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Keva's interim report 1 January – 30 June 2011:

## Moderate first half of the year for Keva

The return on Keva's investments was slightly positive, at 0.5 per cent from January to June 2011. The market value of investments was EUR 29.4 billion at the end of June. Contribution income amounted to EUR 2.3 billion and local government pensions paid out totalled EUR 1.7 billion. The market value result was EUR 637 million. The number of active local government employees was around 508,000 at the end of June.

According to CEO Merja Ailus, pension expenditures developed as forecasted. Contribution income slightly exceeded forecasts, which was due to, among other factors, the local government employees' general salary increases implemented in May.

“Even though the result from investment operations remained close to zero, it must be considered satisfactory. At the start of the year, we already expected this year to be challenging. The first half of the year was very rough for investment operations as a result of several events that unsettled the markets, such as the unrest in North Africa, the natural disaster in Japan and, especially, the debt crisis in Europe,” Ailus says.

The market value return on investments after expenses was 0.5 per cent in January–June. Among the largest asset classes, listed equities produced a negative return of -1.4 per cent. Fixed income investments returned 1.3 per cent. In the smaller asset classes, the return on real estate investments (including real estate funds) was 2.1 per cent, on private equity investments 8.1 per cent, on hedge fund investments 1.8 per cent and on commodity investments 3.6 per cent.

The market value of investments amounted to EUR 29.4 billion at the end of June (EUR 26.5 billion on 30 June 2010). The share of listed equities in total investments was 42.8 per cent, that of fixed income investments 42.4 per cent, real estate investments 7.8 per cent and private equity investments 4.4 per cent. Hedge fund investments accounted for 1.9 per cent and commodity investments for 0.7 per cent.

Investment Director Ari Huotari expects the remainder of the year to be even more difficult for investors than the first six months.

“The unrest in the capital markets will continue, and equity markets experienced a strong decline in late summer owing to the debt problems faced by Europe and the US, among other factors. The situation is not

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quite the same as it was in 2008, but similar signs, albeit less severe, are apparent,” Huotari estimates.

The local government pension system’s payroll amounted to EUR 7.6 billion from January to June, up more than 4 per cent on the corresponding period in 2010. Keva’s contribution income increased to EUR 2.3 billion. The number of local government pensions being paid out was around 343,000 at the end of June. Local government pensions were paid out in the amount of EUR 1.7 billion from January to June, up by around 7 per cent on the same period in 2010.

### **Handling of state pensions off to a good start**

Since the beginning of 2011, Keva has also been handling the execution of the State’s pension provision and in January–June, approximately 275,000 state pension recipients received around EUR 1.8 billion in pension from Keva. The State compensates this pension expenditure to Keva.

According to CEO Merja Ailus, the handling of state pensions has got off to a good start at Keva.

“The transfer did not cause any disruptions in the pension payments or in our customer service. We have been able to improve the service offered to state employees through, among other things, extended phone service times. In addition, efforts are being made to shorten the state pension processing times,” says Ailus.

Keva’s personnel numbers increased considerably as employees of the State Treasury’s pension function were transferred to Keva at the beginning of 2011.

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The six-month figures presented in this bulletin are unaudited.

### Market-value profit and loss account, EUR million

	Jan– Jun/2011	Jan– Jun/2010	Change	2010
Contribution income	2,283	2,198	3.9%	4,328
Pension expenditure	-1,749	-1,638	6.8%	-3,306
Net investment income	141	977	-85.6%	3,125
Administrative costs, depreciation, etc.	-36	-39	-7.7%	78
Market-value result	637	1,498	-57.5%	4,068

### Key figures

	Jan– Jun/2011	Jan– Jun/2010	Change	2010
Number of resolved pension and rehabilitation applications (Local Government Pensions Act)	30,810	30,842	-0.1%	57,779
Number of pensions paid (Local Government Pensions Act)	343,000	334,000	2.7%	339,900
Local government payroll (EUR million)	7,609	7,300	4.2%	14,733
Number of active employees (Local Government Pensions Act)	508,000	502,000	1.2%	507,000
Market value of investments (€million)	29,377	26,471	11.0%	28,643
Return on investment at market value	0.5%	3.9%		12.3%
Number of permanent personnel	534	397	34.5%	394