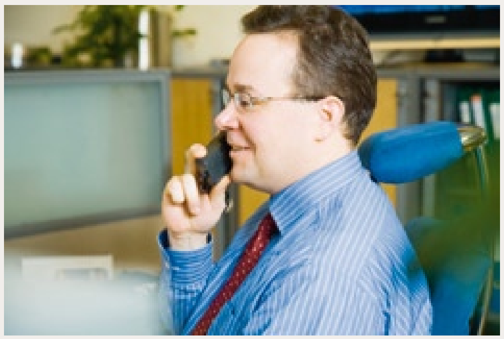
VER

VALTION ELÄKERAHASTO
STATENS PENSIONSFOND
THE STATE PENSION FUND

2008

Annual Report 2008



Contents

A professional in pension investing

The State Pension Fund

The State Pension Fund (VER) is a fund established in 1990, whose proceeds the State uses to prepare for the financing of future pension liabilities and balancing of pension costs. VER is an investment organisation with the task of managing and investing the assets allocated to it by the State. The market value of VER's investment portfolio was EUR 10.4 billion at year-end 2008.

Employers and employees covered by the State Pension Scheme make pension contributions to the State Pension Fund. All State pensions are paid out from appropriations reserved for that purpose in the national budget. The State Treasury handles pension matters on the State's behalf.

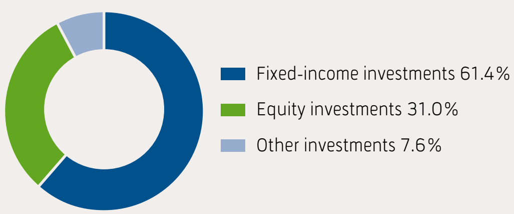
Mission

The State Pension Fund manages the assets entrusted to it in the long term. VER must ensure that its investments are secure, deliver a high return, can be converted into cash, and are appropriately diversified.

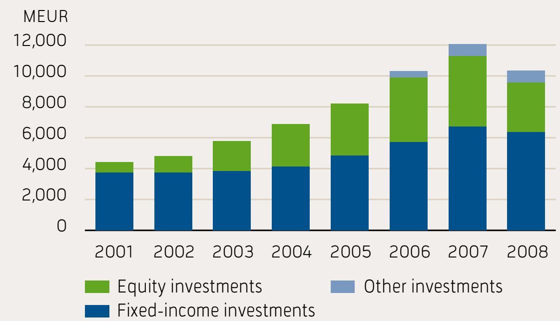
Vision

VER is a respected and successful pension investor, emphasising outstanding professional skills and ethics throughout its operations.

The State Pension Fund's investment portfolio breakdown on 31 December 2008



The trend in the VER's investments 2001–2008



Key Indicators 2004–2008

	2004	2005	2006	2007	2008
Total investments, MEUR	6,867	8,201	10,306	12,051	10,355
Fixed-income investments, MEUR	4,113	4,848	5,722	6,707	6,357
Fixed-income investments, %	60%	59%	56%	56%	61%
Equity investments, MEUR	2,754	3,353	4,163	4,584	3,212
Equity investments, %	40%	41%	40%	38%	31%
Other investments, MEUR			420	760	785
Other investments, %			4%	6%	8%
Income from investment operations, %					
Return on investments	9.6	14.9	7.0	1.8	-15.8
Fixed-income investments	7.0	5.4	0.1	1.8	4.4
Equity investments	14.4	30.8	17.4	0.7	-42.8
Other investments			6.7	9.5	-11.2
Operating expenses (% of average capital)	0.05	0.05	0.04	0.04	0.04
Personnel	13	15	14	16	18
Income from pension premiums, MEUR	1,380	1,462	1,491	1,542	1,597
Net premiums, MEUR	431	296	1,496	1,544	271
Transfer to state budget, MEUR	952	1,175	0.1	3.5	1,331
Balance sheet total, MEUR	6,620	7,337	9,185	11,165	11,503
Pension provision, MEUR	56,300	57,600	79,300	82,700	85,600
Funding rate, % [1]	12%	14%	13%	15%	12%

[1] Investments/pension provisions

News 2008

From financial crisis to economic crisis

In 2008, the financial markets were dominated by one thing above all others: the financial crisis. Its seeds were sown years ago with an excessively slack monetary policy. The crisis reached a peak of sorts in the autumn of 2008, when Lehman Brothers filed for bankruptcy. Mutual trust between banks plummeted and, as a consequence, inter-bank lending came to an almost complete halt and the entire Western financial system was close to collapsing.

Various countries' governments and the main central banks had to take swift action to stop the global market from becoming completely paralysed. Governments assisted financial institutions with capital and guarantees for their funding, and, coupled with the central banks' concerted interest-rate reductions. This helped to stabilise the market nearing the end of the year. Going forward, it will be essential for banks to improve their solvency and maintaining confidence.

Growing significance of state funds and governments

In recent years, government investors have increased in significance. Globally, the value of state-managed funds is approx. USD 3 trillion, and this figure is expected to grow in the near future. Most of these institutional investors have seen growth thanks to raw material and foreign exchange income; some were established to fund pension systems. Most state funds do their best to diversify their investments globally. The largest state-managed funds are in the Middle East, Norway, China, and Singapore.

The global financial crisis has forced governments to take drastic financing action. State participation in reinforcing the financial sector's capital has become particularly necessary. Thus the importance of state participation in the economy and the investment market can only be expected to grow in the next few years.

Success in fixed-income investments

The global financial crisis of 2008 was one of the most serious emergencies the financial markets have seen in the last century. The true nature and depth of this crisis will be measurable only in hindsight. In view of these circumstances, the State Pension Fund (VER) did fairly well in 2008.

2008 was characterised by a global financial crisis. The main challenges of the year were related to the continuity of the financial system as a whole. The breakdown of the financial system in the autumn of 2008 can be considered the most pivotal event of the last few decades, and one of the most significant events of the last century.

VER aimed to keep the risk level of its portfolio lower than before. At its lowest, the proportion of equity investments fell below 30 per cent. Despite this, the return on investments was -15.8 per cent. This return may be unsatisfactory, but it was fair in view of the circumstances.

Because of the financial crisis, the environment for pension investments was difficult. The trough was seen in September and October 2008, when counterparty risk was at its highest in the financial market. Perhaps the single most momentous event of 2008 was the collapse of the Lehman Brothers investment bank in mid-September. This crux drove investors and financiers to transfer their funds to safer havens with low risk. At the same time, central banks and governments around the world started taking forceful measures to stabilise the market and the financial sector. They managed to reinstate some level of trust in the market and the banking system, but economic prospects continued to deteriorate toward the end of the year.

The climate for pension investing was difficult and unstable. At the peak of the global financial crisis, it became evident that the regulations governing Finland's pension institutions would have to be modified. In late autumn, the Finnish Parliament approved a legislative amendment that temporarily altered the solvency requirements for these institutions. This improved the solvency figures of Finnish pension institutions. Another major event related to pension investments in 2008 was the reawakening of TyEL (employee pension contribution) relending. Indeed, relending within the system is still expected to grow by a further several billion euros. In today's challenging corporate lending climate, this relending system has offered businesses a low-risk funding opportunity.

Considering the circumstances, the structure of VER's investment portfolio was well-chosen. Fixed-income investments accounted for more than 60 per cent of the portfolio; their yield was 4.4 per cent. The proportion of equity investments was kept, on average, four per cent below neutral level in 2008, and this single measure accounted for more than two per cent of VER's total return.

The liquidity of VER's portfolio was excellent, meaning that cash convertibility was maintained at a high level. Despite the poor market conditions, share trading volumes remained high throughout the crisis.

I wish to thank VER's staff for making fruitful investment decisions even in difficult times. One example of their competence was the fact that the risk of the fixed-income portfolio remained fairly low. At VER we do our best to gain assurance of the creditworthiness of our counterparties.

Thanks are due also to central bankers and government decision-makers for their decisiveness in managing the financial crisis. I wish them all the best in resolving the new economic and funding issues that will doubtless arise in 2009. There are no hocus-pocus tricks for solving a financial crisis; it requires several hundred individual actions that are aimed at bringing increasing light to the future while gradually regaining the trust and faith of individuals and businesses alike.

I hope that all parties in the financial market will continue to have faith in each other and in the future.

Timo Löyttyniemi
Managing Director
State Pension Fund

The State Pension Fund kept the risk level of its portfolio lower than before. At its lowest, the proportion of equity investments fell below 30 per cent.

Economic climate shaken by alternations in financial markets and economies

For the financial markets, 2008 was a historic year due to overwhelming market events. The equity, credit, and commodities markets were close to collapse, and the volatility of all these markets was unparalleled. In the second half of the year, the financial crisis turned into a real economic crisis. One critical moment was the bankruptcy of investment bank Lehman Brothers in September 2008. This caused escalation in the financial market crisis to the point that the financial system of the whole Western world was in jeopardy. The situation was stabilised thanks to swift actions by the authorities, the most drastic of these actions being the USD 700 billion bail-out package for financial institutions approved by the United States Congress in October and measures by European states to support banks' solvency and liquidity.

The first half of the year was characterised by worries of stagflation, as the price of oil rose to USD 150 per barrel. At the end of the summer, oil prices took a sharp downward turn, as the weakened economy reduced demand. Toward the end of the year, the risk of deflation loomed in poor economic figures.

Economic growth was satisfactory in early 2008, but the world economy slowed down significantly in the third quarter. The euro area and Japan met the criteria for a recession as their gross domestic products were seen to shrink for two consecutive quarters. In the United States, a state of recession had already been announced in December 2007. The growth of developing countries slowed significantly from its peak. The downturn was surprisingly swift, causing an exceptionally steep and extensive fall.

VER's investment portfolio

At the end of 2008, the market value of VER's portfolio was EUR 10.4 billion (EUR 12.1 billion in 2007). At year end, 61.4 per cent of investments were in fixed-income instruments, 31.0 per cent in equities, and 7.6 per cent in other investments.

The total return of the investment portfolio for 2008 was -15.8 per cent (+1.8 per cent). This return is calculated in accordance with the international GIPS standard, from which operating expenses of EUR 4.7 million (EUR 4.0 million) have been deducted.

VER's shareholder policy

According to the principles of its shareholder policy, VER operates as an independent portfolio investor. Since the Fund is a long-term investor and major shareholder in a number of companies, it best promotes the successful performance of its portfolio companies by acting as a responsible shareholder. The companies must ensure the increasing value of their shares in the long term.

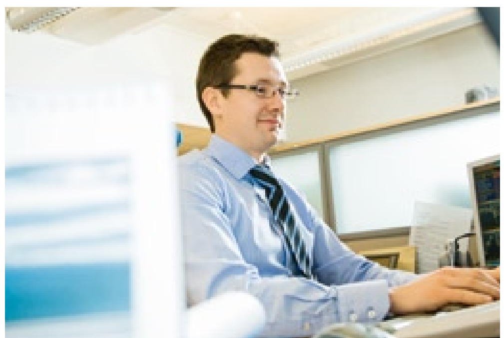
VER monitors the companies in its portfolio and their success, in order to take a stand on their activities and on the principal resolutions brought before General Meetings.

To the extent it deems appropriate, VER may contact other institutional investors to discuss matters related to resolutions at individual companies' general meetings or other matters of general importance. VER personnel are not involved in the management of listed companies in which the fund has holdings.

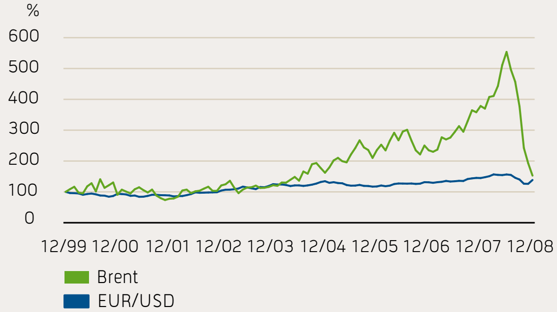
Corporate social responsibility

VER's investment operations take into account the principles of sustainable development.

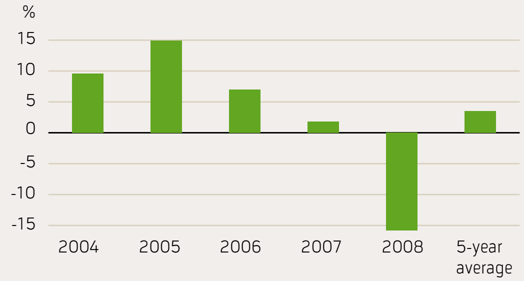
When selecting potential investment targets, VER uses sustainable development indices as a basis for comparison. The primary factor in VER's investments is the investment targets' expected returns, but between any two companies equal in this respect, the one selected for the portfolio will be the one represented in any sustainable development index.



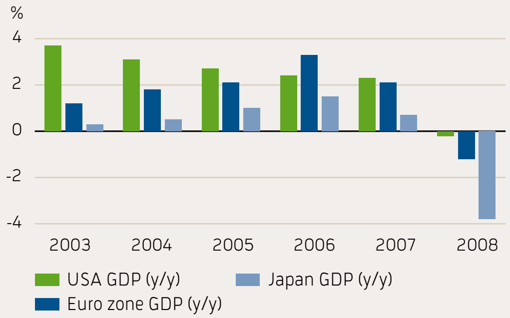
Trend in the Brent and euro/dollar exchange rate (31 December 1999 = 100)



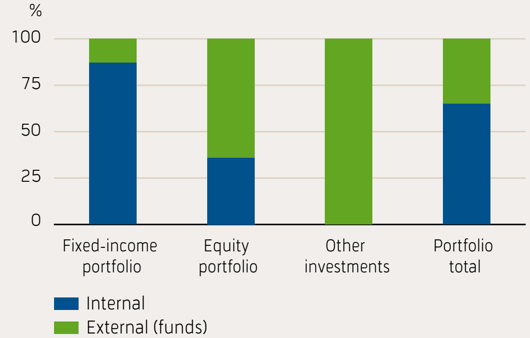
VER's investment portfolio return



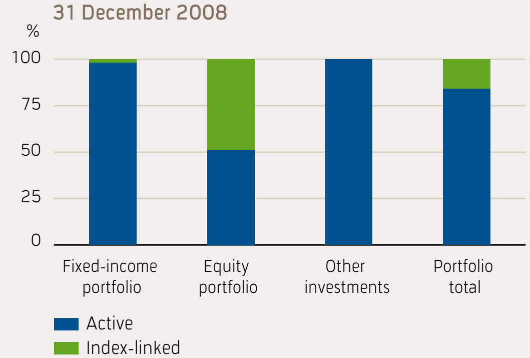
GDP trend in the United States, euro zone and Japan



External and internal portfolio management, 31 December 2008



Active, index-linked portfolio management, 31 December 2008



Toward the end of the year, the risk of deflation loomed in poor economic figures.

Also, VER applies social responsibility principles to its investments, avoiding direct investments in companies that derive a substantial share of their turnover from the alcohol, tobacco, firearms, pornography or gambling industry. The same applies to countries and enterprises that do not respect human rights or the fundamental rights confirmed by the International Labour Organization (ILO).

Risk management

The identification, assessment, limitation, and control of risks are key factors in investment operations. It is the task of risk management to ensure that any risks realised do not cause substantial financial losses, endanger the continuity of operations, or weaken the confidence of interest groups. The main risks in investment operations are as follows:

Interest rate risk is associated with changes in the market values of bonds as the interest rate level varies. The longer the maturity period, the greater the risk of interest rate fluctuations during the investment period.

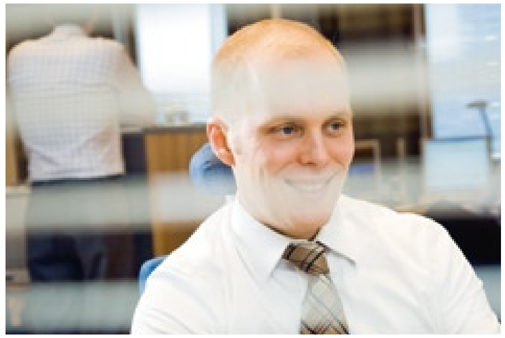
Credit risk is associated with an investment in the case of bankruptcy of the counterparty.

Liquidity risk refers to the minimum transaction costs involved in entering and exiting the market.

Foreign exchange risk is involved when investments are made in commitments denominated in currencies other than the euro.

The comprehensive risk management plan applied by VER specifies the most important operational risks, the risk management objectives, limits of risk exposure, responsibilities, indicators, and control principles. In setting the limits for risk exposure, VER's risk-taking and risk-bearing capacity are taken into account. The risk management plan also takes into consideration outsourced operations.

A risk survey was carried out jointly with PriceWaterhouseCoopers between 2004 and 2008.



VER's fixed-income portfolio yields 4.4 per cent

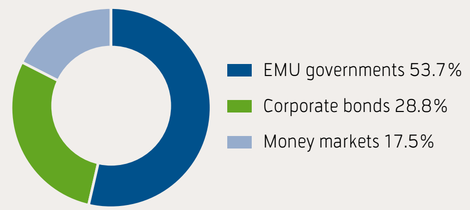
Interest rates fluctuated in the euro area at the beginning of the year. Interest rate rises in the first two quarters were largely fuelled by escalating raw material prices and consequent stagflation worries. In the third quarter, interest rates took a downward trend, with the weakening global economy and expectations of interest rate cuts by central banks. While interest rate curves had rounded out before, at the end of the year they took a sharp fall. In the final quarter, the interest rate differences between EMU states stretched significantly. Risk premiums grew in all fixed-income categories.

In 2008, VER's fixed-income portfolio yielded a return of 4.4 per cent (1.8 per cent in 2007). The portfolio was characterised by lower duration in the first half of the year, but was raised above the index duration in the second half. Corporate and sovereign bonds were over-weighted in the allocation, while money market investments were under-weighted in relation to neutral.

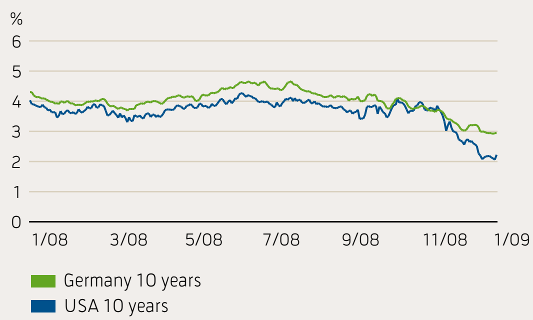
The market value of VER's fixed-income portfolio was EUR 6.4 billion (EUR 6.7 billion in 2007).

Principally, VER makes its own direct-income investments in sovereign bonds, investment-grade corporate bonds, and money market instruments, while other investments are made through mutual funds. Direct investments accounted for approximately 87 per cent of the aggregate fixed-income portfolio at year-end, while direct fixed-income investments comprised 219 commitments, and fund units were held in 16 funds.

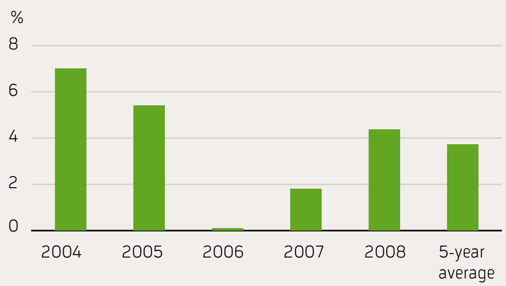
Fixed-income investments by sector on 31 December 2008



Interest rate trends



Return of fixed-income investments



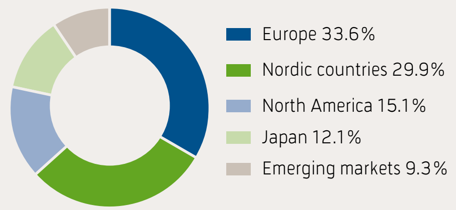
Financial crisis buffeted the world's stock markets

2008 will go down in history as one of the worst years of all time in the stock markets. Overall, share prices fell throughout the year, with the exception of some isolated months. The subprime crisis that began in 2007 grew into a full-scale global financial crisis; the collapse of Lehman Brothers in the autumn of 2008 had a particularly strong aftermath, which threatened the continuity of the financial system as a whole. Central banks and governments had to take swift, unprecedented action to keep the banking sector alive. This was not enough to stabilise the stock market, however, and it continued to fall in the final months of the year. At the end of 2008, it seemed clear that the global economy was headed for a particularly deep recession.

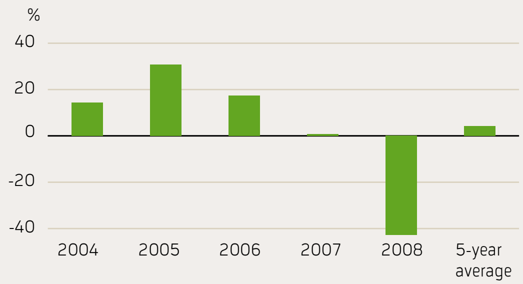
VER's stock portfolio, consisting of listed stocks and funds, yielded -42.8 per cent in 2008 (+0.7 per cent growth in 2007). The last quarter saw a particularly sharp decline in the global stock markets. The greatest fall was in the developing markets – especially China and Russia – but other markets, including the Nordic countries, saw exceptionally large declines as well. In VER's overall allocation, equity investments were kept below the norm for the whole year. At year end, they accounted for 31 per cent of the portfolio.

VER strove to keep the equity portfolio's risk lower than the market risk throughout the year, achieving a beta value of 0.89 for the portfolio for 2008. At the end of the year, around 65 per cent of VER's equity portfolio consisted of investment through funds and 35 per cent managed as direct investments. At that time, VER had direct equity investments in 146 companies and holdings in 54 funds.

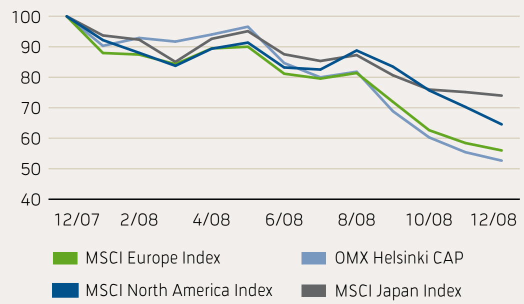
Equity portfolio breakdown by country on 31 December 2008



Return on equity investments



Trends in equity markets in 2008



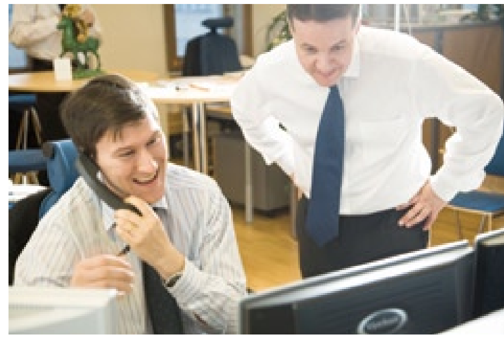
The greatest fall was in the developing markets – especially China and Russia – but other markets, including the Nordic countries, saw a greater decline than expected.

Major Nordic equity investments on 31 December 2008

	MEUR
Fortum Corporation	75,388,500
Nokia Corporation	68,820,000
Sampo Corporation A	64,611,200
UPM-Kymmene Corporation	45,000,000
TeliaSonera AB	40,452,451
Nordea Bank AB	34,928,164
Stora Enso Corporation R	30,360,000
Hennes & Mauritz AB B	29,400,456
Kone Corporation B	28,730,500
Elisa Corporation	26,445,000

Major mutual fund investments on 31 December 2008

	MEUR
Vanguard European Stock Index Fund	237,271,546
Vanguard Japan Stock Index Fund	226,816,060
Danske North America Enhanced Index	125,441,046
Vanguard Emerging Markets Stock Index Fund	123,436,752
BGI Europe ex -UK Index Sub-Fund	110,920,666
iShares DJ EURO STOXX 50 ETF	103,074,000
SPDR Trust Series I ETF	95,721,340
Danske Europe Enhanced Index	91,756,485
BGI Japan Index Sub-Fund	68,662,678
BGI US Index Sub-Fund	66,830,778



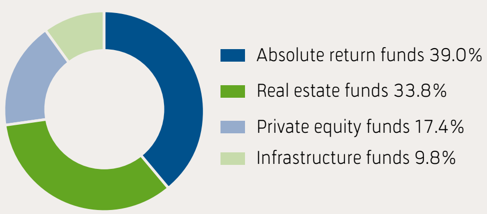
Financial crisis weakens return on other investments

The other investments of VER comprise investments in real estate, private equity and infrastructure funds, and absolute return funds. In 2008, VER decided to extend its investments to objects outside Europe, and the first investment commitment for an Asian real estate fund of fund was made in the autumn. In Europe, VER continued surveying new opportunities and made investment commitments in every category, even though investment activities slowed down in the latter part of the year on account of the advancing financial crisis. The proportion of other investments in VER's portfolio rose from 6.3 per cent at the beginning of the year to 7.6 per cent at the end, partly as a result of new investments and partly because of the decline of the stock market.

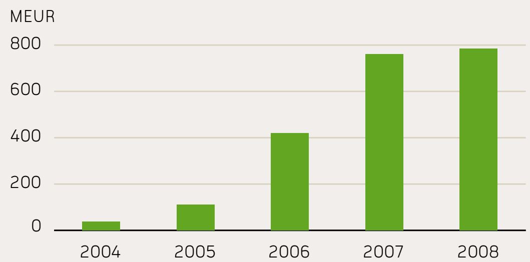
The market value of the portfolio at the end of the year was EUR 785 million, while the amount of open investment commitments was EUR 317 million. Of the total amount of invested assets, indirect real estate investments accounted for 33 per cent and listed real estate investments for 1 per cent. Private equity investments accounted for 17 per cent, infrastructure funds for 10 per cent, and absolute return funds for 39 per cent of invested assets. In the autumn, VER decided to reduce the proportion of absolute return funds in its portfolio.

Other investments yielded a total return of -11.2 per cent (+9.5 per cent in 2007). Absolute return funds had a yield of -18.1 per cent, real estate funds -7.4 per cent, private equity funds -4.7 per cent, and infrastructure funds -6.6 per cent.

Breakdown of other investments on 31 December 2008



Market value of other investments 2004–2008



Target of funding 25 per cent of the State's pension liability

The State Pension Fund is external to the State budget, VER having been established to guarantee the payment of State pensions in the future and to balance the costs arising from that. Accordingly, VER is accumulating assets for the purpose of balancing the cost burden of pensions payable to the baby boom generation in the peak years through to the controlled dissolution of the Fund.

The Fund's operations are governed by specific legislation. Moreover, the Fund has a Board of Directors appointed by the Ministry of Finance that decides on the Fund's investment principles and is responsible for its operations.

VER does not pay pensions out of its own assets; the State Treasury pays State pensions from appropriations made in the State budget. An amount corresponding to 40 per cent of the State's pension costs is transferred each year from VER to the budget.

VER's capital is expected to grow in the next few years. At the end of 2008, the Fund's capital at market value stood at EUR 10.4 billion. Funds will be accumulated until VER's capital corresponds to 25 per cent of the State's pension liability; after the funding target is reached, the use of assets shall be regulated separately.

Diversification of investments

VER ensures that its investments are secure, deliver a high return, can be converted into cash, and are appropriately diversified.

The Fund's goal is to be a respected and successful pension investor, emphasising outstanding professional skills and ethics in all aspects of its operations. Correspondingly, the Fund seeks to clarify and develop its corporate image as an independent portfolio investor.

Investment in the long term

Since no insolvency requirement is placed on the Fund, the characteristics of its investment operations are determined by the expected return and the choice of risk level.

The return and profit targets set for the Fund in the operation guideline issued by the Ministry of Finance are as follows:

1) Long-term target return:

In the long term, the State Pension Fund's investment activities must produce a higher return than an investment alternative that would be risk-free from the State's point of view. A risk-free alternative refers to the cost of the State's net debt, including the cost of derivative contracts made as part of debt management. Net debt refers to the difference between the State's budgeted debt and cash reserves.

2) Operational target return:

The return on the State Pension Fund's investment activities, when adjusted for risk, must exceed the return of the reference index specified in the Fund's investment plan.

Neutral basic allocation

The risk limits relative to the value of VER's investment portfolio set by the operation guideline issued on 13 November 2007 by the Ministry of Finance are as follows:

- fixed-income investments must account for at least 45 per cent
- equity investments may not exceed 45 per cent
- other investments may not exceed 12 per cent

VER's annual investment plan, approved by the Board of Directors, defines a neutral basic allocation for the investment portfolio, according to which investments are allocated for different investment categories. Here, the goal is to create a portfolio that

Fixed-income portfolio benchmark indices:	Weight
Effas EMU Government	35.0%
Barcap EMU HICP Linked	15.0%
JP Morgan Cash Index	25.0%
Barcap Euro Aggregate ex Treasuries	25.0%

Equity portfolio benchmark indices:	Weight
OMX Helsinki Cap	21.0%
OMX Stockholm Benchmark Cap	9.0%
MSCI Europe	24.5%
MSCI Europe Value	10.5%
MSCI North America	15.0%
MSCI Japan	10.0%
MSCI AC Far East Free ex Japan	5.0%
MSCI Emerging Markets	5.0%

yields the best possible return in the long run at the risk level set by the Board.

Neutral basic allocation refers to an index-linked and feasible distribution of investments. It is continuously monitored and changed according to need. The neutral basic allocation guides investment operations in the long term.

Co-operation networks

The staff of VER aims to create a solidly functioning co-operation network that supports the Fund's operations. This network includes the management of companies in which VER invests, public authorities, Finnish and foreign providers of investor and brokerage services, and other European pension investors.

The strong confidence of external parties in VER's stability aids in obtaining reliable expert services. Indeed, the reputation of VER as a professional partner generates economic benefits, giving it a stronger position in negotiating investment service prices. This good reputation also helps in meeting the Fund's recruitment needs.

Buffer fund operating model

VER is a so-called buffer fund, which means that, unlike TEL (EPA) pension companies, it does not have any pension liabilities to be individually covered. Therefore, VER is not subject to regulations governing solvency.

As a long-term investor, VER applies an investment policy that allows the return on investments to vary considerably over the short term. Investment decisions are made on the basis of the Fund's required return and the yield potential of prospective investments, taking risk levels into account. Risks are diversified through investment in various investment categories, markets, industries, instruments, and companies, as well as in bonds issued by different governments and of different maturities.

VER operates as an independent portfolio investor. It does not intervene or otherwise participate in the administration of the companies in which it has holdings, but this does not prevent discussions with the corporate management. Such direct contacts improve the expertise and competence of the Fund as an investor. VER representatives may attend companies' general meetings in order to protect shareholder interests, and the organisation has its own shareholder policy principles.

All instruments belonging to the investment portfolio can be bought and sold, and external advisers can be utilised in this process. The Fund's investments are always made on the basis of the best available information, knowledge, and understanding.

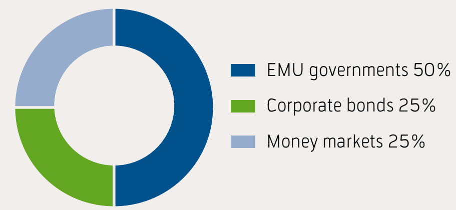
Overall assessment of operations

The success of investment activities is analysed on a long-term basis, chiefly by considering the portfolio from an overall perspective. The performance of fixed-income and equity portfolios, as well as other investment portfolios, is monitored separately.

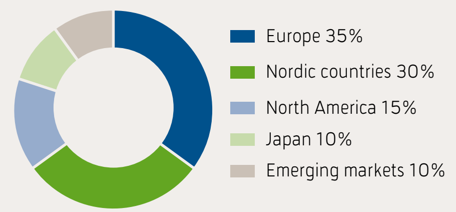
The international GIPS standard is applied for the calculation of the Fund's returns. This unifies the different methods of return and risk calculation and renders the figures comparable.

Clarity and transparency are emphasised throughout the Fund's operations. The responsibilities and roles of personnel responsible for investment activities are defined, improving the controllability of investment activities.

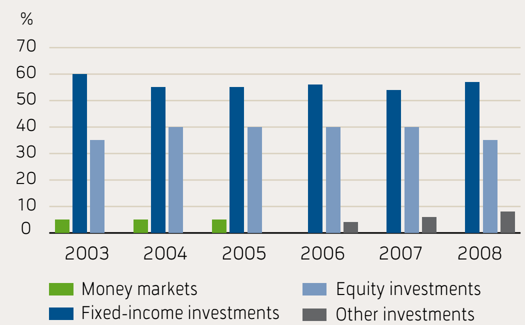
Neutral allocation of fixed-income investments at the end of 2008



Neutral allocation of equity investments at the end of 2008



Basic allocation of VER's portfolio



VER balances the financing of pension costs

The Finnish State uses the State Pension Fund to prepare for the financing of future pensions, particularly for balancing the upcoming pension costs of the baby boom generation.

The State Pension Scheme

In 2008, the State Pension Act covered roughly 190,000 people, of whom 130,000 were State employees. Decisions on the management of state pensions are made by the State Treasury. Pension payments of EUR 3.3 billion were made in 2008, to 312,000 eligible persons.

The State Pension Scheme as part of the Finnish employment pension scheme

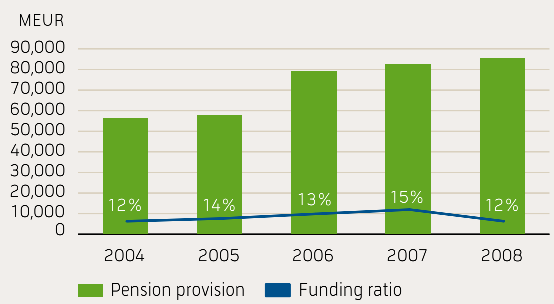
Since the pension reform that took effect at the beginning of 2005, the scheme has in most respects been similar to other employment pension schemes in Finland. Thanks to the revisions, state pension cover, originally slightly better than the cover under the Employees' Pension Act, is at a level corresponding to that seen in the municipal and private sectors. The pension reform also introduced a career model for State pensions according to which pensions are calculated on the basis of employment income and an accumulation percentage for each year. Pension is accumulated for work performed between the ages of 18 and 68, and an increased rate of accumulation, also known as super accumulation, encourages 63-year-olds to continue working. Integration of pensions was abolished, which means that the maximum pension accumulation limit of 60–66 per cent no longer exists. The pension reform also means that a life expectancy factor, which is used to prepare for increased life expectancy, will affect the amount of pension.

The State and the State Pension Fund

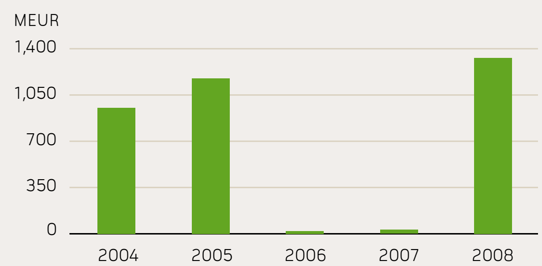
Through the State Pension Fund, the state prepares for financing pensions payable in the future, and for the year-to-year evening out of pension expenditure, which will increase in the next few years with the aging of the baby boom generation. The State will be responsible for paying the accrued pension amounts in the future.

Pension liability refers to the capital required to pay the pensions accumulated through employment within the scope of the State Pension Scheme by a certain time,

Pension liabilities and funding ratio



Assets transferred from VER to the State



The state aims for a 25 per cent funding rate in proportion to the pension liability.

including interest. The State's pension liability includes all paid-up pensions (pensions calculated for terminated employment), including paid-up pensions for people who have transferred from State employ to municipal or private employers, or whose employment with the State has ended on account of the incorporation of State entities.

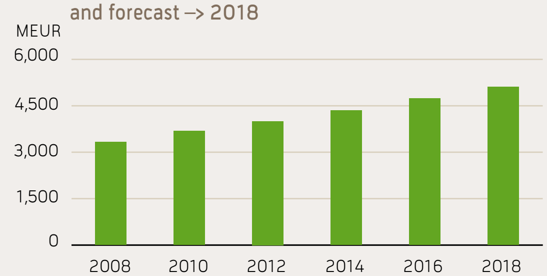
The state aims for a 25 per cent funding rate in proportion to the pension liability. The State Treasury is responsible for implementing the State Pension Scheme and calculating the amount of the State's pension liability. At the end of 2008, the state's pension liability stood at EUR 85.6 billion (EUR 82.7 billion at year-end 2007).

VER's investment activities are directed by a Board of Directors appointed by the Ministry of Finance, including representatives from the ministry as well as employee organisations. VER manages the assets entrusted to it and makes all investment decisions in accordance with the investment plan, authorisations, and limits confirmed by the Board of Directors.

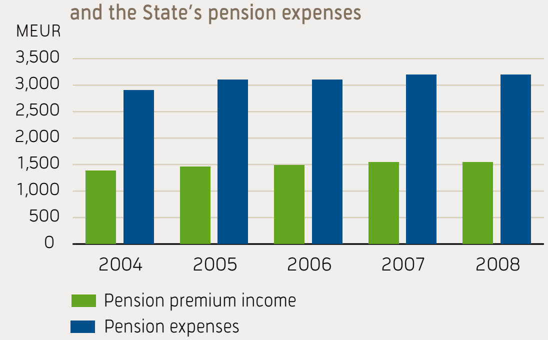
VER's assets can be transferred to the state budget, and the state has exercised this option every year. The transfer has been justified by the fact that, because all State pensions are paid from budget appropriations, some of the pension fund's assets can be used for payment of pensions.

The transfer of funds to the state budget is a crucial factor regulating VER's growth. The State Pension Fund Act specifies an amount for this transfer, which is 40 per cent of annual state pension expenditure. By the end of 2008, a total of almost EUR 16 billion in VER assets had been transferred to cover the state budget. In accordance with parliamentary decisions, the transfers of VER assets to the State budget were reduced substantially for 2006 and 2007, raising the funding of pensions above previous levels.

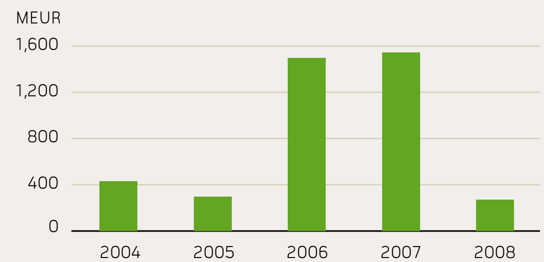
Trade in State pension expenses 2008 and forecast –> 2018



VER's pension premium income and the State's pension expenses



VER's net premium, 5 years



History of the State Pension Fund

1989
- The State Pension Fund is established within the State Treasury.
- The funding target is set for the year 2010.

1991
- Pension contributions from State offices, institutions and enterprises are directed to VER.

1993
- Pension contributions from State employees are directed to VER.
- Investment activities are expanded.
- The transfer of funds to the budget is restricted (to 3/4 of pension expenditure).
- A Board of Directors is appointed to bear responsibility for the Fund's investment activities.

1999
- Municipalities start to pay pension contributions for teachers to VER.

2000
- The budget transfer is reduced to 1/3 of annual pension expenditure until the end of 2006 (1/2 subsequent to this).
- The funding target is set at 1.5 times the total of State wages and salaries, a minimum of 20 per cent of the State pension liability, in 2010.
- Designated staff are hired for the Fund.
- Investment activities are extended to equity investments.

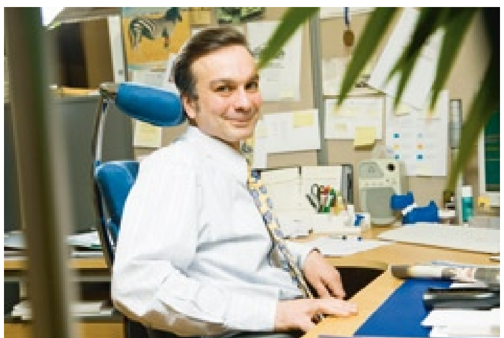
2003
- A Managing Director is appointed.

2005
- The funding target is set at 25 per cent of the State's pension liability.
- The annual transfer from VER to the State budget is prescribed as equalling 40 per cent of annual pension expenditure until the funding ratio is achieved. Subsequently, the amount of the transfer is to be specified annually in the State budget.

2006
- The role of the Ministry of Finance as VER's supervisor is defined more precisely, and the ministry is granted the right to issue general regulations concerning VER's administration, finances and investment policies.
- The tasks of the VER Board of Directors are set in law.
- The duties of VER's auditors are set in law.
- The transfer of VER assets to the State budget is reduced for 2006 and 2007.
- The Ministry of Finance issues its first operating guideline to VER in November.

2007
- In March and November 2007, the Ministry of Finance further specifies the operating guideline issued in 2006.

2008
- Global financial crisis.



VER's Organisation

Board of Directors

Chairman
Eino Keinänen, born 1939
Master of Political Science

The State Pension Fund is administered by the Board of Directors and the Managing Director, assisted by a management team. The Ministry of Finance appoints the Board of Directors that decides on the Fund's investment policies, this Board of Directors constituting seven ordinary and two expert members. There are six deputy members. Each member's term of office is three years. The Board of Directors convened 11 times in 2008.

The Board of Directors appoints a Consultative Committee of seven members for the Fund. The members are external investment and finance professionals. The Consultative Committee assesses the Fund's investment plan, monitors its realisation and reports to the Board of Directors. The Consultative Committee convened twice in 2008.

The VER's management team consists of the Managing Director and five other members, and convenes regularly.

Vice Chairman
Teuvo Metsäpelto, born 1949
Licentiate of Laws,
Director General, Office for the Government as Employer,
Ministry of Finance

Deputy member: **Veikko Liuksia**
Senior Adviser, Legal Affairs,
Office for the Government as Employer, Ministry of Finance

Tiina Astola, born 1953
Licentiate of Laws,
Permanent Secretary,
Ministry of Justice

Deputy member:
Marja-Leena Rinkineva
Senior Adviser, Legal Affairs
Ministry of Trade and Industry

Risto Kangas, born 1954
Comprehensive school teacher,
Director of Public Sector,
Negotiating Commission
Organisation of Public Sector Professionals JUKO

Deputy member:
Jarmo Pätäri, Lawyer,
AKAVA – Confederation of Unions for Academic Professionals

Pirjo Mäkinen, born 1955
Master of Science,
Human Resources Manager,
Trade Union for the Public and Welfare Sectors JHL

Deputy member: **Ilkka Alava**
Head of Research and Social Policy, Trade Union for the Public and Welfare Sectors JHL

Antti Palola, born 1959
Sea captain,
Chairman,
Confederation of Salaried Employees Pardia

Deputy member:
Seppo Väänänen
Director of Negotiations,
Confederation of Salaried Employees Pardia

Helena Tarkka, born 1955
Master of Political Science,
Associate in Laws,
Ministerial Counsellor,
Ministry of Finance,
Budget Department

Deputy member: **Raine Vairimaa**
Senior Adviser,
Ministry of Finance,
Budget Department

Experts

Pertti Saarela, born 1957
Master of Laws,
Director, Administration
Employers' Association
for Transport and Special
Services (VR Group)

Veikko Liuksia, born 1947
Master of Laws,
Senior Adviser, Legal Affairs,
Office for the Government
as Employer,
Ministry of Finance

Management Team

Tiina Tarma Legal Counsel
Timo Löyttyniemi Managing Director
Seija Kettunen Head of Administration
Jan Lundberg Head of Equities
Maarit Säynevirta Head of Other Investments
Jukka Järvinen Head of Fixed Income

Investment Consultative Committee

Chairman
Eva Liljeblom, Professor, The Swedish School of Economics and Business Administration

Vice Chairman
Paavo Prepula, Managing Director, Prestart Oy

Liisa Jauri, Director, Nordea

Topi Piela, Managing Director, Umo Capital Oyj

Vesa Puttonen, Professor, Helsinki School of Economics

Hanna Kaleva, Director, Institute for Real Estate Economics

Jari Sokka, Executive Director, The Local Government Pensions Institution

Financial Statements

PROFIT AND LOSS STATEMENT	1 Jan–31 Dec 2008		1 Jan–31 Dec 2007	
OPERATING INCOME				
Other operating income				
Sales gains on equities and shares	69,239,672.07		156,964,403.40	
Pension contributions from State offices and institutions	922,883,053.11		854,382,543.74	
Other pension contribution income	383,029,131.88		393,061,002.07	
Employees' pension contributions	291,176,283.24		294,371,726.97	
Disability insurance contribution income	4,763,717.00		5,503,028.50	
Other operating income	0.00		89,209.32	
Write-downs on receivables from other operations	0.00	1,671,091,857.30	0.00	1,704,371,914.00
OPERATING EXPENSES				
Materials, supplies and goods				
Purchases during the period	84,511.52		122,987.97	
Personnel expenses	1,646,892.90		1,280,808.78	
Rents	231,321.92		178,717.37	
Outsourced services	2,526,700.69		2,282,513.27	
Other expenses				
Other expenses	137,436,64		159,849.11	
Sales losses on equities and shares	100,831,996.49		5,287,982.21	
Depreciation	28,973.90	-105,487,834.06	9,634.13	-9,322,492.84
SURPLUS I		1,565,604,023.24		1,695,049,421.16
FINANCIAL INCOME AND EXPENSES				
Financial income		325,410,870.23		251,256,957.56
Financial expenses	-196,151,802.87		0.00	
SURPLUS II		1,694,863,090.60		1,946,306,378.72
INCOME AND EXPENSES FROM TRANSFERS				
Income				
From trade and industry				
Transfer fees	11,203,008.00		0.00	
From financial and insurance institutions				
Returns of pension entitlement	0.00	11,203,008.00	0.00	0.00
SURPLUS III		1,706,066,098.60		1,946,306,378.72
SURPLUS/DEFICIT FOR THE PERIOD		1,706,066,098.60		1,946,306,378.72

Balance Sheet

ASSETS	31 Dec 2008		31 Dec 2007	
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS				
INTANGIBLE ASSETS				
Intangible assets	0.00		234.04	
Other long-term expenditure	93,533.34	93,533.34	0.00	234.04
TANGIBLE ASSETS				
Machinery and equipment	34,351.60		9,214.33	
Furniture and fittings	115,860.97	150,212.57	144,568.00	153,782.33
SECURITIES HELD AS FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS				
Purchases of bonds denominated in euros	4,584,283,674.27		4,876,681,743.10	
Other long-term investments denominated in euros	4,212,590,233.25		3,427,194,774.55	
Other long-term investments denominated in foreign currency	1,645,603,083.71	10,442,476,991.23	1,470,668,575.40	9,774,545,093.05
TOTAL FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS		10,442,720,737.14		9,774,699,109.42
LONG-TERM RECEIVABLES				
Long-term receivables	599,261.06	599,261.06		0.00
CURRENT RECEIVABLES				
Sales receivables	0.00		0.00	
Receivables from loans denominated in euros	0.00		0.00	
Receivables from loans denominated in foreign currency	0.00		0.00	
Accrued credits and deferred charges	218,032,896.10		225,263,187.82	
Other current receivables	7,950,693.49		3,443,212.54	
Advance payments	16,226.53	225,999,816.12	17,426.47	228,723,826.83
FINANCIAL SECURITIES AND OTHER SHORT-TERM INVESTMENTS				
Purchases of bonds denominated in euros		756,796,455.31		1,085,061,656.82
CASH, BANK DEPOSITS AND OTHER FINANCIAL ASSETS				
Joint account receivable from the State	4,221,918.71		3,518,155.36	
Other bank accounts	72,328,257.26	76,550,175.97	72,913,827.24	76,431,982.60
TOTAL INVENTORIES AND FINANCIAL ASSETS		1,059,945,708.46		1,390,217,466.25
TOTAL ASSETS		11,502,666,445.60		11,164,916,575.67

EQUITY AND LIABILITIES	31 Dec 2008		31 Dec 2007	
EQUITY				
Fund capital	-13,667,323,855.12		-13,663,783,855.12	
Accrued changes in capital	24,794,161,638.31		22,847,855,259.59	
Budget transfers	-1,330,947,606.04		-3,540,000.00	
Surplus/deficit for the period	1,706,066,098.60	11,501,956,275.75	1,946,306,378.72	11,126,837,783.19
LIABILITIES				
CURRENT				
Accounts payable	310,662.02		114,396.86	
Items to be rendered forward	30,256.77		-666.79	
Accrued charges and deferred credits	319,557.58		37,928,206.65	
Other current liabilities	49,693.48	710,169.85	36,855.76	38,078,792.48
TOTAL LIABILITIES		710,169.85		38,078,792.48
TOTAL EQUITY AND LIABILITIES		11,502,666,445.60		11,164,916,575.67

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2008

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