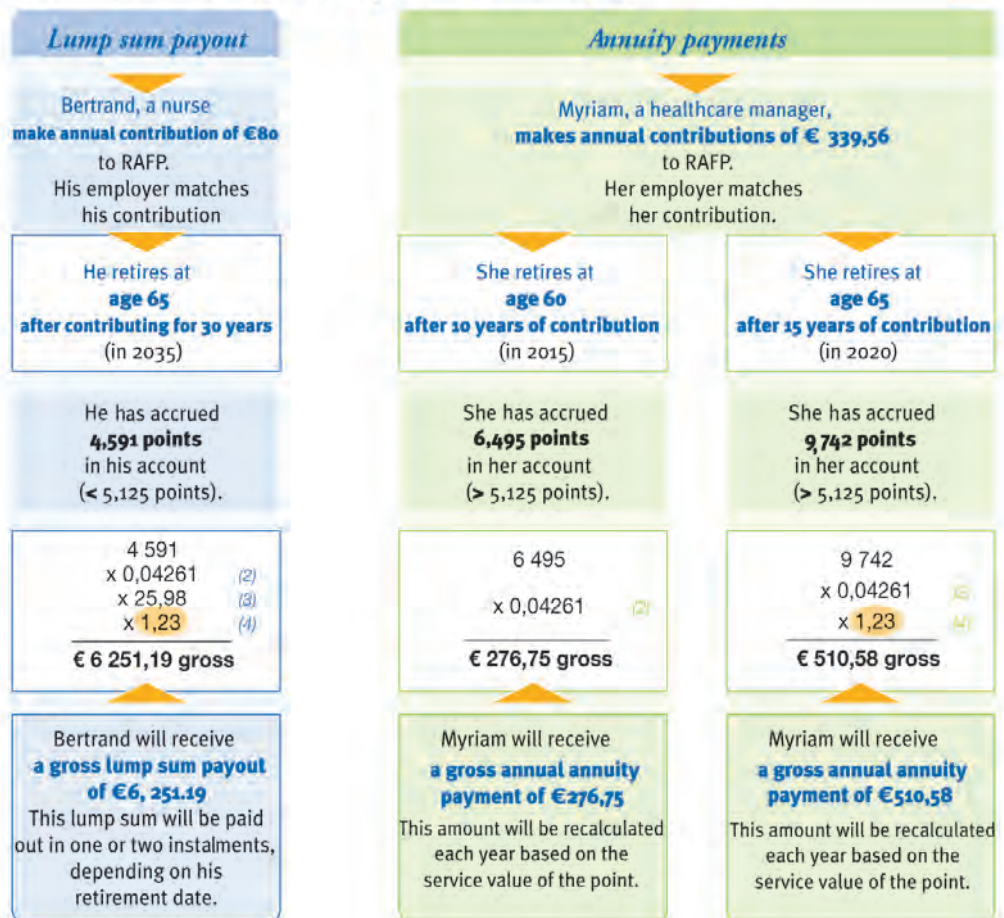


ANNUITY OR LUMP SUM?

The benefit is paid out in the form of a lump sum if the number of points vested on the liquidation date is less than the number of points corresponding to an annual annuity of €205 calculated on the basis of the service value of the point for the year 2005 (Art. 9 of the 18 June 2004 decree), i.e. 5,125 points.

The payout amount is calculated so as to maintain actuarial fairness among all beneficiaries. Thus the lump sum payout is equivalent to what the beneficiary would be entitled to receive in the form of an annuity.

Lump sum or annuity : sample calculation (1)



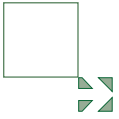
(1) Fictitious, non-binding examples provided for informational purposes only. They do not include, in particular, career changes, annual changes in point values and potential regulatory changes.

(2) For demonstration purposes, this example uses the service value of a point in 2009

(3) Lump-sum conversion factor corresponding to life expectancy of 60 years

(4) Premium factor: after 60, the higher the retirement age, the greater the factor.

Myriam and Bertrand delayed their retirement past age 60. A premium will be applied to their pension benefit.



Additional pension characteristics *(continued)*

Retirement account

In the first quarter of each year, the employer submits to Caisse des Dépôts a summary statement of all contributions paid in during the previous year for all its participants. The sum of the amounts indicated in these statements must be equal to the sum of the amounts effectively paid in.

Converted into points, the contributions are credited to an individual rights account, which may be viewed online at www.rafp.fr. The number of points is determined by dividing the total amount of contributions paid in during a year by the purchase value of a point for the given year.

Point values

Point values are set each year by the Board of Directors of ERAFP, the Scheme's management entity.

- The purchase value makes it possible to calculate the number of points obtained during the year. This value is identical for all contributors, regardless of their age. It thus represents a form of intergenerational solidarity among the beneficiaries' various age categories.
- The service value is applied to the total number of points vested to calculate the additional benefit.

Technical return

Derived by dividing the service value by the purchase value, the technical return is 4.075%. It reflects the ongoing consideration of intergenerational solidarity requirements.

Premium

The premium consists of applying a premium factor during the calculation of the RAFP benefit. The table of premium factors is set by the Board of Directors on the basis

of the civil servant's age at the time of the RAFP benefit. The values of these factors are calculated using a theoretical retirement age of 60. If the accrued rights are liquidated after the beneficiary has reached age 60, the amount of the additional benefit is multiplied by a premium factor. This premium factor is designed to re-establish actuarial equity by taking into account the life expectancy of the covered population. The method currently in use makes it possible to keep pace with the gradual raising of the legal retirement age from age 60 to 62.

Benefit payments

- Annuity

The liquidated benefit is paid out in the form of a monthly annuity if the number of vested points is equal to or greater than 5,125.

- Lump sum

The liquidated benefit is paid out in a lump sum if the number of vested points is less than 5,125. The lump sum amount is determined by using a lump sum conversion table.

Up until 2008, all additional pension benefits were paid out in a lump sum. The first annuity payments began in late 2008.

Reversion

If the rights holder dies, a reversionary benefit goes to the surviving spouse and orphaned children until they reach the age of 21. No reversion benefit is owed when additional benefit has already been paid out in a lump sum.

Scheme's financial equilibrium

Each year, ERAFP's Board of Directors assesses the Scheme's commitments and determines the amount of the provision to be established to cover them. The

challenge is clearly to maintain a prudent return rate policy in an economic crisis in order to maintain the Scheme's long-term equilibrium.

Prudential rules

The amount corresponding to funded contributions is invested in bonds, equities, other listed assets and real-estate.

In addition to the requirement that its commitments be fully covered, the Scheme is subject to prudential investment rules: 25% limit on assets invested in equities or UCITS; 10% limit on assets invested in real-estate; 5% limit on investments in securities issued by the same entity, etc.

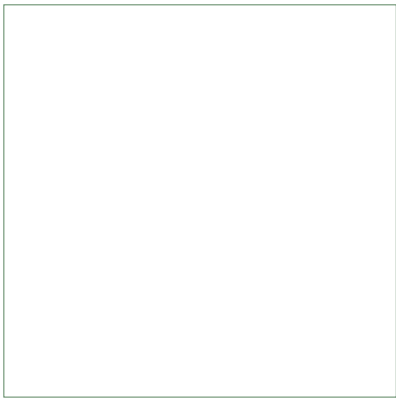
Pension Liquidation

Upon reaching age 60 and qualifying to receive pension benefits from the basic pension scheme, a beneficiary may apply for the additional pension benefit. The age at which the additional pension benefit becomes available will be gradually raised to 62, in accordance with the change in the legal retirement age.

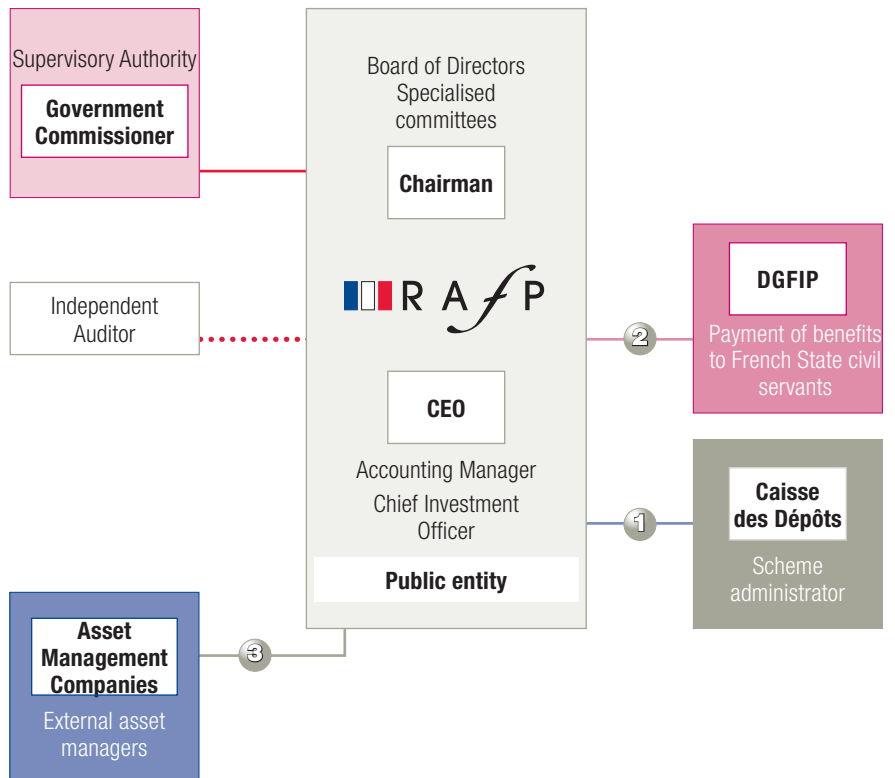
The annual amount of this additional benefit is obtained by multiplying the number of points accrued in the retirement account by the service value of the point.

Annuity

Once the beneficiary has accrued 5,125 points, the benefit is paid out in the form of an annuity paid monthly. The first annuity payment was made in late 2008. At 31 December 2010, there were 1,247 annuities in payment.



SHARING OF RESPONSIBILITIES



DGFiP (DGFiP: Directorate of public finance)

FRENCH PUBLIC SERVICE ADDITIONAL PENSION SCHEME



Scheme operations

- A Scheme managed by a public-sector management entity operating under the oversight of the French State.
- Administrative management provided by Caisse des Dépôts et Consignations (CDC), under the authority and control of the Board of Directors.
- Management of financial assets partially delegated to investment firms.
- Direct management by ERAFP of state bonds and government-backed securities
- In 2010, €19.1 million in management costs.

Objectives and management agreement 2011-2015

The objectives and management agreement ("*Convention d'objectifs et de gestion*" – COG) between Caisse des Dépôts and ERAFP formalises and defines the role and scope of intervention of each party.

The first COG between Caisse des Dépôts and ERAFP, drafted during the Scheme's initial launch, covered the 2006-2010 period. A rider was added in 2009, to adjust and clarify certain functions following the internalisation of financial management within the Scheme.

The final results of the COG for the 2006-2010 period led to:

- *the need to specify certain indicators and provide more qualitative criteria in the measure of performance. These criteria include, for example, the addition of indicators to measure the satisfaction of beneficiaries with responses to their e-mails or telephone calls;*
- *the cancellation of the former objective number 6, linked to the drafting of technical agreements. The drafting of these agreements was finalised in early 2010;*
- *the addition of two new objectives: objective 6 "to assist ERAFP's Public Accountant in the pre-litigation collection phase" and objective 8 "generate administrative management reporting".*

The updating of the COG for the 2011-2015 period led to the creation of a working group under the co-chairmanship of the Chairman of the Audit Committee and the Chairman of the Collection Committee. Six meetings were held between February and October 2010.

The COG also sets out the methods for calculating and adapting the administrative management budgetary framework for the corresponding period.

This budgetary trajectory is defined based on the valuation of the resources required for the level of service established by the indicators and forecast volumes estimated by the ERAFP actuary or administrative manager.

The COG was validated by the Board of Directors at its 29 November 2010 meeting.

An initial review will be performed in 2013 in order to update, if necessary, the financial criteria for the 2014-2015 period.

In the first half of 2015, the 2011-2015 COG will undergo a joint assessment of the results compared to the initial objectives. This assessment will give rise to a report sent to ERAFP's Board of Directors and supervisory authority.

Scheme operations

General operation of the system

The Scheme created by the law of 21 August 2003 is managed by a public-sector management entity and subject to supervision by the French State. The application decree¹² entrusts the Scheme's administration to Caisse des Dépôts, under the authority and control of the Board of Directors. Financial asset management is partially outsourced to investment firms.

ERAFP – Caisse des Dépôts: contractual commitments

The main services provided by Caisse des Dépôts within the framework of the Scheme's administration are set out in the Objectives and Management Agreement ("*Convention d'objectifs et de gestion*" – COG) between the two institutions for the 2006-2010 period.

At the conclusion of the initial roll-out phase and fine-tuning of management processes, Caisse des Dépôts agreed to optimise the quality of the service provided while remaining within a controlled budgetary framework.

The first joint assessment of the COG thus led to the conclusion that qualitative indicators needed to be taken into account for measuring performance.

The new COG, which covers the 2011-2015 period, was approved by the Board

of Directors at its 29 November 2010 meeting (see box).

Finally, following the May 2009 signature by ERAFP and CDC of a mutual support agreement for pre-dispute collection involving individuals and legal entities, the first enforcement orders were sent to employers in arrears beginning in early 2010. Moreover, a new service agreement was signed, aimed specifically at the ongoing management of cases in arrears.

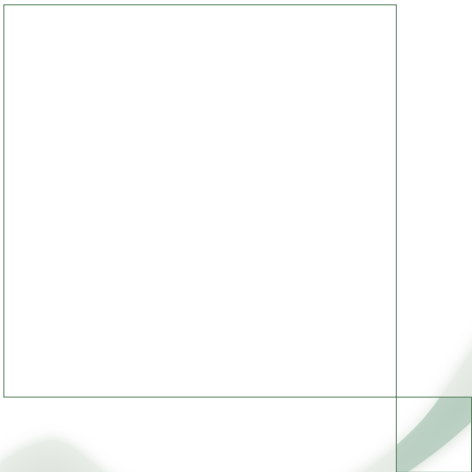
...and a structured relationship

ERAFP continued to step up its initiatives focused on core functions: actuarial governance of the Scheme, definition and implementation of investment policy orientations, budget preparation and execution, organisation of governance bodies and communications policies. The management entity also took steps to strengthen its capacity for governance and assessment of resources applied by third-party service providers as well as their performance, including the delegated asset management companies and the Scheme administrator.

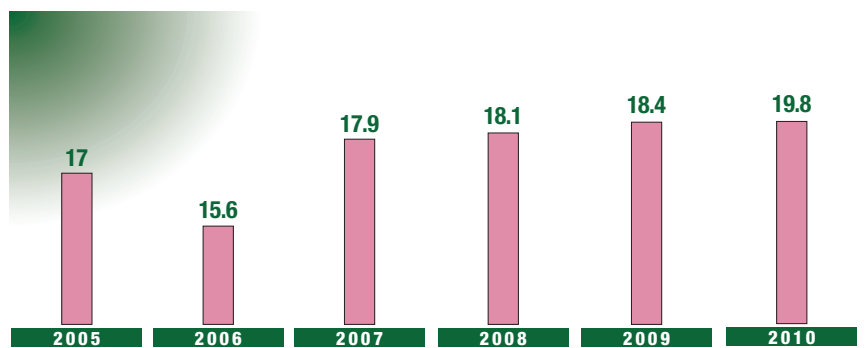
Caisse des Dépôts, meanwhile, has an administrative management coordination unit, which serves as a client interface between ERAFP and the departments charged with the respective processes.

12 - 18 June 2004 decree No. 2004-569



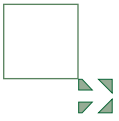


ADMINISTRATIVE EXPENSES
€ millions



ERAFP internal sources

FRENCH PUBLIC SERVICE ADDITIONAL PENSION SCHEME



Scheme operations *(continued)*

These departments are mostly located in Bordeaux.

ERAFP – French State: a specific service

In addition to its role as the institution's supervisory authority, the French State, through the DGFIP's regional pension centres, pays out the additional pension benefits to pensioners of the central government along with the basic pension benefits. This service is billed separately, the details of which are detailed in a bi-partite agreement.

Partially outsourced financial management

Since 2005 and as authorised under applicable regulations, ERAFP directly manages its investments in government bonds and government-backed securities. However, the financial management of the Scheme's equity and corporate bond portfolios is delegated to specialised firms. The managers selected undertake to optimise the financial return of the funds whilst remaining in compliance with ERAFP's SRI Charter. The multiple-firm allocation diversifies the financial risks across several service providers and reflects a prudent asset management approach on behalf of the beneficiaries.

Each of the companies selected to manage equities on behalf of the Scheme has

created a dedicated investment fund, in which ERAFP invests depending on market conditions, always on the basis of an entirely proprietary investment process. Investments into each fund are made according to their respective performance and ERAFP's investment strategy.

For corporate bonds, a discretionary management agreement was granted to a specialised investment firm in 2009.

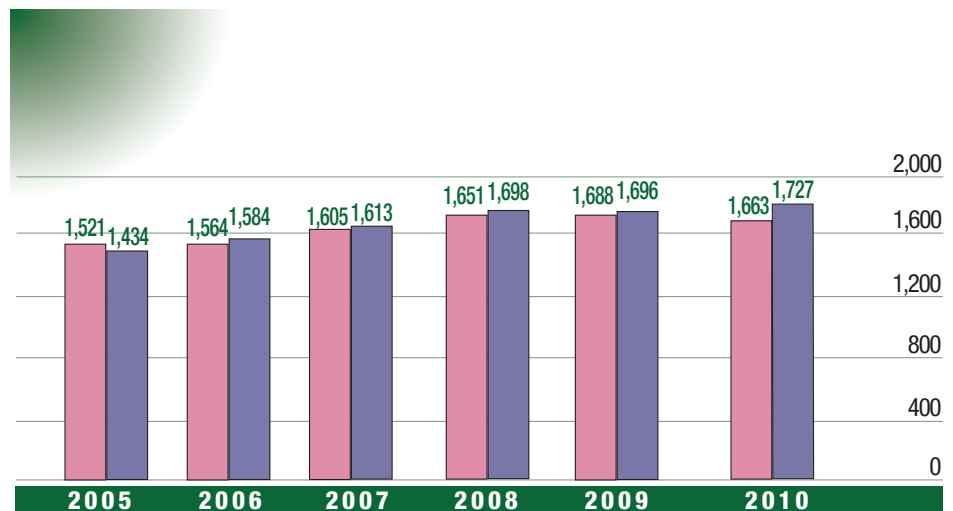
Controlled administrative costs

The operating budget for the Scheme and management entity is financed directly from funds withheld from income. The Board of Directors therefore pays close attention to administrative expenses.

In 2010, total costs generated by the Scheme's administration were €19.1 million.

ANNUAL CONTRIBUTIONS AND DEPOSITS

€ millions - Amount of contributions deposited annually Amount of fund transfers by date received.



Source: Pensions Department's datawarehouse

ACCRUALS IN RETIREMENT ACCOUNTS

The beneficiaries' retirement accounts accrue rights when the difference between the total amount of contributions indicated in the reporting statement and the total amount of contributions actually paid in by this employer is less than €30 or 0.5% of the contribution amounts.

Situation at 31 December 2010



not yet accrued 42,073



RAFP administrative management

- Approximately 40,900 employers paid in contributions in 2010 as part of RAFP
- €1.663 billion deposited in 2010 by employers
- More than 130,000 pensions liquidations made in 2010
- More than €220 million paid to beneficiaries as part of the pensions liquidations
- 136,304 revisions to benefits implemented in 2010
- 1,247 annuities in payment

BENEFITS REVISIONS

Example

Bertrand has contributed to RAFP since the scheme's creation in 2005.

■ **1 February 2009**

Bertrand takes his retirement pension.

Based on the annual reporting cycle, the RAFP benefit that will be paid out to him will only take into account rights acquired in 2005, 2006 and 2007. The rights for 2008 have not yet been recorded.

■ **1 March 2009**

The local authority that employed Bertrand submits to Caisse des Dépôts its annual contributions statement paid in during 2008 paid in during 2008. The 2008 rights are recorded on Bertrand's individual account, which results in a revision to his benefit and a supplementary payment.

■ **1 March 2010**

The employer submits its 2009 summary statement to Caisse des Dépôts. Bertrand's rights account is updated to reflect his January 2009 contributions.

Following the second revision and corresponding supplementary payment, Bertrand will have received the entire amount of his additional pension benefit.

RAFP administrative management

The Scheme's administrative management has been assigned to CDC, which collects contributions, maintains beneficiaries' retirement accounts and liquidates and pays out benefits¹⁴. It also constitutes the Scheme's single interface with employers and pensioners receiving a benefit payment.

More than 40,000 employers ...

Some 40,900 employers¹⁵ paid RAFP contributions in 2010. The vast majority consists of local authorities and public-sector hospitals. Among French central government employers, the majority consists of public treasury departments, ministries and commissioners to the armies.

... for more than €1.6 billion collected ...

The Scheme collected €1.663 billion in 2010. Employers pay contributions on a monthly, aggregate basis. In the event of a late payment, a penalty is added to the contribution. In 2010, 751 employers had to pay such a penalty.

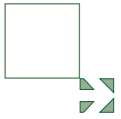
... and 4.7 million retirement accounts

Each year, employers submit to CDC, the Scheme's administrator, a statement summarising for each of their civil

servants the contribution amounts paid in during the previous year. By 31 March 2010, therefore, employers had to declare all contributions paid in during 2009. Logically, the total amount of each employer's contributions and the sum of the amounts reported for each civil servant should balance out. Rights then accrue to the contributors' retirement accounts. In the early years of the Scheme's operation, however, numerous discrepancies were observed. ERAFP and CDC, working closely with the supervisory authority, implemented the necessary means to raise awareness among employers as regards their regulatory commitments and the rights of their civil servants. CDC took steps to provide concrete information and the necessary technical assistance to the public authorities in order to eliminate the discrepancies. As the Scheme is still in its infancy, it seemed essential to configure the system properly.

14 - With the exception of the payment of benefits to the pensioners of the French central government, who receive them directly from DGFIP.

15 - First year of annualised payments for employers with fewer than 10 civil servants. Decree of 12 August 2009: employers with fewer than 10 civil servants pay in their contribution annually.



RAFP administrative management (continued)

The combined efforts of the various participants made it possible to improve significantly the accrual rate for accounts of contributors for prior years. A considerable decline in the number of initial discrepancies in 2008, which resulted from the easing of the accrual threshold for accounts (raised from €2 to €30), further progress has been made each year thanks to the employers' efforts to get up to speed, communications initiatives (link between messages sent by call centres and the information posted on the www.rafp.fr site) and individual reminder notices from the administrative manager, aimed at raising awareness among employers. The progress recorded to date will make it possible to continue correcting the retirement accounts in the interest of the beneficiaries.

A sticking point: multiple employers

Some agents receive remuneration from several employers. Such is the case, for example, of numerous teachers, for whom some allowances are contributed by the local authorities (studies, supervision, etc.). In that case, the primary employer is responsible for calculating the contribution basis and indicates to the so-called secondary employers the amount of contributions to be paid in. The following year, each employer submits to CDC its individual statement. This system, which is established by the regulations but complex to implement, creates significant problems for the related employers. Indeed, it requires multiple sharing of information between primary and secondary employers, and corrections are

only possible if each employer has access to all information on remuneration paid by all other employers.

This requires a relatively heavy workload given the low amounts of contributions in need of correction.

The Board of Directors quickly addressed the issue. A joint working group was established and staffed with members from the respective departments at Caisse des Dépôts and ERAFP, as well as representatives from volunteering employers. In December 2009, the working group met for the first time to review the issues in greater detail and to come up with solutions. A meeting was also held in July 2009 at CDC's offices in Bordeaux involving the universities of Nantes, Bordeaux and the associated university administrations.

More than 130,000 pension liquidations in 2010

A total of 130,648 pensions were liquidated in 2010. In all, more than €220 million was paid out to beneficiaries this year. This amount includes reversionary benefits paid out to deceased beneficiaries' spouses and children under 21.

More than 136,000 benefits revisions

Given the annual cycle for completing reporting statements, benefit payouts are revised in the year following liquidation, and the amounts may in some cases appear to be large, given the relatively limited number of years for which contributions have been made. Thus 136,304 revisions were made in 2010.

Rising payouts

Overall benefit payout amounts increased by 32% in 2010.

Calculation of the first annuities

At 31 December 2010, there were 1,919 annuities: 1,643 for pensioners of the French central government (FPE) and 276 for the local authorities (FPT) and public-sector hospitals (FPH). However, some of these annuities do not lead to payment. If the beneficiary has already received a lump sum payment during the liquidation of his rights and only exceeds the threshold for the transition to an annuity through a revision, the annuity thus calculated is not paid out but is deducted each month from the lump sum payout, which is considered a debt.

The number of annuities actually in payment totalled 1,247 at the end of 2010, with 1,078 annuities paid to pensioners of the FPE and 169 to pensioners for the FPT and FPH. The average monthly annuity amount was €24.49, reflecting a still very short contribution period, namely the five-year period of 2005-2009.



Scheme information and communications

- Growing role played by the web site in 2010, with a doubling in the number of daily site visits.
- A campaign to promote links to the site on employer intranets.
- 800,000 civil servants affected by the right to retirement information targeted to receive a comprehensive information document on the Scheme
- Some 50 articles published in the general and trade press.



SUPPORT FOR THE PENSION INFORMATIONS MEASURES

- In addition to sending out individual statements of position (“RIS”) and general indicative estimates (“EIG”), ERAFP sent out informational brochures in November 2010 to 832,893 civil servant active contributors born in 1954, 1955, 1960, 1965, 1970 and 1975.
- This mass mailing initiative was first launched in 2007 and reached all cohorts affected by a French measure called “Droit à l’information” (“right to information”).



Scheme information and communications

Six years after the Scheme was first established, the need to raise awareness among all participants – contributors, employers, institutions, etc. – remains a vital and strategic objective. ERAFP and CDC are working together to achieve this goal.

Active contributors: the linchpin of the system

Although RAFP is a mandatory scheme, its operation would benefit from greater awareness by civil servant beneficiaries. The scheme's image needs to be enhanced continuously and the goodwill and trust afforded it further strengthened. Finally, given the significant heterogeneity among contributors, communications initiatives need to be pursued across a wide range of media.

The Scheme's web site – www.rafp.fr – played a growing role in 2010. It enables active contributors to receive detailed information on the Scheme and view their individual retirement accounts using applications developed by CDC. In 2010, the number of daily visitors nearly doubled to an average of 1,400. ERAFP stepped up its efforts to make the site more user-friendly.

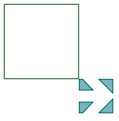
A major campaign was launched, in collaboration with CDC's customer relations department, in order to make the Scheme's web site accessible to civil servants through their employers' intranets.

The site's target areas – “employers” and “active contributors” – underwent a major overhaul in order to facilitate access to the information and applications provided and made available to users.

The nature of the information has also changed. Active contributors now want to receive practical information and, more specifically, calculate the number of vested points and perform simulations on future benefits. The “Points calculator” and “Your personal situation” areas are the most frequently visited.

An information campaign made it possible to distribute a comprehensive and informative document on the Scheme to more than 800,000 civil servants affected by the “right to information” measure”. This distribution completes the information cycle for participants covered by the “right to information”.





Scheme informations and communications *(continued)*

The fact that ERAFP needs to raise its profile must be viewed in the broader context, namely that civil servants do not fully understand their own retirement schemes. This situation underscores the need to pursue and step up efforts to inform and educate civil servants about the scheme and facilitate their use of the www.rafp.fr site.

Public-sector employers: a resource to be strengthened

Employers, and human resources departments in particular, represent a key channel for providing active contributors with information.

To complement the information provided by CDC at the meetings it organises, ERAFP launched regional meetings with public-sector employers. In 2010, three meetings were each attended by around 80 employers (or their representatives) from the three public-sector functions in Nantes, Orléans and Marseille. ERAFP's Chairman, accompanied by specialists (legal experts and representatives from CDC's customer relations department) attended these meetings and participated in question-and-answer sessions on the RAFP scheme. A satisfaction survey organised at the conclusion of these meetings showed that they indeed helped the public-sector

institution enhance its image while at the same time satisfying the expectations of those attending by providing precise and concrete information (for example on measures such as the establishment of the annual disclosure for small employers or the implementation of the time savings account for local and regional as well as central government civil servants).

Media relations

RAFP has been presented in some 50 articles in the mainstream and specialist press. The CEO also participated in around 15 interviews with the specialist press and participated in a radio interview, as well as more than 20 specialised conferences and seminars.

ERAFP also took part in the mayoral trade show held between 23 and 25 November 2010. For the first time, ERAFP took part in the meetings held on the modernisation of the French State, which were organised under the patronage of the French President. These meetings, part of a three-day conference, were an opportunity for the Scheme to promote its SRI policy.

The Scheme's communications initiatives involving its responsible investment approach are part of a broader "engagement" policy, which is presented in greater detail in the second part of this report.



ERAFP, a responsible investor

Introduction

RAFP's Socially Responsible Investment¹⁷ (SRI) Charter includes a commitment that a report be made publicly available each year on the status of the implementation of the Scheme's SRI policy. To the extent that socially responsible investment constitutes a core value of the Scheme, the decision was made to incorporate the SRI Report into the Management Report.

The Scheme's SRI policy is part of a broader long-term investment approach, which consists first and foremost of a highly prudent approach in the definition of technical parameters along with an asset allocation designed to ensure the Scheme's long-term equilibrium. This approach is described in the first part of this section.

The report then focuses on the Scheme's SRI policy *per se*, with a description of the SRI system's operation as well as additional background information to better highlight its originality.

Next the report looks at the asset portfolio's conformity with the SRI approach and explains any discrepancies observed as well as the steps taken to reduce them. The report also examines changes in the portfolio's characteristics as regards the SRI policy since end-2007, and in particular those over 2010.

Finally, the last section offers some ideas on the impact of the SRI policy on the Scheme's financial management during crisis periods as well as on ERAFP's policy of engagement.

ERAFP KEY RESULTS IN FIGURES*

- technical provisions of around €8,369 million
- 1.70% discount rate **
- non-technical provision of around €1,483 million
- net assets of around €9,852 million
- estimated regulatory coverage ratio of around 117.7%

* valuation at end-2010.

** gross discount rate excluding management fees, valued on the basis of a method that takes into account the re-investment risk.

¹⁷ - Socially responsible investment is an approach that consists of integrating environmental, social and/or governance criteria in the investment and portfolio management decisions.

A prudential framework

The Scheme's financial equilibrium

RAFP is subject to strict prudential regulation stipulating that:

- the Scheme's commitments to its beneficiaries must be fully covered by assets,
- the likely present value of these commitments must be calculated using a prudent discount rate (i.e. consistent with the conservatively estimated return of the Scheme's assets).

The Board of Directors is responsible for ensuring this financial equilibrium on a permanent basis.

A defined strategic framework

The central pillar of the Scheme's asset and liability management is its obligation to cover commitments. (This goal is complemented by that of maintaining the purchasing power of annuities). Finally, the strategic framework is rounded out by the goal of maintaining adequate solvency to deal with the Scheme's risk exposure.

A challenging environment ...

RAFP began investing in 2005, when nominal interest rates offered by eurozone sovereign bonds were particularly low.

The Scheme also entered the euro zone equity markets as they were nearing a relatively high level (with the CAC 40 around 6,000 points). Thanks to a constant allocation throughout the crisis, however, the Scheme was also able to invest in

equities during periods when valuations became particularly attractive. Given the contrasting yield trends for bonds issued by the various euro zone countries, the bond portfolio's average yield remained unchanged relative to the previous year. Overall, the Scheme's solvency improved in 2010 thanks to the Scheme's prudent policy and the favourable equity market performance.

... but a favourable horizon

Although established only recently, RAFP will experience a lengthy growth phase. With substantial net cash inflows, the Scheme is not hampered by short-term management constraints.

The Scheme is thus able to hold portfolio securities for the long term.

A conservative approach

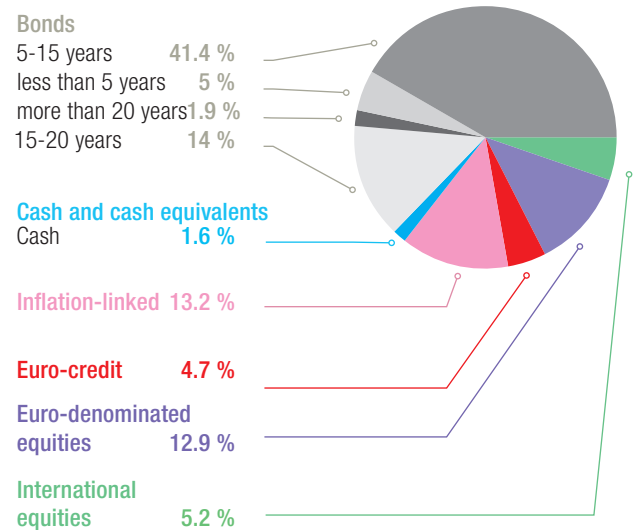
Although the economic environment remains fraught with uncertainty, the Scheme is well positioned on a stable base. The Board of Directors has in effect favoured a prudent definition of the Scheme's main parameters, which resulted in an initial technical return of 4% that has since risen at a modest rate (4.075% in 2010).

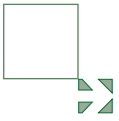
POINT PURCHASE VALUE AND SERVICE VALUE

Year	2005	2006	2007	2008	2009	2010	2011
purchase value (€)	1	1.017	1.03022	1.03537	1.04572	1.05095	1.05620
change	-	1.70 %	1.30 %	0.50 %	1 %	0.50 %	0.50 %
purchase value (€)	0.04	0.0408	0.04153	0.04219	0.04261	0.04283	0.04304
change	-	2.00 %	1.80 %	1.60 %	1 %	0.50 %	0.50 %
technical return	4.000 %	4.011 %	4.031 %	4.075 %	4.075 %	4.08 %	4.08 %

PORTFOLIO COMPOSITION

by asset class, as a % of market capitalisation





The Scheme's financial equilibrium *(continued)*

Meanwhile, the Scheme's discount rate is set at a very prudent level compared with the practices of other European pension funds. Finally, the target portfolio reflects prudent management. It includes a substantial portion of sovereign debt, balanced by gradual diversification into new asset classes. Specifically, the Scheme seeks to invest in assets offering protection against the threat of inflation.

Fine-tuned data

ERAFP's mortality table is derived from the regulatory table certified in 1993 as adjusted by an independent actuary.

Each year, the management entity reconciles this table with observed data. This review ensures that the applied data are sufficiently prudential.

In addition, the steady increase in the accrual rate of beneficiaries' retirement accounts significantly improves the quality of the individual data used to determine liabilities.

Scheme parameters

Each year, the Board of Directors sets the

Scheme parameters:

- purchase value,
- service value of the point.

By adopting new point values for 2010, the Board sought to demonstrate prudence by keeping the technical return at 4.075%.

It also demonstrated its commitment to inter-generational equity. The modest revaluation in the service value of the point reflects the fact that some of the Scheme's current characteristics are slightly more favourable to older beneficiaries, for whom a lump sum payout after a few years of contributions represents an advantageous transaction.

Audited financial statements

In 2010 as in all previous years, the Board of Directors only began deliberations on the previous year's financial statements in the second half.

This time lag is closely related to the system for processing and verifying data submitted by employers, which ends on 30 June. Ultimately, this time lag should be further reduced as employers get up to speed and become more familiar with the system.

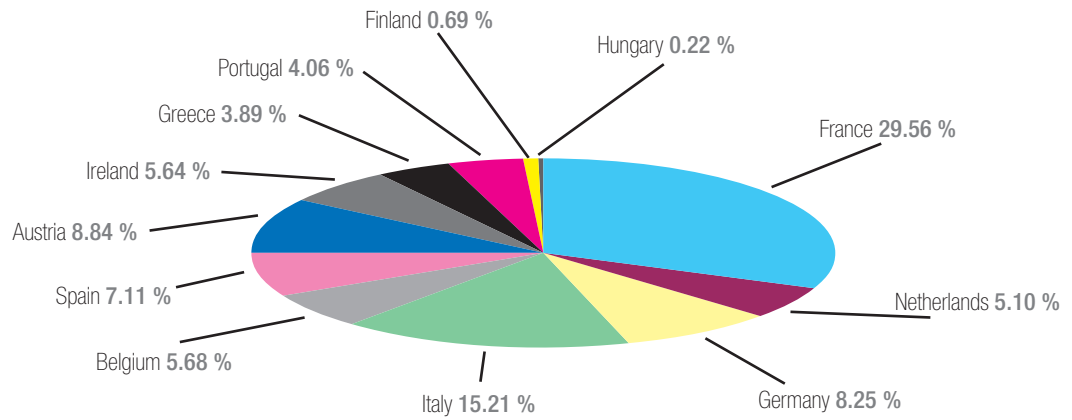
After auditing the valuation process for reserves, the independent auditors again certified the fairness and accuracy of the 2009 financial statements without any reservations.

Fully covered commitments

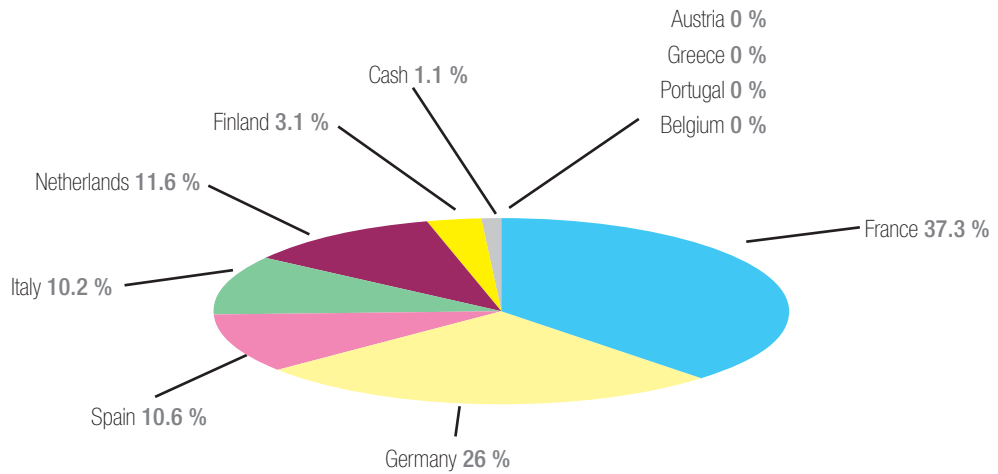
ERAFP's prudent management policy enabled it to record a coverage ratio of 117.7% at end-2010¹⁸. In keeping with its regulatory obligations, the Scheme has a robust model that serves the interests of its contributing beneficiaries.

¹⁸ - Estimate prior to the finalisation of the 2010 financial statements.

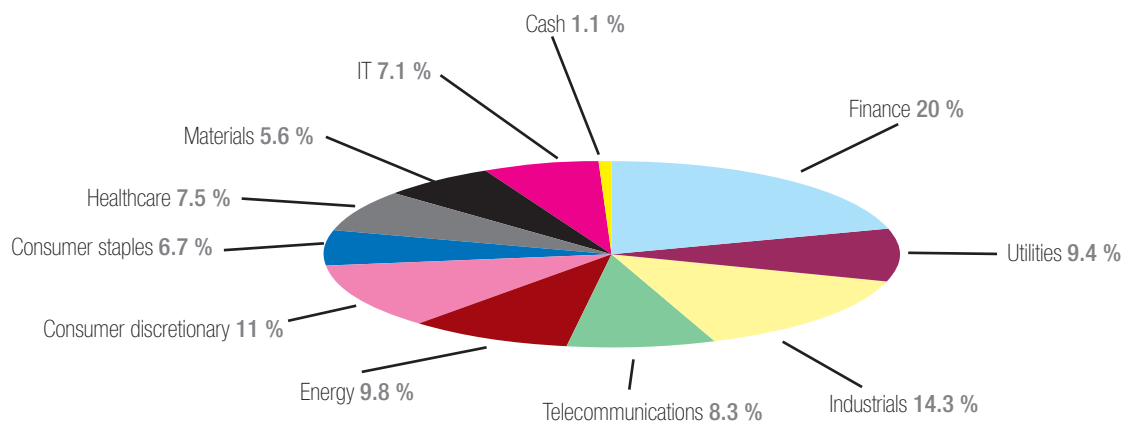
**BREAKDOWN OF BONDS BY COUNTRY
NET CARRYING AMOUNT AT 31/12/2010**



**BREAKDOWN OF EQUITIES BY COUNTRY
MARKET VALUE AT 31/12/2010**



**BREAKDOWN OF EQUITIES BY ECONOMIC SECTOR
MARKET VALUE AT 31/12/2010**



FRENCH PUBLIC SERVICE ADDITIONAL PENSION SCHEME



The financial policy

Nearly €10 billion in assets

Since the inception of the Scheme, the investment policy initiated by the Board of Directors was designed to reconcile financial performance, risk management and socially responsible commitment in a single approach.

Like any other long-term investor, ERAFP seeks to optimise the return on its portfolio while maintaining its risk exposure at an acceptable level. The equity allocation was increased within the limits set by regulations. In 2009, new investment classes dedicated to non-eurozone international equities and corporate bonds, were created.

In 2010, ERAFP invested more than €1.7 billion, mainly in sovereign bonds but also 29.4% in equities, consistent with the strategic change in allocation authorised by the Board of Directors. Total assets therefore increased to €9,852 million.

At end-2010, the effective return of the fixed-rate bond portfolio was 4.38%, compared with 4.43% the previous year.

As for the equity portfolio held by the Scheme in the form of FCP ("Fonds Commun de Placement") investment

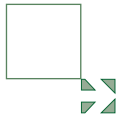
funds, the market recovery reduced the unrealised capital losses on this asset class, which accounts for 18.3% of the total portfolio¹⁹. The RAFFP does not have any so-called toxic assets.

Finally, ERAFP's holding period is based on a long-term outlook and does not seek immediate returns. The Scheme's steady growth ensures that it will have positive cash flows over a long period and enables it to hold its assets without having to sell them before it reaches maturity, i.e. not before 2045-2050.

The Scheme continued its diversification policy, with the renewal of the euro zone equity mandates and investments in listed small-cap equities, which will begin in 2011. Further diversification towards real estate is now possible following the change in regulations applicable to the Scheme²⁰.

19 - Market value at 31 December 2010.

20 - Decree and notice of 30 December 2010.



The sovereign debt crisis in 2010

For most developed countries, 2010 marked the third consecutive year of the crisis. The bank rescues and budgetary stimulus measures significantly increased sovereign debts, even as the ageing of the countries' populations is placing increased pressure on funding for social security systems. After the US real estate market, structured credit products and equities suffered in 2008, now sovereign debt of European peripheral countries is the source of trouble.

For some countries such as Greece, the crisis resulted from both the global economic crisis and endemic factors: high level of debt (approximately 120% of GDP), budget deficit greater than 13% of GDP. This crisis was exacerbated by the lack of transparency practiced by the country in the presentation of its debt and deficit.

The Greek economy was one of the euro zone's most dynamic from 2000 to 2007, with 4.2% average annual growth thanks in particular to foreign investment. The drop in interest rates (following the country's joining the euro zone) enabled Greece to finance major structural deficits. Since it joined the euro zone, the country's

public debt has always exceeded 100% of GDP. The financial crisis and ensuing economic crisis hit Greece especially hard. Its two main sectors, tourism and maritime transport, were severely impacted and saw their revenues plummet by 15% in 2009. Greece's unemployment rate reached 10.3% in the fourth quarter of 2009, compared with 7.9% the previous year. Young workers between the ages of 15 and 29 as well as women have borne the brunt of the crisis, as their respective unemployment rates were 20.4% and 14%, nearly double that of men.

Chronology of events

December 2009

Fitch Ratings and Standard & Poor's downgraded Greece's financial rating from A- to BBB+.

April 2010

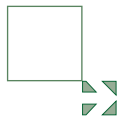
11 April: the heads of State of the euro zone countries agreed on a bail-out package for Greece that relies on €30 billion in bilateral loans (three year terms at approximately 5% interest). The loans will be issued by the countries on a pro rata basis linked to their equity interest in the ECB.

May 2010

7 May: the European Council validated a €110 billion bail-out package for Greece consisting of 3-year loans (comprising €80 billion loaned by euro zone countries and €30 billion by the IMF). In exchange, Greece was required to adopt a series of measures whose implementation will be closely watched by the lenders: the IMF and euro zone countries. 10 May 2010: to stave off an extension of the crisis, the European Union together with the IMF created a €750 billion stabilisation fund (the European Commission is authorised to borrow €60 billion, €440 billion would be contributed by the States and €250 billion by the IMF).

June-July 2010

14 June: Standard & Poor's downgraded Greece's rating, which fell below BBB-.



The financial policy (*continued*)

After Greece, other European countries were also affected by the crisis.

Ireland

In contrast to Greece, Ireland had a long record of economic growth and healthy public finances. However, Ireland was much more affected by the subprime mortgage crisis in 2008, notably as a result of the real estate market bubble. In 2010, the country experienced a serious banking crisis, as several banks on the verge of bankruptcy had to be bailed out by the State. The Irish government, which was quickly overwhelmed by the scale of the crisis, had to appeal for help.

A rescue package was therefore established at European level with the European Financial Stability Fund (EFSF), which called for the granting of loans of €80 billion to €90 billion. In December 2010, *The Independent* disclosed that the Central Bank of Ireland had created money to support its banks. Although this type of transaction is allowed by the European treaties, it nevertheless reflects the gravity of the Irish banking and financial situation.

Portugal

As from late April 2010, the financial markets' persistent mistrust of Greece led investors to

wonder about Portugal's stability. Like Greece, this country saw its borrowing rate rise following the downgrade of its sovereign debt rating from A+ to A- by Standard & Poor's. Although Portugal shares some similarities with Greece, its overall indebtedness and deficit are not as high.

In 2009, Portugal's budget deficit and public debt were 9.4% and 77.4% of GDP, respectively, compared with 13.6% and 115% for Greece.

Spain

Standard & Poor's downgraded Spain's credit rating from AA+ to AA, citing the country's weak economic growth outlook following the bursting of the speculative bubble in the property and construction sectors.

Spain's budget deficit swelled in 2009, totalling 11.2% of GDP according to Eurostat, well above the 3% limit allowed under the European Stability and Growth Pact. The country's socialist government pledged to reduce the deficit to 3% in 2013, but Standard & Poor's observed that the budget deficit was likely to continue to exceed 5% of GDP until 2013. Indeed, Spain's surging budget deficit resulted from the collapse of the country's property sector, which had formed the basis of the country's economic model and propelled its growth up until the

crisis.

The downgrading of Spain's rating is even more worrying given the country's weight in the euro zone, significantly greater than that of Greece or Portugal.

If Spain were to seek assistance from the EU, that request would test the limits of the support mechanisms established at the EU level.

An original and rigorous SRI approach

The Scheme's SRI system, which is particularly rigorous, has several original features:

- Charter and guidelines designed by the Board of Directors and implementation placed under control of the Board,
- "100% SRI" system, i.e. one intended to apply to all assets, for all asset classes and taking account of their specificities,
- the application of the best-in-class principle²¹ and a bonus system that makes it possible to recognise efforts made by issuers in order for scoring to motivate each issuer to make further progress,
- key criteria that support the Scheme's engagement policy.

THE CHARTER'S FIVE VALUES

- Rule of law and human rights
- Social progress
- Democratic labour relations
- Environment
- Good governance and transparency

²¹ - As regards socially responsible investment, an approach that consists of selecting issuers deemed the most responsible among a group of comparable issuers.

An original SRI approach

The SRI Charter

In a resolution adopted on 10 November 2005, ERAFP's Board of Directors decided to implement an investment policy that consistently and permanently takes into account the pursuit of the public interest. Adopted in March 2006, the SRI Charter specifies the orientations, content and resources needed to apply this policy of socially responsible investment.

The Scheme's SRI approach is unique in several ways:

- the Board of Directors oversees the SRI approach internally; while the Board and the management naturally rely on outside service providers – consultants, rating agencies – the Board itself defined the approach to satisfy the demands and values of the Board members, and they oversee its permanent control.

- the policy's content is "100% SRI", i.e. the SRI Charter applies to all of the Scheme's investments and takes into account the specificities of each asset class.

The Scheme's SRI approach is global and integrated:

- it applies not only to all the Scheme's investments but also to all investment phases (pre-asset-selection and post-investment, when the securities or assets are monitored following the investment),

- it is based on a broad range of values applied across all investments, instead of on an array of theme-specific criteria,

- it takes into account the links between different challenges and among various issuers instead of addressing each situation separately.

It is therefore noteworthy, for example, that:

- the analysis of a company's environmental performance is incomplete if it does not take into account the impact of its products;

- it makes no sense to exclude economic sectors when the portfolio includes issuers from other sectors with close ties to the excluded sectors.

The key criteria

These criteria make it possible to monitor the most emblematic of the Charter's five values. They are closely monitored in order

to allow the Scheme to conduct an active engagement and communication policy.

These criteria are:

- limitation of greenhouse gas emissions,
- non-discrimination and promotion of equal opportunities for women,

- fight against corruption,

- respect for freedom of association and the right to collective bargaining,

- quality of contractual guarantees for employees,

- employment growth,

- forward-looking employment strategies and training,

- ratio between employee earnings and payments to shareholders (for companies).

THE FIVE VALUES OF THE CHARTER

Rule of law and human rights

- Fight against discrimination in all forms, particularly gender bias,
- Freedom of conscience and expression,
- Human rights at the workplace,
- Fight against corruption and money-laundering, etc.

Social progress

- Compliance with fundamental rules of labour law,
- Contribution to employment growth,
- Implementation of forward-looking employment strategies,
- Quality of contractual guarantees,
- Ratio of employee earnings and payments made to shareholders (for companies), etc.

Democratic labour relations

- Respect for freedom of association and the rights of trade unions and employee representatives,
- Promotion of collective bargaining,
- Existence and role of participative and advisory bodies,
- Improvements to health, safety and security conditions in the workplace and creation of health and safety committees (for companies), etc.

Environment

- Environmental impact prevention (water, air, waste, etc.),
- Management of environmental risks (pollution, management of life-cycle impacts of products or services),
- Limitations of greenhouse gas emissions,
- Preservation of biodiversity, etc.

Good governance and transparency

- Good governance (balance of powers and effectiveness of deliberative and executive bodies, effectiveness of audit and control mechanisms, method for determining executive remuneration, etc.),
- Proper application of legal and tax rules,
- Compliance with ethical rules (rejection of tax havens, fight against money-laundering, etc.),
- Open approach to relations with all stakeholders,
- Transparency concerning operations and financial performance, etc.



The SRI evaluation system

The rating method

The SRI guidelines, adopted in March 2007, put into practice in detail and “describe” the values and implementation principles set forth in the Charter. Each value is broken down by separate criteria, and each criterion is associated with indicators.

The ratings are assigned:

- based on criteria,
- and then totalled for each value, with weightings ranging between 1 and 3 for each criterion.

The final issuer rating is the simple average of the ratings assigned for the five values, with each value given the same weighting.

Exclusion criteria

The Charter establishes three criteria for excluding State-issued securities, and in some cases local authority issues, from investment. These criteria are:

- rejection of the death penalty,
- rejection of the use of child soldiers,
- rejection of the practice of torture.

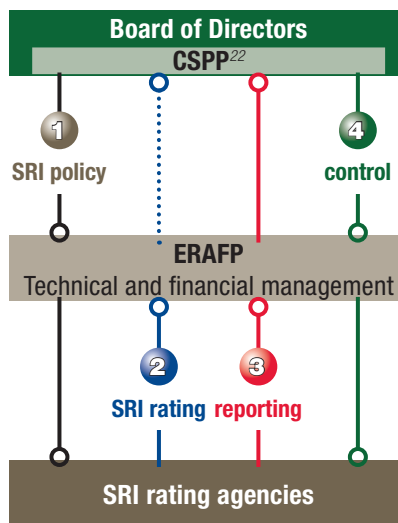
Best-in-class approach

The Charter uses a best-in-class approach reflected in the guidelines through quantitative rules that define the scope of eligible investments. These rules are detailed for each asset class in order to encourage progress. This implies:

- not excluding any business sector, even those that other investors might consider unacceptable, but promoting the most responsible issuers within each sector and, more generally, within comparable issuer groups,
- rewarding progress by awarding bonus points to issuers that have made efforts to improve,
- monitoring and working with issuers that are making steady progress.

ORGANISATIONAL MODEL FOR THE SYSTEM

For direct bond management



1 - SRI Policy

- Definition of investment policy
- Oversight of investment guidelines
- Ruling on differences of interpretation
- Decisions on changes to Charter and guidelines

2 - SRI Rating

- A priori SRI data for ERAFP management
- Red flags

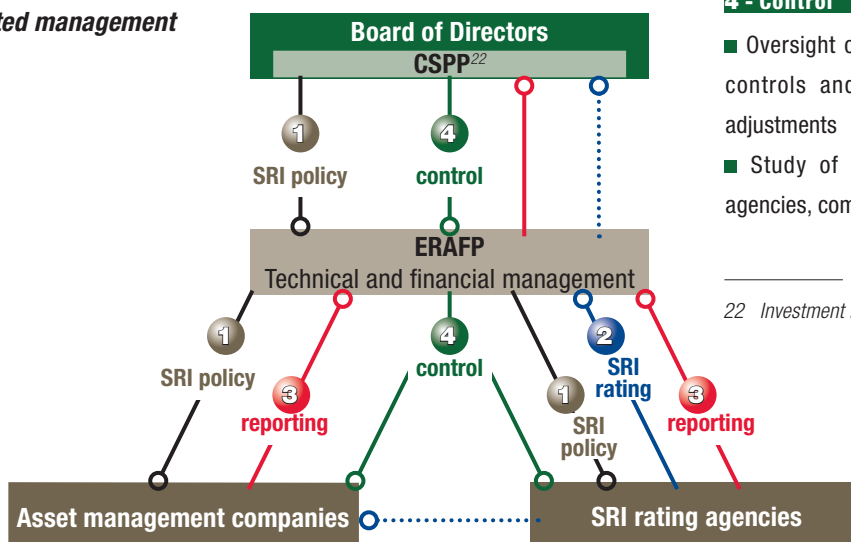
3 - Reporting

- Quarterly reporting
- Regular updates

4 - Control

- Oversight of SRI policy implementation, controls and requests for investment adjustments
- Study of annual reports (managers, agencies, committee, etc.)

Delegated management



²² Investment Policy Monitoring Committee

Roles of various bodies

Board of Directors

The Board of Directors:

- sets the general direction for the SRI policy. To be truly responsive, the Board needs to be consistently and fully informed, not just brought up to date after the event. Additional measures assure this proximity, notably regular meetings of the Investment Policy Monitoring Committee (CSPP);
- oversees the implementation of the SRI policy, notably through the work performed by the CSPP;
- decides on any changes to the guidelines based on preparatory work by the CSPP.

The management of ERAFP

The management entity plays several roles:

- directly implements the SRI policy for bond investments managed in-house, (under the Scheme's current regulations this involves sovereign and similar bonds);
- verifies the application of the SRI policy by external asset management companies, taking any necessary measures to ensure compliance;
- ensures that the contracts signed with

external rating agencies are properly executed;

- reports to the Board of Directors and the CSPP on the implementation of SRI policy and provides support for preparatory work performed by directors.

Rating agencies

After participating in drafting the guidelines, the rating agencies – currently Vigeo and its partner Oekom – are responsible for analysing the asset portfolio on a quarterly basis and providing detailed reporting to ERAFP management and the Board of Directors. The agencies also provide continuous monitoring of issuers. In 2010, following a tender to select a non-financial rating agency, the Vigeo and Oekom mandates were renewed.

Asset management companies

The management of asset classes other than sovereign and similar bonds is delegated to asset management companies.

In 2010:

- four companies managed equities of large listed corporations within the euro zone, each

with an identical mandate;

- two companies managed equities of large, listed international companies (excluding emerging countries), each with identical mandates;

- one company managed investment grade euro-denominated corporate bonds.

For euro zone equities, in 2010 ERAFP launched a tender to select investment firms in order to replace the current asset managers, whose mandates end in 2011. This tender, which is innovative in several ways, is described in greater detail in the last section of this report.

SRI policy implementation and results

- With regard to sovereign bonds, the portfolio's SRI performance deteriorated slightly in 2010. All investments nevertheless remain compliant with ERAFP's SRI system, and the portfolio enjoys higher overall SRI ratings than the benchmark index.
- After improving significantly in 2009, the SRI ratings of local authority securities held by RAFP stabilised. On average, however, they remain below those of the benchmark. As these relatively low ratings were mainly due to a lack of transparency, ERAFP management worked with the respective local authorities in order to encourage them to participate in the SRI rating process. Adjustments in the rating method and process will also be made in 2011 in order to better recognise the specificities of this type of issuer.
- As regards the mandate to manage corporate bonds and the euro zone equities and international equities mandates, the portfolio has average SRI ratings well above those of the benchmark. Moreover, for these asset classes, the portfolio's SRI performances showed clear improvement in 2010.



Overview

To reduce the number of cases of non-compliance with the SRI policy, ERAFP management, in agreement with the Board of Directors, meets regularly with asset managers and interacts directly with issuers.

Sovereign bonds

These securities, which are managed directly by ERAFP, account for the large majority of the Scheme's assets and generally obtain higher SRI scores than the benchmark index. Although all countries represented in the portfolio are eligible as regards ERAFP's SRI policy, the portfolio's outperformance narrowed in 2010, given the very low returns generated by the countries offering the highest SRI ratings and non-negligible changes in the make-up of the benchmark index.

Local authority bonds

ERAFP is a relatively major investor in these thinly traded securities, which are managed directly by ERAFP. Among the bonds held by the Scheme are issues from four local authorities with relatively low SRI ratings, largely reflecting the lack of transparency. ERAFP worked with these local authorities to

encourage them to participate actively in the rating process. These discussions highlighted the growing awareness by local authorities of the expectations of "responsible" investors in terms of ESG transparency, as well as the need for these investors to adapt their assessment tools to the specificities of such issuers. Following substantial improvement in 2009, the ratings of the local authorities stabilised in 2010. These ratings remain unsatisfactory, however, and ERAFP will continue to pursue its engagement policy in 2011.

Corporate bonds

The favourable SRI results demonstrated in 2009 were confirmed in 2010, as the portfolio further outperformed the benchmark index. The outperformance is greatest for this asset class.

Equities

As regards investments in euro zone and international equities, ERAFP's portfolio has higher overall SRI ratings than the benchmark index. In 2010, this trend was further reinforced, as the euro zone equities portfolio again exceeded its 2007 SRI rating,

while the international equities portfolio's outperformance increased in an essentially uninterrupted fashion throughout 2010.

According to the rating agency, the number of instances of non-compliance with the SRI system decreased significantly in 2010, although it remains non-negligible. ERAFP meets with the asset managers regularly in order to reconcile their viewpoints with the Vigeo ratings.

The asset managers have also implemented active voting policies in order to oppose resolutions that run against the interests of the Scheme.

EUROPEAN GOVERNMENT BOND PORTFOLIO

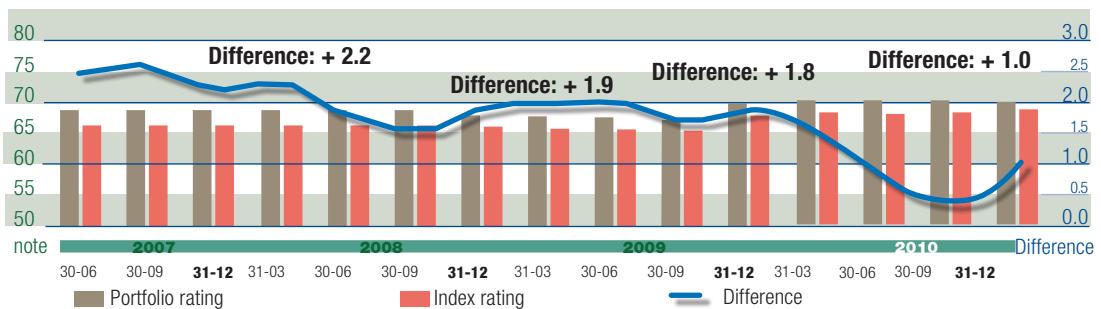
As of 31 December 2010

	Summary ratings			
	average rating portfolio	average rating index	difference	difference as of 31-12-09
Rule of law and human rights	62.5	60.6	1.9	3.0
Social progress	49.2	47.5	1.7	2.4
Democratic labour relations	83.2	82.6	0.6	1.3
The Environment	63.1	62.2	0.9	1.4
Good governance and transparency	89.5	89.6	-0.1	1.0
Overall rating	69.5	68.5	1.0	1.8

Performance trend by issue

	average portfolio rating		Trend since June 2007		
	31-12-2010	30-06-2007	Effect of asset manager actions	Effect of Oekom rating changes	Overall impact
Rule of law and human rights	62.5	68.7	-2.7	-3.5	-6.2
Social progress	49.2	50.8	-2.3	0.6	-1.6
Democratic labour relations	83.2	85.7	-2.0	-0.5	-2.5
Environment	63.1	46.7	-1.3	17.6	16.3
Good governance and transparency	89.5	91.5	-3.2	1.2	-2.1
Overall rating	69.5	68.7	-2.3	3.1	0.8

Overall rating: comparative trend in portfolio and benchmark index



The bond portfolio

Sovereign bonds

Sovereign bonds accounted for nearly 70% of the Scheme's bond portfolio at 31 December 2010. They include fixed-rate and inflation-linked bonds issued by euro zone States as well as:

- bonds guaranteed by these States, such as bonds issued by Kreditanstalt für Wiederaufbau, the German public-sector development bank,
- bonds issued by OECD countries not in the euro zone but that issue euro-denominated bonds, such as Hungary.

All issuers in the portfolio satisfy the ERAFP filter, according to Oekom rating. As regards the overall SRI rating, all States whose bonds are included in the ERAFP portfolio have received an average rating of above 50/100. In addition, the average rating of ERAFP's portfolio is one percentage point above that of the benchmark index. This non-negligible

outperformance¹ nevertheless contracted in 2010, and although ERAFP outperformed the benchmark index for four of the five values, it underperformed in "Good governance and transparency".

The narrowing of the difference is more significant over a three-year period, since it was 2.2 points in December 2007. In absolute terms, however, the portfolio's average rating has improved by 0.8 points since June 2007, the initial assessment date. The deterioration in the portfolio's relative SRI performance despite this increase is due to the marked improvement in the average rating of the benchmark during this period.

The changes in the SRI ratings of the portfolio and benchmark index can be broken down into the respective impacts of country ratings revisions performed by Oekom and changes in the composition of the portfolio and benchmark index. Indeed, although the

"ratings change impact" was positive in both the portfolio and the benchmark index, the manager's choices reduced the portfolio's SRI performance while the changes in the composition of the index drove its SRI ratings higher.

The negative impact of transactions carried out within the portfolio since June 2007 resulted from the portfolio's diversification towards issuers² satisfying ERAFP's SRI requirements but nevertheless:

- have average SRI ratings that are lower than those of the other euro zone countries,
- offer higher returns along with better overall portfolio diversification.

To some extent, a positive correlation is observed between the financial solidity of the States and their SRI rating³. This point will be discussed in greater detail in the last section of this report.

¹ - A one point outperformance is non-negligible to the extent that significant overlap exists between the universe of the benchmark index and ERAFP's investment field following the application of its SRI filter.

² ERAFP's initial investment in sovereign bonds involved French government bonds with a high SRI rating. Consequently, any diversification towards government bonds of less highly rated countries necessarily led to a decrease in the portfolio's average SRI rating.

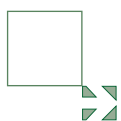
³ The Irish example nevertheless illustrates that the two cannot be considered equivalent, since the country's SRI rating is relatively high and before the crisis the country was considered to have a healthy financial situation.



LOCAL AUTHORITY BOND PORTFOLIOS

As of 31 December 2010

	summary ratings				
	average rating portfolio	index	<i>difference</i>	<i>difference</i> 31-12-09	<i>difference</i> 31-12-08
Rule of law and human rights	49.3	55.3	-6.0	-6.4	-12.3
Social progress	44.0	45.3	-1.2	-0.6	-14.7
Democratic labour relations	51.5	49.4	2.1	-2.3	-3.3
Environment	52.35	53.4	-0.9	-0.7	-11.1
Good governance and transparency	40.7	52.4	-11.7	-11.4	-18.6
Overall rating	47.6	51.2	-3.5	-3.3	-12.0



The bond portfolio (*continued*)

The marked reduction in the SRI performance difference between the portfolio and benchmark index from March to September 2010 also reflects the reduced weight in the index of certain countries whose SRI performance was below the euro zone average and whose financial ratings were downgraded. For these States shaken by the financial crisis and whose bonds are overweighted in ERAFP's portfolio, transparency problems were mentioned on several occasions. This issue is reflected in particular in the portfolio's underperformance relative to the index in the area of Good governance and transparency.

Finally, it should be noted that from June 2007 to end-2010, the portfolio's rating increased significantly in the Environment category. This increase was due to the improved ratings given by Oekom to State issuers, whose bonds were held in the portfolio, for their environmental performance:

- the method used to calculate country ratings related to greenhouse gas emissions limitations was modified in 2009 so as to more accurately reflect actual performances by States in the greenhouse gas emissions area;
- the environmental performance of some southern European countries represented in the portfolio improved thanks to substantial political commitments in favour of renewable energies.

Local and regional authority bonds

ERAFP is a relatively large investor in the local authority bond segment. Indeed, the lack of liquidity in this market is not a problem for an investor such as ERAFP, which is structured to hold bonds until they mature. This portfolio was valued at €367 million at end-2010, or 4.6% of the total bond portfolio. At 31 December 2010, ERAFP's portfolio included 10 bond lines from 16 issuers, as one of the bonds was jointly issued by seven German federal states.

ERAFP innovated by launching a tender for a rating agency on this asset class. So far, the Scheme appears to be the only investor to systematically incorporate SRI analyses in its investment process for this asset class.

Local authorities are not used to interacting with rating agencies and do not yet appear to have the resources and structures needed to prepare reports with comprehensive coverage of the environmental, social and governance impacts of their activities and to participate actively in the rating process imposed by Vigeo.

Meanwhile, non-financial ratings agencies have only limited demand from investors for SRI assessments of local authorities. As a result, they have limited resources to develop

research and ratings processes that are ideally adapted for the specificities of these types of issuers.

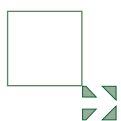
In markets that enjoy only limited liquidity, the mere possibility that ERAFP might stop its securities purchases can provide an incentive for the respective local authorities to participate in the ratings process in order to improve the relevance of the ratings. Thus in 2008 ERAFP worked with 26 rated authorities to explain its investment policy to them, and in 2009 it worked with a limited number of local authorities to notify them that ERAFP management would not be able to raise the level of investments in their securities unless they improved their ratings. In 2010, ERAFP continued its efforts with the support of Vigeo, writing to all rated local authorities and establishing more direct contacts with the authorities represented in the portfolio whose SRI ratings were deemed less than satisfactory. These discussions confirmed:

- the growing awareness by local authorities of responsible investor expectations in terms of transparency on ESG criteria;
- a mismatch between some aspects of the ERAFP guidelines and the ratings methods of the agencies on the one hand and the specificities of this type of issuer on the other.

CORPORATE BOND PORTFOLIO

As of 31 December 2010

	summary ratings			Difference 31-12-09
	average rating portfolio	index	Difference	
Rule of law and human rights	60.4	54.1	6.3	4.5
Social progress	41.2	34.3	6.9	4.2
Democratic labour relations	52.6	44.0	8.5	6.4
Environment	48.6	44.0	4.6	5.3
Good governance and transparency	49.9	45.7	4.2	1.5
Overall rating	50.5	43.5	6.1	4.4



The bond portfolio (*continued*)

This process is part of an engagement policy with issuers. It enables the local authorities to familiarise themselves with the expectations of SRI investors, of which there are not many for this asset class but whose influence is sure to grow steadily in the years ahead. For ERAFP, these discussions are also part of a continuous improvement process in the implementation of its SRI approach. In 2011, ERAFP will work with its SRI research providers to better adapt the rating methods and tools to the specificities of the local authorities, and where necessary to make the necessary adjustments to its assessment guidelines.

Although the results still have to improve, this engagement approach already has had a positive impact. On average, the SRI ratings of ERAFP's portfolio are below those of the benchmark but made significant progress from December 2008 to December 2010. This improvement is due not only to a better understanding of the rating process by some local authorities whose securities are held in ERAFP's portfolio but also to the bonus system for SRI ratings of issuers making progress from one year to the next. The very slight increase in the portfolio SRI underperformance between 2009 and 2010 resulted more from a change in the composition of the benchmark than any deterioration in the SRI performances of the local authorities represented in the portfolio.

As of 31 December 2010, four of the ten securities in ERAFP's portfolio still had an overall rating of less than 50/100 and were therefore ineligible under the ERAFP guidelines, according to the analysis by Vigeo. However, two of these issuers had overall ratings of 49/100 and were therefore very close to the average. It should also be noted that the investments were made before the SRI ratings were available.

Supra-national bonds

ERAFP's portfolio contains bonds of only one "supra-national" institution, the European Investment Bank (EIB), which satisfies ERAFP's filter, according to Oekom.

Corporate bonds

In 2009, an investment mandate was awarded for euro-denominated corporate bonds. This mandate does not include sovereign bonds or bonds receiving an explicit State guarantee, bonds issued by local authorities or supra-national bonds.

Issuers whose bonds may be purchased pursuant to this mandate may fall into four categories:

- financial companies,
- non-financial companies,
- collateralised bond issuers,
- government agencies, which are private- or public-sector entities more or less controlled by States or local authorities.

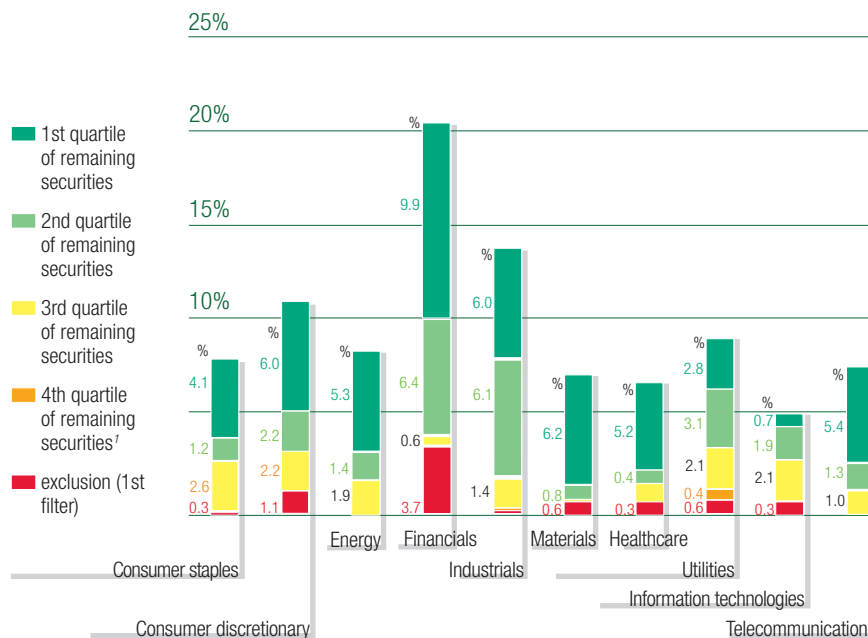
The corporate bond portfolio was analysed for the first time in December 2009 and on average it received SRI ratings well above those of the benchmark across all value domains. In 2010, this SRI outperformance widened further and the portfolio's average SRI rating now exceeds that of the benchmark by more than 6 points.

CONSOLIDATED EURO ZONE EQUITY PORTFOLIO

As of 31 December 2010

	summary ratings			
	average rating portfolio	average rating index	difference	difference 31-12-09
Rule of law and human rights	59.1	55.0	4.1	3.2
Social progress	41.8	38.0	3.8	3.0
Democratic labour relations	49.4	46.4	3.0	2.9
Environment	50.8	46.8	4.0	3.7
Good governance and transparency	50.9	48.5	2.4	1.7
Overall rating	50.4	46.9	3.5	2.9

breakdown of portfolio by sector and SRI rating level



1 - ERAFP's best-in-class approach to equities is applied according to the following rules:

- Companies whose rating for at least one value domain is less than half the average rating of its business sector (first filter) are excluded,
- All companies that pass this first filter are then ranked according to their overall SRI rating; the lowest-rated companies are then excluded.

The equity portfolio

Euro zone equities

The SRI analyses presented in this report for listed large- and mid-cap euro zone equities begin as from 31 December 2007, when Vigeo was first able to provide analyses across the full scope of ERAFP's guidelines. Vigeo's research now covers 96.2% of companies included in the MSCI EMU⁴ index, which corresponds to 99.1% of this index's value. The analyses presented on the opposite page can therefore be considered representative of the entire portfolio.

Based on Vigeo's analysis as of 31 December 2010, the portfolio's average SRI rating is well above that of the benchmark index across all value domains. The average difference even grew in 2010, rising from 2.9 points at end-2009 to 3.5 points currently.

As of 31 December 2010, 52% of the portfolio was invested in companies rated in the first quartile of eligible companies, i.e. companies that received the highest ratings in their sector (dark green in the chart on the opposite page). The portfolio's best-in-class profile was therefore strengthened, since companies in the first quartile represented 45% of the fund in 2009.

This improvement is also reflected in the number of companies represented in the

portfolio that fail to pass through at least one of ERAFP's SRI filters (in orange and red in the chart on the opposite page), according to Vigeo. In December 2009 there were 41 such companies and they accounted for 10% of the total value of the euro zone equities portfolio. While further progress is needed, there were nevertheless only 14 such companies making up 7.5% of the portfolio value at end-2010.

Over a longer time span, the portfolio's average SRI rating improved but the improvement was not continuous (see chart on following page). In the initial period from end-2007 to end-2008, the portfolio's average rating fell fairly substantially, as did the outperformance relative to the index. This unfavourable development was due to the gradual integration into the rating of certain ERAFP criteria – in particular in the social progress and democratic labour relations domains – not originally factored in by Vigeo. This integration process began in the last quarter of 2007. In the event, companies turned out to be generally opaque as regards these criteria and therefore received low scores.

Nevertheless, the introduction of these new criteria does not fully explain the

discrepancies observed, and in order to reduce them as much as possible, ERAFP is maintaining ongoing dialogue with the fund managers. Moreover, the fund allocation amongst fund managers takes into account the SRI performance of each FCP fund.

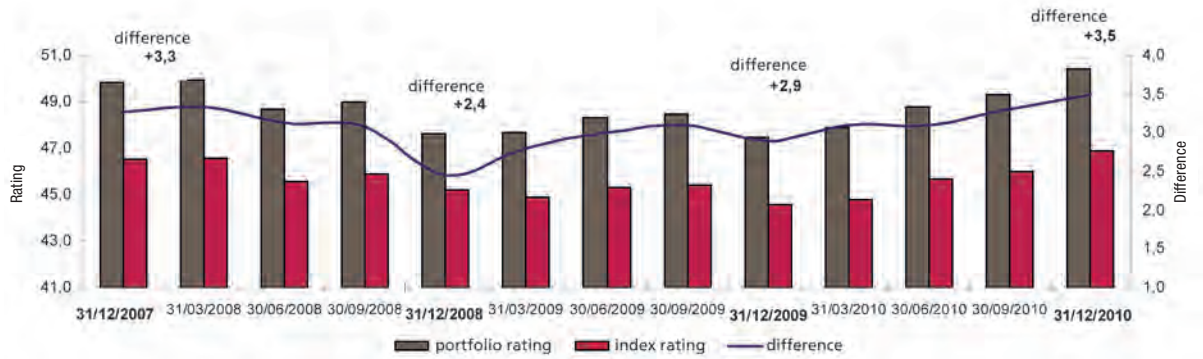
The improvement of the euro zone equity portfolio's SRI performance over the past two years appears to confirm the relevance of this approach. While in absolute terms the increase in the portfolio's average SRI rating partially reflects the improvement in the practices of companies in the investment universe (the index's average SRI rating also increased), the widening spread between the portfolio and the index can be attributed to:

- the investment choices of the fund managers,
- the efficient investment allocation amongst the various investment funds decided by ERAFP.

In conclusion, the portfolio's average rating is now 50.4, greater than the end-2007 rating of 49.8, and the spread relative to the index widened slightly from +3.3 at end-2007 to +3.5 at end-2010).

⁴ - The MSCI EMU is an index that measures the market performance of euro zone equities

EURO ZONE EQUITY PORTFOLIO
Rating

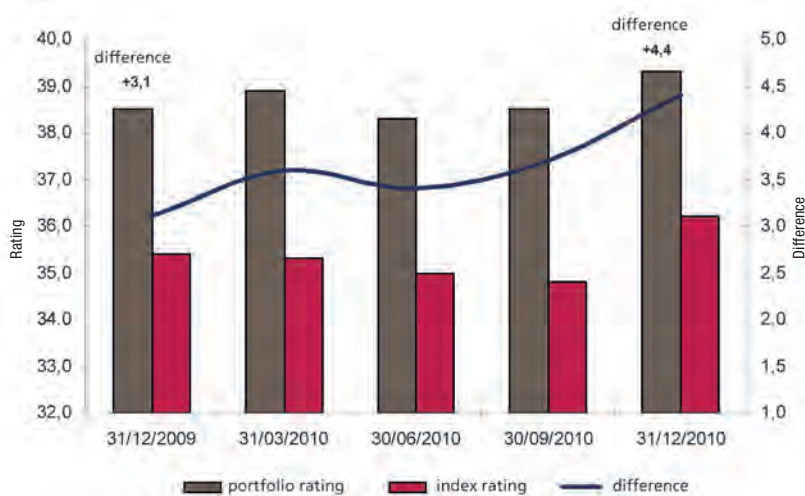


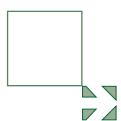
INTERNATIONAL EQUITIES PORTFOLIO
summary ratings

As of 31 December 2010

	summary ratings			
	average rating fund	index	difference	difference 31-12-09
Rule of law and human rights	47.9	45.9	5.0	2.0
Social progress	27.7	24.7	4.4	3.0
Democratic labour relations	32.5	30.6	3.7	1.9
Environment	42.1	37.1	5.4	5.0
Good governance and transparency	46.3	42.9	3.3	3.4
Overall rating	39.3	36.2	4.4	3.1

Overall rating: comparative trends in portfolio and benchmark index





The equity portfolio *(continued)*

International equities

In 2009, ERAFP awarded two new mandates for international equities excluding emerging countries. The first analysis of this new portfolio was performed in December 2009, and as a result we now have a one-year track record to assess the SRI performance.

The ratings were well below those of the euro zone equities portfolio, notably as regards the social progress and democratic labour relations categories. The strong presence of US companies in the portfolio and index⁵ is one reason for the major difference with the euro zone equity portfolio. Aside from the substantial cultural differences in these areas compared to the euro zone countries most broadly represented in the equity market indices, the impact of the US regulatory framework also plays a major role. For example, the United States has never signed any of the main ILO agreements⁶ on freedom of association.

Although this portfolio's SRI ratings are relatively low in absolute terms, its SRI performance clearly positive when compared with the performance of the benchmark. The portfolio's SRI outperformance relative to the index constantly widened throughout 2010

to reach 4.4 points at end-December. Among other factors, this improvement reflects a better understanding of the challenges related to social progress and democratic labour relations by the fund managers, as illustrated by the growing difference between the portfolio and the index of these values in 2010.

Exercise of voting rights

ERAFP has not yet established a set of principles for the exercise of voting rights beyond those implied by the general principles of the SRI Charter, which in the area of governance recommend in particular:

- separation of power for the company's Chairman of the Board of Directors and its Chief Executive Officer;
- diversity and complementarity of experience and skills on the Board of Directors;
- a substantial number of independent directors on the Board of Directors and the Board's specialised committees;
- respect for shareholders' rights and fair treatment of shareholders;
- predefined and limited severance packages for senior executives,

The exercise of voting rights is delegated

to the six asset management companies chosen by ERAFP. Although these companies agree to exercise the voting rights attached to the financial instruments of the FCP investment funds in the sole interest of ERAFP, based on its orientations and in particular in accordance with the SRI Charter, the delegated management (i.e. the act of investing through FCP investment funds) prevents ERAFP from imposing voting rights principles on asset managers that are not in line with their own guidelines.

Although the six asset managers vote independently, there is a degree of convergence between the principles applied by the various institutional investors. ERAFP's managers report on the implementation of their voting policy on a quarterly basis. In 2010, in order to limit situations of potentially inconsistent voting amongst the various managers, ERAFP asked to be informed of their voting plans prior to the Shareholders' Meetings of a number of companies. Given its limited resources and experience in the analysis of shareholder resolutions, ERAFP decided to concentrate initially on French companies whose shares were included in most of the FCP funds at the time of the vote. This practice enabled ERAFP to:

- ensure a consistent approach amongst

5 - At 31 December 2010, securities issued by US companies accounted for 47.5% and 49.1% of the portfolio and index, respectively

6 - Convention 87 on the Freedom of Association and Protection of the Right to Organise

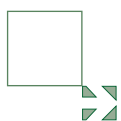
- Convention 98 on the Right to Organise and Collective Bargaining

- Convention 135 on Workers' Representation



EXCERPT FROM THE SRI CHARTER:

“ERAFP seeks to provide long-term support to those organisations in which it chooses to invest by exercising its responsibilities as a shareholder or stakeholder in order to promote practices at these organisations that are consistent with ERAFP’s own values.”



The equity portfolio *(continued)*

the managers on the main topics put up for a vote by shareholders;

- identify the various topics that will require more in-depth analysis in the years ahead for the purpose of potentially formalising the main voting principles.

The six asset managers participated in a total of 830 different shareholders' meetings.

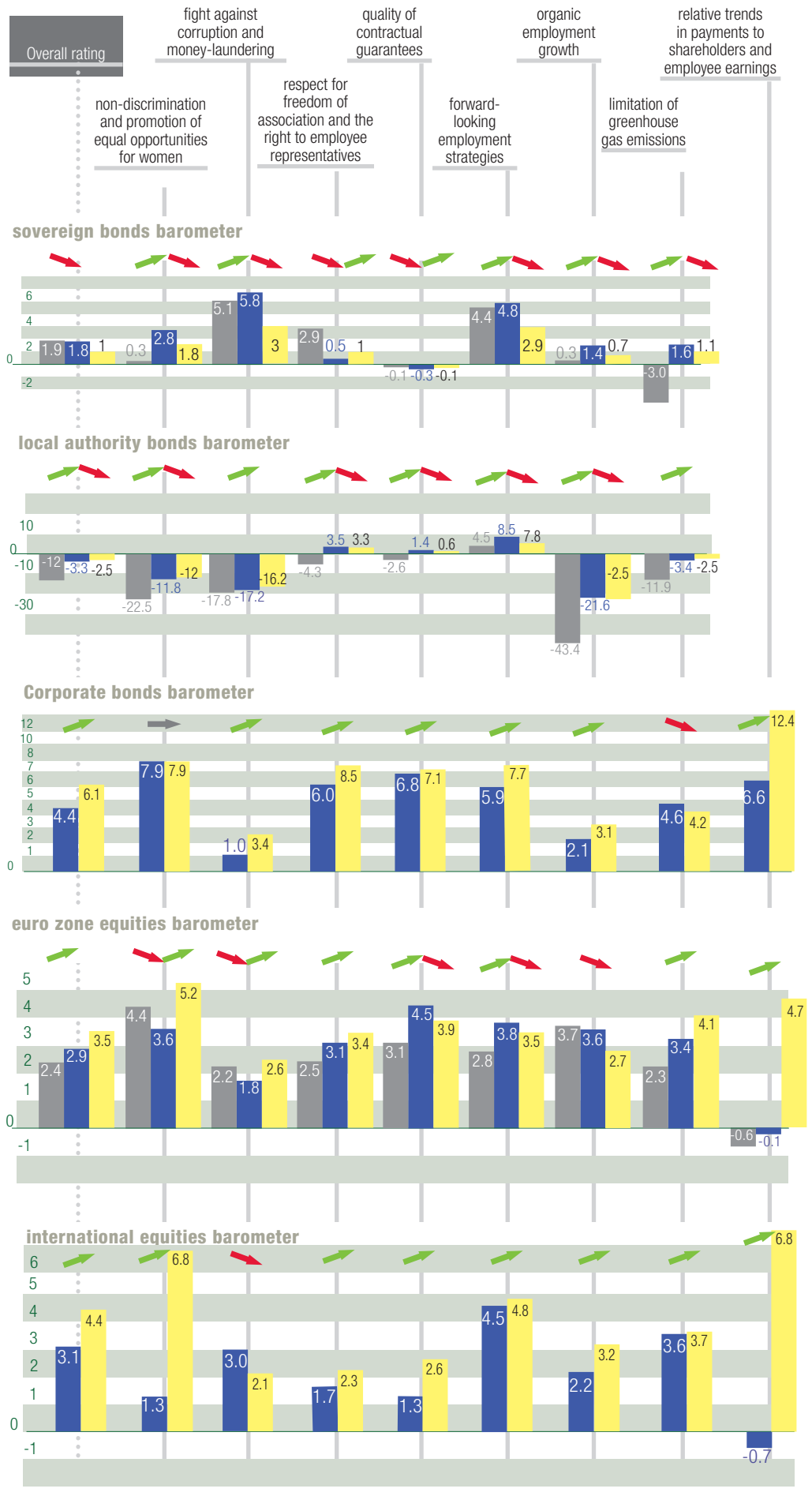
Out of a total of 15,518 votes cast, 1,861, or 12%, were either in opposition or abstentions. While this "opposition ratio" may appear low, it is twice that of the average investor in France, which is around 6.3% according to Proxinvest. If only the votes cast in connection with euro zone equities mandates are counted, the "opposition ratio" climbs to 18.5%. The lower opposition ratio in connection with international equity mandates is largely due to the fact that one of the portfolios, which is highly diversified, has a large number of shares, thereby making it difficult to perform an in-depth analysis of all resolutions put to shareholder votes.

As regards the smaller number of companies for which ERAFP asked to be consulted prior to the shareholders' meetings, asset

management company votes opposed resolutions or abstained in 31% of the cases. These oppositions typically fell into three categories:

- the appointment or renewal of a mandate of directors deemed non-independent, i.e. with ties to the company's management, or exercising too many board mandates to be able to fulfil their duties in a satisfactory manner;
- management remuneration (bonuses, stock options, retirement and/or severance benefits, additional pensions, etc.) deemed excessive and/or uncorrelated to the company's performance;
- the establishment of anti-takeover devices, notably the possibility of significantly increasing the company's share capital without preferential rights to subscribe shares by existing shareholders during the offering period.

THE ERAFP BAROMETER: DIFFERENCE BETWEEN PORTFOLIO AND BENCHMARK INDEX RATINGS



FRENCH PUBLIC SERVICE ADDITIONAL PENSION SCHEME

The ERAFP barometer

Key criteria serve to track the most important issues covered by the five domain values outlined in the Charter. These criteria are closely monitored to allow the Scheme to pursue an active engagement and communication policy. The development of this engagement policy is discussed in the last section of this report.

Generally, when comparisons to market indices are possible, ERAFP's portfolio usually earns significantly higher ratings than the indices on key criteria. The trends for the various portfolio components may nevertheless vary:

- for sovereign and local authority bonds, for which the trend has been generally unfavourable,
- for corporate bonds and equities, where the portfolio's advantage widened in 2010.

More specifically:

- As regards sovereign bonds, although the portfolio outperformed the index across all key criteria, with the exception of the quality of contractual guarantees, the outperformance narrowed for five of them in 2010.

As mentioned above, this trend is due in part to the portfolio's diversification and the management entity's purchases of securities from certain countries that, while they

may satisfy ERAFP's SRI requirements, are nevertheless lacking in some guideline areas. Moreover, the index's composition changed in 2010, resulting in higher ratings for several key criteria. For example, Greece, whose Oekom rating was relatively low on criteria in the "rule of law and human rights domains" such as the promotion of equal opportunities for women and the fight against corruption as well as on social progress criteria such as the implementation of forward-looking employment strategies, was removed from the index following the deterioration of its financial rating. Since ERAFP has kept Greek bonds in its portfolio, the ratings difference narrowed on these criteria.

- In 2010, ERAFP acquired securities from only one local authority, which explains the very modest change in the ratings differences between the portfolio and index during the year. After improving significantly in 2009, the difference stabilised in 2010. The same was true for ratings at the level of the respective values: significant improvement remains to be achieved, and while the initiatives undertaken since 2009 have proven to be relatively effective, they need to be pursued even further in 2011.

- For corporate bonds, the portfolio's already significant outperformance in 2009 increased further in 2010 across nearly all

key criteria.

- As regards equities, the overall ratings differences and trend are positive, notably for international equities. The relative improvement in the portfolio's performance, be it for euro zone or international equities, was spectacular in the area of "relative trends in payments to shareholders and employee earnings". This improvement was partially due to the systematic integration, beginning in early 2010, of Vigeo data to assess this criterion by two of the asset management companies designated by ERAFP to manage its equities. It should also be noted that for the 2010 company assessments on this criterion, Vigeo is for the most part using end-2009 data. However, payments to shareholders of large companies, notably French firms, fell off considerably in 2009. Faced with liquidity challenges, these companies limited their share repurchases⁷.

⁷ - Source: CM-CIC Securities

Fine-tuning, implementing and enhancing the SRI policy

The financial and economic crisis that began in 2007 and whose effects are still being felt in 2011 has confirmed the relevance of the Scheme's SRI policy:

- the maximisation of financial returns exclusively as well as complete confidence in self-regulating financial markets have shown their limits,
- some key issues addressed in the Charter, often ignored in the past, such as sharing profits between shareholders and employees and fighting against tax havens, are once again at the centre of debate,
- the Scheme's SRI policy is part of a broader investment strategy reflecting prudent asset and liability management, which enables it to stay the course in an uncertain financial market environment.

ERAFP will continue to enhance and develop its engagement policy.

Consolidating the Scheme's approach

Reaffirming the Scheme's convictions

Given the regulations governing ERAFP's investment universe, the sovereign debt crisis substantially restricted its investment opportunities. Despite this challenging environment, ERAFP profited from the relatively favourable equity market performance, with the coverage ratio of the Scheme's commitments remaining essentially unchanged (118%⁸ in 2010, compared with 119% the previous year).

Financial market uncertainty nevertheless remains, and ERAFP intends to maintain an investment strategy aimed at staying the course during the turbulent period. This strategy is based on prudent asset and liability management, ongoing asset diversification and a Socially Responsible Investment (SRI) policy consistent with a long-term view and a commitment to looking beyond immediate financial gain.

The financial crisis was met by two types of responses:

- some decided that it could justify a return to strictly financial considerations, on the assumption that in trying times priority should be given to maintaining short-term financial gains,
- others found that the crisis had revealed

the limitations of such an approach, which favours a short-term investment horizon, excessive risk-taking, inflated estimates and/or demands regarding returns, and in some cases blindness to risks that cannot be assessed solely on the basis of financial data.

For the Scheme, the crisis confirms the relevance of its SRI approach. The Scheme's commitment to its SRI policy is not predicated on expectation for immediate outperformance. The SRI filter nevertheless makes it possible to better assess medium- and long-term risks and identify the sectors and companies that will be the growth drivers of tomorrow. For the Scheme, and consistent with its desire to optimise its financial return/SRI ratio, the message included in the Charter bears repeating:

"The Board of Directors believes that investments based solely on the criterion of maximum financial profit fail to account for their social, economic and environmental consequences. In contrast, by making investments on the basis of the values it has adopted (...), the Board intends both to promote the operations, companies, local authorities and States which respect these benchmark values and to exert influence to ensure that they are more widely applied."

Lessons learned from the crisis

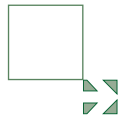
Social values

The Charter includes at least two criteria that are specific to the Scheme, namely the rejection of tax havens and relative trends in payments to shareholders and employee earnings. The crisis has shown the degree to which both factors contributed to the imbalances that triggered it.

Environmental criteria

The financial crisis raised the possibility that the commitments made by many governments to pursue ambitious environmental policies, and in particular the fight against climate change, might be put on hold. In 2009, the relative failure of the Copenhagen Summit was considered by many to be an illustration that the need for co-ordinated action against climate change would be put on the back burner. In that respect, the Cancun Summit held in December 2010 was eagerly awaited. Although the conference did not result in the setting of rigorous targets for the reduction of greenhouse gas emissions, the recent recognition by emerging countries of the need to reduce these emissions and subject themselves to independent controls represents a crucial step in the negotiation process.

⁸ - Estimate prior to the closing of the 2010 financial statements



Consolidating the Scheme's approach *(continued)*

Nevertheless, it appears unlikely that a strict agreement will be negotiated and enter into force prior to the expiration of the Kyoto Protocol's first commitment period in 2012. It would therefore be unwise to see international negotiations as the sole response to the challenge of climate change. In that sense, through their investment choices and behaviour as active shareholders, investors need to favour companies that, in their own way and on a voluntary basis, try to curb climate change.

Governance values

The current economic crisis, and in particular that of the financial system, may be largely attributed to governance problems at the level of financial institutions. These institutions were managed with at best minimal linkage between remuneration, risk exposure and long-term profits, and they were marked by inadequate control systems, etc. The crisis will therefore only motivate investors to lend more weight to such considerations.

The current economic environment is a good time for reflection on strengthening the regulatory framework of the economy, and of finance in particular. Issuers that demonstrate sufficient innovative capacities to anticipate upcoming regulatory changes will gain a competitive advantage. In that regard, ERAFP's best-in-class SRI approach makes perfect sense.

The SRI impact on financial management: first impressions

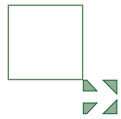
Given the limited historical track record and the complexity of the subject, no hasty

and definitive conclusions should be drawn. However, one characteristic of an SRI approach is emerging in the context of this crisis, namely that the SRI approach presents a more defensive profile, i.e. better resistance during periods of market turbulence.

Sovereign bonds

The different interest rates applicable to government bonds reflect the market's perception of the relative solvency of these States. Before the crisis erupted, all euro zone States were paying nearly the same interest rates on their debt. The crisis changed this situation, and in late 2008 rates diverged, with the least financially sound States having to offer creditors much higher rates.

A strong negative correlation exists between a State's SRI rating and the cost of its debt, as reflected in the interest rate (from a statistical standpoint, the SRI rating "explains" the vast majority of the return). These indicators can be complementary in assessing the "quality" of a State's debt. Thus before the eruption of the sovereign debt crisis, the SRI ratings showed substantial divergences between certain euro zone countries currently in distress and the most economically sound euro zone States, whereas these divergences were much less evident in the respective interest rates. And yet asymmetries exist. For example, while it is clear that a poor SRI rating is in some ways a reflection of weakness that may be further revealed financially as a result of the crisis, a favourable SRI rating does not per se guarantee sound management of public finances. The Irish example cited above clearly demonstrated this point.



Consolidating the Scheme's approach *(continued)*

Equities

The performance attributions of companies to which ERAFP delegated its equity management show that in its current state, SRI research induces a bias in favour of large cap stocks, which are clearly more able to implement and conduct SRI reporting. On average, large companies obtain higher SRI ratings than do smaller companies.

During periods when markets decline, this bias in favour of large caps can have a positive impact on their performance. After all, investors fall back on safer securities during crises, in particular equities of larger and therefore more diversified and stable companies. During periods of strong economic growth and rising markets, however, riskier securities, such as small caps, are often the most favoured. A best-in-class SRI approach that focuses on the sustainable performance of companies may be penalised during rising market periods, especially when markets reach euphoric levels.

This line of thinking has found support in the findings of a recent study published by the EDHEC-Risk Institute⁹. According to this study, the ASPI Eurozone index (SRI index constructed using the Vigeo methodology, which is akin to that of ERAFP) slightly underperformed a comparable non-SRI index over the 2002-2009 period. The study goes on to show that after adjusting for several factors, including in particular the

bias favouring large companies induced by SRI research, the ASPI index outperformed a comparable non-SRI index on average over the same period. For the 2002-2009 period, an index based on SRI research adjusted for its large company bias would have financially outperformed a comparable traditional index. Looking ahead, the diversification of ERAFP's investments towards listed small- and mid-cap shares should mitigate this bias within its own equity portfolio. The growing demand of investors for SRI research more adapted to the specificities of small- and medium-sized companies should also drive rating agencies to build up their own research in this asset class.

9 - The performance of Socially Responsible Investment and sustainable development in France: an update after the financial crisis, September 2010



Developing the engagement policy

In 2010, ERAFP managers participated in numerous SRI conferences as well as general investment conferences to present its SRI system. ERAFP's deliberate and original SRI approach was again recognised by others in 2010. The Scheme thus won the following awards:

- “Best European Pension Fund for ESG Challenges” at the 10th Annual “IPE Awards” (Investment & Pensions Europe) ceremony;
- “Best European Investor on ESG Challenges” award at the 12th Annual “ESG Leaders Awards” by TBLI (Triple Bottom Line Investing).

For ERAFP, this communication policy – or more broadly this “engagement” policy – is part of a strategy to promote its socially responsible investment approach and the values it adopts through its Charter.

The goal is to develop a communication policy that in both form and substance goes beyond mere information on the operation of the Scheme and instead centres on the quest for an effective implementation of the Charter. This engagement approach may be achieved with respect to:

- other investors: as part of the renewal of the euro zone equity investment mandates,

ERAFP organised a tender consisting of several lots corresponding to various types of mandates. For several of these mandates, by taking on a significant portion of the non-financial analysis, ERAFP positioned itself to work with asset management firms that may not be specialists in this area and for which the collaboration with ERAFP will serve as an opportunity to develop such skills.

Moreover, by establishing indexed management mandates based on indices that satisfy its SRI needs, ERAFP plans to participate in the dissemination of tools making it easier for other institutional investors to adopt a similar approach;

- issuers, when the investment is made directly by ERAFP. In 2008, ERAFP management worked for the first time with 26 local authorities whose ratings were going to be updated, explaining the process to them so as to help improve the relevance of the ratings. In 2009, a second round of contacts was undertaken with the local authorities that had received unsatisfactory ratings. In 2010, ERAFP continued its efforts by stepping up its discussions with local authorities whose securities it owns and for which it would like to see greater transparency. These discussions highlighted the importance placed by these

issuers on ERAFP's expectations in its capacity as a responsible investor. They were also an opportunity to begin deliberations on potential adjustments to be made to ERAFP's SRI approach and the rating process established by the rating agencies in order to better understand the specificities of this type of issuer.

Appendices

<u>1</u>	Premium factor	
<u>2</u>	Annuity to lump sum conversion factor	
<u>3</u>	Internal Control Report (Presentation memorandum)	
<u>4</u>	2010 Actuarial Report on the Scheme's Financial and Technical Outlook, performed by an independent actuary (excerpt)	
<u>5</u>	ERAFP 2009 financial statements (balance sheet, income statement)	
<u>6</u>	Independent Auditor's Report	
<u>7</u>	Matching of Assets and Liabilities	
<u>8</u>	Cash flow projections	<u>65</u>
<u>9</u>	Additional data	
<u>10</u>	Members of the Board of Directors	
<u>11</u>	Glossary	

Appendix 1

PREMIUM FACTOR

RAFP beneficiaries can exercise their pension rights upon reaching the age of 60. After that age, they are entitled to receive a premium that increases the amount of their pension benefit.

Pursuant to Article 8 of the 18 June 2004 decree, this premium factor is set by the Board of Directors.

For example, the calculation of pension rights for a civil servant who has accrued 5,600 points in his retirement account and retires in 2008 at age 65 would be as follows:

$$5\,600 \times 0.04219^1 \times 1.23 = \text{€}290.60 \text{ gross annual annuity.}$$

Assuming he dies at age 67 and that his surviving spouse at the time is 64 years 7 months old. Since the number of points held by the spouse following reversion (5,600 x 50%) is less than 5,125, the following conversion factor is used for the lump sum payout:

$$(12-7)/12 \times 22.36 + 7 \times 21.66 = 21.95$$

The spouse would therefore receive:

$$5\,600 \times 50\% \times 0.04219 \times 21.95 = \text{€}2\,593 \text{ in a lump sum}$$

The conversion formula is as follows:

- if the number of points acquired by the reversionary beneficiary (**points of the rights-holder x reversion rate**) is greater than 5,125, the reversionary beneficiary receives:

points of the rights-holder x reversion rate x point value in euros

- if the number of points acquired by the reversionary beneficiary is less than 5,125, the reversionary beneficiary receives:

points of rights-holder x reversion rate x point value x lump sum conversion factor based on age of reversionary beneficiary

age	premium
61	1.04
62	1.08
63	1.13
64	1.18
65	1.23
66	1.29
67	1.35
68	1.42
69	1.49
70	1.57
71	1.65
72	1.74
73	1.84
74	1.96
75	2.08

After age 75, the right to a premium continues to apply.

Pension reform, which introduces a change in the legal retirement age, will require an adjustment of the premium factor in 2011.

¹ - Service value of a point for 2008

Appendix 2

ANNUITY TO LUMP SUM CONVERSION FACTOR

This factor applies to beneficiaries whose retirement accounts have fewer than 5,125 points at the time of liquidation.²

LUMP SUM CONVERSION FACTORS

For the original beneficiary:

age		age	
60	25.98	68	20.36
61	25.30	69	19.63
62	24.62	70	18.90
63	23.92	71	18.16
64	23.22	72	17.43
65	22.51	73	16.70
66	21.80	74	15.97
67	21.08	75	15.24

Conversion factor determined on the basis of pensioner's direct rights and reversionary rights.

For orphaned child, at time of reversion:

age		age		age	
0	18.83	7	12.78	14	6.69
1	17.57	8	11.94	15	5.77
2	16.80	9	11.10	16	4.84
3	16.01	10	10.24	17	3.90
4	15.22	11	9.37	18	2.94
5	14.42	12	8.49	19	1.97
6	13.60	13	7.59	20	0.99

For the spouse, at time of reversion:

age		age		age		age	
31	41.98	51	30.88	71	17.38	91	5.33
32	41.49	52	30.26	72	16.65	92	4.94
33	40.99	53	29.63	73	15.94	93	4.58
34	40.49	54	29.00	74	15.22	94	4.23
35	39.98	55	28.36	75	14.51	95	3.91
36	39.56	56	27.72	76	13.81	96	3.61
37	38.93	57	27.07	77	13.11	97	3.32
38	38.40	58	26.41	78	12.43	98	3.06
39	37.86	59	25.75	79	11.77	99	2.80
40	37.31	60	25.09	80	11.11	100	2.56
41	36.76	61	24.42	81	10.48	101	2.34
42	36.20	62	23.74	82	9.86	102	2.13
43	35.63	63	23.05	83	9.27	103	1.93
44	35.06	64	22.36	84	8.69	104	1.75
45	34.48	65	21.66	85	8.14	105	1.57
46	33.90	66	20.96	86	7.61	106	1.41
47	33.31	67	20.25	87	7.11	107	1.25
48	32.71	68	19.54	88	6.63	108	1.11
49	32.10	69	18.82	89	6.17	109	0.92
50	31.49	70	18.10	90	5.74	110	0.79

Factor based on direct rights of reversionary beneficiary

Scheme rights are expressed in whole numbers, rounded up to the next highest number.

Note: between ages 60 and 75, the lump sum conversion factor for direct rights-holders is determined on the basis of their direct rights and the reversionary rights of their spouse.

Between ages 60 and 75, the lump sum conversion factor for reversionary beneficiaries is determined on the basis of their direct rights.

In this age range, therefore, the distinction between the two lump sum conversion factors is based on whether or not the spouse's reversionary rights are included.

² - The benefit is paid out in a lump sum when the number of points accrued at the rights liquidation date is less than the number of points corresponding to an annual annuity of €205 calculated on the basis of the point's service value for 2005 (Art. 9 of the 18 June 2004 decree), or 5,125 points.

ERAFP INTERNAL CONTROL AND RISK MANAGEMENT ORGANISATION

Internal control is defined as the process implemented on a continuous basis within ERAFP that encompasses all controls, on the finance area as well as on operations, making it possible to obtain reasonable assurance that the following objectives are achieved:

- achievement of objectives set, consistent with the orientations defined by the Board of Directors
- economical and efficient use of resources
- adequate control of risks incurred
- reliability and integrity of accounting and financial information, compliance with laws and regulations and with internal rules and procedures.

The internal control system is structured around the following fundamental principles:

- separation of functions: in order to reduce the risk of conflicts of interest and/or fraud, the commitment, settlement and control functions must be held by different persons;
- control levels: distinction between first-level controls (which are executed by the operational staff themselves or by their management) and second-level controls (performed by dedicated internal control staff with separate reporting hierarchies from the operations staff being controlled). In ERAFP's case, the management entity's small size can result in the combination of some tasks (execution and control of execution) by a single employee;
- implementation of appropriate tools, committees and procedures. These may involve the following items:
 - tools: incidents and discrepancies database, risk mapping, control plans, etc.
 - committees: audit committee, internal control and risk committee, new products committee, credit committee, etc.
 - procedures: internal control charter, compliance charter, IT security charter, committee internal rules, investment procedure for market securities, delegations of authority, etc.

The control activities are performed through a "risk and internal control" department by:

- a head of internal control and operational risk on the one hand, and
- a head of financial risks on the other.

Both report to ERAFP's Deputy CEO on an organisational and functional basis. These two controllers are therefore independent of the activities they control in the management entity's operational and functional departments.

The Risk and Internal Control department is responsible for coordinating and supervising the implementation of the first-level internal control system. During the procedures preparation phase, the department is notified of the procedures drafted by the departments. Thus it provides a second view ensuring that these procedures clearly establish who does what, when and under which operational security conditions. It also ensures that the responsibilities of each participant in the procedure are clearly established and that the first-level controls, even those exercised within the departments, do exist and are formalised.

ERAFP risk universe

ERAFP distinguishes between financial, technical and operational risks.

Financial risks include:

- credit risk (counterparty or default risk, settlement/delivery risk, country risk, etc.)
- market risk (equity risk, interest rate risk, liquidity risk, currency risk, etc.)
- asset liability matching risk, which includes inflation risk

Technical risks include:

- longevity risk, and more generally demographic risk (birth rates, marriage rates, etc.)
- regulatory risk applied to the pension area (change in Scheme parameters, such as the retirement age)
- economic risk applied to the pension area (changes in remuneration, employment policy at national or employer level)
- model risk applied to actuarial tables and discount rate calculations

Operational risks include:

- risks related to human resources

- accounting risk
- legal and tax risk
- IT systems risk
- physical and environmental risks
- fraud risks
- administrative risk

By extension, non-compliance and ethical risk are handled with the other operational risks.

Scope of control

ERAFP's organisation leads it to outsource a significant portion of its activities:

- * for non-fixed-income financial assets to third-party asset managers,
 - * for the Scheme's administrative management: to the Pensions Department of Caisse des Dépôts, mandated by decree, with this department acting on behalf of ERAFP for the performance of all large scale management processes (receipt of contributions, calculation of rights and pension liquidations, information to employers and retirees, etc.). The scope of control therefore extends:
 - first, to ERAFP, i.e. the management entity's own staff, processes and systems
 - second, and indirectly, to risks and controls exercised by service providers and agents not part of ERAFP, and in particular the delegated managers and respective units of Caisse des Dépôts' Pensions Department:
 - Paris for financial management support (middle office and reporting)
 - Angers for the employer client centre platform
 - Bordeaux for contributions recovery processes, account-keeping functions for individual retirement accounts, rights liquidations, payment of benefits, information provided to beneficiaries and Scheme accounting.
- In the first case, ERAFP's internal control consists of it ensuring that its own departments implement the processes in accordance with the internal control system. In the second, the management entity extends its internal control system to these third parties in order to ensure that their own internal control system clearly satisfies the management entity's expectations and requirements in this area. For many of the activities, the first-level controls therefore consist of ensuring the proper execution of the management mandates (financial and administrative) assigned to these entities.

Main changes related to internal control in 2010

- * Risk Committee: this committee, which meets quarterly, comprises the members of the management committee and the internal controller along with, depending on the meeting agenda, persons having an impact on risk management and the organisation of controls. Its scope extends to reviewing the effectiveness of the financial, technical and operational risk management systems, transaction compliance, IT systems security and new products and organisations. This committee met for the first time in January 2011 and approved its internal rules;
- * launch of a project aimed at organising financial risk management. The first step consisted of choosing a consultant in order to perform a diagnosis and propose target organisations. The consulting firm that was selected carried out its assignment in the second half of the year and its findings were presented to the first Specialised Audit Committee meeting in 2011;
- * during the four Specialised Audit Committee meetings in 2010, several non-recurring items were added to the agenda, the most noteworthy being:

* presentation of ERAFP's new compliance officer	March 2010
* presentation of compliance visits, case study	March 2010
* working group – COG renewal	March, June 2010
* proposed rider to ERAFP – State agreement	November 2010

Appendix 4

2010 ACTUARIAL REPORT ON THE SCHEME'S FINANCIAL AND TECHNICAL OUTLOOK, PERFORMED BY THE INDEPENDENT ACTUARY: SUMMARY

In 2009, the governance of the French Public Service Additional Pension Scheme made it possible to achieve several important objectives:

- the recognition under favourable conditions of equity and bond financial market trends; the recognition of the rebound and subsequent stabilisation of equity markets, the drop in interest rates in 2009 and their freefall in 2010 are sensitive factors to which the Scheme adapted; it was not subjected to any major defaults by issuers thanks to its asset allocation and benefited from above-average equity management,
- the Scheme also began to better assess its mortality risks through a study designed to assess changes in this risk over time and that makes it possible to integrate this concern over the extension of life expectancy in assessing the Scheme's commitments;
- it also improved its operation in the area of matching assets and liabilities maturities by adding to its staff and resources, which provide it with greater capacity for action on future trends;
- finally, as regards data, it was clear that 2009 was marked by further gains in data reliability.

Thus at the close of the 2009 financial year, the Scheme's situation was better managed and controlled than it was two or three years earlier.

In the months ahead, and in the light of these initial factors, it would appear that several changes can be reasonably assigned to the Scheme's technical and financial governance:

- the Scheme's allocation and return will need to be adjusted to reflect changing environments on two fronts: pensions and the change in the minimum legal retirement age on the one hand, and financial conditions marked by historically low interest rates for low-risk debt (French and German debt) on the other. These changes need to be taken into account when considering the Scheme's parameters, notably the discount rate. As part of these measures, certain items such as the premium/discount factors could be fine tuned,
- the Scheme's asset allocation needs to be carried out in the light of these factors as well as the increased options resulting from the changes in the Scheme's financial and accounting environment that should take place in the near future,
- deliberations as to the asset steering target – flows and/or stocks – could also be undertaken.

In order to implement these various factors in the most favourable manner for members, the following steps should be taken:

- fine-tune the knowledge of factors that will determine the discount rate and in particular the management fees incurred by the Scheme
- strengthen the ALM function at the level of the management entity as well as at the level of directors who are members of specialised committees, in particular the ALM Steering Committee, whose essential role is highlighted by the Solvency 2 Directive, which – although it does not apply to RAFP in its current form – nevertheless provides a useful indication.

Appendix 5

ERAFP FINANCIAL STATEMENTS – 2010

<i>Assets €</i>	2009			2008
	Gross	Depreciation	net	net
I Investments	8,123,220,209.61	(153,535,080.49)	7,969,685,129.12	5,905,198,588.90
Bonds, negotiable debt instruments and other fixed-income securities	6,811,220,217.91		6,811,220,217.91	5,386,914,821.28
Equities and mutual fund shares	1,311,999,991.70	(153,535,080.49)	1,158,464,911.21	518,283,767.62
II - Active contributors and beneficiaries	53,042,251.72	(11,957,074.22)	41,085 177,50	44,476,117.47
Active contributors and related accounts	52,478,547.75	(11,957,074.22)	40,521,473.53	44,134,400.09
Beneficiaries	563,703.97		563,703.97	341,717.38
III - Other receivables	3,932.48	0.00	3,932.48	0.00
Trade receivables, advances and down payments	3,932.48		3,932.48	0.00
Other receivables			0.00	0.00
IV - Other assets	68,125,221.77	(12,359.64)	68,112,862.13	185,041,959.18
Intangible assets			0,00	0,00
Property, plant and equipment	26,916.90	(12,359.64)	14,557.26	18,496.72
Cash and cash equivalents	68,098,304.87		68,098,304.87	185,023,462.46
V - Accruals			0.00	0.0
General total I+II+III+IV+V	8,244,391,615.58	(165,504,514.35)	8,078,887,101.23	6,134,716,665.55

<i>Liabilities (€)</i>	2009	2008
I - Equity	0.00	0.00
Net income for the year	0.00	0.00
II - Scheme reserves	6,838,226,894.53	5,420,775,428.45
Accruing rights	6,814,263,217.93	5,399,180,573.17
Rights being exercised	23,963,676.60	21,594,855.28
III - Non-technical reserves	1,206,601,219.09	674,842,441.46
IV - Active contributors and beneficiaries	2,182,954.75	6,073,262.69
Active contributors	913,376.38	5,085,725.42
Beneficiaries and related accounts	1,269,578.37	987,537.27
V - Other liabilities	31,876,032.86	33,025,532.95
Trade and other payables	31,506,873.75	32,977,555.46
Staff and related accounts	0.00	0.00
Social security and other employment benefits	62,377.45	33,095.41
State – taxes and duties	9,332.00	4,949.00
Other creditors	297,449.66	9,933.08
VI - Accruals	0.00	0.00
General total I+II+III+IV+V+VI	8,078,887,101.23	6,134,716,665.55

Income statement (€)

	2009	2008
Contributions	1,688,355,696.41	1,642,639,870.52
Changes in provisions on contributions	3,082,877.11	10,943,155.29
Late penalties	716,394.32	240,493.21
Other technical income		
Technical income	1,692,154,967.84	1,653,823,519.02
Investment income	239,699,908.36	196,544,735.92
Income from realisation of investments	-	-
Other investment income	4,976,113.27	7,238,123.55
Reversals of provisions on investments	-	-
Gross investment income	195,181,152.06	203,782,859.47
Expenses related to realisation of investments	0.00	0.0
Other investment expenses	(11,593,299.37)	(8,813,852.24)
Provisions on investments	0.00	-336,944,729.83
Investment expenses	(11,593,299.37)	(365,129,884.72)
Net financial income (loss)	441,277,465.01	(161,347,025.25)
Benefits paid	(165,623,472.64)	(122,569,768.85)
Other benefits (discounts of bonus factors)	(232,235.31)	(116,874.42)
Benefits	(165,855,707.95)	(122,686,643.27)
Changes in Scheme reserves	(1 949,210,243.71)	(1,351,709,406.53)
Technical expenses	(2,115,065,951.66)	(1,474,396,049.80)
Scheme's net current income	18,366,481.19	18,080,443.97
Reversals of depreciation and provisions	0.00	0.00
Other non-technical income	0.00	0.00
Overall outsourcing of administrative management	(14,046,221.86)	(16,198,219.75)
Third-party investment management expenses	(14,193.84)	-
Personnel expenses	(980,160.44)	(430,979.57)
Other expenses	(3,317,108.00)	(1,441,620.99)
Provision and depreciation charges	(5,434.65)	(4,623.66)
Operating expenses	(18,363,118.79)	(18,075,443.97)
Non-recurring income	-	-
Non-recurring expenses	(3,362.40)	(5,000.00)
Net non-recurring income (loss)	(3,362.40)	(5 000.00)

Income tax



ERAFP
Financial statements
for the year ended 31
December 2009

Independent Auditors' Report on the Annual Financial Statements

In executing the mission assigned to us by the Board of Directors, we hereby present our report on the financial year ending 31 December 2009 on:

- the audit of ERAFP's annual financial statements, as attached to this report,
- the justification of our assessments,
- the specific verifications and information required by law.

The financial statements were prepared by the Board of Directors. It is our responsibility to express an opinion on these financial statements on the basis of our audit.

Opinion on the annual financial statements

We performed our audit in accordance with generally accepted French auditing standards; these standards require that we perform due diligence to determine with reasonable certainty that the annual financial statements do not contain significant discrepancies. An audit consists of verifying on the basis of sampling or other selection methods the items justifying the amounts and information presented in the annual financial statements. It also consists of assessing the accounting policies applied, the main estimates used and the overall presentation of the financial statements. We believe that the information we collected provides a sufficient and appropriate basis for our opinion.

We certify that the annual financial statements are faithful and consistent with French accounting policies and that they provide a fair view of the management entity's operating results for the year as well as its financial situation and net worth at the end of that year.

Without prejudice to the above opinion, we call your attention to the following point described in Note 3.3.3 "Non-technical reserves" regarding the recognition in reserves for expenses of positive and negative balances for each year. This note also provides the reasons underlying the accounting treatment used.

II - Justification of our assessments

Pursuant to the provisions of article L.823-9 of the French Commercial Code relative to the justification of our assessments, we bring the following points to your attention:

As mentioned in Note 3.3.4 to the financial statements, ERAFP establishes reserves for the Scheme that are estimated in accordance with regulatory methods and using statistical data and actuarial techniques. As part of our assessment of significant estimates used to prepare the financial statements and on the basis of currently available information, we reviewed the process established to assess these reserves and ensured the reasonable nature of the assumptions used in the calculation methods utilised, notably taking into account available data, the regulatory and economic environment and the overall consistency of these assumptions.

The resulting assessments form part of our audit of the annual financial statements, taken as a whole, and therefore contributed toward the determination of our opinion expressed in the first part of this report.

Specific verifications and information

We performed our audit in accordance with generally accepted French auditing standards; We also performed the specific verifications required by law.

Concerning the information presented in the Board of Director's Management Report, we have no observations to make regarding its accuracy or congruence with the annual financial statements.

Courbevoie, 3 November 2010

The Independent Auditors

KPMG AUDIT

MAZARS

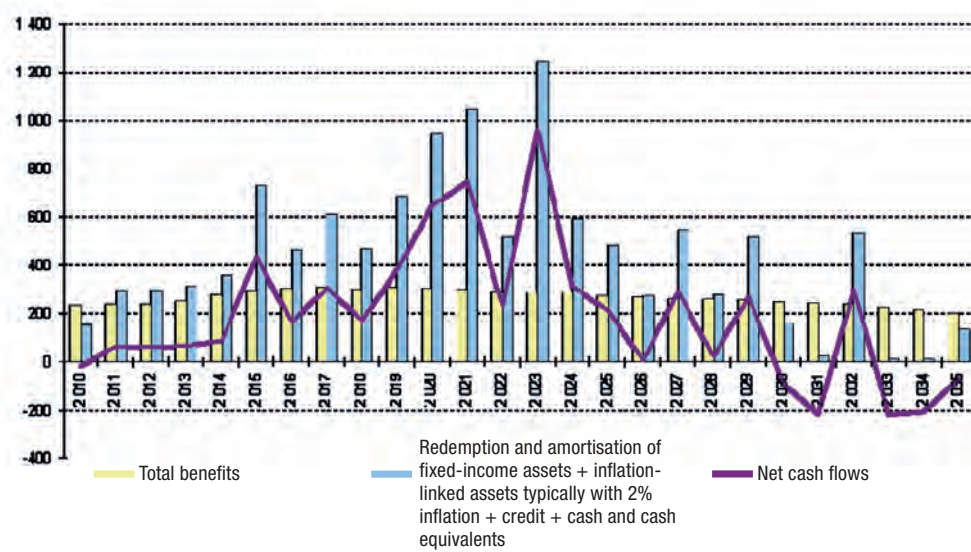
Isabelle BOUSQUIE

Nicolas ROBERT

Appendix 7

MATCHING OF ASSETS AND LIABILITIES MATURITIES

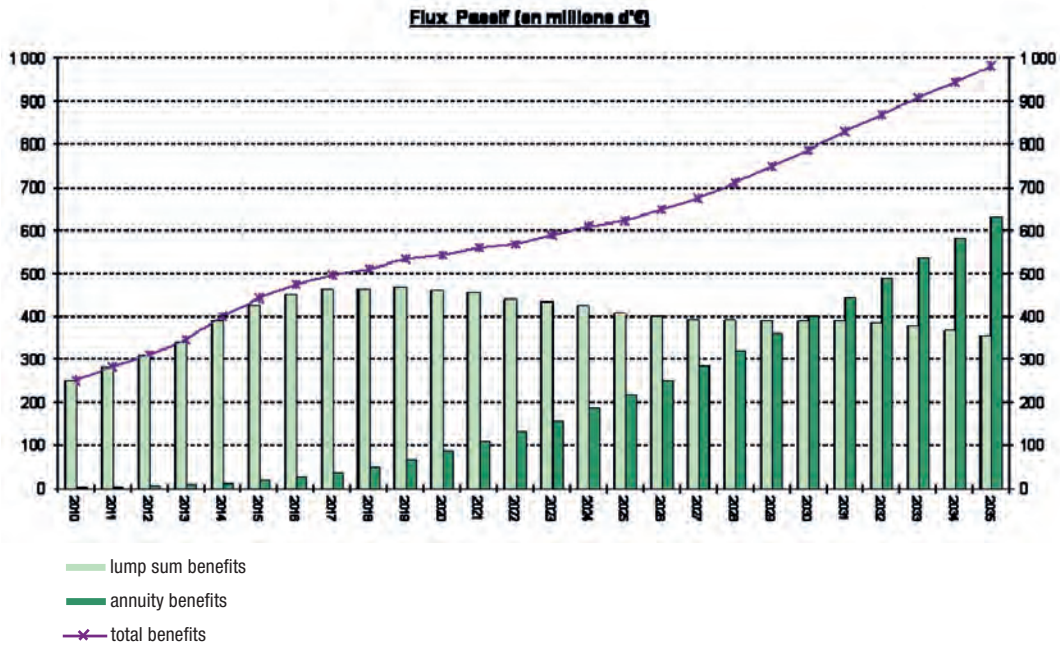
The matching of assets and liabilities is a snapshot at a point in time of the coverage of commitments (liabilities maturities) through bond assets (asset maturities).

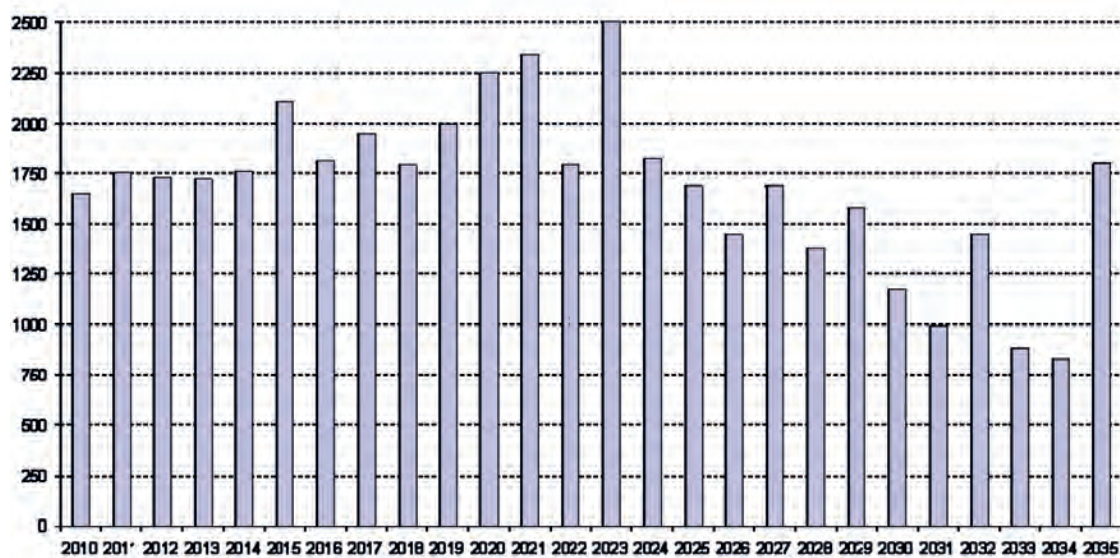


Appendix 8

CASH FLOW PROJECTIONS

ERAFP is a long-term investor. The duration of its liabilities is estimated at 30 years for the mathematical provision and 15 years for the financial cash flows. Without taking into account any change in the acquisition and service values of a point and contributions, we obtain the following results. The contributions and bond cash flows (redemptions, interest payments) net of benefits generate substantial investment capacity over the long term. The securities acquired through these investments tend to be held for a very long period, whether they involve bonds or equities. The accounting and prudential rules, which have an annual horizon, do not recognise this and prove to be ill suited and penalising.



ADDITIONAL DATA (AT 31 DECEMBER 2009)*Net cash flows (€ millions)*

— net cash flows = contributions – total benefits + redemptions and amortisation of fixed-income assets

Average retirement accounts

Public sector:	men		women		overall	
	contribution	points	contribution	points	contribution	points
Central government	€ 1,790	1,747	€ 1,466	1,431	€ 1,636	1,596
Public hospitals	€ 1,779	1,738	€ 1,609	1,572	€ 1,642	1,604
Local/regional governments	€ 1,494	1,459	€ 1,319	1,287	€ 1,396	1,363

BOARD OF DIRECTORS MEMBERSHIP

Chairman

Jean-François ROCCHI (decree of 16 June 2008)

Chairmen of the specialised committees:

ALM Steering Committee

Alain DORISON

Audit Committee

Jean-Louis ROUQUETTE

Collection Committee

Jean-Marie POIROT

Investment Policy Monitoring Committee

Bernard LHUBERT

replaced by **Chantal LABAT-GEST** (deliberation by the Board of Directors meeting of 14 December 2010)

Representatives of active contributors

Union Générale des Fédérations de Fonctionnaires CGT

Bernard LHUBERT, principal

Gilles OBERRIEDER, deputy

Union des Fédérations CFDT des Fonctions Publiques et Assimilés

Chantal LABAT-GEST, principal

Michèle NATHAN, deputy

Union Interfédérale des Agents de la Fonction Publique Force Ouvrière

Gérard NOGUES (+), principal,

replaced by **Philippe SOUBIROUS** (decision of 4 March 2009)

Brigitte FIDRY, deputy

Fédération Syndicale Unitaire

Régis METZGER, principal

Anne FERAY, deputy

Union Nationale des Syndicats Autonomes

Jean-Marie POIROT, principal

Corinne SPEHNER, deputy,

replaced by **Marc CHRETIEN** (decision of 4 March 2009)

Union Fédérale des Cadres des Fonctions Publiques CFE-CGC

Robert LAGANIER, principal

Patrick GUYOT, deputy

Interfon Confédération Française des Travailleurs Chrétiens

Xavier DELVART, principal

Jacques VANNET, deputy

Union Syndicale Solidaires Fonctions Publiques et Assimilés

Dorine PASQUALINI, principal

Philippe TIJOU, deputy

Employer representatives

Representatives for all central government public service employers

Jacques Roudiere, General Controller of the Armies, Head of Human Resources of Ministry of Defence (DRH-MD), principal
General Daniel Daehn, Deputy Director of Human Resources of Ministry of Defence, Head of Human and Civilian Resources General Policy Department, deputy replaced by Rear **Admiral Jean Casabianca**, Deputy to the Head of Human Resources of Ministry of Defence, Head of Human, Military and Civilian Resources General Policy Department (decision of 21 October 2009)

Jean-Louis Rouquette, Inspector General of Finances, Director, Deputy to Secretary General of Ministry of the Economy, Industry and Employment, principal

Michèle Fejoz, Controller General, Delegate to Executive Management, deputy

Marie-Hélène Lechevallier, General Controller of the Risk Management Department, La Poste, principal
Foucauld Lestienne, Deputy Director for Human Resources, La Poste, deputy

Representatives for local and regional public service employers

On behalf of the Association des Maires de France

Jean-Pierre BALLIGAND, Mayor of Vervins, principal
Daniel LEROY, Deputy Mayor of Moussy-le-Neuf, deputy

On behalf of the Assemblée des Départements de France

Bernard DEROSIER, Chairman of the Conseil Général du Nord, principal
François SCHELLIER, Conseiller Général du Val d'Oise, deputy

On behalf of the Association des Régions de France

Michèle SABBAN, Vice Chair of the Conseil Régional d'Île-de-France, principal
André DROUIN, Conseiller Régional d'Aquitaine, deputy

Representatives of the French public hospital sector employers

Michel MOUJART, Honorary CEO of the CHU de Tours, director of the Centre Hospitalier de Chinon, principal
Jean-Pierre GUSCHING, CEO of the CHU d'Orléans, deputy

Daniel BOUQUET, General Manager of Hôpitaux de Drôme Nord-Romans/Saint-Vallier, principal

Philippe MARIN, General Manager of the Centre Hospitalier de Laval, deputy replaced by **Maurice TOULLALAN**, General Manager of the Centre Hospitalier d'Argenteuil (decision of 21 October 2009)

Qualified persons

Jean-François ROCCHI, Inspector General of the Administration

Alain DORISON, Inspector General of Finance

Jean-Jacques MARETTE, senior civil servant, CEO of the Agirc-Arrco Economic Interest Group (GIE)

Also participate in the Board of Directors meetings

CEO of the Management Entity

Philippe DESFOSES (decision of 28 May 2008)

Economic and financial control

Pierre BRUNET, economic and financial controller, insurance commissioner replaced by **Alain CASANOVA**, Manager for Economic and Financial General Control

Public Accountant

François FOURNIER, Receiver General

Government Commissioner

Thierry PELLE, Head of Pension Office at the Budget Department of the Ministry of the Budget, Public Accounts and Civil Service replaced by **Philippe JARRAUD**, Head of the Pensions and Special Schemes Office at the Budget Department (decision of 17 June 2009)

Representative of Caisse des Dépôts Administrative Manager

Gérard PERFETTINI, Head of the Bordeaux facility (Pensions Department)

GLOSSARY

Share: Negotiable security that gives its owner fractional ownership of a company and certain rights: to oversee and control management, to receive a share of the distributed profit (dividend).

Discounting: Method for calculating the present value of a future amount based on an interest rate (here known as the discount rate).

Best in class: Approach used in socially responsible investing that consists of selecting issuers considered the most responsible within a group of comparable issuers. For equities, this approach means not excluding any single activity peremptorily, but favouring companies in each business sector that have made the most progress as regards environmental, social and governance criteria.

Funded scheme: A funded retirement scheme invests the contributions in financial assets, which are liquidated at the time of retirement to pay the accrued rights either in an annuity or a lump sum. The payment depends on both the amount saved and changes in the value of the assets (typically equities and bonds) in which the funds were invested.

Defined contribution schemes: Schemes in which only the level of the contributions is set.

Sustainable development: The Brundtland Report, published in 1987 by the UN World Commission on Environment and Development, defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Engagement: This term describes the dialogue between an institutional shareholder (pension fund, investment firm, etc.) and an issuer, typically a company, for the purpose of having this issuer take into account environmental, social and governance risk factors.

Intergenerational equity: This concept aims to ensure an equivalent standard of living amongst individuals at a given point in time and relative to other generations at the same ages.

General Indicative Estimates for Pensions (French acronym: EIG): Document sent to active contributors aged 57 and 56 in 2009. The EIG provides an estimate of the amount of their pension at age 60 and the full rate, relying on income projections prepared by the Pension Steering Committee (*Conseil d'orientation des retraites*).

ESG: Acronym referring to environmental, social and governance issues.

FCP (collective investment fund): A French FCP is a mutual fund managed by a management company on behalf of unit-holders; the FCP is not a legal entity.

Greenhouse gases: gases that are a source of global warming.

GIP Information retraite: French public interest group that includes 38 compulsory retirement schemes (CNAV, MSA, AGIRC, CNRACL, Ircantec, etc.) to create the individual information for beneficiaries on rights vested in all schemes in which they participate. GIP provides an online universal pension simulator (m@rel) that covers 95% of the population. RAFP is scheduled to integrate m@rel soon.

Benchmark index: An index that is representative of the market(s) in which the fund is invested.

SRI: Socially Responsible Investing is an approach aimed at integrating environmental, social and/or governance criteria in investment decisions and portfolio management.

Liquidation: Set of procedures aimed at calculating and paying out benefits to a beneficiary.

Bond: A bond is a security representing a debt, issued by the State or a company, and corresponding to a long-term loan. The bondholder receives income, also known as the coupon.

Point: Unit for calculating the pension in certain schemes. The contributions make it possible to acquire (vest) points. The amount of the pension is equal to the points acquired during the beneficiary's professional life, multiplied by the value of a point at the time of retirement. Most supplementary pension schemes are based on point systems. Basic pension schemes tend to use a trimester system.

PRI: Principles for Responsible Investment, a charter drafted under the auspices of the United Nations and to which ERAFP adheres.

Individual Statement of Position (French acronym: RIS): Document sent annually to active contributors (age class 50, 45 and 40 in 2009) by the most recent pension scheme to which they belong.

The statements related to RAFP are sent along with those of the basic pension scheme. The RIS includes information on the beneficiary's career, coverage periods and vested points. It can be prepared at the request of the beneficiary.

Return: Ratio of the pension amounts received over the course of retirement and contribution amounts paid in during the beneficiary's active working life.

Technical return: Ratio of the service value of a point and acquisition value of a point.

CSR: The concept of Corporate Social Responsibility corresponds to the implementation of sustainable development practices at the company level. A socially responsible company integrates social, environmental and economic impacts into its decision-making mechanisms and strives to minimise these impacts.

Reversion: Attribution to a deceased beneficiary's spouse (prior to or after the beneficiary's retirement) of a portion of the pension. The reversionary pension is based on the resources of the surviving spouse in the French basic scheme for employees (régime général des salariés) and aligned schemes.

Premium: Premium applied to the amount of the future pension of a beneficiary who has reached the legal retirement age but chooses to continue working, even though he has satisfied the coverage period needed to receive a full pension.

Capitalisation rate: Interest rate that enables an amount invested at this rate to achieve a higher amount over a given time period.

Marketable security: Security traded on financial markets and representing a negotiable claim or associated right (equities, bonds, etc.)



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