

Valtion Eläkerahasto  
Statens Pensionsfond  
The State Pension Fund

# **THE STATE PENSION FUND OF FINLAND**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**01.01.2002 - 31.12.2002**

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## **1. REVIEW OF OPERATIONS**

### **General**

The State Pension Fund is a fund that operates outside the State budget and which was established in 1990. The State uses the pension fund to provide for its future pension liabilities and to attempt to balance the pension expenses of different years. The assets of the State Pension Fund have not so far been used to pay pensions, but all the pensions within the scope of the national pension system are paid from appropriations reserved for this purpose within the State budget. The State's pension liabilities in 2002 were EUR 54.2 billion, of which EUR 4.9 billion were covered by the pension fund.

In accordance with State Pension Fund Act, assets can be transferred from the fund to the State reserves. With the amendment to the act which entered into force at the beginning of 2000, the assets that can be transferred were restricted to a maximum of one-third (1/3) of the annual expenses for pensions provided under the State Employees' Pension Scheme. In 2002, EUR 881,353, 234 were transferred to the State reserves from the fund.

Moreover, those assets of the fund that are not transferred to State reserves in the manner described above may, in accordance with the law, be lent to the State or to State-owned enterprises. The State has not borrowed money from the pension fund subsequent to 1992. Of the loans taken by the State prior to this date, a loan of EUR 353 million matured in 2002 and was repaid to the fund in its entirety.

The State Pension Fund Act which was passed in 1989 was subsequently amended by adding statutes concerning the fund's Board of Directors, by specifying all pension contributions of the State Employees' Pension Scheme as fund income, and by adding statutes concerning employees' pension contributions, the lending of fund assets to State-owned companies, the investing of assets, the collection of pension contributions retroactively, the auditors and the personnel of the fund, and securing the growth of the fund.

The amendments to the Act which came into force at the beginning of 2000 secured the growth of the fund and ensured the achievement of the original funding objectives by 2010. At the same time, the organisation of the fund was clarified by specifying the position and the tasks of the Board of Directors. The regulations concerning the investment activities of the fund and its control were also specified.

### **Personnel of the State Pension Fund**

Jukka Wuolijoki, Director General of the State Treasury, served as Managing Director of the Pension Fund in addition to his other duties. In 2002, the State Pension Fund also had eight full-time employees: Investment Manager in share investments Mika Pesonen, M.Sc. (Econ) (1st July 2000), Investment Assistant Musse Habbaba, Diploma in Business (11th December 2000), Share Analyst Hans Parhiala, M.Sc. (Econ) (14th May 2001), Share Analyst Esa Artimo, M.Sc. (Econ) (1st January 2002), Investment Manager in interest investments Jukka Järvinen, M.Sc. (Econ) (1st January 2002), Administrative Director Seija Kettunen, M.Sc. (Pol. Sc.) (1st January 2002), Share Analyst Kaisa Ojainmaa, M.Sc. (Econ) (1st March 2002-27th November 2002) and Interest Portfolio Manager Antti Huotari, M.Sc. (Econ) (15th March 2002).

The personnel expenses of the State Pension Fund in 2002 were EUR 620,422 and other operational expenses were EUR 493,067. These expenses were paid out of State Pension Fund assets.

### **Board of Directors**

The fund has a Board of Directors appointed by the Ministry of Finance to supervise the investment activities. The Board decides the principles of the investment activity and ratifies the investment plan. The Chair of the Board of the State Pension Fund was State Labour Market Director Teuvo Metsäpelto and the members were Director General Jukka Wuolijoki from the State Treasury, Senior Budget Secretary Elina Selinheimo (Deputy Chair) from the Ministry of Finance, Managing Director Pertti Saarela from the Employers' Association for Transport and Special Services LTY, Director Antti Tuomi from AKAVA-JS (until 28th February 2002), Director Pekka Hemmilä from AKAVA-JS from 1st March 2002, Chairman Matti Krats from Palkansaajajärjestö Pardia ry and Chairman Raimo Rannisto from the Joint Organisation of State Employees VTY.

Government Counsellor Veikko Liuksia from the Ministry of Finance served as permanent expert on the Board of Directors. Office [Administrative] Manager Seija Kettunen from the State Pension Fund was Secretary to the Board.

### **Consultative Committee for Investments**

On 29th September 2000, the Board of the State Pension Fund appointed a Consultative Committee for Investments for the period 1st October 2000 – 30th September 2003. The committee consists of investment professionals and economic experts.

The Chairperson of the Consultative Committee was Eino Keinänen, M.Sc. (Pol.Sc.) and the members Liisa Jauri, Director, Professor Eva Liljeblom, Topi Piela, Managing Director, Paavo Prepula M.Sc. (Pol.Sc.), Tuire Santamäki-Vuori, Chairperson and Jari Sokka, Planning Director, and Seija Kettunen, Administrative Director, is secretary to the committee.

The task of the committee is to evaluate the State Pension Fund's investment plan also the reports on the investment activities carried out, and to provide their advisory opinion on these to the Fund's Board of Directors. In 2002, the committee met on two occasions.

## **Auditors**

The auditors appointed by the Ministry of Finance for 2002 were Sirpa Eriksson, Authorised Public Accountant and Paula Pasanen, Authorised Public Accountant.

## **Investment activities**

On 27th November 2001, the Board of Directors of the State Pension Fund ratified the investment plan and operational authorisations for 2002. At the same time, the Board ratified the ethical guidelines and rules on insider dealing for the personnel involved in the fund's investment activities. Before ratifying the investment plan, the Board of Directors had received the Consultative Committee's advisory opinion on the plan.

In accordance with the investment plan, the security and revenue-earning capacity of the investments is the starting point for the State Pension Fund's investment activities. Additional criteria for investment activity are distribution and potential for realisation. These correspond to the general investment activity principles for earnings-related pension institutions and have traditionally denoted investments in liquid interest-bearing instruments. Diversification and distribution mean investments in shares and a more extensive movement into foreign investments than earlier.

## **Share investments**

The State Pension Fund continue to expand its share portfolio in 2002. During the year, shares and share funds worth almost EUR 690 million were purchased and shares and funds worth EUR 34 million were sold. At the start of the year, shares accounted for 15 per cent of the portfolio, which corresponded to the neutral share weight according to the investment plan. At the end of December, the proportion of shares had increased to 22 per cent. However, the proportion of the share portfolio in the entire investment portfolio was clearly underweight. The neutral weight would have been 25 per cent.

In distributing the investments from interest-bearing investments to investments in shares, there is a growth in the overall risk of the investments. The longer the time span of the investment, the greater the proportion of shares that can be in the portfolio. The long-term plan of the State Pension Fund is to increase the proportion of shares in whole investment portfolio to 40 per cent.

## **Interest-bearing investments**

The primary objects for interest-bearing investments by the State Pension Fund in 2002 were bonds floated by governments within the EMU with a surplus budget or one showing a slight deficit. Another criterion was the level of state debt in relation to gross national product and its trends. A third criterion was distribution of investments in the bonds of a sufficient number of countries.

## **Investments in corporate bonds**

The State Pension Fund began investing in corporate bonds in 2001. The investments were made through funds. Since the beginning of 2002, direct investments in corporate bonds were started. They were made in investment grade bonds.

## **Tasks performed at the State Treasury**

The State Pension Fund's own organisation has been strengthened in recent years and in 2002, e.g., interest-bearing investments were transferred to the Fund. The State Treasury continues to undertake the fund's personnel management, bookkeeping, as well as the determination of all pension contributions, and tasks connected with collection. In 2002, the State Treasury used 4.9 person work [man-years] years (7.8 in 2001), and the costs incurred, calculated according to the State Treasury accounting principles, amounted to EUR 474,000 (EUR 656,000 in 2001).

## **Employer's pension contributions**

The State Treasury determines the pension contribution percentages for the State Employees' Pension Scheme. The Council of State determines the criteria according to which the employer's pension contribution percentages are fixed. The overall pension contribution percentage of the State Employees' Pension Scheme is calculated in accordance with the principles of full funding actuarial mathematics, and has been 23.5 per cent since 1995. The State's usual percentage for employers' pension contributions (TVEL) was 19.1 per cent during 2002.

In 1997, the State Treasury adopted employer-specific pension contributions for employers having at least fifty people on the payroll. The confirmed advance pension contribution percentages are reviewed annually in accordance with work incapacity and unemployment pension. These advance pension contribution percentages for government institutions and offices ranged from 13.38 to 33.84 per cent in 2002. The confirmed company-specific employers' pension contribution percentages for State-owned enterprises ranged from 18.36 to 22.53 per cent. The employers' pension contribution percentages confirmed for municipalities ranged from 17.57 to 23.99 per cent. The Defence Forces and the Frontier Guard had the highest advance pension contribution percentages in the VEL system for those in posts generating entitlement to a military pension, a maximum of 33.84 per cent.

## **Employee's pension contribution**

From 1993 onwards, the employees have financed part of the State Employees' Pension Act (VEL) contributions in the same way as in all employees' statutory earnings-related pensions schemes. In the State Employees' Pension Scheme the employees' pension contributions decrease the employer's share of the contribution by the full amount. The employees' pension contribution has increased from three (3.0) per cent in 1993 to 4.4 per cent in 2002. In the State Employees' Pension Scheme it is the employer's duty to withhold the employees' pension contribution when paying the wages and salaries and pay these contributions to the State Pension Fund.

## **Inspection of pension contribution payments**

In its inspection of pension contribution payments the State Treasury has mainly focused on the pension contributions made by private bodies and institutions that receive State subsidies. The inspection has been carried out at the State Treasury by comparing the employer's payroll with the data contained in the State's employment relationship register, the register of payers to the fund and the employment relationship register of the Central Pension Security Institute. As a result of the inspection of pension contributions insurances were transferred mainly between TEL (Employees' Pensions Act) and VEL (State Employees' Pensions Act).

## **2. REVENUES OF THE STATE PENSION FUND**

Under the State Pension Fund Act, in accordance with a decision from Parliament, an amount can be transferred from the fund to the State's reserves equal (until 2002) to a maximum of three-quarters (3/4) and (since 2001) one third (1/3) of the annual pension expenses of the State Employees' Pension Scheme. The amount transferred has ranged from FIM 2.5 to eight billion. In total, EUR 11.4 billion of fund assets have been transferred to State reserves. The growth of the fund has been dependent on the amounts of these transfers.

### **Investment activity**

The Board of Directors of the Fund ratifies annually the principles of the investment activity in the investment plan. The Board of Directors monitors the investment activity from quarterly reports.

At the end of 2002, the Fund's investment portfolio had a market value of EUR 4.8 billion (EUR 4.4 billion at the end of 2001). At the close of the year, 78 per cent of the Fund's investments were in interest-bearing instruments and 22 per cent in shares.

The State Pension Fund's entire investment portfolio earned -0.40 per cent in 2002 (in 2001 4.3 per cent).

### **Interest-bearing investments**

2002 was the third consecutive favourable year as regards interest. Interest rates declined both at the short and long end of the interest curve for almost the entire year. The long 10-year rate made a peak for several months during the spring when it looked as if the world economy was picking up. This proved to be a false signal and rate trends again headed down as a consequence of weak macro-figures. At the beginning of October, rates rose slightly as investors channelled their assets away from interest-bearing instruments to the share market. In November, the upward trend again broke and rates fell throughout December.

At the start of the year, the State Pension Fund's investments were in shorter maturities. As long-term interest rates had risen in March, the duration of investments was switched to slightly longer-term maturities. In the summer months, the proportion of money market investments was increased, but, at the end of August, investments were again directed at longer-term maturities.

Last year, the fund's earnings from interest-bearing investments were 7.20 per cent. The earnings from the portfolio comprising Finnish State bond loans were 7.09 per cent and the earnings from the EMU portfolio were 10.64 per cent. If the result for the Finnish portfolio calculated solely for market investments (other than loans to the State), earnings of 8.24 per cent are obtained. The earnings from market investments in the entire interest-bearing portfolio were 9.62 per cent. In addition, the modified duration of the interest-bearing portfolio, i.e., the interest sensitivity of investments was 4.0 at the end of the year. The duration of market interest-bearing investments was 4.6.

The earnings from interest-bearing investments were affected by the low yield from assets lent to the State and by their high proportion of the interest-bearing portfolio as a whole (22 per cent).

### **Share investments**

In the spring of 2002, the downward trend in share prices which began in May 2000 was thought to have ended. However, that was not what happened. The fall in prices which continued during the summer hardly provided any safe havens, since both sector investors and investors distributing their investments on the basis of geography were faced by plummeting share prices.

The sharp drop in share prices in July 2002 was due to a number of mutually independent and linked factors. Even though a number of positive-looking macro-figures were seen during the summer, the uncertainty over economic growth in the United States and concern about companies' results was an obvious aspect explaining the stock exchange slide. Share investors shunned risk-taking since the bookkeeping violations by American listed companies reduced trust in result reporting. The increased price of oil, greater international tension and fear of an armed attack on Iraq by the United States added to uncertainty on the market. In the United States, a record amount of assets were redeemed in July and September from share funds and were transferred to interest-bearing investments which were deemed safer. In Europe, the weakening of the solidity of insurance companies led to a situation in which they were compelled to reduce their share ownerships.

Earnings from share investments were -26.68 per cent (-11,5 in 2001). As regards the share portfolio as a whole, it may be noted that investments continued to be made fairly in line with the index. At the end of the year, the beta of the share portfolio was 0.9 and its tracking error was 2.13. It may be said that a tracking error of less than three is a sign of a portfolio that is virtually in line with the index. In unstable circumstances, the Fund regarded it as important for the relative risk of the share portfolio to be kept moderate.

### 3. FINANCIAL STATEMENTS, NOTES TO BE APPENDED TO THE FINANCIAL STATEMENTS AND EXAMINATION OF THE FINANCIAL STATEMENTS

#### 3.1 Financial statements

##### STATE PENSION FUND

##### STATEMENT OF EARNINGS AND EXPENSES

	<b>1.1.-31.12.2002</b>	<b>1.1.-31.12.2001</b>
<b>Operational earnings</b>		
Profits from sale of shares and holdings	11 754 312.50	2 195 333.55
Pension contribution earnings from government offices and institutions	675 264 115.97	645 031 141.88
Other pension contribution earnings		
From municipalities	295 553 677.90	229 122 966.92
From enterprises	45 836 590.73	47 209 717.16
From state-owned enterprises	23 813 569.89	24 410 732.54
From Nordic institutes	2 713 602.46	2 319 297.01
From Operational receivables account depreciation	-10.82	-32 879.33
	<hr/> 367 917 430.16	<hr/> 303 029 834.29
Employees' pension contributions	241 786 956.15	237 945 218.05
Earnings from unemployment insurance contributions	726 754.00	6 691 509.37
Total operational earnings	1 297 449 568.78	1 194 893 037.14
<b>Operational expenses</b>		
Materials and equipment	-6 897.35	-4 713.25
Personnel expenses	-619 021.18	-177 623.83
Rents	-23 161.36	-17 359.85
Other expenses	-396 257.42	-434 599.50
Other expenses	-47 490.23	-21 672.01
Losses from sale of shares and holdings	-770 834.05	-595 639.95
Depreciation	-19 260.75	-8 807.16
	<hr/> -1 882 922.34	<hr/> -1 260 415.55
Total operational expenses	-1 882 922.34	-1 260 415.55
<b>SURPLUS I</b>	<b>1 295 566 646.44</b>	<b>1 193 632 621.59</b>

**Earnings from financing**

Interest earnings		
From loans to the State	1 354 153.33	70 426 292.85
From investments	146 870 012.71	137 249 975.34
Interest from late payment	58 452.61	27 891.63
Bank accounts	4 557 692.17	3 194 044.26
	<hr/>	<hr/>
	152 840 310.82	210 898 204.09
Exchange rate differences from receivables	-240 436.06	-157 178.99
Other earnings from financing		
Dividends	12 389 433.94	5 803 807.12
Other earnings from financing	2 743 154.38	312 226.85
	<hr/>	<hr/>
	15 132 588.32	6 116 033.97
Total earnings from financing	167 732 463.08	216 857 059.06
<b>Financing expenses</b>		
Interest on late payment	-2 801.56	0.00
Other financing expenses	-631 072.27	0.00
	<hr/>	<hr/>
Total financing expenses	-633 873.83	0.00
<b>SURPLUS II</b>	<b>1 462 665 235.69</b>	<b>1 410 489 680.66</b>
<b>Transition earnings</b>		
Transition payments	95 908 104.06	96 213 366.76
<b>SURPLUS III</b>	<b>1 558 573 339.75</b>	<b>1 506 703 047.41</b>
<b>SURPLUS FOR THE PERIOD</b>	<b>1 558 573 339.75</b>	<b>1 506 703 047.41</b>

**BALANCE SHEET**

<b>ASSETS</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
<b>Fixed assets and other long-term investments</b>		
<b>Intangible assets</b>		
Computer software	414.86	770.47
	<u>414.86</u>	<u>770.47</u>
<b>Tangible assets</b>		
Machinery and equipment	28 988.12	35 720.86
Furniture	34 409.31	23 573.79
	<u>63 397.43</u>	<u>59 294.65</u>
<b>Long-term investments</b>		
Loan receivables from State	437 288 608.80	437 288 608.80
Investments	4 153 807 602.35	3 347 423 732.66
	<u>4 591 096 211.15</u>	<u>3 784 712 341.46</u>
Total fixed assets and other long-term investments	4 591 160 023.44	3 784 772 406.58
<b>Current assets</b>		
<b>Short-term receivables</b>		
Interest receivables	85 986 283.21	110 869 063.15
Receivables carried forward	106 300 280.03	95 147 550.66
Repayments falling due next year	0.00	353 194 645.57
	<u>192 286 563.24</u>	<u>559 211 259.38</u>
<b>Money, cash in bank, and other financial assets</b>		
Bank accounts	398 725 697.09	160 926 352.40
Combined account receivables from State	15 357 356.93	9 112 962.56
	<u>414 083 054.02</u>	<u>170 039 314.96</u>
Total current assets	606 369 617.26	729 250 574.34
<b>TOTAL ASSETS</b>	<b>5 197 529 640.70</b>	<b>4 514 022 980.92</b>

**BALANCE SHEET**

<b>LIABILITIES</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
<b>Equity</b>		
<b>State Pension Fund equity</b>		
State Pension Fund equity	-9 738 080 942.12	-8 908 914 464.67
<b>Budgetary estimate transfers</b>		
Budgetary estimate transfers	-881 353 234.00	-829 166 477.46
<b>Trading deficit from previous accounting periods</b>		
Trading deficit from previous accounting periods	14 252 079 805.08	12 745 376 757.66
Surplus for the period	1 558 573 339.75	1 506 703 047.41
Equity	5 191 218 968.71	4 513 998 862.94
<b>Liabilities</b>		
<b>Short-term liabilities</b>		
Direct accounts by accounting offices	14 196.11	4 914.72
Items for further accounting	8 273.24	3 207.50
Accrued expenses	6 027 745.58	14 133.50
Other short-term liabilities	260 457.06	1 862.26
Total short-term liabilities	347 437.99	24 117.98
<b>TOTAL LIABILITIES</b>	<b>5 197 529 640.70</b>	<b>4 514 022 980.92</b>

### 3.2 Notes to be appended to the financial statements

#### Appendix 1:

#### EXPLANATION OF THE PRINCIPLES FOR SCHEDULED DEPRECIATION AND CHANGES TO THEM

In the State Pension Fund, scheduled depreciation is calculated according to consistent principles on a straight-line basis from the acquisition price over the economic service lives of the fixed assets.

The scheduled depreciation periods are as follows:

#### Fixed assets

##### Intangible assets

Intangible rights	3 years
Commissioned software	5 years
Other long-term expense items	10 years

##### Tangible assets

ADP equipment	3 years
Office machinery	5 years
Telephones and communications equipment	3 years
Audio-visual machinery and equipment	5 years
Other machinery and equipment	5 years
Furniture	10 years

#### Appendix 2:

#### PERSONNEL EXPENSES AND FRINGE BENEFITS, HOLIDAY PAY LIABILITIES

Personnel expenses and fringe benefits	01.01. - 31.12.2002
	euros
Salaries and fees *)	490 699.22
Fringe benefits	1 401.00
Pension expenses	87 482.08
Other personnel expenses	40 839.88
<b>Total</b>	<b>620 422.18</b>

\*) Salaries and fees include fees of EUR 17,580.47 and bonuses of EUR 30,808.32.

<b>Holiday pay liabilities</b>	<b>01.01.2002</b>	<b>31.12.2002</b>	<b>Change/euros</b>
Holiday pay liability	11 206.36	44 670.00	33 463.64
Personnel liabilities	2 927.14	11 562.38	8 635.24
<b>Total holiday pay liabilities</b>	<b>14 133.50</b>	<b>56 232.38</b>	<b>42 098.88</b>

### Appendix 3:

### CHANGES IN THE COSTS OF ACQUISITION OF FIXED ASSETS AND OTHER LONG-TERM EXPENSE ITEMS

	<b>Intangible assets</b>	<b>Machinery and equipment</b>						
	<b>ADP software</b>	<b>ADP equipment</b>	<b>Office machinery</b>	<b>Communications equipment</b>	<b>Other machinery</b>	<b>Furniture</b>	<b>Total</b>	
Cost of acquisition 1.1.2002	1 066.98	28 337.11	8 942.88	6 712.21	0.00	25 250.61	70 309.79	
Additions	0.00	4 084.69	4 305.90	52.65	25.00	14 539.67	23 007.91	
Deductions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Cost of acquisition 31.12.2002</b>	<b>1 066.98</b>	<b>32 421.80</b>	<b>13 248.78</b>	<b>6 764.86</b>	<b>25.00</b>	<b>39 790.28</b>	<b>93 317.70</b>	
Accumulated depreciation 1.1.2002	296.52	5 233.63	1 946.59	1 091.05	0.00	1 676.74	10 244.53	
Accumulated depreciation of deductions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Scheduled depreciation for the period</b>	<b>355.60</b>	<b>10 538.81</b>	<b>2 418.30</b>	<b>2 241.86</b>	<b>2.08</b>	<b>3 704.23</b>	<b>19 260.88</b>	
Exceptional depreciation for the period							0.00	
Writedowns for the period		0.00	0.00	0.00	0.00	0.00	0.00	
Accumulated depreciation 31.12.2002	652.12	15 772.44	4 364.89	3 332.91	2.08	5 380.97	29 505.41	
Revaluations		0.00	0.00	0.00	0.00	0.00	0.00	
<b>Bookkeeping value 31.12.2002</b>	<b>414.86</b>	<b>16 649.36</b>	<b>8 883.89</b>	<b>3 431.95</b>	<b>22.92</b>	<b>34 409.31</b>	<b>63 812.29</b>	

	Fixed assets and other long-term investments				
	Euro-denominated	Foreign currency	Euro-denominated	Loans to the	
	investments	investments	bonds	state	Total
<b>Cost of acquisition 1.1.2002</b>	<b>712 325 229.81</b>	<b>236 418 360.49</b>	<b>2 398 680 142.37</b>	<b>790 483 254.37</b>	<b>4 137 906 987.04</b>
Additions	1 233 596 647.03	502 852 367.83	7 837 865 975.08		9 574 314 989.94
Deductions	-47 831 701.99	-6 242 966.64	-5 366 432 718.96	-353 194 645.57	-5 773 702 033.16
<b>Cost of acquisition 31.12.2002</b>	<b>1 185 764 945.04</b>	<b>496 609 401.19</b>	<b>2 471 433 256.12</b>	<b>437 288 608.80</b>	<b>4 591 096 211.15</b>
Accumulated depreciation 1.1.2002					
Accumulated depreciation of deductions					
Scheduled depreciation for the period					
Exceptional depreciation for the period					
Writedowns for the period					
Accumulated depreciation 31.12.2002					
Revaluations					
<b>Bookkeeping value 31.12.2002</b>	<b>1 185 764 945.04</b>	<b>496 609 401.19</b>	<b>2 471 433 256.12</b>	<b>437 288 608.80</b>	<b>4 591 096 211.15</b>

#### Appendix 4:

#### REVALUATIONS

The State Pension Fund does not have the information according to the Appendix.

#### Appendix 5:

#### LOANS GRANTED BY THE STATE PENSION FUND

Loans to the State	
01.01.2002	790 483 254.37
Change in 2002	<u>-353 194 645.57</u>
<b>Loan capital 31.12.2002</b>	<b>437 288 608.80</b>

## Appendix 6:

### STATE PENSION LIABILITY

Recipient	Sector	Portfolio 31.12.2001 euros	Change	Portfolio 31.12.2002 euros	Ordinance which guarantee or security is based on
Persons covered by state pension security and their relatives	Households	52 600 000 000	1 600 000 000	54 200 000 000	The State Pension Act (280/1966). The State Family Pension Act (774/1968). The Finnish President's Pension Act (40/1994). The Members of Parliament Pension Act (329/1967). The Council of State Members' Pension Act (870/1977). The Act on the Remuneration, Pension and Family Pension of Holders of Posts in Comprehensive Schools (9/1972). The Upper Secondary School Act (477/1983). The Act on Vocational Institutes (487/1987). The Act on Certain Pensions Paid Out of State Funds (3827/1969). The Act on Social Welfare and Health Care Planning and State Subsidy (733/1992) as well as other ordinances concerning state pension security and its coverage
<b>Total</b>		<b>52 600 000 000</b>	<b>1 600 000 000</b>	<b>54 200 000 000</b>	

**Pension liability** refers to the capital value of those pension rights that have been accrued by 31st December 2002 within the sphere of State pension security.

Liability has been calculated using discount interest of 2.5% a year.

**The value of assets covering the pension liability** on 31st December 2002 was EUR 4 903 000 000 when valued at the market price.

The breakdown of cover according to types of assets was as follows:

Types of assets	
Loans to the state	8.90 %
Debentures and other bonds	50.40 %
Shares and holdings in funds	28.30 %
Interest-bearing receivables	1.80 %
Receivables carried forward	2.20 %
Joint account receivable from State	0.30 %
Assets in bank accounts	8.10 %
<b>Total</b>	<b>100.00 %</b>

## Appendix 7:

### THE PRINCIPLES OF THE EXCHANGE RATE THAT HAS BEEN USED TO TRANSLATE LIABILITIES, RECEIVABLES AND OTHER COMMITMENTS INTO FINNISH CURRENCY

Liabilities and receivables denominated in foreign currencies have been translated into euros using the exchange rate quoted by the European Central Bank at the end of the year.

## Appendix 8:

### THE DIFFERENT TYPES OF SHARES AND HOLDINGS IN VARIOUS COMPANIES HELD BY THE STATE PENSION FUND

Name and series of security	Foreign currency	Number	Market value (EUR)
<b>LKP 1360 Long-term euro-denominated investments</b>			
Aldata Solution Oyj	EUR	900 000	792 000.00
Amanda Capital Oyj	EUR	3 000 000	420 000.00
Amer-Yhtymä Oyj A	EUR	300 000	10 470 000.00
Comptel Oyj	EUR	1 170 000	1 170 000.00
Elektrobit Group	EUR	800 000	232 000.00
Eimo Oyj	EUR	700 000	679 000.00
Elisa Communications Oyj	EUR	1 100 000	6 292 000.00
Elcoteq Network Oyj A	EUR	500 000	5 400 000.00
Finnlines Oyj	EUR	190 000	3 895 000.00
F-Secure Oyj	EUR	530 000	397 500.00
Fortum Oyj	EUR	3 500 000	21 875 000.00
HEX 25-indeksiosuus	EUR	300 000	3 864 000.00
Huhtamäki Oyj	EUR	750 000	7 162 500.00
Instrumentarium Oyj	EUR	310 000	11 835 800.00
KCI Konecranes International	EUR	190 000	4 425 100.00
Kesko Oyj B	EUR	308 000	3 726 800.00
Kone Oyj B	EUR	370 000	10 585 700.00
Kemira Oyj	EUR	750 000	4 912 500.00
Lassila & Tikanoja Oyj	EUR	250 000	3 875 000.00
Metso Oyj	EUR	760 000	7 828 000.00
Nordea Ab FDR	EUR	5 500 000	23 485 000.00
Nokia Oyj	EUR	2 620 000	39 693 000.00
Nokian Tyres Plc	EUR	202 500	6 882 975.00
Osuuspankkien Keskuspankki O	EUR	175 000	2 528 750.00
Orion-yhtymä Oyj B	EUR	240 000	5 112 000.00
Outokumpu Oyj A	EUR	893 750	7 418 125.00

Name and series of security	Foreign currency	Number	Market value (EUR)
Pohjola-Yhtymä Oyj D	EUR	128 600	1 912 282.00
Perlos Oyj	EUR	900 000	5 409 000.00
Rautaruukki Oyj K	EUR	1 200 000	4 128 000.00
Sampo Oyj	EUR	2 800 000	20 300 000.00
Sponda Oyj	EUR	400 000	2 180 000.00
Stonesoft Oyj	EUR	225 300	123 915.00
SSH Communications Security	EUR	152 850	114 637.50
Stora Enso Oyj R	EUR	3 730 000	37 486 500.00
Stockmann Oyj B	EUR	450 000	6 210 000.00
Sanoma-WSOY B	EUR	970 000	9 156 800.00
Teleste Oyj	EUR	400 000	988 000.00
Tietoenator Oyj	EUR	760 000	9 880 000.00
TeliaSonera AB	EUR	7 874 880	27 955 824.00
Uponor Oyj	EUR	220 000	4 285 600.00
UPM-Kymmene Oyj	EUR	1 235 000	37 791 000.00
Wärtsilä Oyj B	EUR	380 000	4 567 600.00
YIT-Yhtymä Oyj	EUR	253 200	4 251 228.00
Avesta-polarit Oyj / sold			
<b>Total Finnish shares</b>		<b>48 389 080</b>	<b>371 698 136.50</b>

Alcatel SA	EUR	55 000	229 900.00
Aventis SA (ex Rhone-Poulenc	EUR	6 000	310 800.00
BNP Paribas S.A.	EUR	42 000	1 630 860.00
Compagnie de Saint Gobain	EUR	30 000	838 800.00
Sanofi-Synthelabo SA	EUR	18 000	1 048 500.00
Total Fina ELF	EUR	10 000	1 361 000.00
Vivendi Universal SA Ord	EUR	10000	153900
Adidas-Salomon AG	EUR	8 000	658 400.00
Allianz AG Holding	EUR	4 400	398 860.00
BASF AG	EUR	18 000	649 440.00
Deutsche Bank AG (reg)	EUR	26 000	1 141 400.00
Deutsche Telekom AG	EUR	44 000	539 000.00
E.ON AG	EUR	24 000	922 800.00
Infineon Technologies AG	EUR	13000	90870
Munchner Ruck N	EUR	4 200	478 800.00
Siemens AG (reg)	EUR	26 000	1 053 000.00
Volkswagen	EUR	20 000	694 800.00
ABN Amro Holding NV	EUR	30 833	480 378.14
Aegon N.V.	EUR	31376	384669.76
Koninklijke Ahold NV	EUR	100 000	1 210 000.00
Akzo Nobel N.V.	EUR	15 500	468 565.00
Philips Electronics NV	EUR	50 000	835 000.00
Royal Dutch Petroleum Compan	EUR	28 000	1 174 600.00
<b>Other European shares</b>		<b>614 309</b>	<b>16 754 342.90</b>

Name and series of security	Foreign currency	Number	Market value (EUR)
<b>Holdings in funds</b>			
Carnegie Småbolag	EUR	515 999	6 697 667.09
Nordea Nordic Small Cap Kasv	EUR	4 969 022	6 106 928.17
Sampo Aasia Osake K	EUR	308 341 267	25 200 731.75
Sampo Japani K	EUR	42 039 579	28 095 050.52
Mercury Japan Opportunities	EUR	773 175	18 563 929.11
Alfred Berg Small Cap Europe	EUR	18 818 946	15 175 597.84
BGI Europe ex UK Index Fund	EUR	7 203 448	60 732 266.21
Fidelity European Smaller Co	EUR	1 904 865	19 181 988.23
Gyllenberg European Index B	EUR	577 487	35 226 705.41
Mandatum Europe Enhanced Ind	EUR	30 127 593	28 030 712.51
Fim Russia	EUR	198 446	4 099 885.68
Mandatum North America Index	EUR	29 151 918	27 408 925.15
Carnegie Medical	EUR	199 309	6 334 039.88
Conventum US 500 Plus B	EUR	272 110	19 417 784.29
SEB Nordamerika Medelstora B	EUR	274 645	18 956 008.20
		<b>445 367 809</b>	<b>319 228 220.04</b>

<b>Holdings in interest-bearing funds</b>			
Mandatum Euro Yrityslaina (Corporate bond) K	EUR	276 889 583	54 586 012.44
ABN AMRO Euro Credit Fund	EUR	137	79 978 769.81
CAF Euro Corporate bond	EUR	67 765	75 446 710.14
Evli European Investment Grade B	EUR	295 931	33 274 530.10
JPMF Global High Yield Bond A	EUR	104 520	10 529 359.61
Nordea Pro Corporate Bond K	EUR	18 853 236	22 488 140.41
OP-Euro Yrityslaina (Corporate bond) B	EUR	201 693	22 075 275.21
ABN AMRO High Yield Bond	EUR	530 966	26 022 651.99
<b>Total interest-bearing funds</b>		<b>296 943 832</b>	<b>324 401 449.71</b>
Mandatum Pääomarahasto I Ky	EUR	150 000	150 000.00
<b>Total capital funds</b>		<b>150 000</b>	<b>150 000.00</b>

Name and series of security	Foreign currency	Number	Market value (EUR)
<b>LKP 1390 Long-term foreign currency investments</b>			
Danisco A/S	DKK	118 000	3 820 097.19
Den Danske Bank A/S	DKK	310 000	4 882 304.70
ISS A/S	DKK	160 000	5 492 088.00
Novo Nordisk A/S-B	DKK	220 000	6 056 103.90
<b>Total Danish shares</b>		<b>808 000</b>	<b>20 250 593.79</b>
<b>Norwegian shares</b>			
Norsk Hydro Asa	NOK	150 000	6 401 733.75
Norske Skogindustrier ASA	NOK	440 000	5 926 844.00
Statoil Ag	NOK	325 000	2 613 268.13
Storebrand ASA	NOK	400 000	1 429 480.00
<b>Total Norwegian shares</b>		<b>1 315 000</b>	<b>16 371 325.88</b>
<b>Swedish shares</b>			
ABB Ltd	SEK	270 000	734 554.98
Alfa Laval AB	SEK	450 000	3 441 690.00
Assa Abloy AB-B	SEK	430 000	4 674 689.10
Astra Zeneca Plc (Stockholm)	SEK	230 000	7 689 718.80
Atlas Copco Ab Serie A	SEK	300 000	5 572 260.00
Electrolux B	SEK	470 000	7 060 927.50
Ericsson Ab LM b	SEK	4 200 000	2 799 241.20
Europolitan Holdings AB	SEK	550 000	2 463 813.00
Foreningssparbanken AB	SEK	670 000	7 540 032.60
Hennes & Mauritz Ab B	SEK	520 000	9 544 953.60
Intrum Justitia	SEK	45 000	199 126.35
Investor AB-B	SEK	1 200 000	6 817 824.00
Sandvik Ab	SEK	160 000	3 400 171.20
Svenska Cellulosa AB-B	SEK	240 000	7 709 385.60
SE-Banken A	SEK	850 000	6 733 147.50
Securitas Ab B	SEK	220 000	2 499 868.80
Svenska Handelsbanken A	SEK	710 000	8 998 653.60
Skandia Försäkrings AB	SEK	2 050 000	5 196 405.60
Skanska AB	SEK	700 000	3 900 582.00
SKF Ab Serie B	SEK	300 000	7 407 828.00
Tele2 AB	SEK	190 000	4 785 041.70
TeliaSonera AB (SEK)	SEK	1 400 000	5 017 219.20
Volvo Ab B	SEK	360 000	5 585 371.20
Pharmacia Corporation/sold in July	SEK		
<b>Total Swedish shares</b>		<b>16 515 000</b>	<b>119 772 505.53</b>
<b>British shares</b>			
B Sky B Corporation	GBP	24 000	235 757.26
BT Group Plc	GBP	120 000	359 723.52
GlaxoSmithKline Ord	GBP	56000	1026165.15
Hays Plc	GBP	100 000	142 582.72
Invensys plc	GBP	300 000	243 274.56
Royal Bank Of Scotland	GBP	60 000	1 372 483.58

Name and series of security	Foreign currency	Number	Market value (EUR)
Tesco plc	GBP	260 000	775 404.03
Vodafone Group Plc	GBP	500 000	870 484.80
<b>Other European shares</b>		<b>1 420 000</b>	<b>5 025 875.62</b>
<b>Fund holdings</b>			
BGI UK Index Sub Fund	GBP	1 849 033	37 426 955.08
		<b>1 849 033</b>	<b>37 426 955.08</b>
<b>Fund holdings</b>			
JPMF Japanese Equity Fund	USD	1 321 432	20 312 250.02
Abn Amro Multi Strategy Fund	USD	17 306	1 855 847.57
BGI US Index Sub Fund	USD	4 158 969	58 626 810.88
Credit Suisse IndexMatch (Lu)	USD	18 527	11 766 229.28
JPMF America Micro Cap Fund	USD	238 510	13 095 605.68
Fidelity Asian Special Situa	USD	3 585 952	26 568 899.91
JPMF Asia Equity Fund	USD	1 384 633	25 033 460.58
		<b>10 725 329</b>	<b>157 259 103.92</b>

<b>Total holdings in share funds</b>		<b>457 942 171.00</b>	<b>513 914 279.04</b>
<b>Total shares</b>		<b>69 061 389.00</b>	<b>549 872 780.22</b>
<b>Holdings in interest-bearing funds</b>		<b>296 943 832.19</b>	<b>324 401 449.71</b>
<b>Total capital funds</b>		<b>150 000.00</b>	<b>150 000.00</b>
<b>Sum total</b>		<b>824 097 392.19</b>	<b>1 388 338 508.97</b>

## Recording of shares and holdings in bookkeeping and financial statements

The investment of pension funds by the State Pension Fund is long-term in nature; with the intention of securing the payment of future pensions, for which reason the shares and holdings of the State Pension Fund are presented in the bookkeeping in the assets group "Fixed assets and other long-term investments".

The purchases of shares and holdings, including holdings in funds, have been entered in the bookkeeping at the cost of acquisition. In the sale of shares the mathematical average price is used as the acquisition value for calculating profit/loss on the sales, where the acquisition value is determined in such a way that the sum of the actual acquisition costs of the shares held by the fund at the time of sale is divided by the number of shares held. Shares and holdings are shown in the financial statements at the acquisition costs.

## **Recording of securities under current assets in the financial statements**

Securities under current assets are recorded in the financial statements at their acquisition cost. Changes in value as a result of variations in interest rate are not recorded.

## **The State Pension Fund does not have the required information for the following Appendixes:**

**Appendix 9:** National heritage items held that are not recorded in the balance sheet

**Appendix 10:** Clarification of the supplements to the bookkeeping in the financial statements in the manner prescribed under 42 f § Clause 2 of the budget statutes

**Appendix 11:** Breakdown of the appropriations transferred to the following financial administration year

**Appendix 12:** Authorisations granted in the budget, their use and the expenses incurred by their use

**Appendix 13:** Matching calculation of the financial statements

## Appendix 14:

### CHANGES IN THE EQUITY OF THE STATE PENSION FUND

EQUITY	2002	2001
<b>Fund equity 1.1.</b>	-9 738 080 942.13	-8 908 914 464.67
Equity capital	740 026 876.43	740 026 876.43
Transfers to budget in previous periods	-10 478 107 818.56	-9 648 941 341.10
Transfers to budget in this period	-881 353 234.00	-829 166 477.46
<b>Fund equity 31.12.</b>	<b>-10 619 434 176.13</b>	<b>-9 738 080 942.13</b>
<b>Change in the equity of previous periods 1.1.</b>		
Transfer at the opening of the account (Surplus for period)	1 506 703 047.37	1 408 616 957.75
Surplus from previous periods	12 745 376 757.72	11 336 759 799.91
<b>Change in the equity of previous periods 31.12.</b>	<b>14 252 079 805.09</b>	<b>12 745 376 757.66</b>
<b>Surplus for the period 1.1.</b>	1 506 703 047.37	1 408 616 957.75
Transfer at the opening of the accounts	-1 506 703 047.37	-1 408 616 957.75
Transfer of surplus for the period to the balance sheet	1 558 573 339.75	1 506 703 047.41
<b>Surplus for the period 31.12.</b>	<b>1 558 573 339.75</b>	<b>1 506 703 047.41</b>
<b>Total fund equity 31.12.</b>	<b>5 191 218 968.71</b>	<b>4 513 998 862.95</b>

The equity capital of the fund was transferred from the State budget in 1990. Transfers to the budget are transfers made from the fund to the State budget from 1991 onwards.

**The State Pension Fund does not have the required information for the following Appendixes:**

**Appendix 15:** Finance outside the budget to be recorded in the statement of earnings and expenses

**Appendix 16:** Funded reserves included in the balance sheet

**Appendix 17:** Funded reserves, trust funds and associations administered by the accounts office not included in the balance sheet

**Appendix 18:** Accountings of estimated appropriations and their grounds

## Appendix 19:

### Other possible appendices required by the requirement of correct and adequate data

The long-term investments made by the State Pension Fund in shares and fund holdings and in bonds and other money market instruments are shown in the Balance Sheet under long-term investments. The Balance Sheet indicates the manner of presentation of investments.

The items relating to investment activity in the statement of earnings and expenses are the following:

	<b>31.12.2002</b>	<b>31.12.2001</b>
Profits from sale of shares	11.754.312.50	2.195.333.55
Losses from sale of shares	-770.834.05	-595.639.95
Interest income *)	152.840.310.82	210.898.204.05
Dividends	12.389.433.94	5.803.807.12
Other earnings from financing	2.502.718.32	155.047.86
Other financing expenses	-633.873.83	0.00
Total	178.082.067.70	218.456.752.63

No revaluation or depreciation entries have been made to the costs of acquisition of investments entered in the Balance Sheet. The difference between the cost of acquisition and par value of the State Pension Fund's bonds is periodised and entered as an adjustment to interest income.

#### \*) Interest income

The Finnish State has borrowed from the State Pension Fund. The interest on these assets is defined in accordance with the market loans of the State. The interest is calculated according to the market interest rate prevailing on the due date of the interest. The interest due on each of the Fund's loans is determined using the current market interest rate on the State serial bond of a corresponding duration with the closest due time. This can be obtained from the principal market guarantors on the date when the interest on the Fund's loan is paid.

In 2001, the interest on one in three bonds lent to the Finnish State (Finnish State variable-interest bond falling due on 21st January 2004) has been incorrect in the bookkeeping. The overestimated interest affected the 2001 financial statements in that interest income was EUR 20,831,756.57 too high. The 2002 interest income in the bookkeeping is corresponding EUR 20,831,756.57 too low. The actual 2002 interest income is EUR 173,672,067.39.

### 3.3 Examination of the financial statements

#### 3.3.1 Statement of income

##### The State Pension Fund revenues in 2002

The State Pension Fund's revenues consisted of, as previously, the pension contributions paid by employers and employees under the State Employees' Pension Scheme, transition payments, interest income and earnings from investment activities. In 2002, there were 1027 employers within the State Employees' Pension Scheme paying pension contributions to the fund monthly. The revenues of the Pension Fund are itemised in the statement of earnings and expenses.

#### INCOME OF THE STATE PENSION FUND

	<b>2002 EUR millions</b>	<b>2001 EUR millions</b>
Pension contributions	1 284.97	1 186.01
Employee's unemployment insurance contributions	0.73	6.69
Transition payments	95.91	96.21
Interest and dividend income	167.73	216.86
Loan repayments	353.20	773.66
<b>TOTAL</b>	<b>1 902.54</b>	<b>2 279.43</b>

### 3.3.2 Balance sheet

In accordance with the State Pension Fund Act, until the end of 2000 it was possible to transfer assets of the fund for covering the State budget to a maximum amount equivalent to 3/4 of the annual pension expenses of the State Employees' Pension Scheme. The State Pension Fund Act was amended at the beginning of 2000 and the amount transferable to State reserves in the years 2001 - 2005 was decreased to a maximum of one third and for 2006 to a maximum of one half of the annual pension expenses for the pensions of State employees.

At the end of 2002, the market value of the Pension Fund's assets totalled EUR 4.8 billion (EUR 4.4 billion in 2001). Interest income and dividends for 2002 totalled EUR 167.7 million (EUR 216.9 million in 2001). The securities of the fund under current assets are valued in the financial statements at the acquisition cost.

<b>STATE PENSION FUND INVESTMENTS in 2002 and 2001 (cost of acquisition)</b>		
	<b>2002 EUR billions</b>	<b>2001 EUR billions</b>
<b>Loan receivables from the state</b>	437.29	790.48
Bonds	<b>2 377.0</b>	2 304.99
Money market + cash	518.46	99.90
Interest-bearing funds	301.0	256.01
<b>Total interest-bearing investments</b>	<b>3 633.75</b>	<b>3 451.38</b>
Investments in shares	686.77	338.87
Holdings in share funds	694.56	354.07
<b>Total investments and holdings in shares</b>	<b>1381.33</b>	<b>692.94</b>
<b>TOTAL</b>	<b>5 015.08</b>	<b>4 144.32</b>

### **3. SUPERVISION OF THE STATE PENSION FUND**

The Board of Directors of the fund determines the principles of the investment activity, supervises that the investment activities are carried out in accordance with the confirmed principles, and is responsible for the Pension Fund.

According to the State Pension Fund Act, the Fund is also administered by the State Treasury. The tasks connected with the State Pension Fund in the State Treasury are inspected through internal inspection. The administration of the Fund is regulated by the procedures of the Fund itself and by the procedures and financial regulations of the State Treasury.

The Ministry of Finance appoints two auditors to audit the fund's operations, finances and accounts annually. The amendments to the Act that came into effect at the beginning of 2000 unified the supervision of the Fund with the practices of the pension companies and ordained that the investment activity also be supervised by the Insurance Supervision Office. The activities of the Fund are also supervised by the State Audit Office.

#### 4. SIGNATURES

The minutes of the final accounts have been approved in Helsinki, 28th February 2003.

Board of Directors

\_\_\_\_\_  
Teuvo Metsäpelto

\_\_\_\_\_  
Elina Selinheimo

\_\_\_\_\_  
Jukka Wuolijoki

\_\_\_\_\_  
Pertti Saarela

\_\_\_\_\_  
Pekka Hemmilä

\_\_\_\_\_  
Ilkka Alava

\_\_\_\_\_  
Matti Krats

The minutes of the final accounts have been properly prepared according to good bookkeeping practice.

A report on the audit of accounts has been given today.

Helsinki 20th March 2003.

\_\_\_\_\_  
Sirpa Eriksson  
KHT

\_\_\_\_\_  
Paula Pasanen  
KHT

(KHT: Auditor approved by the Central Chamber of Commerce).

#### 4. ALLEKIRJOITUKSET

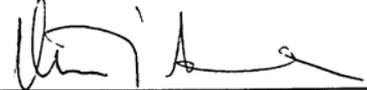
Tilinpäätös on hyväksytty Helsingissä 28. helmikuuta 2003

Johtokunta

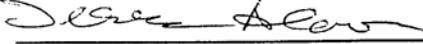
  
Teuvo Metsäpelto

  
Elina Selinheimo

  
Jukka Wuolijoki

  
Pertti Saarela

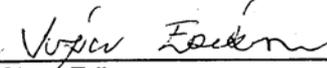
  
Pekka Hemmilä

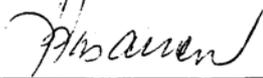
  
Ilkka Alava

  
Matti Krats

Tilinpäätös on laadittu hyvän kirjanpitotavan mukaisesti.  
Suoritetusta tilintarkastuksesta on tänään annettu kertomus.

Helsingissä 10. maaliskuuta 2003

  
Sirpa Eriksson  
KHT

  
Paula Pasanen  
KHT