



PUBLIC REPORT

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 – under the 18 June 2004 decree 2004-569.

RAFP therefore generically describes the Scheme created through this law, but not the legal entity itself.

ERAFP, or “*Établissement de retraite additionnelle de la fonction publique*”, is the public-sector administrative entity charged with the Scheme’s management.

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 Scheme
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by Philippe Desfossés, Chief Executive Officer of ERAFP

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¹ Jean-François Rocchi resigned from
his position with ERAFP on 1 July 2013.

EDITORIAL



Since the inception of the Scheme, the board of directors has consistently managed all Scheme assets using a socially responsible investment (SRI) approach.

In 2012, the board entered a new phase in implementing its unparalleled strategy in France by adopting guidelines for shareholder engagement.

The guidelines notably cover the exercise at shareholders' general meetings by ERAFP's representatives of voting rights associated with securities held in the Scheme's portfolio. Proposed resolutions are analysed for compliance with good governance principles and, where applicable, their potential social and environmental impact.

ERAFP aims in this way to promote debate on the sustainability of decisions taken by listed companies in which it holds an interest. The experience proved fruitful in 2012 and has been continued in 2013.

Moreover, to directly improve awareness among certain international groups of their social and environmental responsibility, ERAFP has signed up to the Extractive Industries Transparency Initiative (EITI) and the Institutional Investors Group on Climate Change (IIGCC), pursuant to a decision of the board of directors. ERAFP's original approach would benefit from a higher profile. To this end, in 2012 the board of directors set up a communications committee charged with submitting proposals for enhancing awareness of the Scheme and, in particular, its commitment to SRI.

The board of directors also set up a "bureau" in 2012. The limited membership of the bureau enables it not only to monitor ERAFP's activities between board meetings but also to meet at short notice should circumstances so require.

The regular presentation of investment management choices to meetings of the bureau enabled its members to better understand the constant constraints imposed by market conditions and the limited room for manoeuvre in ERAFP's investment choices.

The Scheme has continued to diversify its assets but, without an easing of the constraints on its investment scope, the progressive decline in yields could compromise the coverage of its commitments.

In 2012, the board of directors warned the governmental authorities of the need to extend the Scheme's investment framework and thus enable it to better fulfil its role as a provider of long-term capital, which is so much needed for financing innovation, SMEs, infrastructures and housing.

The investment of a part of the Scheme's funds in profitable and socially beneficial assets would enable ERAFP to reconcile its role as a public service pension provider with the more general interests of the country.

—
Jean-François Rocchi¹,
Chairman of ERAFP's board of directors

¹ Jean-François Rocchi resigned from his position with ERAFP on 1 July 2013.



ERAFP made its first real estate investment in 2012,

with the asset manager selected by the Scheme purchasing a property in the 8th *arrondissement* of Paris, next to the Saint-Lazare railway station. As decided by the board of directors, the headquarters of ERAFP was duly moved to 12, rue Portalis, thus locating ERAFP in an ERAFP asset. Our staff now have the benefit of a pleasant working environment, with new and functional offices.

Following this first transaction, ERAFP intends to grow the proportion of real estate assets held in its portfolio and, in 2012, launched a call for tenders for the selection of real estate investment managers in France and in Europe.

The diversification of Scheme assets pursuant to the board of directors' wishes was reflected during the year in the establishment of two dedicated convertible bond funds and by the activation of a standby euro-zone equity mandate, as well as a new call for tenders for the selection of a multi-manager.

As for its other diversification assets, ERAFP applies its SRI principles to real estate investment, taking into account the specific features of these various investment fields. Adapting its SRI guidelines to changes in the portfolio will involve substantial effort in the coming year, and may well entail changes depending on the specific characteristics of and practices associated with each asset class.

Above all, however, investment in new asset classes is required because of the situation in the bond markets. Euro-zone countries perceived as the safest have seen yields on their sovereign bonds tumble and the returns offered to investors no longer appear adequate. After the best rated sovereign bonds, bonds issued by large and internationally diversified companies saw the largest rise in prices in 2012, thus further reducing investment opportunities.

The European authorities – and the European Central Bank in particular – successfully contained divergences between yields on euro-zone sovereign issues during the summer months, but the calm remained precarious in the second half of the year.

Whatever happens, it is quite likely that yields will remain low for some time to come, which would compromise ERAFP's ability to achieve the returns necessary for the desired growth of Scheme beneficiaries' rights.

Nevertheless, ERAFP's prudent asset-liability management and technical return enabled the Scheme to maintain satisfactory coverage of its commitments with a year-end regulatory coverage ratio of 106,3%.

Against this persistently difficult backdrop ERAFP's staff worked hard throughout the year to fulfil our role of serving the retirement needs of public sector employees. Their commitment, reflected for example in active shareholder engagement, was recognised by the award of "Best pension fund in France" and "Best SRI policy" at the IPE Awards ceremony in 2012. These awards encourage us in our efforts to enhance our investment policy.

Although ERAFP has been lauded by its European peers, the additional pension scheme is not well understood by its beneficiaries and its 4.5 million contributors. In addition to the day-to-day informational and explanatory work carried out by the administrative management services, in 2012 ERAFP therefore staged its first institutional conference, in Paris, to present the Scheme to the main employers in the three public service functions. Motivating the contributing employers is the first step in an active policy of communicating with beneficiaries, as the employers are their first point of contact.

Following the success of this first national conference, we will be organising regional conferences in the years to come in order to raise the profile of ERAFP's unique model.

—
Philippe Desfossés,
CEO of ERAFP

01

- ➡ A unique scheme, operational since **2005**.
- ➡ **Close to 4.5 million** contributors in 2012, who will receive an additional pension.
- ➡ **Around 45,000** public sector employers making regular contributions.
- ➡ **€1.75 bn** in contributions in 2012, based largely on bonuses.



AN ADDITIONAL
PENSION,
TO SUPPLEMENT
PUBLIC SERVICE
BASIC PENSION
BENEFITS

— RAFP'S ROLE

Operational since 2005, the French Public Service Additional Pension Scheme (RAFP) is a unique scheme.

Providing an additional pension to public sector employees

Close to 4.5 million Scheme contributors will benefit from additional pension benefits. Their contributions are based largely on bonuses and are topped up by some 45,000 public sector employers. Contributions totalled €1.75 billion in 2012.

Founded on inter-generational equity

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 a single purchase value.

44,978

**PUBLIC SECTOR
EMPLOYERS**

Promoting public service values

Since the Scheme was set up, the board of directors has striven to put into practice its fiduciary responsibility to contributing public sector employees and beneficiaries.

Accordingly, it has developed an ambitious programme to institute a socially responsible investment policy founded on public service values. This policy takes into account environmental, social and governance criteria in all of the Scheme's investment decisions.

A priority in the current phase of the programme, which began at the end of 2011, is to enhance and progressively deepen awareness of the investment policy among the Scheme's active contributors and beneficiaries.

€1.75_{BN}

CONTRIBUTED IN 2012

THE FINANCIAL CRISIS LINGERS

The economic and financial situation continued to deteriorate in 2012, particularly in Europe, and necessarily impacted on most investors. RAFP is amongst those affected and must take into account the uncertainty surrounding future economic trends.

Greece was unable to meet its liabilities and, under the guidance of the European Union, offered its creditors a debt swap.

Presented as limited to private sector creditors, the deal was extended to include those in the public sector, meaning only the ECB and international organisations were spared.

Despite this difficult context, the Scheme's commitments to its contributors and beneficiaries remain comfortably covered, which is all the more significant given that the likely present value of its commitments is calculated using a relatively low – and hence extremely prudent – discount rate.

In 2012, RAFP continued to demonstrate its resilience to the crisis, thanks to its:

- + prudent asset-liability management;
- + gradual diversification of its asset allocation;
- + socially responsible investment (SRI) policy, which is consistent with a long-term approach and its aim of looking beyond immediate financial returns.

For RAFP, the crisis confirms the relevance of its SRI approach. The SRI filter provides a better understanding of risks and identifies sectors and individual companies that will be the vectors of growth for tomorrow.

— SCHEME HIGHLIGHTS IN 2012

At the institutional level

- + RAFFP's board of directors met four times during the year. In particular, it gave an opinion on a draft text impacting the Scheme's operation, as requested in the founding decree of 18 June 2004. In this regard, at its meeting on 15 March 2012 it examined the proposed amendment to the decree concerning time savings accounts in the public hospital sector.
- + Following the Scheme's first real estate investment, the board decided to move ERAFP's headquarters into the building in question.
- + The French national audit office (*Cour des comptes*) reported on its first audit of RAFFP, covering financial years 2005 to 2010.
- + Pursuant to a resolution passed at its meeting of 11 October 2012, the board of directors drew the supervisory authorities' attention to the need to extend the regulatory scope of the Scheme's investments.
- + In 2012 the board also approved its first set of guidelines for shareholder engagement, which ERAFP requires its representatives to apply in particular during shareholder general meetings. At its meeting of 13 December 2012, the board of directors resolved that ERAFP should support the Extractive Industries Transparency Initiative (EITI) and sign up to the Institutional Investors Group on Climate Change (IIGCC).

At the operational level

- + ERAFP now has its offices at 12, rue Portalis in the 8th *arrondissement* of Paris.
- + In application of the strategic allocation approved by the board for 2012, ERAFP established a number of dedicated convertible bond funds, activated a standby euro-zone equity mandate and launched two calls for tenders for the selection of a multi-manager and real estate investment managers.

— APPOINTMENTS TO AND WORK OF THE BOARD

Appointments

By decree of the President of the French Republic dated 20 March 2012, Philippe Soubirous was appointed vice-chairman of ERAFP.

By statutory order dated 8 October 2012, Antoine Homé and Daniel Bouquet were appointed members of ERAFP's board of directors and Patrick Decolin and Philippe Laveau were appointed deputy members.

Organisation of the board's work

Having decided to create a 'bureau' when the present board of directors was appointed in late 2011, the board designated the bureau members at its meeting of 15 March 2012.

At its meeting of 22 June 2012, the board also created a communications committee charged with reporting to it on the monitoring and assessment of actions taken regarding providing information to employers and beneficiaries, as well as operating communications.

Numerous meetings of board-appointed governance bodies have thus been held, with around 30 working meetings in 2012, demonstrating the commitment of board members to maintaining close involvement with the Scheme's operations.

Main decisions concerning ERAFP

At its meeting of 11 October 2012, the board recognised the need to further diversify the Scheme's investments and increased by €250 million the target equity asset allocation for 2012.

To further this aim, at its meeting of 13 December 2012 the board resolved to:

- + target its equity diversification at 23.5% of the Scheme's assets in 2013;
- + increase diversification of the bond portfolio with a view to achieving a target allocation of 1.5% of the Scheme's assets for each of the convertible bond and the US corporate bond categories;
- + increase the real estate target to 2% of the Scheme's assets;
- + establish, as previously decided, a multi-asset investment mandate covering 1.5% of the Scheme's assets.

At the same meeting, it decided to symmetrically increase the purchase and service values of a point by 1%.

— ATTENDANCE AT BOARD MEETINGS IN 2012

QUALIFIED PERSONS

Jean-François Rocchi	 4
Alain Dorison	 4
Pierre Mayeur	 4

EMPLOYERS' REPRESENTATIVES

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

REPRESENTATIVES OF ACTIVE CONTRIBUTORS

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

SCHEME GOVERNANCE



- 19 directors:
 - 8 representatives of active contributors,
 - 8 employers' representatives,
 - 3 qualified persons.
- 4 specialised committees.
- 1 board bureau.
- 1 communications committee.
- 4 board meetings and 29 meetings of other governance bodies in 2012.

– THE BOARD OF DIRECTORS

has 19 members:

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

Jean-François Rocchi¹ is the chairman and Philippe Soubirous the vice-chairman of ERAFP.

In 2012, the board considered matters falling within the remit of its regulatory responsibilities:

- + determination of asset allocation;
- + assessment of the Scheme's commitments;
- + determination of the amount of reserves required to cover these commitments;
- + determination of the purchase and service values of points;
- + adoption of the ERAFP budget;
- + approval of the financial statements, etc.

– THE BOARD BUREAU

Formed in 2011 by the board, the bureau has nine members: the chairman, vice-chairman, the chairmen of the four specialised committees and three other directors appointed by the board.

It is competent to monitor the operations of ERAFP between board meetings and to hear reports from the CEO on the entity's management.

– THE COMMUNICATIONS COMMITTEE

Formed in 2012 by the board, four of the eight members appointed by the board are representatives of active contributors.

It is charged with reporting to the board on the monitoring and assessment of actions taken regarding providing information to employers and beneficiaries, as well as operating communications.

¹ Jean-François Rocchi resigned from his position with ERAFP on 1 July 2013.

— SPECIALISED COMMITTEES OF THE BOARD OF DIRECTORS

Four specialised committees assist the board of directors in the preparation and follow-up of its work, particularly in terms of asset-liability management, audit and collections (committees instituted by the decree of 18 June 2004) and investment policy monitoring (committee created by the board meeting of 8 June 2006).

Their members are appointed by the board of directors.

CSAP – the asset and liability management committee - has 12 members, of which six are representatives of active contributors, four are employers' representatives and two are qualified persons.

This committee prepares the board of directors' decisions concerning the assessment of commitments towards Scheme beneficiaries, the determination of purchase and service values of points and general aspects of the investment policy. It is assisted by an independent actuary, who submits annual reports on the Scheme's financial and technical perspectives.

CSA - the audit committee - has nine members, of which six are representatives of active contributors and three are employers' representatives.

This committee verifies that the Scheme's management rules are correctly applied and proposes measures to improve management. It has unlimited investigative powers, which it delegates to members of the administrative management body referred to in article 32 of the decree of 18 June 2004, which is responsible for carrying out the tasks defined in the agreement referred to in the same article.

CSR – the collections committee - has seven members, of which four are representatives of active contributors and three are employers' representatives.

This committee prepares collection statements and reports to the board of directors. The statements show the list of outstanding receivables, the reasons for non-collection and actions taken to obtain payment.

CSPP – the investment policy monitoring committee – has seven members, of which four are representatives of active contributors and three are employers' representatives.

This committee was set up by the board of directors in order to monitor decisions relating to the socially responsible investment policy defined by the board.

CSAP

ASSET AND LIABILITY
MANAGEMENT
COMMITTEE

CSA

AUDIT COMMITTEE

CSR

COLLECTIONS
COMMITTEE

CSPP

INVESTMENT POLICY
MONITORING
COMMITTEE

REPORT ON THE WORK OF THE ASSET AND LIABILITY MANAGEMENT COMMITTEE

Alain Dorison, chairman of the CSAP

In what proved a difficult economic and financial environment for bondholders in 2012, particularly with confirmation of the haircut on Greek sovereign debt, the committee redoubled its scrutiny of the ratio showing the coverage of RAFF's commitments by its assets in portfolio. Whilst maintaining its prudent provisioning rules, the Scheme has continued to demonstrate its sustainable approach by preserving its high coverage ratio.

The prospect of long sovereign bond rates remaining low for some time confirms the pertinence of the Scheme's plans to diversify its investments. The committee therefore resolutely supported the presentation to the board of the proposal to authorise management to make further equity investments in the second half of the year.

It also monitored the implementation of the decisions to diversify investments into real estate and convertible bonds, to which the financial management teams devoted considerable efforts. The committee's work provided assurance that the management framework would be adapted to suit the specific characteristics of these asset classes. A particular theme was also explored, that of housing for public servants in regions where property prices are under pressure.

Nevertheless, the room for manoeuvre in investing new contributions – which remain high – is diminishing. The committee therefore approved a proposal to change the regulatory framework applicable to RAFF's investments, which was adopted by the board of directors. Agreement in principle was reached on the objective of permitting the Scheme to invest in assets that not only provide an adequate yield but also remain consistent with its SRI approach, taking account for certain investments of the socio-economic needs that the crisis has exacerbated, particularly in France.

In 2013, the committee will continue its work in assisting the board of directors to determine the Scheme's parameters and promote an investment policy that will ensure its long-term sustainability.

REPORT ON THE WORK OF THE AUDIT COMMITTEE

Gilles Oberrieder, chairman of the CSA

Having validated as precisely as possible the financial statements for the year to 31 December 2011, and following the six-month delay in renewing the board of directors between May and November 2011, the audit committee aimed to exercise its responsibilities in a more sustainable manner throughout 2012.

The accuracy and pertinence of the budgets and accounts being reviewed, assessing the Scheme's commitments and its coverage thereof and improving risk controls are essential if, the Scheme is to be able to assure public servants that, at the worst, their contributions will not lose value.

The crisis on the financial markets prompted us, in liaison with the asset and liability management committee, to consider the impact on the Scheme's investments of the deterioration in sovereign bond ratings.

The committee initiated several audits in 2012.

One, in conjunction with the investment policy monitoring committee, verified and improved compliance with the SRI guidelines for investments in international equities.

An audit of the financial and accounting management support function, jointly managed with Caisse des Dépôts, is currently under way in 2013 to ensure that the increased level of investments can be accommodated thanks to the ability of the two entities to work closely together to secure the Scheme's future.

Lastly, work is continuing to reduce the currently excessive lead times required to produce accounting and financial statements.

The objectives of ERAFP's audit committee in 2012 were to achieve a return to normal operating conditions for the entity, with its board of directors and the related specialised committees fully functional, to enhance procedures and to ensure that the difficult economic conditions of 2012 were fully taken into account.

REPORT ON THE WORK OF THE COLLECTIONS COMMITTEE

Marc Chrétien, chairman of the CSR

The sharp increase in the Scheme's level of activity was naturally reflected in the work of the collections committee. With the scope of its responsibilities being defined in the applicable regulations, the committee's work focused on specific, relevant themes that were subject to in-depth review and resulted in constructive discussions. The Caisse des Dépôts' administrative management department and ERAFP provided the committee with the management information required to carry out its work.

We have paid particular attention since early in the year to the impact on the Scheme's collections of the French "N4DS" standard concerning the electronic reporting of employment-related data. In practice, although a number of employers encountered difficulties – related mainly to their IT systems – in meeting the deadlines for the payment of contributions, these were rapidly overcome and have now been resolved.

Pleasingly, the 44,978 employers contributing to the additional pension Scheme now seem to increasingly understand it and there has been a clear improvement in the processing of recoverable amounts and excess payments.

Requests for the application or reduction of late-payment penalties presented to the committee were reviewed and processed with understanding and fairness if the reasons underlying the request were legitimate. Alongside our procedures for the pre-litigation collection of amounts due from legal entities, we now have similar procedures applicable to individuals, although the volumes concerned remain marginal at present.

In conclusion, the CSR must continue its work in order to resolve several outstanding issues, notably that concerning beneficiaries with more than one employer.

The CSR's key attribute in successfully performing its role is the constructive approach of all its stakeholders, who share the same motivation of contributing to the ongoing work of ERAFP.

REPORT ON THE WORK OF THE INVESTMENT POLICY MONITORING COMMITTEE

Éric Loiselet, chairman of the CSPP

The CSPP is responsible for monitoring implementation of ERAFP's socially responsible investment (SRI) policy. Keeping its promise of being a long-term and wholly socially responsible investor is a challenge faced on a daily basis. By setting the bar so high, there is always the risk of ERAFP being unable to meet this commitment.

To limit this risk, in 2012 the CSPP in conjunction with the audit committee undertook a review of the risk of non-compliance of companies held in the international equities portfolio. This audit enhanced the portfolio's SRI compliance and prompted ERAFP to sign up to three initiatives bringing together numerous investors worldwide:

- + the Extractive Industries Transparency Initiative (EITI) (supported by the French government);
- + the Institutional Investors Group on Climate Change (IIGCC);
- + the collaborative engagement online platform of the United Nations' Principles for Responsible Investment (PRI), initially in two areas: corruption and hydraulic fracturing.

Signing up to these initiatives provides ERAFP with enhanced information on corporate "best practices" and enables it to participate in actions alongside other experienced investors with some of the companies concerned.

To round out the *best in class* approach that determines the SRI selection of potential investments, the CSPP developed its first set of ERAFP guidelines for shareholder engagement and the exercise of voting rights. Adopted by the board of directors in March 2012, they were implemented from the spring of that year at shareholders' general meetings. The results indicate the robust nature of this first set of guidelines and their distinctive nature: ERAFP opposed more than one-third of the resolutions submitted to shareholders' votes at the general meetings of the 20 companies selected for test purposes. The guidelines were further developed as a result of this experience and the 2013 guidelines were adopted by the board of directors in December 2012.

TEN KEY FEATURES OF THE ADDITIONAL PENSION SCHEME



- ➔ A mandatory, points-based scheme created for public servants working in the French central government (civilians and military), local and regional authorities and the public hospital sector, and members of the judiciary.
- ➔ An additional retirement benefit that takes into account bonuses and ancillary remuneration.
- ➔ 4.5 million contributors in 2012.
- ➔ A contribution basis made up of all types of remuneration not included in the calculation of the basic pension – bonuses, overtime hours, allowances and in-kind benefits.
- ➔ An overall contribution rate set at 10% of the basis amount, split evenly between the employer (5%) and the public servant (5%).
- ➔ 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 are applied when investing the assets:
 - at least 65% of the assets invested in bonds;
 - assets invested in equities or UCITS¹ limited to 25%;
 - assets invested in real estate limited to 10%;
 - securities issued by a single entity² limited to 5%, etc.

RAFP is a mandatory, points-based scheme created for public servants working in the French central government (civilians and military), local and regional authorities and the public hospital sector, as well as members of the judiciary. Under the scheme, public servants receive an additional retirement benefit along with their basic pension, which takes into account the bonuses and ancillary remuneration they receive during their careers.

1. A PUBLIC PENSION FUND

The public sector additional pension is based on the fully funded, pay-as-you-go model (Article 76 of Law 2003-775 of 21 August 2003).

Comparable to collective funding, the system hinges on the obligation that the Scheme must at all times cover all of its commitments with financial assets. This means the rights vested on each beneficiary over the course of their career are fully guaranteed over time through the establishment of financial reserves.

2. EQUILIBRIUM OF THE SCHEME; PRUDENTIAL RULES

Each year, the Board of Directors assesses the Scheme's commitments and determines the amount of the reserve required to cover them. The challenge is clearly to maintain a prudent policy as regards the rate of return within the context of an economic crisis in order to maintain the Scheme's long-term equilibrium.

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

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.



**STRICT PRUDENTIAL
RULES**

20%

OF THE GROSS BASIC SALARY RECEIVED BY THE PUBLIC SERVANT IN A CALENDAR YEAR

CET

TIME SAVINGS ACCOUNT

3. BENEFICIARIES

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

- + be a public servant in one of the three public sectors (French central government, local and regional authorities or the public hospital sector), a member of the judiciary, 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 scheme for local and regional public servants (Caisse nationale de retraite des agents des collectivités locales - CNRACL);
- + receive eligible remuneration.

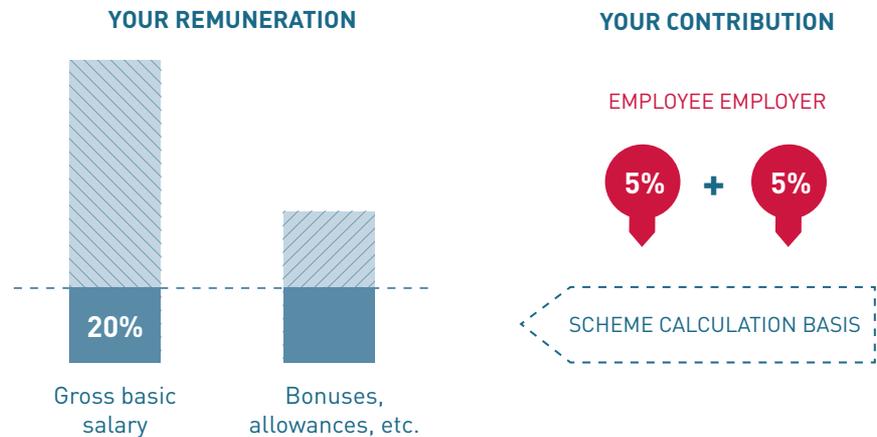
4. BASIS AND CONTRIBUTIONS

The contribution basis consists of all types of remuneration not included in the basic 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 public servant in the course of a calendar year.

The overall contribution rate is set at 10% of the basis amount, split equally between the employer (5%) and the public servant (5%). Each euro paid to RAFFP by the employee is therefore matched by an identical amount from the employer (other than for transfers from Time Savings Accounts). Most contributions are paid to the Scheme on a monthly basis.

CONTRIBUTION BASIS

Source — ERAFP



Since 1 January 2005, bonuses and ancillary remuneration* are included in the contribution basis within the limit of 20% of the annual gross basic salary. This type of contribution entitles the public servant to an additional retirement benefit over and above the basic pension.

* Bonuses, allowances, overtime hours, in-kind benefits

5. INDIVIDUAL RETIREMENT ACCOUNTS

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

Converted into points, the contributions are credited to the public servant's individual retirement 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.

6. POINT VALUES

Point values are set each year by the board of directors:

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

€1.0742

PURCHASE VALUE
OF A POINT IN 2012

€0.04378

SERVICE VALUE
OF A POINT IN 2012

IMPORTANT

Days accrued under a Time Savings Account that are directly converted into Scheme points, in accordance with decree 2009-1065 of 28 August 2009 relating to FPE, decree 2010-531 of 20 May 2010 relating to FPT and decree 2012-1366 of 6 December 2012 relating to FPH, are excluded from the cap. Note also that the amount corresponding to converted time savings account days is transferred to the Scheme after deduction of the mandatory social security and related contributions, the standard 10% contribution rate not being applicable.

5,125

IS THE MINIMUM
NUMBER OF POINTS
REQUIRED TO RECEIVE
MONTHLY ANNUITY
PAYMENTS

8,994

ANNUITIES IN PAYMENT
AS AT 31 DECEMBER 2012

7. TECHNICAL RETURN AND VALUE OF A POINT IN 2012

Derived by dividing the service value by the purchase value, the technical return is 4.075%. On 13 December 2012, the board of directors decided to symmetrically increase the purchase value and the service value of a point by 1%.

8. PENSION LIQUIDATION AND PREMIUM

→ See also Appendix 1

Upon reaching the legal retirement age and provided the beneficiary qualifies for pension benefits under the basic pension scheme, he or she may apply for the additional pension benefit. The age at which the additional pension benefit becomes available was previously set at 60 and has been gradually raised to 62, in line with the change in the legal retirement age (pension reform law of 9 November 2010).

Application of the premium avoids the need to change the current rates, designed for retirement at age 60, and re-establishes actuarial equity between beneficiaries.

9. BENEFIT PAYMENTS

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

Lump sum payments

Before 2008, all additional pension benefits were paid out in a lump sum. This is due to the fact that the liquidated benefit is paid out in a lump sum, calculated on the basis of an actuarial table, if the number of vested points is less than 5,125.

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. The first annuity payments began in 2009. 8,994 annuities were in payment as at 31 December 2012.

10. REVERSION

→ See Appendix 2

If the rights holder dies, a reversionary benefit is paid to the surviving spouse and, until they reach the age of 21, orphaned children.

PAYMENT SIMULATIONS FOR TYPICAL BENEFITS¹

LUMP SUM PAYMENT

JEAN

an administrative assistant, **pays €186 a year** in Scheme contributions.
His employer pays the same amount.

↓
He retires at age 62, having contributed for 10 years

↓
He then has 3,429 points in his individual retirement account

(< 5,125 POINTS)

$$\begin{array}{r} 3,429 \\ \times 0.04421^{(2)} \\ \times 24.62^{(3)} \\ \times 1.08^{(4)} \\ \hline \end{array}$$

€4,030.38 gross

↓
Jean receives a lump sum of **€4,030.38 gross**

The lump sum will be paid in one or two tranches, depending on his retirement date.

ANNUITY PAYMENT

ISABELLE

an attaché, **pays €312 a year** in Scheme contributions.
Her employer pays the same amount.

↓
She retires at age 62, having contributed for 35 years

↓
She then has 20,129 points in her individual retirement account

(> 5,125 POINTS)

$$\begin{array}{r} 20,129 \\ \times 0.04421^{(2)} \\ \times 1.08^{(4)} \\ \hline \end{array}$$

€961.10 gross

↓
Isabelle receives an annual annuity of **€961.10 gross**

This amount will be revalued each year in line with the service value of a point.

↓
She retires at age 67, having contributed for 40 years

↓
She then has 23,005 points in her individual retirement account

(> 5,125 POINTS)

$$\begin{array}{r} 23,005 \\ \times 0.04421^{(2)} \\ \times 1.35^{(4)} \\ \hline \end{array}$$

€1,373 gross

↓
Isabelle receives an annual annuity of **€1,373 gross**

This amount will be revalued each year in line with the service value of a point.

N.B.: The amounts shown are in constant euros. The amounts actually paid are revalued each year to take account of price changes.

1 Illustrative examples only, not contractual and given for indicative purposes only. In particular, they do not take into account changes in career path, annual changes in point values or possible regulatory changes.

(2) For the purposes of this illustration, the 2013 service value has been used.

(3) Lump sum conversion factor corresponding to life expectancy at age 62.

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

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 management firms.
- ➔ Direct management by ERAFP of government bonds and government-backed securities.
- ➔ Management costs in 2012: €25 million.

— GENERAL OPERATION OF THE SYSTEM

The Scheme, which was created by the law of 21 August 2003, is managed by a public sector management entity operating under the oversight of the French State. The application decree¹ entrusts administrative management to Caisse des Dépôts et Consignations, under the authority and control of the board of directors. The management of financial assets is partially outsourced to investment management firms.

— ERAFP – CAISSE DES DÉPÔTS: CONTRACTUAL COMMITMENTS

The main administrative management services provided by Caisse des Dépôts are set forth in the Objectives and Management Agreement (*“Convention d’objectifs et de gestion”*) entered into by the two institutions.

The first Agreement covered the period from 2006 to 2010. A second Agreement, for 2011 to 2015, was approved by the board of directors in 2011.

In addition, ERAFP’s Public Accountant entrusted pre-litigation collection of contributions from legal entities and individuals to Caisse des Dépôts under agreements signed in May 2009 and July 2010.

— ERAFP – FRENCH STATE: A SPECIFIC SERVICE

In addition to its role as the institution’s supervisory authority, the French State, through the Directorate of Public Finance’s regional pension centres, pays out the additional pension benefits to retired central government public servants along with the basic pension benefits. This service is billed separately, in accordance with a bi-partite agreement.

¹ Decree 2004-569 of 18 June 2004

PARTIALLY OUTSOURCED FINANCIAL MANAGEMENT

Since 2005 and as authorised by the 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 investment managers selected undertake to optimise the financial return of the funds whilst remaining in compliance with ERAFP's SRI Charter. The allocation of the equity portfolios between a number of different firms diversifies the financial risks across several service providers and reflects a prudent asset management approach on behalf of the beneficiaries.

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

In 2012, a standby "euro-zone equities" portfolio management agreement was activated. Furthermore, two active and four standby "convertible bond" portfolio management agreements were awarded.

CONTROLLED ADMINISTRATIVE COSTS

The operating budget for the Scheme and its management entity is financed directly from amounts withheld from contributions. The budget is voted by the board of directors annually.

In 2012, administrative costs totalled €25 million, corresponding to 0.19% of the Scheme's net assets.

The implementation of ERAFP's asset diversification policy implies broader resources. This is a prerequisite for increasing the potential yield on the Scheme's investments and reducing its allocation risk, which is also a way of containing future costs.

CHANGES IN SCHEME ADMINISTRATIVE COSTS SINCE 2005

Source — ERAFP



— Administrative costs as a percentage of net assets at amortised cost

RAFP'S ADMINISTRATIVE MANAGEMENT



- ➔ Approximately 45,000 employers paid contributions to Caisse des Dépôts in respect of the Scheme in 2012.
- ➔ €1.75 billion collected in 2012.
- ➔ 4.5 million contributing public servants in 2012.
- ➔ 94,408 pension liquidations and 172,789 revisions in 2012.
- ➔ €223 million paid to beneficiaries in benefits.
- ➔ Approximately 9,000 annuities in payment.

The Scheme's administrative management has been entrusted to Caisse des Dépôts et Consignations pursuant to article 32 of the decree of 18 June 2004 on additional pensions for public servants. Caisse des Dépôts is responsible for the following tasks under the authority and supervision of the board of directors: collection of contributions, maintenance of beneficiaries' individual retirement accounts, liquidation of rights, payment of benefits¹, the Scheme's accounting and operational communications. It accordingly acts as the Scheme's single interface for employers, retired beneficiaries and active contributors with regard to their right to information.

— AROUND 45,000 EMPLOYERS ...

Some 45,000 employers paid Scheme contributions to Caisse des Dépôts in 2012. The vast majority are local and regional authorities and public sector hospitals.

The majority of French central government employers registered with the Scheme are public treasury departments, ministries and commissioners to the armies.

It should be noted that 95.8% of employers had paid in all the requisite contributions in respect of 2011² by the end of 2012.

Furthermore, the number of payment incidents caused by incorrect references has gradually decreased over the years and in 2012 reached a historical low of 4.4% of all payments received.

These payment incidents are subject to corrective actions: 98% of incidents arising in 2012 were corrected during the year.

¹ Except for the payment of benefits to retired central government public servants, which is the responsibility of the Directorate of Public Finance.

² Note that, due to the Scheme's structure and the time required to check all employers' declarations, the definitive figures correspond to the 2011 financial year.

... AROUND €1.75 BILLION COLLECTED ...

The Scheme collected around €1.75 billion in 2012. Employers with at least 10 employees pay contributions on a monthly, aggregate basis. Those with less than 10 employees pay contributions annually.

In the event of a late payment, a penalty is added to the contribution. In 2012, 301 employers had to pay penalties.

... AND 4.5 MILLION CONTRIBUTING PUBLIC SERVANTS IN 2012

Each year, employers send Caisse des Dépôts a statement summarising for each of their public servants the contributions paid in during the previous year.

The deadline for reporting contributions collected during 2011 was 31 March 2012. Rights are added to the contributors' individual accounts provided the amounts reported match the contributions received.

ERAFP and Caisse des Dépôts, working closely with the supervisory authority, have implemented actions to raise awareness among employers of their regulatory obligations and the rights of their public servants.

Caisse des Dépôts contacts employers, by telephone or in writing, whenever a discrepancy between the reported amount and the amount received is observed.

The very high update rates for contributors' accounts since 2009 (more than 99% on average) is indicative of an increased awareness and understanding of the Scheme, which is partly due to Caisse des Dépôts' actions to raise awareness among employers.

98.8%

OF INDIVIDUAL CONTRIBUTORS' ACCOUNTS UPDATED AS AT 31 DECEMBER 2012

EMPLOYER ACCOUNTS AND INDIVIDUAL RETIREMENT ACCOUNTS

Source — CDC Administrative Manager, Mutual Management department production data



94,408

PENSION LIQUIDATIONS
IN 2012

172,789

BENEFITS REVISIONS



€220 MILLION

PAID OUT TO
BENEFICIARIES IN 2012

The first half of 2012, however, was marked by the entry into force of the new French standard applicable to individual declarations, known as N4DS. This change had a particular impact on Ministry of Defence employers and resulted in the late transmission of declarations and, therefore, delayed updates to employees' individual accounts.

The situation was brought back to normal in the second half of the year thanks to the efforts of the administrative management staff and individual monitoring of employers experiencing difficulties, with 98.8% of individual accounts updated as at 31 December 2012.

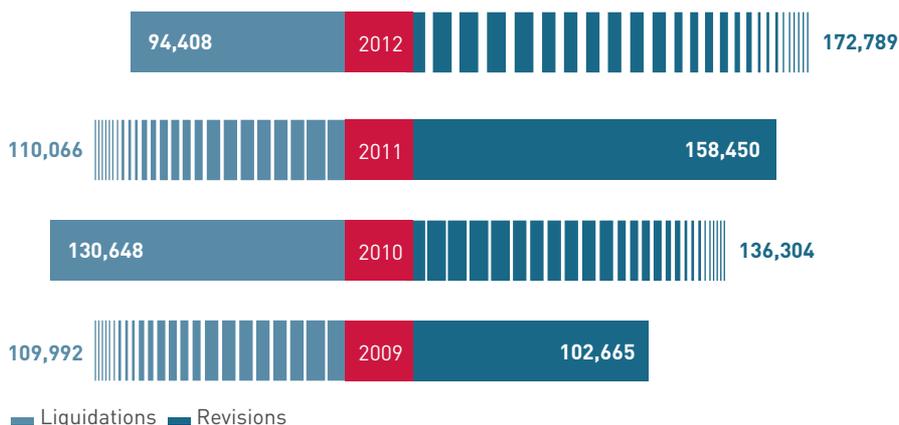
— A STICKING POINT: MULTIPLE EMPLOYERS

Some public servants receive remuneration from several employers. This may occur when a public servant is assigned on a temporary basis to an employer other than the primary employer responsible for paying their basic salary and bonuses. In such cases, the primary employer is responsible for obtaining data on salary and bonuses from the "secondary" employers, to ensure compliance with the aggregate cap of 20% of the gross basic salary, and to calculate the amount of contributions to be paid by each employer.

This system, which was introduced by the applicable regulations, is complex to implement for employers and compliance with the 20% cap is impossible in certain cases.

LIQUIDATIONS AND REVISIONS, 2009 TO 2012

Source — CDC Administrative Manager



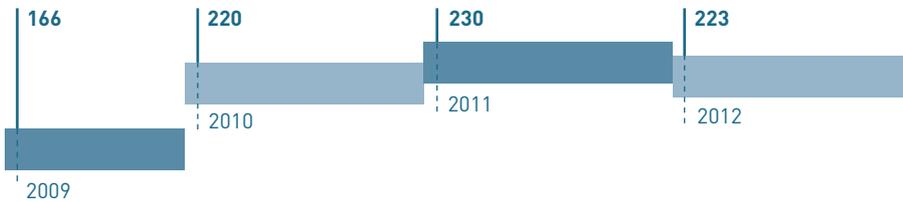
— CLOSE TO 94,000 PENSION LIQUIDATIONS AND 173,000 BENEFITS REVISIONS IN 2012

A total of 94,408 pensions were liquidated in 2012, and 172,789

revisions were made. In all, €223 million was paid out to beneficiaries in the year. This amount includes reversionary benefits paid out to deceased beneficiaries' spouses and children under 21.

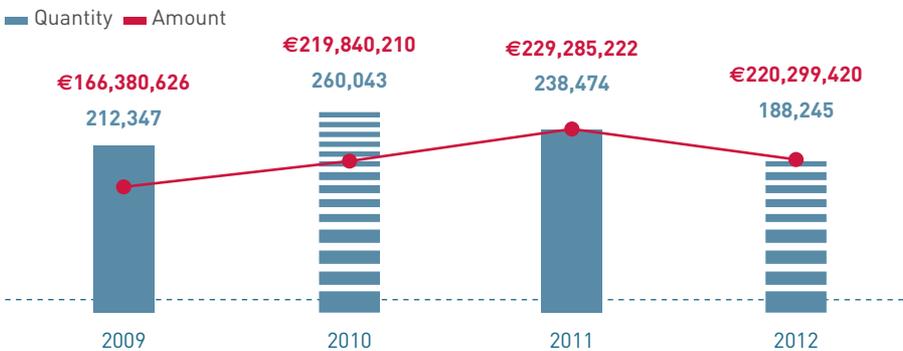
BENEFIT PAYOUT AMOUNTS (in millions of euros)

Source — CDC Administrative Manager



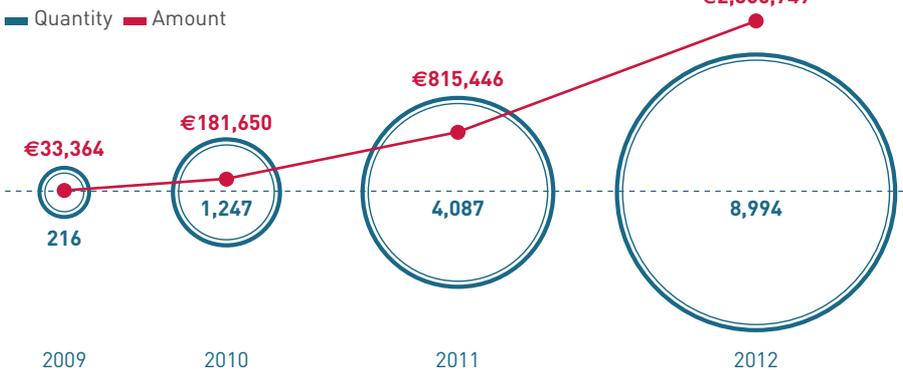
ANNUAL LUMP SUM BENEFIT PAYOUTS

Source — CDC Administrative Manager



ANNUAL ANNUITY PAYMENTS

Source — CDC Administrative Manager



— A SLIGHT FALL IN PAYMENTS

The full effect of the extension of the legal retirement age for persons born on or after 1 July 1951 was felt in 2012, resulting in a sharp 14% decline in the number of liquidations relative to 2011. Despite a 9% increase in the number of revisions, the total paid out in benefits in 2012 was 3% lower than in 2011, notably as a result of the increasing proportion of annuities paid relative to lump sum payments, which fell for the first time to 188,245 in 2012 from 238,474 in 2011. The average lump sum payment in 2012 was €1,170.

— ANNUITY PAYMENTS TAKE OFF

At 31 December 2012, 8,994 annuities were being paid. The sharp increase in the total number of annuities in payment (up from 1,247 annuities in 2010 and 4,087 in 2011) can be explained by the gradual development of the Scheme since its inception in 2005.

Every year, there are more beneficiaries who have accumulated throughout their careers a total number of points in excess of the minimum 5,125 necessary to receive annuity payments. The average annuity paid in 2012 was €256³.

Although total annuity payments in 2012 were only around 1% of the total lump sum payments (€2.30 million vs. €220 million, respectively), they are growing rapidly and were approximately three times larger than the €815,446 paid out under annuities in 2011.

³ Average total monthly payments throughout the year

COMMUNICATING TO ENHANCE SCHEME AWARENESS

ERAFF's communications strategy is aimed at enhancing the effectiveness of the Scheme by providing all stakeholders (beneficiaries, employers and institutional players) with the information required to participate fully at the appropriate level in the Scheme's operations.

ERAFF's communications strategy reflects its desire not only to raise awareness of the Scheme, but also to improve the level of trust and confidence beneficiaries have in their Scheme. This will be achieved by demonstrating its usefulness as a long-term investor and the relevance of its prudential investment rules, respecting public service values (100% SRI).

The strategy is based on two key areas:

- Institutional communications, mainly with public sector bodies, which are under the responsibility of ERAFF;
- Operational communications, to inform employers and beneficiaries of their rights and obligations, which are managed by the Administrative Manager (CDC).

Eight years after the inception of the public service additional pension Scheme, continuing to raise awareness and understanding among all stakeholders remains a vital and strategic objective. For this reason, in 2012 the board of directors formed a communications committee responsible for monitoring the Scheme's communications on a regular basis.

2012: FORMATION OF THE COMMUNICATIONS COMMITTEE

Anne Meunier, chairman of the committee

Formed on the board of directors' initiative on 22 June 2012 and active since 6 September 2012, the communications committee is charged with "reporting to the board on the monitoring and assessment of actions taken regarding providing information to employers and beneficiaries, as well as operational communications" (board decision no. 9 of 22 June 2012). At its two meetings in 2012, on 6 September and 6 December, its members identified three areas of concern requiring tailored and targeted action:

- + a relatively widespread lack of knowledge of the Scheme among beneficiaries, particularly in the younger age groups;
- + a lack of awareness about ERAFP among both employers and beneficiaries;
- + the inherent difficulties in communications given the specialised nature of ERAFP.

Actions that had already been resolved upon, such as overhauling the Scheme's visual identity and the organisation of institutional conferences, were presented to the committee. In 2013, ERAFP will work on overhauling the Scheme's website and conduct awareness surveys about the Scheme. It also appeared necessary to review all the resources allocated to the Scheme's communications policy. These proposed actions were discussed by the committee, which will monitor their progress.

To better structure its work, committee members requested general management to present to the board of directors ERAFP's long-term communications plan resulting from a comprehensive review of the Scheme's requirements.

Concerning ERAFP's institutional communications, actions in 2012 centred on the need to enhance visibility and understanding of the Scheme.

HIGHLIGHTS OF ERAFP'S INSTITUTIONAL COMMUNICATIONS IN 2012

+ Overhaul of the Scheme's visual identity.

Faced with an increasing number of requests for comments, whether from official sources, the media or politicians and given its wide public and social institutional role, the Scheme must prepare and convey a clear message. Accordingly, ERAFP will officially launch a strong and coherent new visual identity in 2013, positioning the Scheme as clear and dynamic.

+ Launch of its first web-based communications campaign destined for active contributors.

+ Staging of its first institutional conference, on "Additional pension and the public sector".

+ Production of an SRI New Year's card.

For its 2013 New Year's card, ERAFP chose a creative format, designed by pupils at the Marienau school in Forbach based on a sustainable development theme. As well as being an opportunity for exchange with the school's pupils and teachers, this also yielded a highly original card showing ERAFP's SRI process.

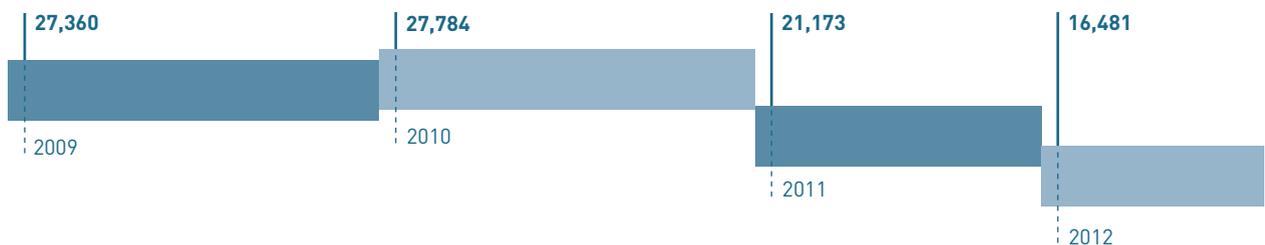
MORE DETAILED INFORMATION FOR PUBLIC SECTOR EMPLOYERS

In its early years, the Scheme essentially aided public sector employers in the practical aspects of fulfilling their responsibilities. Now, it aims to promote their awareness of the Scheme's specific capitalisation and long-term socially responsible investment features to enable them to pass on such information to their employees.

The Caisse des Dépôts call centre in Angers handled around 16,500 telephone calls from employers in 2012 (89% of calls received). This figure is lower than in previous years, which suggests that employers now have a better awareness and understanding of how the Scheme works. In addition, Caisse des Dépôts also organised training and information sessions for employers throughout France.

NUMBER OF EMPLOYER TELEPHONE CALLS HANDLED

Source — CDC Administrative Manager, Communications department/call centre



Having organised regional meetings with employers in conjunction with the Administrative Manager in previous years, in 2012 ERAFP invited the 20 most senior human resources directors from the public sector to take part in its first institutional conference.

In terms of the employer-dedicated “e-services” account-viewing website, there were more than 75,000 connections in 2012. This figure was lower than in 2011, due to improvements in the quality of data passed on by employers.

BETTER UNDERSTANDING THE NEEDS OF ACTIVE CONTRIBUTORS IS A SCHEME PRIORITY

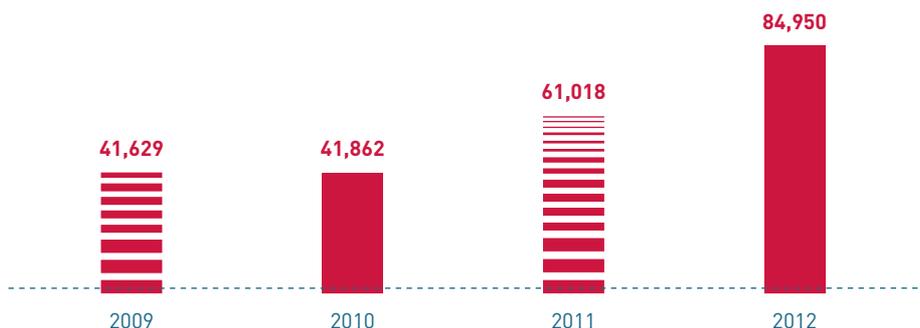
As evoked by the communications committee members, the lack of knowledge and awareness of the Scheme persisted in 2012. ERAFP and the Administrative Manager are striving to remedy this by being attentive to the needs expressed by beneficiaries, and are preparing awareness surveys to aid in defining these needs.

Informing retired beneficiaries

+ More than 85,000 telephone calls from retired public servants were handled in 2012 (96% of calls received). In addition, some 16,400 items of correspondence (letters and e-mails) were processed over the year, up 27% on the 12,845 items processed in 2011.

NUMBER OF TELEPHONE CALLS FROM RETIRED PUBLIC SERVANTS

Source — CDC Administrative Manager, Communications department/call centre



- More than 495,000 beneficiaries have signed up for the on-line services available to active and retired public servants (compared to 425,000 in 2011). This figure has doubled in three years.

The Administrative Manager also measures user satisfaction with its information services in order to improve the quality of its responses and case monitoring.

Informing active contributors

854,255 documents relating to RAFP were sent out to active contributors by the various schemes in compliance with contributors' rights to information (individual statements and general indicative estimates for pensions). It should be noted that in 2011 RAFP took over responsibility for informing active public servants in the absence of a primary scheme. As a result, 69,225 of the 854,225 documents were sent out directly by RAFP.

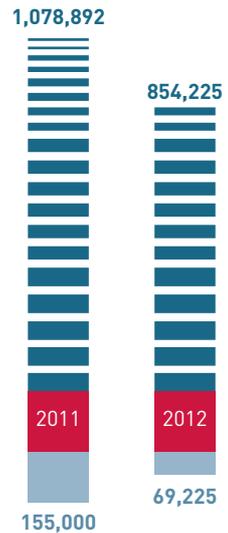
Furthermore, Caisse des Dépôts handled more than 30,000 telephone calls from active contributors under their 'right to information' (90% of calls received) in 2012, as well as some 2,200 letters and e-mails.

In connection with the "More about my retirement" module, active contributors were e-mailed in the first week of June to inform them of the module's availability and encourage them to use the Scheme's website.

NUMBER OF 'RIGHT TO INFORMATION' DOCUMENTS SENT

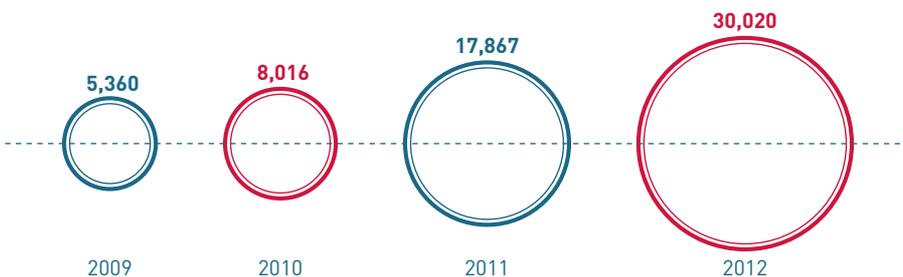
Source — CDC Administrative Manager

■ Total number of RAFP documents sent ■ Documents sent by RAFP



NUMBER OF TELEPHONE CALLS HANDLED FROM ACTIVE CONTRIBUTORS

Source — CDC Administrative Manager, Communications department/call centre



— INSTITUTIONS: INCREASINGLY FRUITFUL COMMUNICATIONS

Contact with the public authorities

ERAFP's contacts with the public authorities included meeting the 20 most senior human resources directors from the three public sector functions through the staging of its first institutional conference, on "Additional pensions and the public sector", held in Paris on 28 November 2012. In the current difficult economic and social environment, the conference was an opportunity for them to find out more about the Scheme and the way in which it allies performance with the desire to promote public service values. It also highlighted the contribution that the Scheme could make to long-term financing of the economy. The discussions facilitated by this conference underpin the decision to hold similar regional events in 2013. The continuation of regular contacts with institutions forms part of ERAFP's active communications policy towards institutional players.

Media relations

→ Press

The calls for tender launched by ERAFP form an excellent opportunity to promote communications on the Scheme.

RAFP and ERAFP were mentioned in 142 press articles in 2012, nearly three times as many as in 2011. Specifically, seven press releases issued by ERAFP were widely reported in the written press, particularly in the economic and financial sections, and on the Internet. Unlike in previous years, the coverage did not concern only the award of active financial management mandates.

The Chief Executive Officer and his staff were also widely interviewed by specialist French and English language publications and took part in some 60 conferences and seminars outside France.

→ ***The website: a central communication tool***

The Scheme's website, **www.rafp.fr**, is an online information platform targeted at active or retired public servants, public sector employers and those in the private sector employing public servants. It is also a means of communicating with other players seeking information on the Scheme, such as asset management companies, the press and SRI specialists.

The website currently allows beneficiaries to obtain detailed information about the Scheme and to view their individual retirement accounts using applications developed by Caisse des Dépôts.

The website had some 49,000 visits per month in 2012, in line with the previous level of use. Its most frequent users were the Scheme's active contributors (50% of all visits). The majority of queries concerned the calculation of points vested. Accordingly, for the third consecutive year, the most visited areas were the "points calculator" and "your personal situation" areas.

Work will start in 2013 on redesigning the website to meet the need for greater responsiveness and the inclusion of innovative modules in order to provide dynamic on-line communications. The new site will provide the Scheme with an "RAFP" online identity.

Other than representing a valuable tool for users, the redesigned site will also provide a means of highlighting the Scheme's SRI management approach.

The Scheme's socially responsible investment (SRI) policy comforts its approach as a long-term investor:

- a particularly conservative approach when defining the technical parameters;
- an asset allocation designed to ensure the Scheme's equilibrium over the long term.

The highly adverse economic and financial environment in 2012 imposed significant constraints on the investment of new cashflows. The shortage of investment opportunities could severely hamper certain institutional investors.

For its part, ERAFP focused on continuing to diversify its assets to ensure the Scheme's long-term equilibrium and invested in new asset classes in 2012 within the constraints of its regulatory framework.

ERAFP's SRI approach was thus extended further, by adapting the institution's investment policy to include the specific features of these new investments and through the launch of a number of initiatives to promote collective action by investors and SRI researchers.



ERAFP,
A LONG-TERM
PLAYER
ENGAGED IN
RESPONSIBLE
INVESTMENT

ERAFP KEY FIGURES*

Financial assets of around

€13.4 billion

An estimated regulatory
coverage ratio of around

106%

Technical reserves of around

€12.7 billion

Non-technical reserves of

€0.96 billion

a **1.50%**
provisioning
discount rate**

* Valuation at end-2012.

** Discount rate gross of management fees, valued using a method that takes into account the re-investment risk.

THE SCHEME'S ACTUARIAL FOUNDATIONS

THE SCHEME'S FINANCIAL EQUILIBRIUM

RAFP is subject to strict prudential regulation stipulating that:

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

The board of directors is responsible for ensuring this financial equilibrium.

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 cover the Scheme's risk exposure.

A CHALLENGING ENVIRONMENT ...

The Scheme's portfolio has been built in recent years, since RAFFP's creation in 2005, and has been dependent on the conditions under which it has been able to invest.

The relatively short investment period has accentuated the impact of the particular financial and economic conditions prevailing from 2005 to 2012.

In effect, nominal yields on the safest sovereign bonds have declined since 2005. The bond portfolio's average yield has therefore also fallen.

Equities offer yields that could partially offset this gradual decline. Nevertheless, the initial equity purchases in 2007, when the CAC 40 stood at around 6,000 points, have weighed on the portfolio's performance for some years.

ERAFFP's stance as a contrarian investor during crisis periods, however, enabled it to maintain

its strategic asset allocation and invest further in equities during periods when market corrections made valuations particularly attractive.

Despite these difficult conditions, the Scheme maintained its capacity to cover its commitments. The coverage ratio stood at around 106% (estimated unaudited regulatory ratio) at the end of 2012.

— ... BUT A POSITIVE OUTLOOK

As a recently established Scheme, RAFFP will take time to gather steam. With substantial upcoming net cash inflows, the Scheme is not hampered by short-term management constraints and is therefore able to hold portfolio securities for the long term.

— A CONSERVATIVE APPROACH

Although the economic environment remains uncertain, the Scheme benefits from a solid base. This is because the board of directors has opted for a conservative definition of the Scheme's main parameters, resulting in an initial technical return of 4% that has since risen at a modest rate (4.075% in 2013).

At the same time, the Scheme's provisioning discount rate is set at a very conservative level compared with the practices of other European pension funds.

Since publication of the statutory order of 28 December 2011 (Article 1) amending that of 26 November 2004, RAFFP has used the TGH05 and TGF05 generational life expectancy tables which are more closely in line with usual market practices than the TPG93 generational life expectancy tables formerly used.

POINT PURCHASE AND SERVICE VALUES

Source — ERAFFP

YEAR	2005	2006	2007	2008	2009	2010	2011	2012	2013
Purchase value (€)	1	1.017	1.03022	1.03537	1.04572	1.05095	1.05620	1.07420	1.0850
Change	—	1.70%	1.30%	0.50%	1%	0.50%	0.50%	1.70%	1%
Service value (€)	0.04	0.0408	0.04153	0.04219	0.04261	0.04283	0.04304	0.04378	0.04421
Change	—	2.00%	1.80%	1.60%	1%	0.50%	0.50%	1.70%	1%

— SCHEME PARAMETERS

Each year, the board of directors sets the Scheme parameters:

- + purchase value, and
- + service value of a point.

When it adopted the new point values for 2013, the Board chose to take a prudent approach by keeping the technical return at 4.075% while raising the purchase and service values of a point by 1%.

— AUDITED FINANCIAL STATEMENTS

In 2012, as in all the previous years, the board of directors only began deliberations on the previous year's financial statements in the second half.

This time lag relates directly to the system for processing and verifying data submitted by employers, which ends on 30 June. The time lag will be reduced over time as employers become more familiar with the system.

Moreover, a project to shorten the period taken to close the accounts is under consideration and is expected to be tested for the 2012 financial year.

After auditing the valuation processes for reserves, the independent auditors again certified the fairness and accuracy of the 2011 financial statements without any qualifications.

— WHOLLY COVERED COMMITMENTS

Despite the unprecedented conditions linked to the crisis, ERAFP's conservative management policy enabled it to record an estimated unaudited coverage ratio of roughly 106% at end-2012.

In compliance with its regulatory obligations, the Scheme maintains comfortable reserves and, given the difficult economic conditions, ensures satisfactory coverage of its commitments.

THE CRISIS AND ITS IMPACT ON INVESTORS

The financial and economic crisis has been with us since 2008. Slower – or even negative – growth has had a material adverse effect on many countries. The worst hit have seen employment rates collapse and experienced major difficulties in meeting their commitments to reduce their public sector deficits.

For investors, and particularly institutional investors, market movements in the last two years have markedly complicated asset allocation decisions.

Sovereign bond rates have been falling in real terms since the 1980s, a trend that has been accentuated in the last two years. The desire to reduce risk on euro-zone ‘peripheral’ countries has driven investors to favour safe assets or those perceived as being less risky. Naturally, this has driven the price of such assets up sharply, entailing a reduction in equal measure of yields. This raises the question of whether the applicable regulations, which require a high weighting of such investments in the Scheme’s portfolios, remain pertinent at a time when prices are at historical highs.

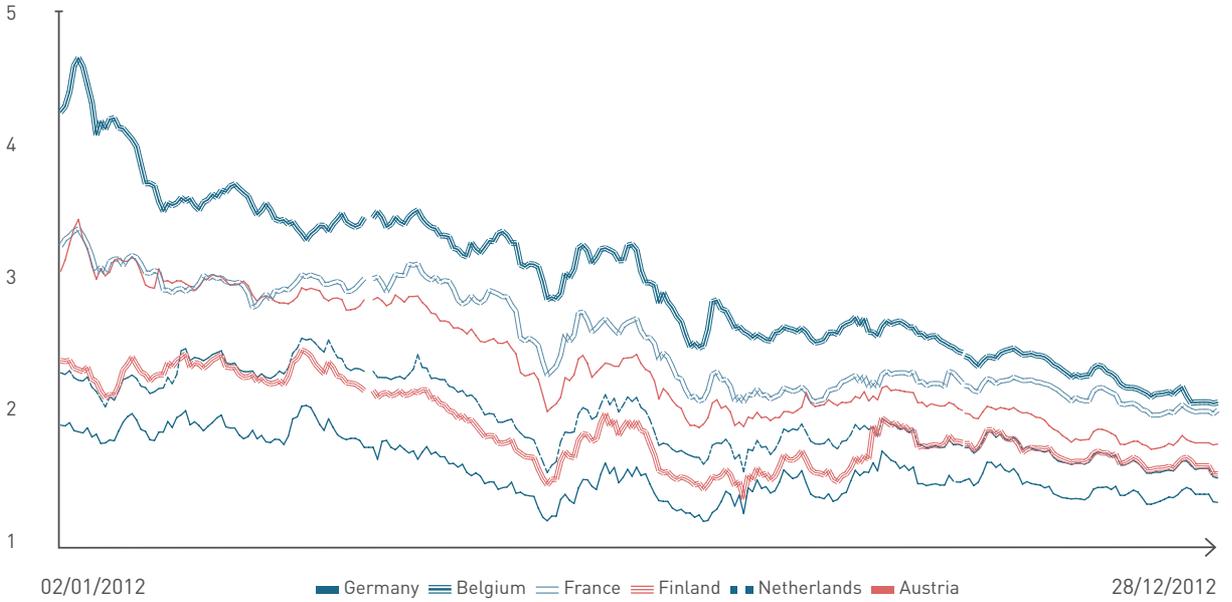
Investors’ appetite for sovereign bonds is due largely to the sharp deterioration in the outlook for growth. Investors are prepared to forego the future growth premium inherent in equities in favour of securities for which they feel repayment is still assured.

Some investors choose to pursue so-called ‘contrarian’ strategies, in which they avoid following the herd on the financial markets or look beyond solely short-term price movements. To do so, however, they must be proactive and not be bound by liquidity constraints.

The question also remains of how to invest the cash flows derived from coupon income and redemption payments on the remaining sovereign bond portfolio. Yields offered by both sovereign and good quality corporate bonds are very low and do not adequately remunerate the risk assumed by the lender.

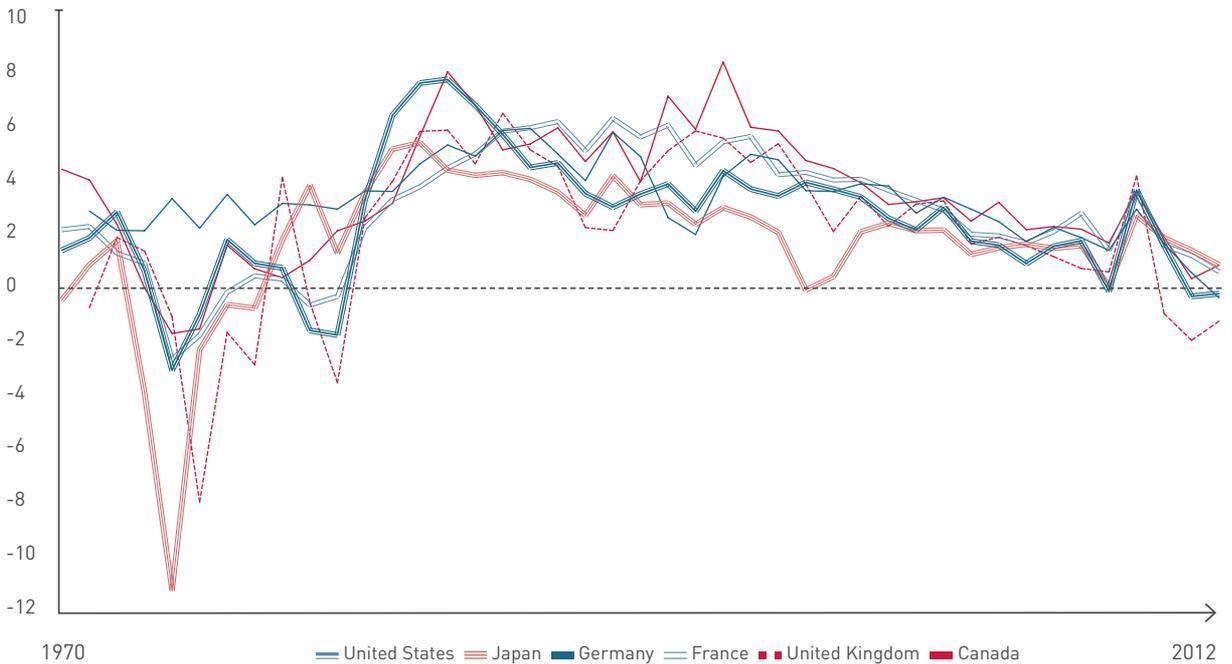
NOMINAL YIELDS ON 'CORE' EURO-ZONE COUNTRIES IN 2012

Source — ERAFP



REAL LONG-TERM YIELDS IN ADVANCED ECONOMIES, 1970-2012

Source — Macrorama, IMF, Feri



CHRONOLOGY OF FINANCIAL EVENTS IN 2012

Fears of the financial difficulties experienced by euro-zone peripheral countries spreading elsewhere dominated 2012. The central banks responded just at the time when these concerns seemed to be at their strongest, enabling the markets to regain their confidence. However, the concern is now whether the European economies will be able to return to growth, whereas the United States' economy has improved.

— JANUARY – MARCH 2012

The European Central Bank (ECB) kept its intervention rates low and launched a second long-term refinancing operation (LTRO) in late February, enabling banks to satisfy their refinancing requirements. It continued, albeit to a lesser degree, purchases of peripheral countries' sovereign debt on the secondary market.

The Fed continued its accommodative policy, despite noting an improvement in the US employment market.

The equity markets gained ground during the first quarter.

The Greek sovereign debt swap programme (PSI) took place in March.

+ 3.5% first-quarter annualised global growth [Source — IMF]

— APRIL – JUNE 2012

Growth slowed sharply in Europe and economic disparities between countries increased. The ECB did not reactivate its sovereign debt repurchase programme.

Growth in the US economy showed signs of faltering but the Fed chose not to introduce further accommodative measures.

The equity markets turned down.

European yield spreads widened, despite Bund yields gradually climbing from their low of 1.2% in May. The spread against the OAT widened, breaking through the 100 bp mark.

+ 2.5% second-quarter annualised global growth
[Source — IMF]

— JULY – SEPTEMBER 2012

Growth in Asia showed signs of slowing. In Europe, all peripheral countries experienced negative growth (Portugal, Ireland, Spain, Italy, Greece, Hungary, Slovenia) [Source — OECD].

Spain had to recapitalise its banking system and meet aid requests from certain Spanish regional authorities. Europe's difficulties in resolving the peripheral country sovereign debt crisis raised concerns, but ECB President Mario Draghi's public statement in July that the euro was "irreversible" reassured the markets. The ECB subsequently announced its intention to make unlimited purchases on the secondary market of one-to-three-year sovereign debt under its outright monetary transactions (OMT) programme.

As to the Fed, it announced a third round of quantitative easing (QE) through repurchases of collateralised securities and the continuation of its existing measures.

Spreads narrowed in Europe and the equity markets gained ground. Concerns over peripheral countries returned in mid-September, wiping out a part of the earlier gains.

+ 2.9% third-quarter annualised global growth [Source — IMF]

— OCTOBER – DECEMBER 2012

US macro-economic indicators showed a degree of recovery, whereas euro-zone economies contracted (fall of 0.6% in Q4 after a fall of 0.1% in Q3) [Source — IMF].

Central banks continued their accommodative policies.

After stagnating in October, and despite persistent concerns over peripheral countries and budgetary problems in the US, the equity markets gained further ground.

Moody's cut France's credit rating from Aaa to Aa1, but the spread against Germany tightened to close the period at 68 bp.

Agreement was reached *in extremis* late in the year in the United States on its fiscal cliff: it called for cuts in government spending and higher tax receipts.

+ 3.0% fourth-quarter annualised global growth [Source — IMF]

FINANCIAL POLICY: GRADUAL DIVERSIFICATION

- + ERAFP's investment policy aims to reconcile financial performance, risk management and socially responsible commitment within the strategic asset allocation approved by the board of directors.
- + More than €1.75 billion was received in contributions in 2012. As a long-term investor, ERAFP seeks to optimise the return on its portfolio while keeping the Scheme's risk exposure to an acceptable level.

The bond portfolio represented 79% of the Scheme's assets at the beginning of 2012. To address its reinvestment risk against the backdrop of an even more marked decline in the euro-zone's "northern bloc" sovereign bond rates and of persistent risk presented by the so-called peripheral European countries, ERAFP's preference during the year was to invest in European corporate bonds. Thanks to the preponderance of market opportunities, particularly in the first half of the year, 33% of cash flows were invested in fixed rate bonds.

Investors poured into good quality corporate bonds in their quest for higher returns, leading prices to rise significantly. Accordingly, the

Scheme accorded asset diversification an important role in its strategic allocation.

Asset diversification resulted, *inter alia*, in limited investment (5.6% of cash flows) in index-linked bonds.

Significant headway was also made by activating convertible bond investment mandates, although investment opportunities in these securities remain limited.

ERAFP was thus able to invest 4.7% of its cash flows in convertible bonds in 2012.

Equity investments accounted for 50% of cash flows, but the Scheme is gradually approaching the regulatory limit (25% of assets) for this asset class.

Lastly, ERAFP made its first real estate investment, corresponding to 1.4% of cash flows.

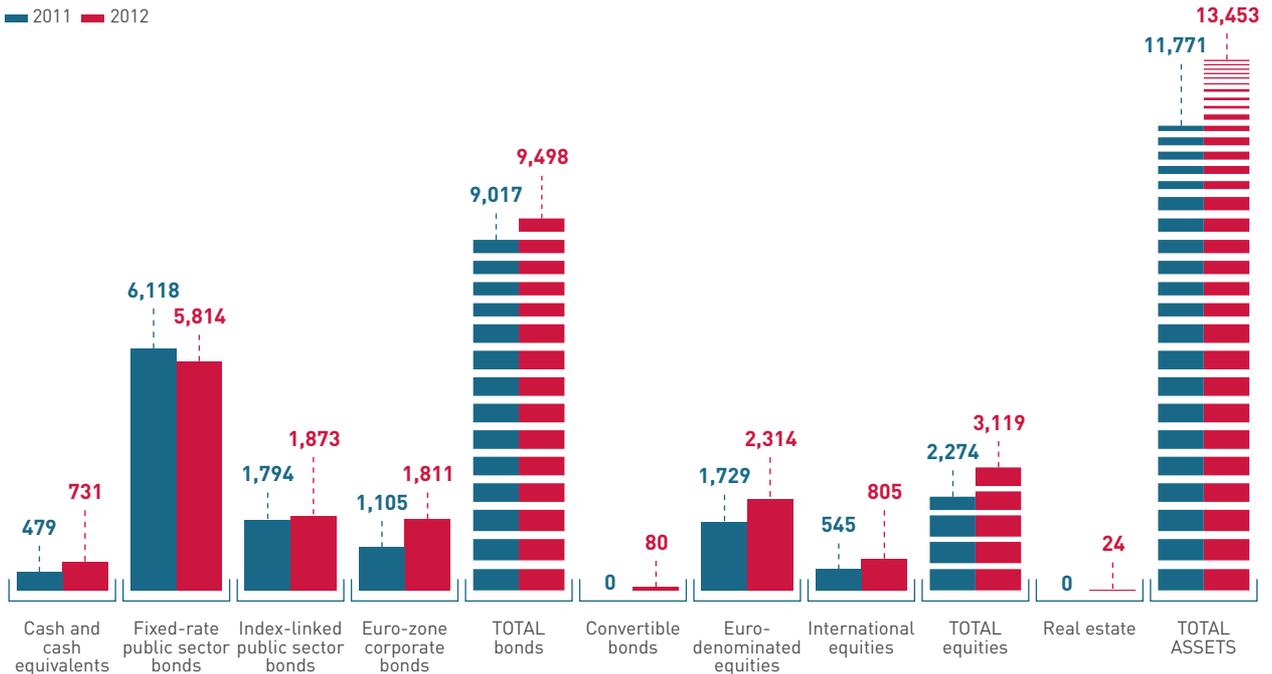
ERAFP is a long-term investor and aims to hold bond investments until they mature. Any disposals are essentially made for arbitrage purposes, to improve asset-liability matching and, more marginally, to take advantage of particular market opportunities. ERAFP is therefore driven to limit purchases of securities the returns on which would materially reduce the portfolio's average yield or which present a high default risk.

The combination of particularly low rates and the regulatory environment resulted in ERAFP increasing its cash and cash equivalents, which totalled €624 million at end-2012.

As cash holdings are not remunerated, 6.2% of cash flows were invested in securities maturing in less than one year.

PORTFOLIO COMPOSITION (at amortised cost, in millions of euros)

Source – ERAFP



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 seeks to pursue 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.

2006

SRI CHARTER ADOPTED

— THE SCHEME'S SRI APPROACH IS UNIQUE IN SEVERAL WAYS:

- + the board of directors has internalised the SRI approach; while the board and management naturally rely on outside service providers such as consultants and rating agencies, the board itself defined the approach to satisfy the demands and values of the board members, and permanently monitors its application;
- + 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, from the stock-picking process to monitoring the securities or assets held 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 factors in 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 certain economic sectors when the portfolio includes issuers from other sectors with close ties to the excluded sectors.

THE FIVE VALUES OF THE CHARTER

+ Rule of law and human rights

Fight against discrimination in all forms, particularly gender bias,
Freedom of opinion and expression,
Human rights in 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 payroll to shareholder remuneration (for companies), etc.

+ Democratic labour relations

Respect for freedom of association and the rights of trade unions and employee representatives,
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.

+ The environment

Preventing environmental impact (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 decision-making 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 (prevention of anti-competitive practices, etc.),
Open approach to relations with all stakeholders,
Transparency about business operations and financial performance, etc.

THE SRI EVALUATION SYSTEM

3

A PRIORI EXCLUSION CRITERIA

DYNAMIC BEST IN CLASS APPROACH

— THE RATING METHOD

The SRI framework, adopted in March 2007, outlines in detail and concretises the values and implementation principles set forth in the Charter. Each value is broken down into separate criteria, and each criterion is assigned indicators.

Ratings are assigned:

- + for each 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 values, with each value given the same weighting.

— A PRIORI EXCLUSION CRITERIA

The Charter sets out three criteria that if not fulfilled result in the automatic exclusion of 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.

— A DYNAMIC BEST IN CLASS APPROACH

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

- + not excluding certain business sectors 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

Source – ERAFP

1 SRI POLICY

- + Definition of investment policy
- + Ruling on differences of interpretation
- + Decisions on changes to the Charter and guidelines
- + Definition of shareholder engagement guidelines, including voting policy at general meetings

2 SRI RATING

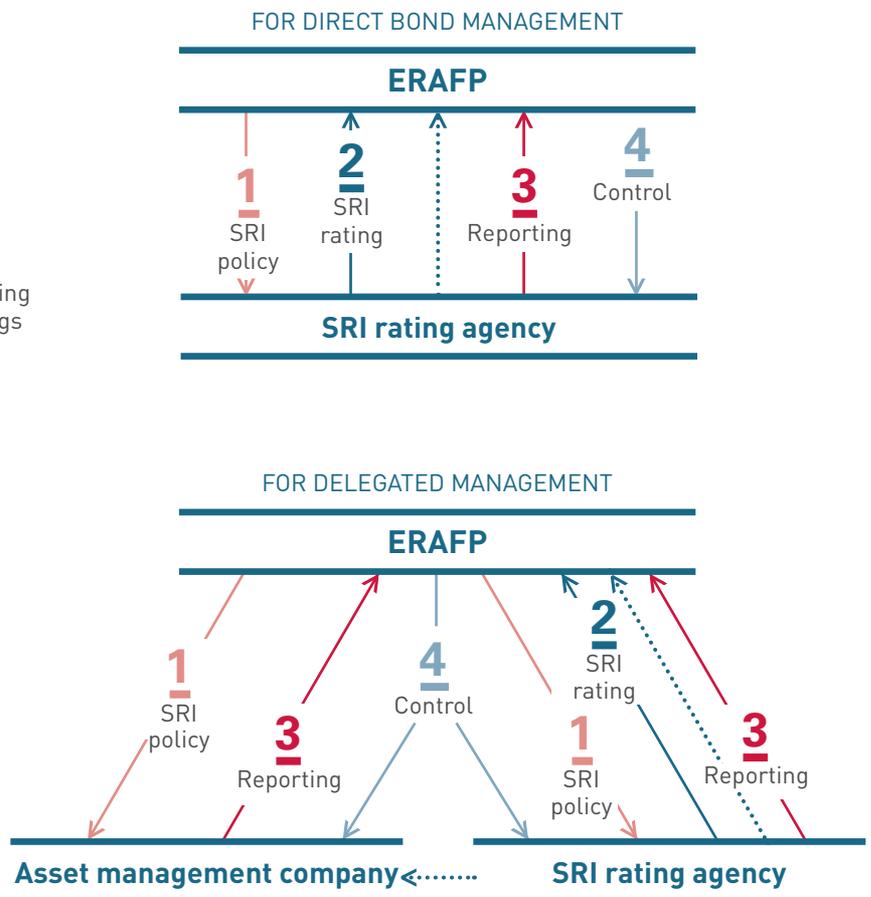
- + SRI data for the Scheme’s management entity
- (.....) Red flags

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, committees, etc.)



ROLES OF THE VARIOUS BODIES

— BOARD OF DIRECTORS (BASED ON THE CSPP'S WORK)

The board of directors:

- + sets the general direction for the SRI policy. To be truly responsive, the board benefits from consistent and full information, it is not just brought up to date after the fact. Additional measures assure this close relationship, notably regular meetings of the Investment Policy Monitoring Committee (CSPP);
- + oversees implementation of the SRI policy, notably through the work performed by the CSPP;
- + makes decisions on any changes to the guidelines based on the preparatory work by the CSPP.

— MANAGEMENT

ERAFP's management plays several roles:

- + directly implements the SRI policy for bond investments managed in-house, which under the Scheme's current regulations concerns sovereign and similar bonds;
- + verifies application of the SRI policy by external asset management companies, in terms of both stock picking using the best in class principle and ERAFP's voting policy at general meetings;
- + ensures that the contracts signed with external SRI rating agencies are properly executed;
- + reports to the board of directors and the CSPP on implementation of the SRI policy and provides support for preparatory work performed by directors.

— RATING AGENCIES

The rating agencies – currently Vigeo and its partner Oekom – are responsible for analysing the asset portfolio on a quarterly basis and providing detailed reports on each asset class to ERAFP.

— ASSET MANAGEMENT COMPANIES

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

At the end of 2012:

- + six companies (Amundi, Axa Investment Managers Paris, BNP Paribas Asset Management, Edram, Rothschild et Cie Gestion and Tobam AM) manage equities of large, listed euro-zone companies, each with a distinct mandate;
- + one company (BNP Paribas Asset Management) manages listed euro-zone small and mid caps;
- + two companies (Allianz GI France and State Street Global Advisors France) manage equities of large, listed international companies (excluding emerging countries), each with identical mandates;
- + two companies (Amundi and Groupama AM) manage investment grade euro-denominated corporate bonds, each with identical mandates;
- + one company (AEW Europe SGP) manages a real estate asset in Paris;
- + two companies (Schelcher Prince Gestion and Lombard Odier Gestion) manage convertible bonds, one in Europe and the other globally.



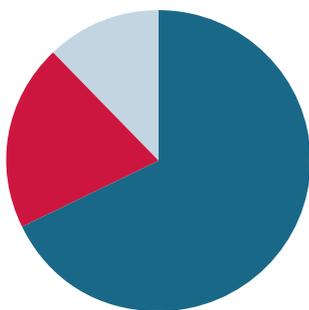
**VIGEO
& OEKOM**

SRI RATING AGENCIES

BOND PORTFOLIO

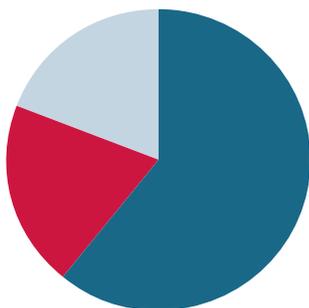
CHANGE IN THE BOND PORTFOLIO, 2011-2012 (at amortised cost)

Source — ERAFP



At 31 December 2011

- 68% fixed-rate public sector bonds
 - 20% index-linked sovereign bonds
 - 12% corporate bonds
- Total: €9.017 bn**



At 31 December 2012

- 61% fixed-rate public sector bonds
 - 20% index-linked sovereign bonds
 - 19% corporate bonds
- Total: €9.498 bn**

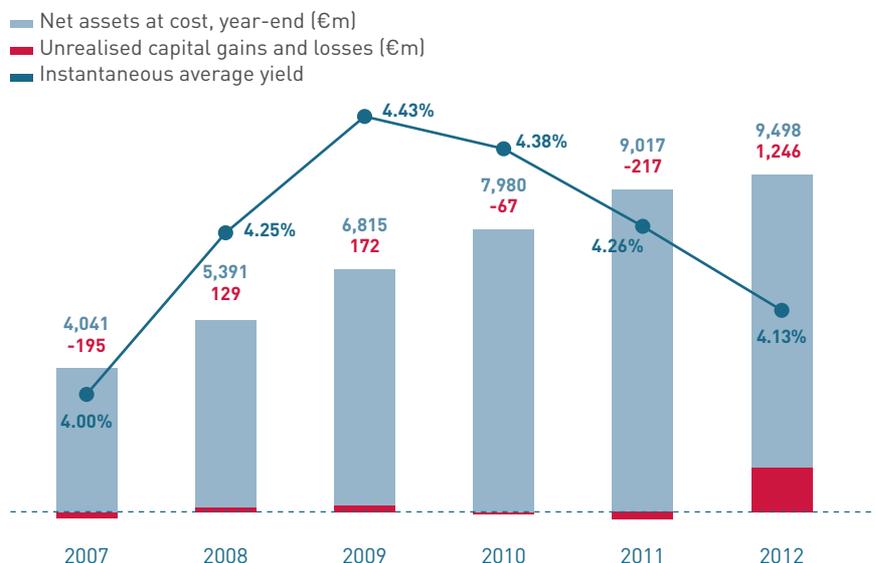
At 31 December 2012, the bond portfolio (excluding convertibles) totalled €9,498 million at amortised cost, corresponding to 70.6% of ERAFP's total assets. It is split between fixed-rate sovereign and similar bonds (43.2% of total assets or €5,814 million), inflation indexed bonds (13.9% or €1,873 million) and corporate bonds (13.5% or €1,811 million).

At end-2012, the bond portfolio had generated unrealised capital gains equivalent to 13.1% of its amortised cost. With an average duration of 8.7 years, its yield-to-maturity was 4.13%¹, down slightly from 4.26% in the preceding year, reflecting the fact that rates on the portfolio securities are higher than those currently obtainable on the main bond issues.

¹ For inflation of 2%.

CHANGE IN AVERAGE YIELDS AND UNREALISED CAPITAL GAINS AND LOSSES IN THE BOND PORTFOLIO SINCE 2007

Source — ERAFP



PUBLIC SECTOR BONDS

All sovereign and similar public sector bonds are managed directly by ERAFP. Their carrying amount totalled €7,687 million at end-2012; with an average duration of 9.4 years, their yield-to-maturity was 4.23%².

Sovereign bonds accounted for more than 89% (€6,876 million) of these securities, corresponding to more than half of the Scheme's overall portfolio. They include fixed-rate and inflation-indexed 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.

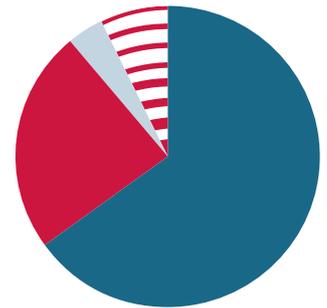
The other public sector bonds are issued by OECD local authorities (4% of the public sector bond portfolio, or €309 million) and supra-national institutions (7%, or €502 million).

The gradual decline in sovereign bond rates severely hampered transactions in the bond portfolio. ERAFP decided in 2012 not to increase its risk exposure to public sector bonds. Nevertheless, it was keen to play a part in the financing of public sector investment projects and, for example, subscribed to a joint bond issue by French local authorities and to an issue by the European Investment Bank, the largest multilateral financier, whose priorities are innovation, providing access by SMEs to financing, efficient resource utilisation and strategic infrastructures.

² For inflation of 2% (3.67% excluding inflation).

PUBLIC SECTOR BONDS BY ISSUER TYPE AT 31 DECEMBER 2012 (at amortised cost)

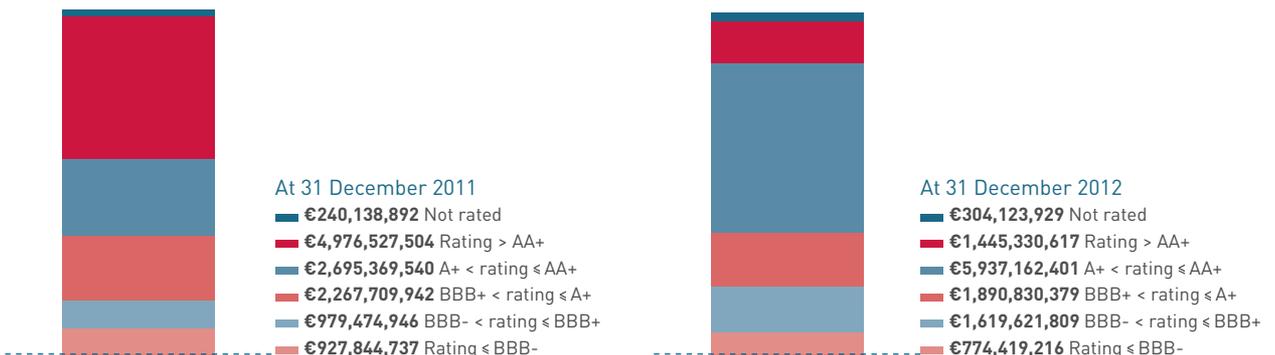
Source — ERAFP



- 65% fixed-rate sovereign bonds
 - 24% index-linked sovereign bonds
 - 4% local authorities
 - 7% supra-nationals
- Total: €7.687 bn**

CHANGES IN PUBLIC SECTOR BONDS BY RATING, 2011-2012 (at amortised cost)

Source — ERAFP



In March, ERAFP took part in the Private Sector Involvement (PSI) programme, swapping the €308 million of Greek sovereign debt held by the Scheme for €90 million of PSI bonds, thus crystallising a loss of €218 million that had been provisioned in the 2011 financial statements.

From May 2012 onwards, to ensure the equilibrium of its bond portfolio in an environment marked by diverging bond rates, ERAFP:

- + sold long-dated Spanish securities and sold Portuguese securities maturing in August;
- + sold, mostly in parallel, securities issued by the so-called core countries (Germany, Austria, the Netherlands) that had appreciated strongly in order to realise capital gains to offset its capital losses on the Spanish and Portuguese securities;

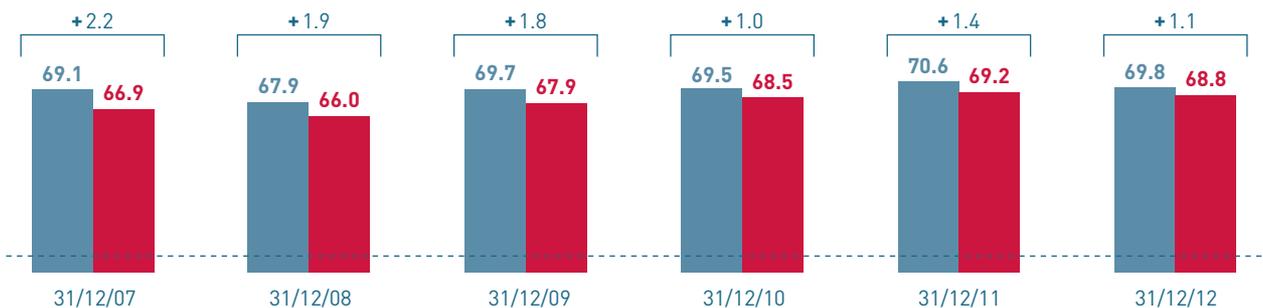
- + reallocated the sale proceeds into French and Belgian sovereign debt;
- + made its first purchase of Polish sovereign debt: the quality of Poland's first long-dated issues is supported by the country's positive growth outlook.

At the same time, to protect further the bond portfolio against inflation ERAFP notably exchanged fixed-rate Italian sovereign debt for similar inflation-indexed securities.

From January 2012, pursuant to its SRI filter ERAFP sold the Hungarian sovereign bonds held in the portfolio at a nominal value of €16 million prior to the warning issued to the Hungarian authorities by the European Commission.

CHANGE IN THE SOVEREIGN BOND PORTFOLIO'S AVERAGE SRI RATING AGAINST THAT OF THE BENCHMARK INDEX

Source — Vigeo-Oekom



■ Portfolio rating ■ iBoxx sovereigns (non-SRI) rating

SRI PROFILE

Sovereign bonds

All issuers in the portfolio satisfy the ERAFP eligibility filter, based on the Oekom rating. Indeed, 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, although the average rating of ERAFP's portfolio fell slightly in 2012, it remains 1.1 points above that of the benchmark index, the iBoxx Euro Sovereigns Eurozone index.

The SRI rating spread between the portfolio and the benchmark has narrowed more significantly over a five-year period, as it stood at 2.2 points in 2007. From 2007 to 2009, the gradual reduction in the average spread between the portfolio's SRI rating and that of the benchmark resulted from the portfolio's diversification towards issuers³ satisfying ERAFP's SRI

requirements but which nevertheless:

- + have average SRI ratings 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 rating.⁴

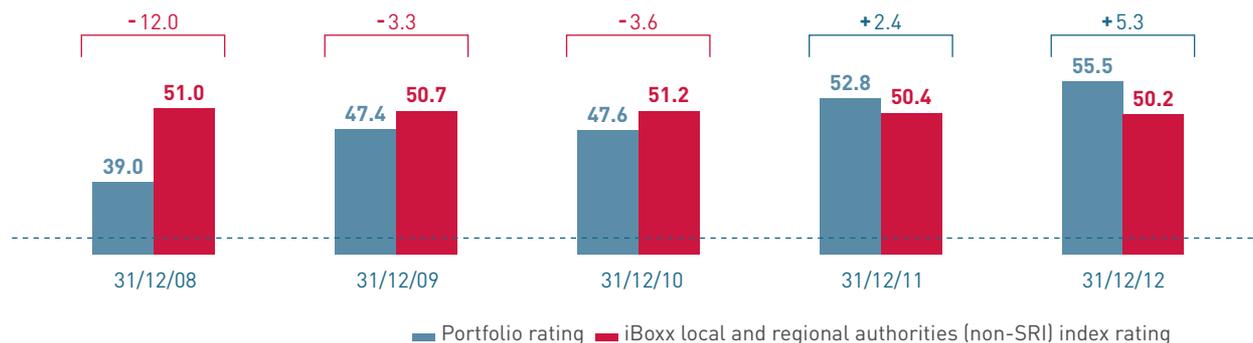
The more marked reduction in the average SRI rating spread between the portfolio and benchmark index in 2010 reflects mainly the reduced weighting in the index of certain countries whose SRI performance was below the euro-zone average and whose financial ratings were downgraded. As ERAFP gradually reduced its positions on some of these States in 2011, the SRI rating spread between the portfolio and its benchmark index increased again during the year.

³ ERAFP's initial investments in sovereign bonds involved French government bonds with a high SRI rating. Consequently, any diversification towards government bonds of less highly rated countries necessarily decreased the portfolio's average SRI rating.

⁴ 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 also considered to be in a healthy financial position.

CHANGE IN THE LOCAL AND REGIONAL AUTHORITY BOND PORTFOLIO'S AVERAGE SRI RATING AGAINST THAT OF THE BENCHMARK INDEX

Source — Vigeo-Oekom



The slight reduction in the spread in 2012 is largely attributable to the sale of securities issued by so-called core countries, which have relatively better SRI ratings than other euro-zone countries.

Local and regional authority bonds

ERAFP is a relatively large investor in this segment of the bond market. The lack of liquidity in the local and regional authority bond market is not a dissuasive factor for an investor such as ERAFP, whose policy is to hold bonds until they mature.

This portfolio comprised eight lines at end-2012, one of which was a joint issue by a large number of French regions, départements, communes or groups of communes and urban authorities.

In markets with only limited liquidity, by suspending its securities purchases the Scheme can provide an incentive for the authorities concerned to participate in the ratings process so as to improve the relevance of the ratings. Thus in 2008 ERAFP initiated an engagement process with the local and regional authorities it was most likely to invest in:

- + between 2008 and 2010, ERAFP worked with 26 rated authorities to explain its investment policy and informed the authorities whose SRI ratings were not satisfactory that it would not be able to invest further in their securities unless they improved their ratings. These discussions confirmed the growing awareness among local and regional authorities of responsible investors' expectations regarding ESG transparency issues. They also showed a certain 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;
 - + in 2011, discussions were stepped up with three local or regional authorities included in ERAFP's portfolio. The impact of these discussions was particularly positive, with one authority achieving a significant improvement in its average SRI rating. ERAFP also worked with its SRI research providers in adapting rating tools and methods to better reflect the specific characteristics of local and regional authorities.
 - + in 2012, ERAFP subscribed to the first 'environmental and social' bond issue, when the Ile-de-France region issued a Sustainable Bond on the euro market. By investing in this issue, ERAFP is helping to finance energy-related projects (zero-energy schools, geothermal energy and sustainable mobility), social housing, biodiversity protection and the social and solidarity economy.
- In the light of the average SRI ratings of ERAFP's local and regional authority bond portfolio, this engagement approach has had a positive impact overall. On average, the SRI ratings of ERAFP's portfolio are significantly higher than those of the benchmark index (+5.3 points at end-2012).

CORPORATE BONDS

The corporate bond portfolio is managed on behalf of ERAFP under mandate by Amundi and Groupama AM. Its carrying amount was €1,811 million at end-2012. With an average duration of 6.4 years, the portfolio's yield-to-maturity was 3.43%.

As the euro-zone corporate bond market continued to offer attractive returns compared to OECD sovereign debt issues, particularly in the first half-year, 41% of cash flows invested in

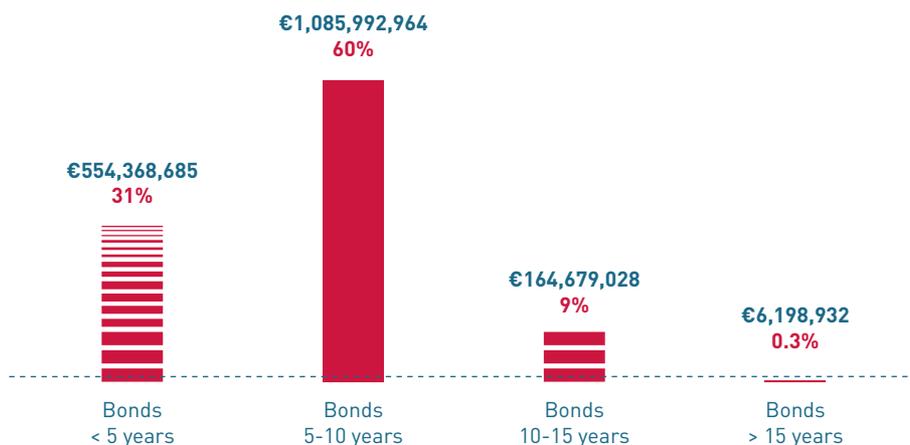
2012 were placed with the two "euro credit" investment management mandates, which received €960 million in the course of the year.

Part of the Scheme's short-term cash is also managed by the 'euro credit' mandate holders.

Ratings on the primary corporate bond market deteriorated sharply in 2012. Nevertheless, market prices for the main corporate bonds appreciated sharply during the year, which at the same time reduced the yields available.

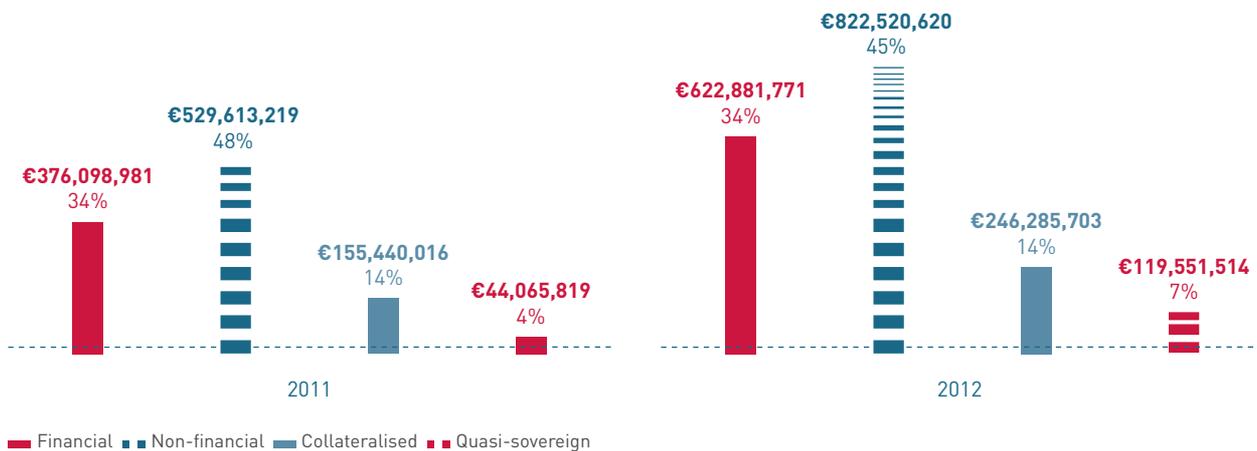
CORPORATE BONDS BY RESIDUAL MATURITY AT 31 DECEMBER 2012 (at amortised cost)

Source — ERAFP



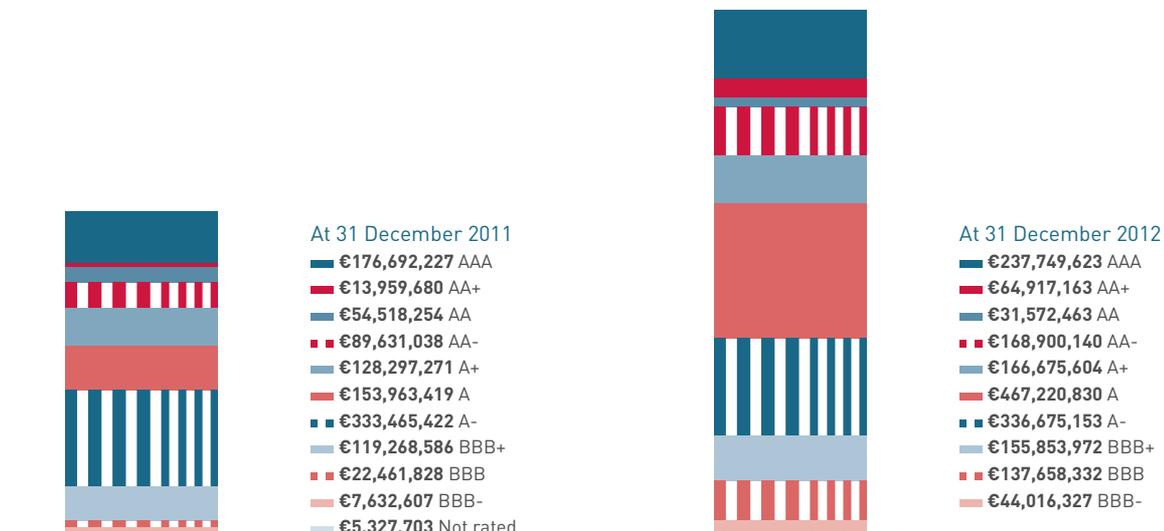
CHANGE IN CORPORATE BOND PORTFOLIO BY ISSUER TYPE (at amortised cost)

Source — ERAFP



CHANGES IN CORPORATE BONDS BY RATING, 2011-2012 (at amortised cost)

Source — ERAFP



SRI PROFILE

On average this bond portfolio has SRI ratings well above those of the benchmark index, the iBoxx Euro Non-sovereigns. The portfolio's average SRI rating rose in 2012, reflecting the very good SRI performance of the two investment mandates.

The significant positive SRI rating spread between the portfolio and the benchmark demonstrates the relevance of the best in class approach in a universe of issuers with very similar ESG practices.

In practice, issuers eligible for investment under these mandates are split between four categories:

- + financial companies;
- + non-financial companies;
- + issuers of collateralised bonds⁵;

- + agencies⁶, which are private or public entities more or less controlled by the State or local or regional authorities.

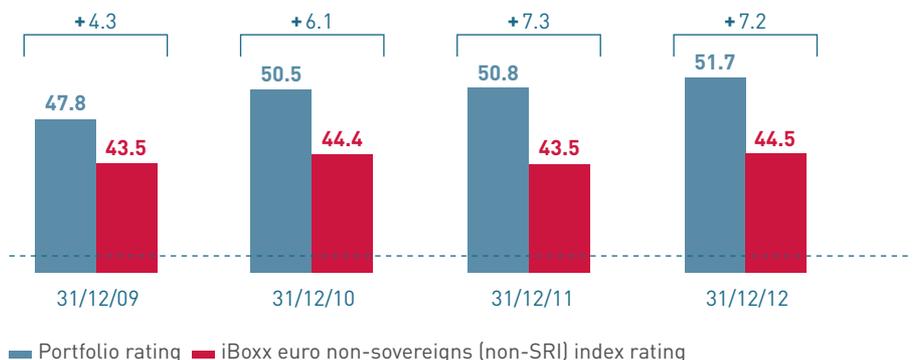
The investment universe comprises both listed and unlisted issuers so the best in class analysis is particularly important: the SRI performance spread between the best issuers and the remaining issuers is much greater in this investment universe than in, for example, the large listed corporates universe.

⁵ A collateralised bond is one for which interest payments and redemption proceeds are derived from income flows from an asset, that serves as a guarantee.

⁶ For example, local authority banks such as Bank Nederlandse Gemeenten (BNG) in the Netherlands, Caisse des Dépôts et Consignations in France, etc.

CHANGE IN THE CORPORATE BOND PORTFOLIO'S AVERAGE SRI RATING AGAINST THAT OF THE BENCHMARK INDEX

Source — Vigeo



EQUITY PORTFOLIO

At 31 December 2012, the equity portfolio totalled €3,119 million at amortised cost, corresponding to 23.2% of ERAFP's total assets. It comprises shares in euro-zone companies (17.2% of total assets, or €2,314 million) and shares in major international companies (6.0%, or €805 million).

ERAFP has delegated management of the equity portfolio. In July 2012, ERAFP activated a standby mandate held by Tobam AM. At the end of the year, therefore,

management of the two equity categories had been delegated via nine asset management mandates to: Amundi, Axa Investment Managers Paris, BNP Paribas Asset Management (two mandates), Edram, Rothschild et Cie Gestion, Tobam AM (euro-zone equities), Allianz GI France and State Street Global Advisors France (international equities).

Indexed management: The objective of indexed management is to reproduce the performance of the

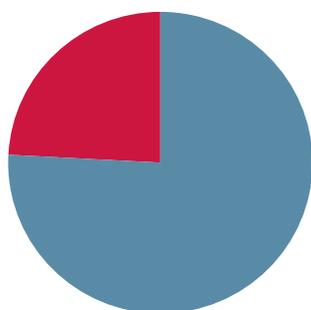
benchmark index. The composition of an index-managed fund (weight of each security in the portfolio, and therefore the weight of each sector or country) is very similar to that of the benchmark.

Active benchmarked management: This is where the investments are similar to those of the benchmark index but investment management is more active than under pure indexed management. The management mandate may, in particular, specify:

- + a limit on tracking error¹ relative to the benchmark;
- + limits on the weight of individual issuers relative to the benchmark.

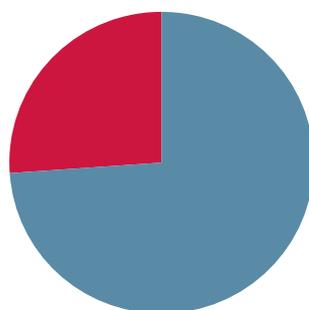
BREAKDOWN BETWEEN EURO-ZONE FUNDS AND INTERNATIONAL EQUITIES FUNDS

Source — ERAFP



31 December 2011

■ 76% Euro-zone equities
■ 24% International equities



31 December 2012

■ 74% Euro-zone equities
■ 26% International equities

¹ Tracking error represents the volatility of performance variances between the fund and its benchmark index.

The investment manager therefore makes few significant changes, in terms of sector, geographic spread, themes or specific securities, from the benchmark.

Active non-benchmarked management: When building the portfolio, the investment managers may deviate materially from the benchmark. The mandate does not specify:

- + any limit on tracking error;
- + any maximum weighting by issuer relative to the benchmark.

For all ERAFP mandates, the investment managers must nevertheless always select stocks from the SRI investment universe defined by ERAFP.

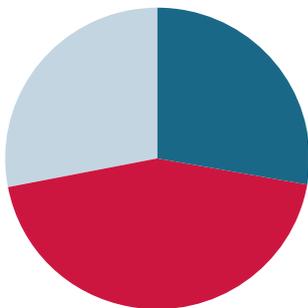
At end-2012, the equity portfolio had generated unrealised gains corresponding to 3.4% of its amortised cost. The portfolio's positive performance in 2012 of 18.6% contrasts with its negative performance in 2011 (-13.4%), and was mainly attributable to the rise in equity markets, which was particularly marked in the second half of the year.

In more detail, the euro-zone equities category gained 20.9%, outperforming the international equities category rise of 14.1 %.

Opportunities were reasonably abundant on the equity markets, and 50% of cash flows in 2012 were invested in the equity mandates, amounting to €845 million.

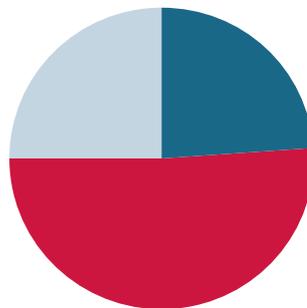
BREAKDOWN OF EQUITY PORTFOLIO IN 2011 AND 2012 BY MANAGEMENT TYPE
 [at amortised cost]

Source — ERAFP



31 December 2011

- 28% Indexed management
- 44% Active benchmarked management
- 28% Active non-benchmarked management



31 December 2012

- 24% Indexed management
- 51% Active benchmarked management
- 25% Active non-benchmarked management

In terms of risk dispersion, the 10 largest investment lines held by the various equity mandates represented 24.5% of the euro-zone category at end-2012. This was lower than the corresponding figure for the MSCI EMU SRI benchmark index (31.5%). Risk dispersion was even more marked in the international equities category, with the 10 largest lines representing just 17.6%. In contrast, the MSCI World benchmark was less concentrated than the portfolio (8.69% for the 10 largest lines).

— SRI PROFILE

Euro-zone equities

Vigeo's extra-financial research now covers 97% of companies in the MSCI EMU² index, corresponding to 99% of the index's value. The following analysis may therefore be considered as representative of the entire portfolio.

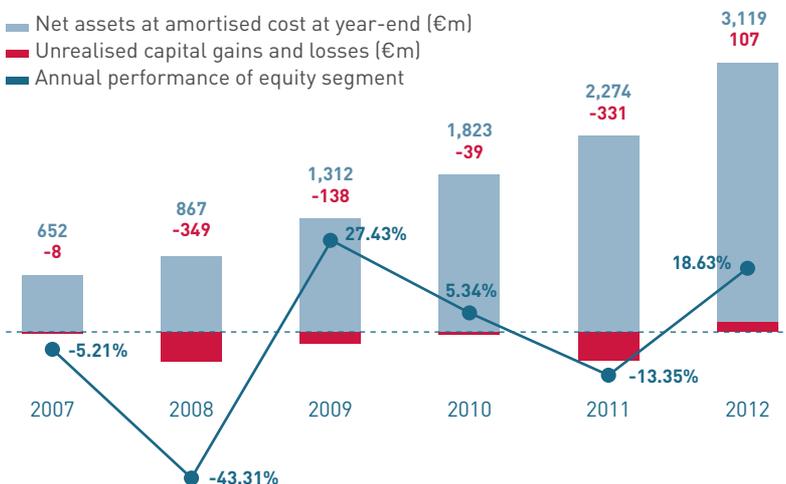
At 31 December 2012, 41% of the portfolio was invested in companies in their category's first SRI quartile, in other words in companies obtaining the best SRI ratings in their sector. This demonstrates that the best in class principle is being correctly applied by ERAFP's delegated investment management companies.

Since 2007, the portfolio's average SRI rating has remained relatively stable: it actually improved slightly between December 2007 (average SRI rating of 49.8/100) and December 2012 (50.0/100).

The spread between the portfolio's average SRI rating and that of the MSCI EMU benchmark remains significant: albeit lower than at end-2007 and end-2011, Vigeo calculates it at 2.6 points.

EQUITY PORTFOLIO - CHANGE IN ANNUAL PERFORMANCE AND UNREALISED CAPITAL GAINS AND LOSSES

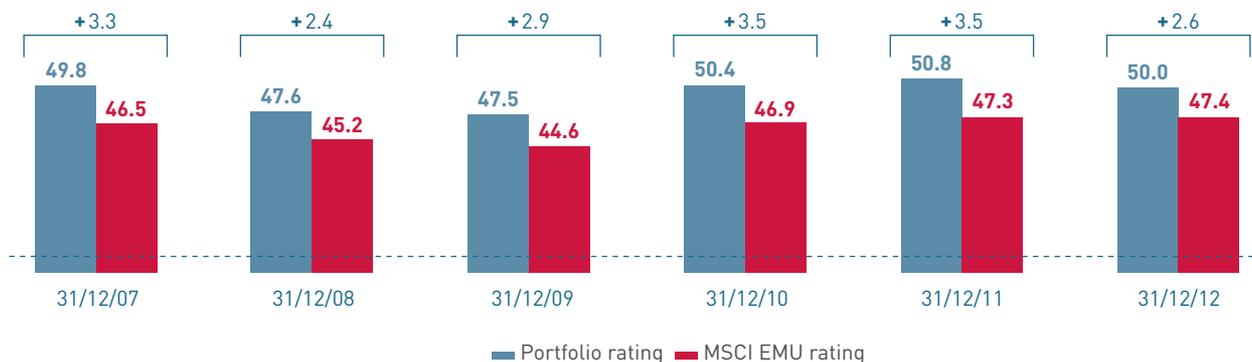
Source — ERAFP



² The MSCI EMU index measures the stock market performance of euro-zone equities.

CHANGE IN THE EURO-ZONE EQUITY PORTFOLIO'S AVERAGE SRI RATING AGAINST THAT OF THE BENCHMARK INDEX

Source — Vigeo



BREAKDOWN IN 2011 AND 2012 OF EQUITIES BY COUNTRY (at amortised cost)

Source — ERAFP

2011		2012	
Germany	15.18%	Germany	16.78%
Australia	1.76%	Australia	1.60%
Austria	0.49%	Austria	0.25%
Belgium	0.63%	Belgium	1.10%
Canada	1.83%	Canada	1.52%
Denmark	0.67%	Denmark	0.76%
Spain	4.51%	Spain	3.84%
United States	25.14%	United States	25.03%
Finland	1.10%	Finland	0.76%
France	21.41%	France	23.65%
Greece	0.28%	Greece	0.21%
Hong Kong	1.06%	Hong Kong	0.73%
Ireland	0.14%	Ireland	0.02%
Israel	0.06%	Italy	4.81%
Italy	6.75%	Japan	3.82%
Japan	3.66%	Luxembourg	0.13%
Luxembourg	0.03%	Norway	0.07%
Norway	0.05%	Netherlands	4.25%
Netherlands	4.87%	Portugal	0.51%
Portugal	0.65%	United Kingdom	4.98%
United Kingdom	5.30%	Singapore	0.09%
Singapore	0.09%	Sweden	1.39%
Sweden	1.38%	Switzerland	1.18%
Switzerland	1.77%	Cash and money-market UCITS	2.52%
Cash and money-market UCITS	1.20%		

Between end-2007 and end-2008, the portfolio's average rating and its spread against the index reduced relatively significantly. In particular, this was due to the gradual inclusion in the rating, since the last quarter of 2007, of certain ERAFP criteria and, in particular those covering social progress³ and democratic labour relations⁴, which were not initially taken into account by Vigeo. In practice, the companies concerned in general demonstrated relatively low transparency on these issues and therefore received low ratings.

However, the introduction of these new criteria does not fully explain the deterioration in the rating and, in order to reduce as far as possible the variances, ERAFP maintained active dialogue with the investment managers.

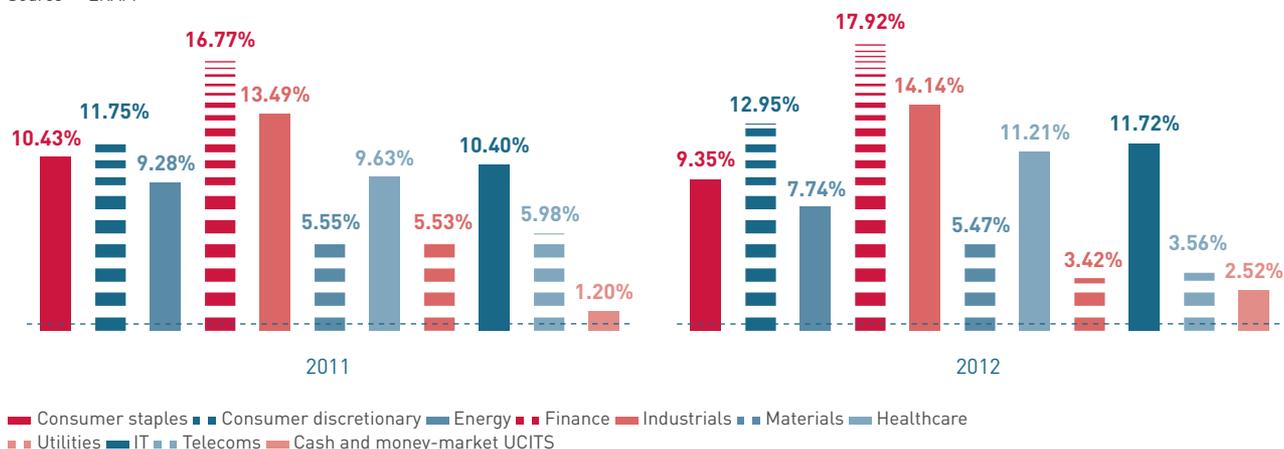
The allocation of investment flows to each investment manager also takes into account the SRI performance of each fund. The pertinence of this approach was demonstrated by the euro-zone equity portfolio's improved SRI performance in the next two years.

In 2011, the portfolio's average rating continued to improve while the spread relative to the index remained stable. The impact of the change of asset management companies and the new mandates put in place was therefore somewhat positive in terms of the portfolio's SRI quality.

In 2012, the decline in the portfolio's average SRI rating assigned by Vigeo and the reduction in its spread against the benchmark index may be explained by two factors:

BREAKDOWN IN 2011 AND 2012 OF EQUITIES BY ECONOMIC SECTOR (at amortised cost)

Source — ERAFP



- + three investment management mandates activated in 2011 were active non-benchmarked mandates, managed using a conviction-based approach. In other words, although stocks were selected from those deemed to meet ERAFP's SRI criteria, the managers could significantly underweight certain stocks with high SRI ratings included in the index or overweight certain stocks eligible from the SRI standpoint but nevertheless having an SRI rating below the index average;
- + certain management companies favour their own internal SRI research over that of the SRI rating agencies, and their opinions may therefore diverge from Vigeo's.

International equities

The Scheme now has a three-year track record from which to assess the international equities portfolio's SRI performance. Management of this portfolio has been delegated to two asset managers.

At 31 December 2012, Vigeo's extra-financial research covered 78.5% of companies in the MSCI World⁵ index, corresponding to 92% of the index's value. The following analysis may therefore be considered as representative of the entire portfolio.

³ Quality of contractual commitments, organic growth in employment, changes in relative remuneration of shareholders and employees, etc.

⁴ Company's relations with employee representatives, etc.

⁵ The MSCI World index covers securities listed throughout the world.

CHANGE IN THE INTERNATIONAL EQUITIES PORTFOLIO'S AVERAGE SRI RATING AGAINST THAT OF THE BENCHMARK INDEX

Source — Vigeo



The average ratings are well below those of the euro-zone equities portfolio, notably with regard to the social progress and democratic labour relations categories. The high proportion of US companies within the portfolio and the index⁶ is one reason for the major difference with the euro-zone equity portfolio.

Aside from the substantial cultural differences in these areas compared with the euro-zone countries most broadly represented in the equity market indices, the impact of the US regulatory framework also had an impact: for example, the US is not a signatory to any of the major conventions established by the ILO⁷ on workers' rights to organise and to representation.

Although in absolute terms the portfolio's ratings are relatively low, its SRI performance is positive when compared with that of the benchmark, albeit slightly less so than in 2011: according to Vigeo, the portfolio's SRI outperformance against the benchmark stood at 1.8 points at end-2012.

Vigeo attributes this apparent reduction in the spread between the portfolio's SRI quality and that of the benchmark to the reduction in the average SRI rating of one of the two funds making up the portfolio. As the investment manager in question does not use Vigeo as a supplier of extra-financial research, its opinion may differ quite materially from that of the rating agency.

Exercise of voting rights

In early 2012, ERAFP adopted guidelines for shareholder engagement, which notably include its voting policy on governance matters. In that document, ERAFP defines more precisely the governance principles it intends to promote as well as practical rules for their application in order to improve the framework for voting by management companies at general meetings.

Details of the application of the voting policy in 2012 are given on page 80 *et seq.*

⁶ At 31 December 2012, securities issued by US companies accounted for 48.2% and 47.9% of the portfolio and index, respectively

⁷ Convention 87 on Freedom of Association and Protection of the Right to Organise, Convention 98 on the Right to Organise and to Bargain Collectively and Convention 135 on Workers' Representation.

NEW DIVERSIFICATION INVESTMENTS

REAL ESTATE

At 31 December 2012, the real estate portfolio totalled €24 million at amortised cost, corresponding to 0.2% of total assets. It is managed under mandate by AEW Europe SGP.

This initial mandate has a restricted purpose: to acquire and manage an office block in Paris. Once the investment had been made, the board of directors decided to transfer ERAFP's headquarters into the building.

In addition, a consultation process was launched in February for the allocation of further mandates. One lot related to unlisted real estate assets in France, while another related to unlisted real estate assets in other European OECD countries. Each lot comprises an active mandate and two standby mandates.

ERAFP has developed a demanding and innovative SRI process for real estate assets, adapting the five values of its SRI Charter to the asset class. It focuses not only on the environmental impact of the real

estate, but also integrates the challenges of social progress, human rights, democratic labour relations and good governance into the management of the property. Integrating these challenges into the entire sub-contracting chain is therefore of primordial importance.

This process will also be implemented in accordance with a dynamic best in class principle: target assets will not be valued in absolute terms, but in comparison with other properties of the same type (same usage and construction and similar locations). The aim will be to bring each asset up to the same level as the best in its category. However, by focusing only on new properties – necessarily constructed in accordance with good environmental and social practices – the stock of existing real estate, which presents the greatest room for improvement, is sidelined.

— CONVERTIBLE BONDS

In October 2012, two active mandates and four standby mandates were awarded. The first lot relates to euro-zone convertible bonds and was awarded to Schelcher Prince Gestion, with Acropole AM and Natixis Asset Management as standby managers. The second lot relates to international convertible bonds and was awarded to Lombard Odier Gestion, with BNP Paribas Asset Management and Fisch Asset Management as standby managers.

€40 million was invested in each of the two active mandates. Convertible bonds therefore represented 0.6% of the total asset portfolio at 31 December 2012.

In both cases, the SRI approach adopted is similar to that for equity management and corporate bond management mandates: all the issuers are assessed using ERAFP's SRI criteria and then compared with each other in their respective business sector. The investment managers must then select bonds from the issuers with the best SRI rating in each sector.

— MULTI-ASSETS

Pursuant to the asset allocation decided by the board of directors for 2012, ERAFP launched a call for tenders for the award of an active mandate and two standby mandates with the aim of providing access to a flexible and dynamic portfolio of diversified assets. The mandated asset manager will create and manage a dedicated ERAFP fund that will invest essentially in open funds covering diverse asset classes and geographic regions.

Assessment of the SRI quality of funds eligible for investment by the asset manager will include an analysis of the investment management teams and processes as well as an SRI assessment of the issuers included in the funds, provided the SRI research available so permits.

OUTLOOK: CONSOLIDATING THE SCHEME'S SRI 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 difficult environment, ERAFP managed to maintain a high coverage ratio of the Scheme's commitments, at 106% (estimated, unaudited regulatory rate).

Financial market uncertainty nevertheless continues, and ERAFP intends to maintain an investment strategy that will enable it to stay the course during this turbulent period. This strategy is based on conservative asset and liability management, ongoing asset diversification and an SRI policy consistent with a long-term view and a commitment to looking beyond immediate financial gain.

The financial crisis has elicited two types of response:

- + some have decided that it could justify a return to strictly financial considerations on the grounds that during difficult periods the priority should be given to maintaining returns in the short term,
- + others have found that the crisis has revealed the limitations of such an approach, which favours a short-term investment horizon, excessive risk-taking, inflated estimates 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 motivated by hopes of immediate outperformance.

The SRI filter nevertheless clearly 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 as part of its endeavours to optimise its financial return/SRI profile, the message included in the Charter bears repeating:

“The board of directors believes that investments based solely on the criterion of maximum financial return 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.”

— THE CHALLENGES OF ERAFP'S SRI CHARTER AT THE HEART OF SOCIAL DEBATE IN 2012

Social values

The impact of the crisis in the social field, particularly on employment, has highlighted the relevance of ERAFP's assessment grid. While ERAFP shares with other so-called 'responsible' investors the analysis criteria aimed at favouring companies that successfully sustain organic employment growth and develop forward-looking employment strategies, its criterion on the equitable sharing of added value is relatively innovative. ERAFP considers that a corporate strategy which excessively favours shareholder remuneration over investment and the remuneration of its employees would not be fruitful over the long term.

Environmental values

Extreme natural phenomena occurred throughout the world in 2012: Hurricane Sandy, the melting of the Arctic ice cap (which reached its historical seasonal low on 16 September), record heat-waves and periods of extreme cold.

The United Nations' Doha conference on climate change concluded in December. In the absence of a new agreement, the Kyoto Protocol was extended for a further eight years and will now expire in 2020. Russia, Japan and Canada, however, opted out of the Protocol from 2013 onwards because of disagreements, in particular with the fact that the newer major economies of China and India have not signed up to the Protocol. The conference also agreed a timetable for discussing a new global agreement, expected to be concluded in 2015 for effect from 2020. It would apply to all countries, whereas the Kyoto Protocol sets objectives only for industrialised economies.

In Europe, the carbon trading market (EU Emission Trading Scheme) has broken down. A tonne of CO₂ has been trading at less than €10 for some months now, whereas the price needs to exceed €20/tonne before it becomes a real incentive in terms of corporate investment.

The limitation of greenhouse gas emissions is one of the most heavily weighted criteria in ERAFP's SRI process. All assets in the portfolio are therefore analysed for their contribution to combatting climate change. At end-2012, ERAFP reinforced its commitment in this area by joining the Institutional Investors Group on Climate Change (IIGCC) (see p. 84).

Good governance and transparency values

Governance issues, such as executive remuneration and combatting the use of tax havens, remained the subject of political debate in 2012 and several major advances were made.

On the issue of executive remuneration in major listed companies, many European countries have already implemented consultative voting (the UK) or binding voting (Norway, Sweden, Denmark, the Netherlands) on the subject by shareholders' general meetings, and the French government opened a consultation process in August 2012 on possible extensions to the current scope of voting. In practice, shareholders in French companies currently vote only on items of remuneration covered by regulated agreements – principally post-employment benefits ('top-hat' retirement plans, gratuities, etc.) – and on items providing access to the company's capital (bonus shares, stock options, etc.). The fixed and variable short-term (i.e. bonus) remuneration of executives is set purely by the board of directors.

In France, although the securities regulator (Autorité des marchés financiers – AMF) and the institute of directors (IFA) have come out in favour of consultative voting by shareholders, other organisations such as Proinvest, a voting advisory agency, are positioned in favour of binding voting.

Over and above the issue of binding or consultative voting by shareholders on executive remuneration, through its voting policy at general meetings ERAFP aims to promote the emergence of remuneration levels that:

- + are in line with and linked to the company's performance and changes in its share price over the long term;
- + maintain the gaps between executive and employee remuneration at levels that do not adversely affect the company's business or staff motivation.

ERAFP also intends to promote the use of indicators taking into account the company's management of environmental, social and governance issues as part of the executive remuneration process.

Concerning financial transparency and combatting the use of tax havens, the crisis has shown how these two issues are central to the imbalances that precipitated it. In particular, while the public sector debt of many European countries has reached record levels, the value of financial and other assets (works of art, real estate, etc.) held in tax havens is thought to have reached an unprecedented level, whether in terms of personal fortune or corporate assets. Through its SRI Charter, ERAFP aims to encourage the withdrawal of corporates from tax havens.

Combatting the use of tax havens cannot be dissociated from the need for greater transparency on the part of not only companies but also governments. Thus, the 'Dodd-Frank' financial reform act was passed in 2010 in the United States. It requires, inter alia, oil, gas and mining companies listed in the United States to disclose any payments to the governments of countries in which they operate. In the same vein, in 2011 the European Commission published a set of proposals aimed at

imposing on companies operating in the extractive industries transparency as regards their payments to the governments of countries in which they operate. In 2012, ERAFP decided to round out its investment analysis process, which in particular includes criteria on the use of tax havens and the transparency of controls over the use of public funds (for governments), by supporting the Extractive Industries Transparency Initiative (EITI) (see p. 83).

The current economic climate is propitious for the consideration of strengthening regulations on the economy and finance in particular. Over time, issuers who prove sufficiently innovative to anticipate future regulatory changes will have a competitive edge. Against this backdrop, ERAFP's best in class SRI approach makes complete sense.

THE SCHEME'S SHAREHOLDER ENGAGEMENT POLICY

A COMPLEMENT TO THE BEST IN CLASS APPROACH

Under its SRI Charter, "ERAFP is determined to support, on a long-term basis, those organisations in which it has decided to invest, by exercising its responsibilities as shareholder or stakeholder in such a way as to sustainably promote, within these entities, practices that respect the values it supports."

In other words, ERAFP intends to be an active shareholder and, to that end, engage or maintain a dialogue with those issuers whose securities it has selected (or may select) for investment in accordance with its best in class SRI approach.

This engagement includes all forms of dialogue between an institutional investor and a company/an issuer:

- + Public or targeted communications (e.g. via "customised" mailings),
- + Meetings with management,
- + Voting at annual general meetings (AGM), etc.

Depending on the investment method (direct or delegated to investment companies), the engagement may be performed directly by the investor or delegated to a service provider.

Until 2012, ERAFP's dialogue initiatives focused mainly on issuers whose securities it held directly, mainly local and regional authorities (see p. 62). In terms of voting at general meetings of companies in which it held securities indirectly through dedicated funds managed by specialist companies, ERAFP coordinated the votes of the service providers involved for its main investment lines.



2012

SHAREHOLDER
ENGAGEMENT POLICY
ADOPTED

With a view to consolidating its role as an active, long-term investor, in March 2012 ERAFP's board of directors adopted guidelines for shareholder engagement. These set out the main principles that ERAFP will monitor are correctly integrated and implemented by the Scheme's service providers.

— INNOVATIVE VOTING POLICY IN TERMS OF GOVERNANCE

The guidelines notably cover a policy of voting at shareholders' general meetings that, for the time being, focuses on governance matters. ERAFP believes that compliance with best practice in terms of corporate governance is indispensable to the creation of lasting value for all stakeholders.

KEY FEATURES OF ERAFP'S 2012 VOTING POLICY

For large listed companies, ERAFP believes in particular that:

- + the board must have a balance of abilities, experience and independence. In this respect:
 - the aim should be to have at least half of the members classified as independent;
 - the duties of chairman of the board of directors and chief executive officer should always be separate;
 - no director should sit on the boards of more than three listed companies.
- + the remuneration of key executives must be consistent with the company's strategy and performance over the long term as well as being exemplary to ensure strong social cohesion within the company. In this respect:

- the overall annual remuneration of an executive should not exceed 100 times the minimum wage;
 - large listed companies should no longer award stock options, as they do not promote ERAFP's desired balance between executive remuneration and its interests as a socially responsible long-term investor;
 - executives should no longer benefit from 'top-hat' retirement plans financed solely by the company, especially if they are defined benefit plans;
 - executives should not be awarded gratuities or any other form of remuneration similar to a 'golden parachute' in the event that they leave the company voluntarily.
- + the remuneration of shareholders should be reasonable and sustainable over the long term,

and therefore must not be detrimental to that of the employees or to the company's investment capacity.

A document setting out the detailed application of this voting policy is provided to ERAFP's delegated investment managers to guide their analysis of proposed resolutions submitted to the shareholders' vote. Under the terms of their appointment by ERAFP, the investment management companies must provide detailed reports of the manner in which they apply ERAFP's specific voting policy.

The guidelines are revised annually.¹

¹ The full version of ERAFP's 2013 shareholder engagement guidelines is available on its website at: http://www.rafp.fr/download.php?file_url=imG/pdf/Lignes_directrices_engagement_actionnarial_ERAFP_2013.pdf

This is an innovative policy in several respects. For example, ERAFP considers that the remuneration of executives must be consistent with the company's strategy and performance over the long term as well as being exemplary to ensure strong social cohesion within the company.

of their voting intentions at the general meetings concerned, with a view to ensuring that they properly understood all aspects of its specific voting policy and that the votes were cast consistently on ERAFP's behalf by the various management companies concerned.

14,423

RESOLUTIONS VOTED ON AT 1,060 GENERAL MEETINGS

IN-DEPTH MONITORING OF 20 COMPANIES

In 2012, ERAFP monitored in depth the general meetings of 20 listed French companies in which it held the largest investments. ERAFP requested the investment management companies to which it has delegated management of these shares to inform it in advance

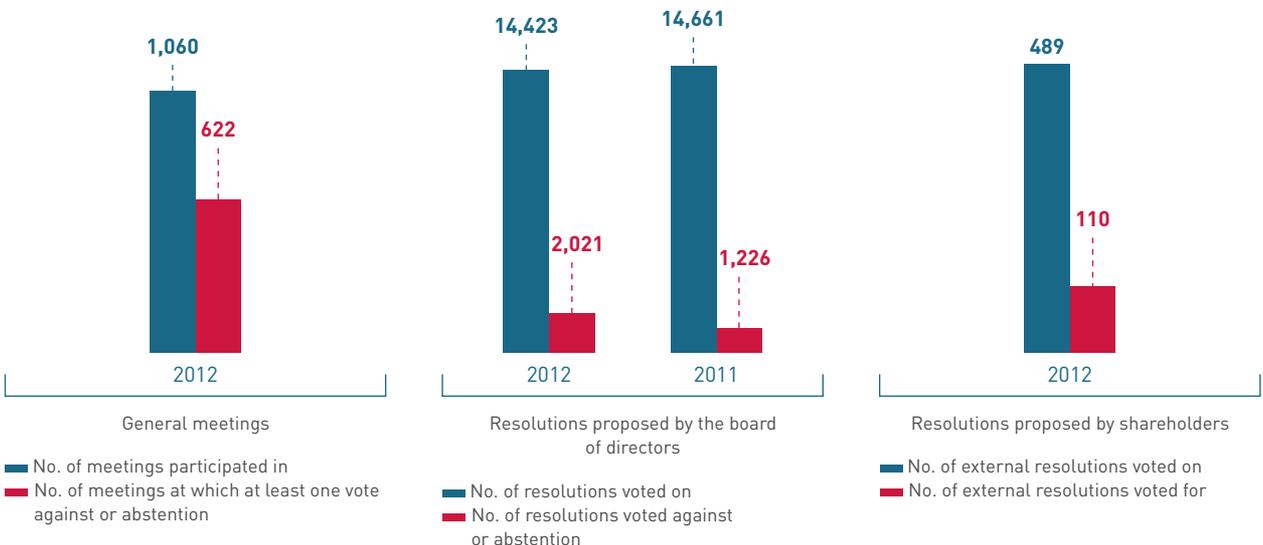
SUMMARY OF VOTING RESULTS IN 2012

The analysis of votes at general meetings held by companies in this sample highlighted several notable features:

- + the average rate of resolutions disputed by shareholders was relatively low (6%), in line with Proxinvest's observations on CAC 40 companies since 2009;

SUMMARY OF VOTES CAST AT GENERAL MEETINGS HELD IN 2012 BY COMPANIES HELD IN ERAFP'S CONSOLIDATED EQUITIES PORTFOLIO

Source — ERAFP's investment management companies



SUMMARY OF VOTES AT THE 20 GENERAL MEETINGS MONITORED IN GREATER DEPTH BY ERAFP IN 2012

	Number	%
General meetings (AGM) monitored in greater depth by ERAFP	20	-
Resolutions voted on by ERAFP	309	100%
Average rate of approval by the AGM of resolutions proposed by the board of directors	-	94%
Resolutions (other than those proposed by shareholders) rejected by the AGM	2	1%
Resolutions adopted with less than 90% of votes in favour	55	18%
Resolutions adopted with less than 70% of votes in favour	11	4%
Shareholders' resolutions put forward	5	-
Shareholders' resolutions adopted by the AGM	0	0%
Resolutions (other than those proposed by shareholders) contested by ERAFP	104	34%
Shareholders' resolutions supported by ERAFP	4	80%

- + only two resolutions put forward by the board of directors were rejected, both at the Cap Gemini AGM concerning the reappointment of two non-voting board members;

- + the most disputed topics seemed to be:

- executive remuneration ('top hat' retirement plans, etc.);

- renewal of the appointment of the chairman and chief executive officer;

- capital transactions having a dilutive effect for shareholders;

- + none of the five resolutions put forward by shareholders were adopted:

- a resolution sponsored by Phitrust put to Société Générale's AGM aimed at separating the duties of the chairman and the chief executive officer nevertheless received 25% of the votes in favour.

Concerning more particularly votes cast on behalf of ERAFP at these companies' general meetings, ERAFP stood out in the following ways:

- + it opposed six resolutions proposing a dividend it considered to be too high;

- + on the appointment or renewal of the appointment of directors, it opposed a significant number of resolutions because:

- certain boards were not considered to be sufficiently independent;

- certain candidates held too many board appointments;

- of the inattention to their responsibilities of certain directors (for example, voting against the renewal of an appointment due to the candidate's high rate of absenteeism);

- + ERAFP supported the appointment of women to boards on which female representation is too limited;

- + on executive remuneration, ERAFP:

- voted against almost all resolutions on regulated agreements concerning post-employment benefits for executives;

- voted against proposed stock option allocation plans (two companies concerned);

- + ERAFP supported shareholders' resolutions if it deemed them to be pertinent, notably:

- a resolution sponsored by Phitrust proposing separation of the duties of the chairman and of the chief executive officer;

- a resolution proposing a lower dividend than that proposed by management, as it seemed more in line with the ERAFP's desired balance between the remuneration of shareholders, that of employees and the company's investment capacity.

Outlook for the 2013 round of general meetings

ERAFP strives to adopt a continuous improvement process: each prior year will be reviewed and this will serve as the basis for updating ERAFP's voting policy to ensure the optimal application

of its principles and to include, or where possible best anticipate, possible regulatory developments. In 2013 therefore, the gender balance of boards and the promotion of greater financial transparency will be the subject of specific provisions.

SUPPORT FOR VOLUNTARY INITIATIVES

Extractive Industries Transparency Initiative

As a signatory since 2006 to the United Nations' Principles for Responsible Investment, ERAFP is committed to applying each of the principles and, in particular, that of "working together to promote acceptance and implementation of the Principles [in the investment industry]". Accordingly, at its meeting in December 2012, the board of directors resolved that ERAFP should support the Extractive Industries Transparency Initiative (EITI).

The EITI is a multipartite coalition of governments, companies, investors, civic organisations and other partners. It aims to promote transparency in the extractive industries sector by the disclosure of payments made by mining, oil and gas companies and of the revenues received by the governments of countries in

which they operate. Twenty countries are currently considered as meeting the EITI criteria and a further 17 are candidates. By supporting this initiative, ERAFP has joined some 80 financial institutions that manage funds of around USD19,000 billion internationally and 72 of the world's largest oil, gas and mining companies.

Promoting greater transparency in the process of extracting natural resources in the countries concerned contributes to improving the sector's business environment, thus facilitating long-term investment. For institutional investors such as ERAFP, it is also a means of better understanding the risks inherent to its investments in companies in the sector. From 2013, ERAFP aims to enhance the awareness of companies in the extractive industries sector to the objectives of the EITI and to initiate dialogue with them on this subject.

Institutional Investors Group on Climate Change (IIGCC)

In line with its SRI Charter, one of the five values of which concerns preservation of the environment, in December 2012 ERAFP's board of directors decided to join the Institutional Investors Group on Climate Change. This collaborative forum was established in 2001 and brings together institutional investors around issues concerning climate change. Through this shared process, they aim to promote a low-carbon economy, notably by sharing experience on investment practices and supporting relevant international public policies on the issue.

ERAFP believes that working to promote a low-carbon economy is consistent with its interests as a long-term investor and those of its beneficiaries. This concern is also reflected in France's international commitments on climate change.

By joining the IIGCC, ERAFP will work with 75 mainly European investors with more than €7,500 billion in assets under management.

ERAFP's collaborative commitment on the prevention of corruption as part of the United Nations' Principles for Responsible Investment (PRI)

The PRI are implemented through a collaborative approach facilitated by the PRI Clearinghouse, an intranet platform on which signatories coordinate their efforts to improve corporate environmental, social and governance practices and behaviour. It was in this context that ERAFP decided in the last quarter of 2012 to join the collaborative PRI commitment group working to prevent corruption. As part of this group, in 2013 ERAFP will attend and contribute to working meetings and, where applicable, take part in meetings to obtain commitments from companies previously selected by the working group.

ERAFP, AN INVESTOR ACKNOWLEDGED BY ITS PEERS

In 2012, ERAFP participated in numerous SRI and general investment conferences in order to promote its SRI approach.

It won further recognition in 2012, receiving the following at the Investment & Pensions Europe (IPE) Awards 2012:

- + 'Best use of ESG/Corporate Governance' for European pension funds;
- + 'Best Pension Fund in France'.

For ERAFP, this communications policy is part of a strategy to promote its responsible investment approach and the values it adopts through its Charter. In terms of external relations, the goal is to develop a participation and communications policy that in both form and substance goes beyond mere information on the operation of the Scheme and instead centres on the quest for effective implementation of the Charter. It was with this in mind that ERAFP took part in several conferences with the aim of promoting the stock market indices that meet its requirements for stock picking based on the best in class principle, as well as to highlight its concerns on the relevance of indices whose weighting of components is based solely on stock market capitalisation.



IPE AWARDS FOR THE EUROPEAN PENSION FUND BEST USING ESG/CORPORATE GOVERNANCE CRITERIA AND FOR THE BEST FRENCH PENSION FUND.

APPENDICES



1 Premium factor

2 Annuity to lump sum conversion factor

3 Organisation of internal control and risk management at ERAFP

4 2011 financial statements

5 Members of the board of directors in 2012

Glossary

1 PREMIUM FACTOR

RAFP beneficiaries can exercise their pension rights upon reaching an age of between 60 and 62 depending on their date of birth. The purchase and service values are the same for all generations of RAFP contributors and pensioners. The application of a premium factor ensures actuarial equity for all beneficiaries regardless of the age at which they are entitled to retire.

Pursuant to Article 8 of the 18 June 2004 decree, this premium factor is set by ERAFP's board of directors.

The premium factor is determined based on the age of the person concerned on the date of RAFP pension payment, taking into account the number of years and months of contributions.

+ Thus, the calculation of pension rights for a public servant who has accumulated 5,600 points in his individual retirement account and retires in 2012 at age 65 would be as follows:

$$5,600 \times 0.04378 \times 1.23 = \mathbf{€301.56 \text{ gross annual annuity.}}$$

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

The pension reforms in France introduced changes in the legal retirement age. Application of the premium factor makes it unnecessary to adjust the current price (set for a retirement age of 60).

→ *Premium factors based on the public servant's age and RAFP pension payment date*

AGE	PREMIUM FACTOR	AGE	PREMIUM FACTOR
60	1.00	68	1.42
61	1.04	69	1.49
62	1.08	70	1.57
63	1.13	71	1.65
64	1.18	72	1.74
65	1.23	73	1.84
66	1.29	74	1.96
67	1.35	75	2.08

2 ANNUITY TO LUMP SUM CONVERSION FACTOR

This factor applies to beneficiaries whose individual retirement accounts contain

fewer than 5,125 points at the time of liquidation.

→ For the original beneficiary

AGE	LUMP SUM CONVERSION FACTOR	AGE	LUMP SUM CONVERSION FACTOR
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

→ For an orphaned child, at time of reversion

AGE	LUMP SUM CONVERSION FACTOR	AGE	LUMP SUM CONVERSION FACTOR
0	18.33	11	9.37
1	17.57	12	8.49
2	16.80	13	7.59
3	16.01	14	6.69
4	15.22	15	5.77
5	14.42	16	4.84
6	13.60	17	3.90
7	12.78	18	2.94
8	11.94	19	1.97
9	11.10	20	0.99
10	10.24		

3 ORGANISATION OF INTERNAL CONTROL AND RISK MANAGEMENT AT ERAFP

Implemented on a continuous basis within ERAFP, internal control and risk management make it possible to obtain reasonable assurance that the following objectives are achieved:

- + achievement of aims and objectives set, in compliance and consistently 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 built on the following fundamental principles:

- + separation of functions: to reduce the risk of conflicts of interest and/or fraud, the commitment, settlement and control functions must be distinct;
- + control levels: distinction between first-level controls (which are executed by the operations 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, its small size can result in several tasks (execution and control of execution) being performed by a single employee or department: the risk and internal control department nevertheless ensures that the associated risk is minimised;

- + implementation of appropriate tools, committees and procedures. These notably concern the following items:

→ **Tools**

Incidents and discrepancies database, risk mapping, control plans;

→ **Committees**

Audit committee, internal control and risk committee, new products committee, commitments committee;

→ **Procedures**

Internal control and risk management organisation principles, compliance charter, IT security charter, board of directors' internal rules, risk and internal control committee's internal rules, investment procedure for capital markets securities, delegations of authority and signature powers, etc.

The risk and internal control department comprises:

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

They report functionally and hierarchically to ERAFP's Deputy CEO and are therefore independent of the activities they control in the operational and functional departments.

The risk and internal control department is responsible for coordinating and supervising implementation of the risk management system and of the first and second level internal controls. During the preparation phase, the procedures drafted by the various departments are submitted to it for its opinion. This second review ensures that these procedures clearly establish who does what, when and under which operational security conditions. It also ensures that the responsibilities of each party involved in the procedure are clearly established and that the first level controls, which are exercised within the departments themselves, exist and are formally documented. In the event of disagreement between the department drafting the procedure and the risk and internal control department, the ultimate decision lies with ERAFP's CEO.

Once the procedure has been approved by the CEO or the deputy CEO, the risk and internal control department regularly monitors that it is applied correctly.

— ERAFP RISK UNIVERSE

ERAFP distinguishes between financial, technical and operational risks. Financial risk includes:

- + credit risk (counterparty or default risk, signature risk, settlement/delivery risk, country risk, etc.)
- + market risk (equity risk, interest rate risk, liquidity risk, currency risk, etc.)
- + asset-liability matching risk (also known as 'overall interest rate risk' in banking circles), which includes inflation risk

Technical risk includes:

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

Operational risk includes:

- + risk related to human resources
- + accounting risk
- + legal and tax risk
- + IT systems security risk
- + physical and environmental risk
- + fraud risk
- + administrative risk

By extension, compliance and ethical risk as well as reputation risk are dealt with as a part of operational risk.

— 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: this is mandated by decree to the Pensions and Solidarity Department (DRS) of Caisse des Dépôts, which performs the following processes (receipt of contributions, maintenance of individual retirement accounts, calculation of rights, payment of benefits, provision of information to beneficiaries, Scheme accounting, etc.) under the authority and control of the board of directors.

The scope of control therefore extends:

- + first: to ERAFP, i.e. its own staff, processes and systems

- + second, and indirectly: to the risks and controls of ERAFP's service providers and external agents, and in particular the delegated managers and the units of Caisse des Dépôts' Pensions and Solidarity Department:

→ Paris, for financial management support (middle office and reporting)

→ Angers, for the employer client call centre

→ Bordeaux, for contribution collections processes, account-keeping functions for individual retirement accounts, calculation of rights, payment of benefits, provision of information to beneficiaries and Scheme accounting.

In the first case, ERAFP's internal control consists of ensuring that its own departments implement the processes in accordance with the internal control system. In the second case, ERAFP extends its internal control system to these third parties to ensure that their own internal control systems fully meet its expectations and requirements in this area. For many of the activities, the first level controls exercised by ERAFP therefore consist of verifying the proper execution of the management mandates (financial and administrative) assigned to these legal entities.

— CHANGES RELATED TO RISK MANAGEMENT AND INTERNAL CONTROL IN 2012

Key areas relating to the organisation of internal control and risk management in 2012 were as follows:

- + regular risk and internal control committee meetings. This committee, which meets quarterly, comprises the members of the management committee, the head of internal control and operational risk and the head of financial risk control, along with, depending on the meeting agenda, any other persons involved in risk management and the organisation of controls. Its scope includes reviewing the effectiveness of the financial, technical and operational risk control systems, as well as those for transaction compliance, IT systems security and new products and activities. It also reviews key financial risk indicators;
- + continuation of the project aimed at organising financial risk management, including the selection of financial risk management and performance allocation tools to enable analysis of market risk and performance for ERAFP's portfolio;

- + the start of work to update the methodology used to set credit risk limits;
- + finalisation of the project for updating operational risk maps: this project will be supplemented by the drafting of a control plan.
- + commencement of work to formalise and update the system for drafting operational procedures.

The following should also be noted:

- + selection of an asset-liability management application and implementation of an ALM model is currently in progress;
- + at end-2012, a project was launched to reduce the time taken to close ERAFP's accounts with a view to presenting the accounts to the board of directors in June of the following year, rather than in October as is currently the case. The preliminary studies are focusing mainly on opportunities for bringing forward calculation of the technical reserve. The work also includes a review of the general timetable for providing the information needed for closing purposes by all parties involved to Caisse des Dépôts and ERAFP.

The Specialised Audit Committee met four times in 2012. The following recurring items were included on the agenda of these meetings:

- + presentation of the draft budget for the following year and its approval;
- + presentation of ERAFP's internal control and risk management report;
- + presentation of the annual financial statements and their approval.

4 2011 FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS (€)	2011			2010
	GROSS	DEPRECIATION & IMPAIRMENT	NET	NET
Investments	11,537,111,734.55	(586,154,355.95)	10,950,957,378.60	9,777,163,980.75
Shares and other variable-income securities	-	-	0.00	0.00
Bonds, negotiable debt instruments and other fixed-income securities	9,013,018,971.57	(218,378,355.15)	8,794,640,616.42	8,065,670,876.21
Shares and units in UCITS	2,524,092,762.98	(367,776,000.80)	2,156,316,762.18	1,711,493,104.54
Term deposits with credit institutions	-	-	0.00	0.00
Other financial investments	-	-	0.00	0.00
Active contributors and beneficiaries	69,476,569.67	(17,642,283.45)	51,834,286.22	39,304,485.14
Active contributors and related accounts	60,254,711.76	(17,642,283.45)	42,612,427.71	35,845,573.50
Beneficiaries	9,221,858.51	-	9,221,858.51	3,458,911.64
Other receivables	86,339.15	0.00	86,339.15	234.34
Trade receivables, advances and down-payments	3,611.92	-	3,611.92	234.34
Other receivables	82,727.23	-	82,727.23	0.00
Other assets	236,122,337.36	(23,314.94)	236,099,022.42	76,188,708.49
Intangible assets			0.00	0.00
Property, plant and equipment	28,266.25	(23,314.94)	4,951.31	10,410.52
Cash and cash equivalents	236,094,071.11	-	236,094,071.11	76,178,297.97
Accruals	-	-	0.00	0.00
GENERAL TOTAL	11,842,796,980.73	(603,819,954.34)	11,238,977,026.39	9,892,657,408.72

	2011	2010
LIABILITIES (€)		
Equity	0.00	0.00
Scheme reserves	10,267,793,917.00	8,511,340,829.99
Accruing rights	10,192,028,666.19	8,474,584,852.11
Rights being exercised	75,765,250.81	36,755,977.88
Reserves for use of surpluses	960,139,232.16	1,370,260,227.35
Active contributors and beneficiaries	1,546,087.89	2,257,213.02
Active contributors	109,066.00	301,279.04
Beneficiaries and related accounts	1,437,021.89	1,955,933.98
Other liabilities	9,497,789.34	8,799,138.36
Trade and other payables	9,372,388.28	8,747,585.81
Staff and related accounts	55,442.89	0.00
Social security and other employment benefits	61,981.47	30,622.57
State – taxes and duties	0.00	11,577.00
Other creditors	7,976.70	9,352.98
Accruals	0.00	0.00
GENERAL TOTAL	11,238,977,026.39	9,892,657,408.72

— INCOME STATEMENT

(€)	2011	2010
Contributions	1,745,411,557.78	1,721,026,231.42
Changes in impairment on contributions	(4,978,714.68)	(706,494.55)
Late penalties	761,369.26	225,598.09
Other technical income	4,750.00	-
Technical income	1,741,198,962.36	1,720,545,334.96
Investment income	366,443,369.04	312,242,637.36
Income from realisation of investments	33,113,525.05	118,447.32
Other investment income	19,437,586.01	14,853,393.97
Reversals of impairment on investments	0.00	42,028,204.42
Gross investment income	418,994,507.10	369,242,683.07
Expenses related to realisation of investments	(72,015,682.70)	0.00
Other investment expenses	(21,904,049.13)	(16,624,176.41)
Impairment charges on investments	(474,647,479.88)	0.00
Investment expenses	(568,567,211.71)	(16,624,176.41)
Net financial income	(149,572,704.61)	352,618,506.66
Benefits paid	(222,956,283.79)	(216,471,458.39)
Other benefits (discounts of bonus factors)	(615,330.66)	(49,691.21)
Benefits	(223,571,614.45)	(216,521,149.60)
Changes in Scheme reserves	(1,346,332,091.82)	(1,836,772,943.72)
Technical expenses	(1,569,903,706.27)	(2,053,294,093.32)
Scheme's net current income	21,722,551.48	19,869,748.30
Non-technical income	81,096.77	-
Reversals of depreciation and impairment	0.00	0.00
Other non-technical income	81,096.77	0.00
Overall outsourcing of administrative management	(14,699,446.61)	(14,214,740.05)
Third-party investment management expenses	(510,876.42)	(143,003.56)
Personnel expenses	(2,131,231.37)	(1,369,816.10)
Other expenses	(4,439,209.00)	(4,131,796.50)
Provision and depreciation charges	(5,459.21)	(5,496.09)
Operating expenses	(21,786,222.61)	(19,864,852.30)
Non-recurring income	-	-
Non-recurring expense	(17,425.64)	(4,896.00)
Net non-recurring income (expense)	(17,425.64)	(4,896.00)
Income tax	-	-
NET INCOME	0.00	0.00

TUILLET AUDIT

Member of the *Compagnie Régionale de Paris*

160, boulevard Haussmann
75008 Paris

MAZARS

Member of the *Compagnie Régionale de Versailles*

Tour Exaltis
61, rue Henri Regnault
92075 Paris-la-Défense

**ETABLISSEMENT DE RETRAITE ADDITIONNELLE
DE LA FONCTION PUBLIQUE (ERAFP)**

Independent Auditors' Report
on the Annual Financial Statements

Year ended 31 December 2011

Registered office:
12, rue Portalis
75008 Paris

Independent Auditors' Report on the Annual Financial Statements Year ended 31 December 2011

Etablissement de Retraite Additionnelle de la Fonction Publique (ERAFP)
Registered office: 12, rue Portalis 75008 Paris

Dear Sir or Madam,

In accordance with the terms of our appointment by your board of directors, we hereby present our report on the financial year ended 31 December 2011 on:

- the audit of ERAFP's annual financial statements, as attached to this report,
- the basis of our opinion,
- 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.

1. 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 obtained provides a sufficient and appropriate basis for our opinion.

We certify that the annual financial statements, having regard to French accounting policies and standards, present a true and fair view of ERAFP's operating results for the year as well as its financial position and net assets at the end of that year.

Without prejudice to the above opinion, we call your attention to Note 3.3.1 to the financial statements, entitled 'Change in accounting methods', which sets out changes to the methods used to estimate the Scheme's provisions and reserves.

Etablissement de Retraite Additionnelle de la Fonction Publique (ERAFP)
 Independent Auditors' Report on the Annual Financial Statements
 Year ended 31 December 2011

2. Basis of our opinion

The accounting estimates used in preparation of the financial statements for the year ended 31 December 2011 were established against a backdrop of uncertainty linked to the financial crisis in the euro zone (and in Greece, in particular) and of a liquidity and economic crisis, which makes it difficult to assess the economic outlook. It is in this context that, pursuant to the provisions of article L.823-9 of the French Commercial Code relative to the basis of our opinion, we bring the following points to your attention:

- As mentioned in Note 3.3.3 'Scheme benefits and provisions' to the financial statements, ERAFP establishes reserves for certain technical liabilities that are estimated in accordance with regulatory methods and using statistical data and actuarial techniques.
As part of our assessment of the assumptions and valuation methods used to prepare the financial statements and on the basis of currently available information, we reviewed the methods established to assess these reserves and the consistency of the assumptions used in the light of ERAFP's experience and its regulatory and economic environment.
- Financial assets are recognised and measured in accordance with the methods described in Note 3.3.4 'Investment transactions' to the financial statements. We reviewed the methods used to measure these assets in particular, in the specific context of the financial crisis.
Based on the currently available information, we reviewed the application of these methods and have satisfied ourselves as to the adequacy of the methods used and their correct application, as well as to the appropriate disclosure of information in the notes to the financial statements.

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.

3. Specific verifications and information

We also performed the specific verifications required by law in accordance with the professional standards applicable in France.

Concerning the information presented in the board of director's management report, we have no observations to make regarding its accuracy or consistency with the annual financial statements.

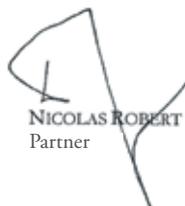
Paris, 11 October 2012

The Independent Auditors
 Tuillet Audit
 Member of the *Compagnie Régionale de Paris*

Mazars
 Member of the *Compagnie Régionale de Versailles*



BRIGITTE YARA-BETTENCOURT
 Partner



NICOLAS ROBERT
 Partner

5 MEMBERS OF THE BOARD OF DIRECTORS IN 2012

Chairman

- + Jean-François Rocchi¹
(decree of 8 November 2011)

Vice-Chairman

- + Philippe Soubirous
(decree of 12 March 2012)

Chairman of the ALM Steering Committee

- + Alain Dorison

Chairman of the Audit Committee

- + Gilles Oberrieder

Chairman of the Collections Committee

- + Marc Chrétien

Chairman of the Investment Policy Monitoring Committee

- + Éric Loiselet

Chairman of the Communications Committee

- + Anne Meunier

Representatives of active contributors to the Scheme (order of 7 November 2011)

Union Générale des Fédérations de Fonctionnaires-Confédération générale de travail

- + Gilles Oberrieder, principal
- + Francis Sahal, deputy

Union des Fédérations CFDT des Fonctions Publiques et Assimilés

- + Marcel Lecaudey, principal
- + Anne Meunier, deputy

Union Interfédérale des Agents de la Fonction Publique Force Ouvrière

- + Philippe Soubirous, principal,
- + Brigitte Fidry, deputy

Fédération Syndicale Unitaire

- + Régis Metzger, principal
- + Erick Staëlen, deputy

Union Nationale des Syndicats Autonomes

- + Marc Chrétien, principal
- + Jean-Louis Blanc, deputy

Union Fédérale des Cadres de la Fonction Publique CFE-CGC

- + Jean-Paul Thivolie, principal
- + Jean-Yves Delannoy, deputy

Interfon - Confédération Française des Travailleurs Chrétiens

- + Denis Lefebvre, principal
- + Awa Burlet, deputy

Union Syndicale Solidaires Fonctions Publiques et Assimilés

- + Dorine Pasqualini, principal
- + Philippe Benjamin, deputy

Public sector employer representatives (order of 7 November 2011)

- + Jacques Roudiere, General Controller of the Armies, Ministry of Defence Director of Human Resources (DRH-MD), principal (resigned 12 December 2012)
- + Alain Ferran, Ministry of Defence Deputy Director of Human Resources, Head of Human Military and Civilian Resources General Policy Department, deputy
- + Michèle Fejoz, Director of Human Resources, Deputy to the Secretary General of the Minister of the Economy and Finance
- + Coralie Oudot, Deputy Director of Ministerial Human Resources, Human Resources Department, General Secretariat of the Minister of the Economy and Finance, deputy

- + Éric Poglio, responsible for employee share ownership under the Director of Executives Management and Remuneration Policy, La Poste, principal

- + Foucauld Lestienne, Deputy Director for Human Resources, La Poste, deputy

Representatives of local and regional public sector employers (order of 7 November 2011)

Association des Maires de France

- + Michel Liebgott, MP and Mayor of Fameck, principal (resigned 10 July 2012), replaced by Antoine Homé, Mayor of Wittenheim (order of 8 October 2012)
- + Michel Tousaint, Vice-Chairman of the Communauté de Communes du Sud Estuaire, deputy

Association des Départements de France

- + Claude Jeannerot, Chairman of the Doubs Conseil Général, principal
- + Patrick Decolin, Conseiller Général of Val d'Oise, deputy (order of 8 October 2012)

Association des Régions de France

- + Éric Loiselet, Conseiller Régional of Champagne-Ardenne, principal

- + Corinne Bord, Conseillère Régionale of Île-de-France, deputy

Representatives of the French public hospital sector employers (order of 7 November 2011)

- + Daniel Bouquet, former CEO of the Drôme Nord-Romans/Saint-Vallier hospitals, principal (order of 8 October 2012)
- + Philippe Laveau, Administrator of the Centre Hospitalier de Sarlat, deputy,
- + Maurice Toullalan, CEO of the Centre Hospitalier d'Argenteuil, principal
- + Alain Amat, Honorary CEO of the Centre Hospitalier de La Rochelle, deputy

Qualified persons, (order of 7 November 2011)

- + Jean-François Rocchi¹, Inspector General of the Administration
- + Alain Dorison, Inspector General of Finance
- + Pierre Mayeur, CEO of the Caisse Nationale d'Assurance Vieillesse des Travailleurs Salariés

The following persons also attend board of directors' meetings

CEO of ERAFP

- + Philippe Desfossés (order of 28 May 2008)

Economic and financial control

- + Alain Casanova, Head of Economic and Financial General Control, replaced by
- + Gérard Belet, Head of Economic and Financial General Control

Accounting manager

- + Patrick Hédé, Public Finances Administrator

Government Commissioner

- + Sébastien Raspiller, Head of Insurance Markets and Products at the General Treasury Department of the Ministry of the Economy and Finance

Representative of Caisse des Dépôts Administrative Manager

- + Jean-Michel Bacquer, Head of the Bordeaux agency (Pensions Department)

¹ Jean-François Rocchi resigned from his position with ERAFP on 1 July 2013.

GLOSSARY

A

ACTIVE BENCHMARKED MANAGEMENT

This is where the investments are similar to those of the benchmark index but investment management is more active than under pure indexed management. The management mandate may, in particular, specify:

- + a limit on tracking error relative to the benchmark;
- + limits on the weight of individual issuers relative to the benchmark.

The investment manager therefore makes few significant changes, in terms of sector, geographic spread, themes or specific securities, from the benchmark.

ACTIVE NON-BENCHMARKED MANAGEMENT

When building the portfolio, the investment managers may deviate materially from the benchmark. The mandate does not specify:

- + any limit on tracking error;
- + any maximum weighting by issuer relative to the benchmark.

For all ERAFP mandates, the investment managers must nevertheless select stocks from the SRI investment universe defined by ERAFP.

B

BENCHMARK INDEX

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

BEST IN CLASS

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

BOND

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

C

CAPITALISATION RATE

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

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 in its decision-making mechanisms and strives to minimise these impacts.

D

DEFINED CONTRIBUTION SCHEMES

Schemes in which only the level of the contributions is set.

DISCOUNTING

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

DORMANT

A person who has taken retirement under the main pension scheme but who has not yet liquidated his/her additional pension rights.

E

ENGAGEMENT

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

ESG

Acronym referring to environmental, social and governance issues.

F

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.

FUNDED SCHEME

A funded retirement scheme invests the paid-in contributions in financial assets, which are liquidated at the time of retirement to pay the accrued rights either as an annuity or in 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.

G

GENERAL INDICATIVE ESTIMATES FOR PENSIONS (FRENCH ACRONYM: EIG)

Document sent to active contributors aged 55 and subsequently every five years. The EIG provides an estimate of the amount of their pension at the legal retirement age and at the full rate, relying on income projections prepared by the Pension Steering Committee (French acronym: COR).

GIP INFORMATION RETRAITE

French public interest group that includes 38 compulsory retirement schemes (CNAV, MSA, AGIRC, CNRACL, Ircantec, etc.) set up 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.

GREENHOUSE GASES

gases that are a source of global warming.

I

INDEXED MANAGEMENT

The main objective of indexed management is to reproduce the performance of a benchmark index. The composition of an index-managed fund (weight in the fund of each security and therefore of each business sector or geographic region) is very similar to that of the benchmark index.

INDIVIDUAL STATEMENT OF POSITION (FRENCH ACRONYM: RIS)

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

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.

L

LIFE EXPECTANCY TABLES

The TGF05 and TGH05 tables are forward-looking generational life expectancy tables. For each birth year, a life expectancy table is constructed, which allows increasing life expectancy to be taken into account. All the tables have been drawn up based on an analysis of annuity holders' life expectancy performed by their respective insurance companies using data from INSEE. Two sets of tables have been drawn up: one for women (TGF05) and one for men (TGH05). The life expectancy tables applied up to the end of 2006 had been drawn up in 1993. They were also forward-looking but had been constructed based solely on the life expectancy of French women. The change of tables was required by the increase in life expectancy, which has on the whole been stronger than anticipated in 1993.

LIQUIDATION

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

M

MARKETABLE SECURITY

Security traded on the financial markets and evidencing a negotiable, associated claim or right (equities, bonds, etc.).

P

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 additional pension schemes are based on points systems. Basic pension schemes tend to use the "quarter" system.

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 or she has satisfied the coverage period needed to receive a full pension.

PRI

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

R

RETURN

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

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 general scheme for employees (*régime général des salariés*) and ancillary schemes.

S

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).

SRI

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

SUSTAINABLE DEVELOPMENT

The Brundtland Report, published in 1987 by the UN World Commission on the 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.”

T

TECHNICAL RETURN

Ratio of the service value of a point to the purchase value of a point.

TRACKING ERROR

Tracking error represents the volatility of performance variances between the fund and its benchmark index.

