

2008 Annual Report

on National Pension Fund Management



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Preface



I am pleased to present the 2008 Annual Report of the National Pension Service (NPS). This annual report demonstrates our commitment to transparency and openness in governance as well as to fostering public trust. Sharing comprehensive information on the management of the fund, this annual report addresses challenges we face and lays out our future missions.

It was back in 1988 when the National Pension Service (NPS) was established to provide income protection for workers at firms with more than 10 employees and their families in the event of disability, death, and during old age. In 2003, the NPS was extended to cover firms with less than five workers, to firms covered by health insurance and employment insurance in 2004, and finally embraced firms with one or more workers on January 1, 2006.

As of October 2009, the National Pension Fund totaled 270 trillion Korean won. With a view to securing the long term financial stability and efficient management of the fund, the NPS has successfully reorganized its fund management functions, enhanced its investment expertise and transparency, and developed a competitive asset management system with a global standard.

During last year, the Korean economy suffered from the global recession triggered by the U.S. sub-prime mortgage crisis. The real growth rate of gross domestic product in 2008 remained at 2.5%, just half of the 5% range achieved in 2007. Interest rates in bond markets have kept up a mild upward trend since 2005 and credit spread has significantly expanded. Especially, the interest rate of the three-year maturity corporate bond rose considerably to 7.03%, up 1.33



percentage points from that of previous year. Meanwhile, the KOSPI stock index dropped to 1124 points at the end of 2008 from 1897 points in 2007, notably presenting a sharp downward trend. Also the tech-heavy KOSDAQ market was closed at 332 points, 53% lower than that of 2007.

Under this investment environment, the National Pension Service implemented a strategic asset allocation to reduce overall risk by decreasing the weight of equity and increasing the weight of fixed income. As a result, various risk factors were satisfactorily addressed through extensive risk management. While other major pension funds of the world shed an average of 20% of their total asset in investment losses in 2008, the NPS relatively fared well to keep its asset intact despite the global financial upheaval.

Riding on the successful crisis management regimen of 2008, the NPS will remain committed to advancing its asset management system to achieve greater profits and stability while making earnest efforts to enhance its international status commensurate with its massive scale as one of the world's top 5 pension funds.

Lastly, I would like to express my gratitude to the staff in the National Pension Fund Management Center and National Pension Research Institute for their contribution in preparation for this annual report.

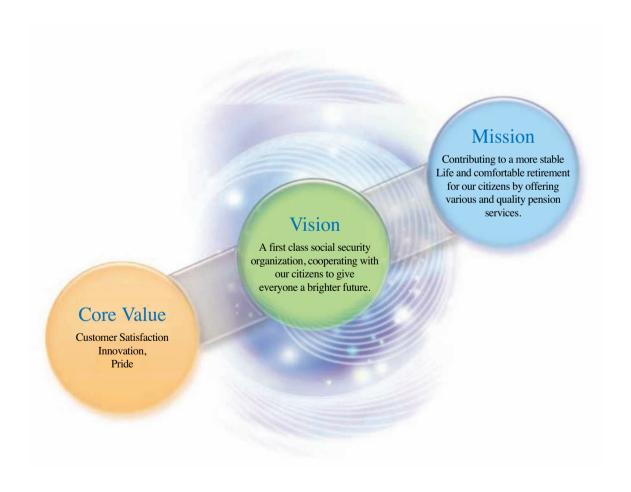
Jun, Kwang-Woo

Chairman & CEO, National Pension Service

"People who plant tomorrow's happiness"

NPS New Vision 2020-Sharing the Dream

"New Vision 2020" is our guide to the future and our promise to our citizens that reflects our dreams and hopes for their happiness.

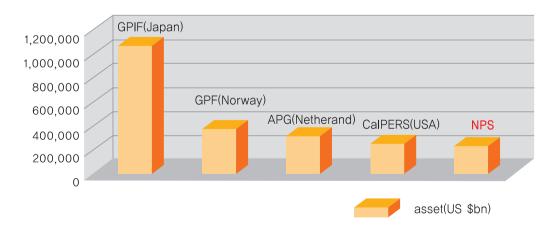


NPS takes the responsibility for your future.

The National Pension is a social insurance system with its funds financed by contributions from insured persons, their employers, and the government. The National Pension pays benefits to people to protect them and their families in the event of disability, death, and during old age.

The National Pension Service was established on September 18th, 1987 in order to manage the Pension scheme more efficiently. The National Pension Service manages the history of members, collects contributions, makes pension payments, manages funds and carries out welfare projects for past and present members and beneficiaries.

The National Pension Service possessed assets of the amount of KRW 270 trillion as of October 2009, based on market prices. The Fund is one of the five largest pension fund in the world.



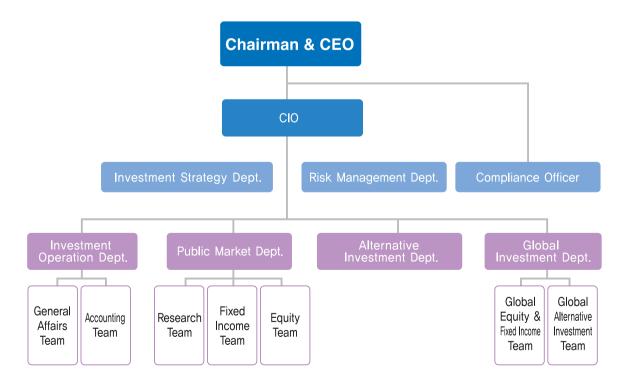
The World's Top 5 Pension Funds

Data: 2008. Pensions & Investments, Watson Wyatt (assets by the end of 2007)

National Pension Fund Management Center

National Pension Fund Management Center is a special organization where financial professionals work. Since its establishment in 1988, the amount of money in the National Pension Fund has grown significantly to reach 319.7 trillion won by October 2009. Spending has also been on a steady increase to reach 49.7 trillion won. As of October 2009, the market value of NPF reserve was estimated to be 270 trillion won. The fund has accumulated more than 20 trillion Korean won annually for the past 5 years, becoming one of the five largest pension funds in the world.

Fund management Center Organization



Key Personnel of the National Pension Fund Management Center

In order to manage the Fund more efficiently, NPS established the Fund Management Center in November 1999 as a special professional organization. The National Pension Fund Management Center, as of November 2009, runs six departments, seven teams and a compliance team. The total number of employees at the center is 125.

Key personnel of NPS



Sun-Chung Kim
Chief Investment Officer



Se-Kerl KiHead of Investment
Operation



Bong-Kweon Park Head of Public Market



Hee-Seok Kim
Head of Global
Investment &
Alternative Investment



Dong-Joo Han Head of Investment Strategy



Young-Ho Ha Head of Risk Management



Dong-Wook Won Chief Compliance Officer

2008 National Pension Fund Overview

- As of the end of 2008, National Pension Fund amounted to KRW 235 trillion, 424.7 billion, up
 7.2% from last year based on market prices.
- The National Pension Fund invested KRW 235 trillion, 340.6 billion (99.8%) in the financial sector. In 2008, the invested amount in the financial sector was 77.3% in domestic Fixed Income, 12.2% in domestic stocks, 3.9% in foreign Fixed Income, 2.4% in foreign stocks and 3.7% in alternative investments.
- The Pension Fund achieved a rate of return of -0.21% on its investments in financial markets. The rate of return over the three years between 2006 and 2008 was 4.17% at an annual average. The rate of return over the five years between 2004 and 2008 was 5.29% at an annual average.

The total rate of return on financial sector

(time weighed return, Unit : %)

2004	2005	2006	2007	2008	3year Average (2006~2008)	5year Average (2004~2008)
8.61	5.39	5.87	7.00	-0.21	4.17	5.29

 In detail, the Fund achieved 11.07% rate of return from bonds, -39.98% from equity, 2.93% from alternative assets, and 5.98% from money market investment.

Investment Performance by Asset Class in the Financial Sector

(Unit: %)

	2006	2007	2008	3year Average (2006~2008)	5year Average (2004~2008)
Domestic Bonds	5.86	2.73	11.00	6.48	5.62
Overseas Bonds	7.18	2.33	12.46	7.24	6.63
Bonds Total	5.98	2.69	11.07	6.53	5.62
Domestic Stocks	4.86	39.25	-38.13	-3.33	9.87
Overseas Stocks	16.87	6.41	-49.07	-14.12	-4.30
Stocks Total	5.32	36.39	-39.98	-4.82	8.65
Alternative	_	7.73	2.93	_	_
Money Market Investment	3.75	5.04	5.98	4.92	4.32
Total	5.87	7.00	-0.21	4.17	5.29

• Due to the unprecedented global financial crisis in 2008, a lot of pension funds suffered from average -20.00% rate of return all over the world. However, National Pension Fund performed well compared to the other pension funds by focusing on comprehensive risk management, reducing equity and increasing bonds. As a result, National Pension Service was selected as "the Institutional Investor of the Year" by the world-renowned Asian Investor magazine.



The Climate of the Fund Management

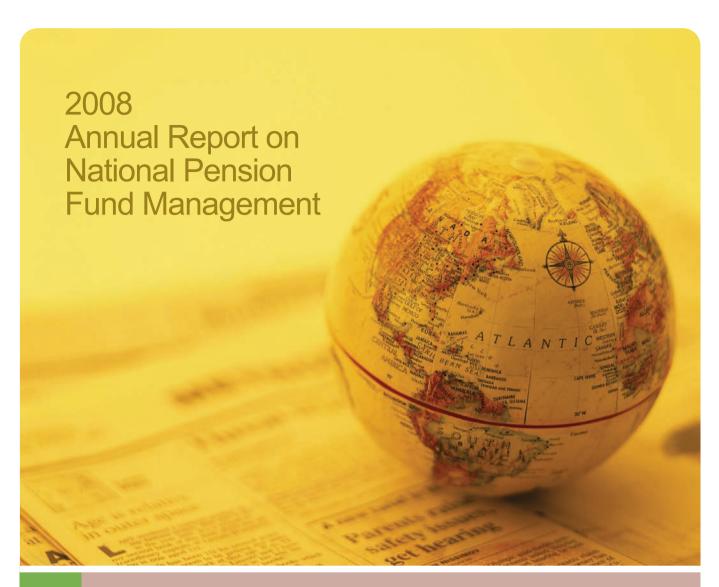
Due to the global financial crisis triggered by US subprime mortgage, the global economy experienced worldwide recession and each government carried out economic stimulus packages by lowering interest rates and supplying funds for the markets.

The real GDP growth rate in 2008 ended up with 2.5% while the real GDI, reflecting the changes in trading condition, decreased 2.1% from previous year. This is because the growth rate of private consumption stayed as low as 0.5% while investment decreased as much as 2%.

The primary interest rates in bond market showed mild upward trend since 2005. Credit spread has been expanded considerably from 5.23%(2007) to 5.27%(2008) for three-year government bond from 5.7%(2007) to 7.03%(2008) for three-year corporate bond.

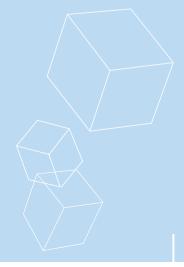
Peaking at second quarter of 2008, domestic equity market continued sharp drop and closed at 1124p. KOSDAQ market showed the same downward trend and closed at 332p, down 53% from previous year.





1. The National Pension Scheme and its Fund

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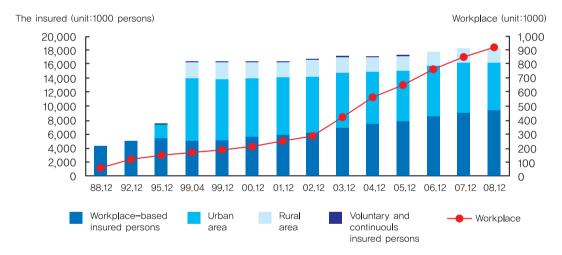


1. The National Pension Scheme in a Nutshell

A. Insured Persons

The insured persons of the National Pension, Korean nationals and foreigners residing in the country aged between 18 and 59, numbered 18,335,409 in 2008, of which 9,493,444 (51.77%) were "workplace-based" insured persons, 8,781,483 (47.89%) were "individual" insured persons, 27,614 (0.15%) were "voluntary" insured persons, and 32,868 (0.18%) were "voluntary and continuous" insured persons.

Members of National Pension



B. Contribution

The National Pension is a social insurance system in which benefits and operational costs are financed with contributions paid by workers and employers.

The contribution amount is calculated by multiplying the contribution rate by the insured person's monthly income. In the case of workplace-based insured persons, a monthly contribution of 9% of the worker's income is equally shared by the worker and the employer. The responsibility to make monthly contribution payments lies with

employers. For "individual insured persons," "voluntary insured persons," and "voluntary continuous insured persons," the responsibility to pay monthly contributions lies with the individuals.

C. Benefit

Under the National Pension Scheme, any income an insured person earned during his or her contribution period is converted into present value. Also, the real value of the determined pension benefit is protected by price indexation. Composed of earnings-related and redistributive components, the National Pension is a defined benefit plan and provides income protection for the insured persons and their families in the event of disability, death, and during old age. The benefit of the pension scheme comes in many forms, including the Old-Age Pension, the Disability Pension, the Survivor Pension, lump-sum refunds, and lump-sum death payments.

The Old-Age Pension is designed to support insured persons' income when they become economically inactive due to old age. Insured persons aged 60 (55 in the case of those who are not engaged in economic activities) or over, with a contribution period longer than ten years, are eligible for lifelong monthly benefits from the Old-Age Pension. Old-Age Pensions are classified into Full, Reduced, Early, and Special Old-Age Pensions, depending on the contribution period, age, and whether or not the insured person is engaged in economic activities. A divorced spouse can be paid a Divided Pension.

A Disability Pension is provided to a person with physical or mental disabilities, after the treatment of the disease or injury that occurred during his or her contribution period. The Disability Pension is paid during disability and the benefit level is determined based on the degree of the disability.

Survivors' pensions are payable to the pensioner's (or insured person's) spouse, child, or parent when the insured person or the pensioner dies. The rate of benefit is between 40 and 60 percent of the basic benefit.

Lump-sum refunds are paid at amounts of contributions paid in plus interest to the insured person or his or her survivor in the event of, the example, reaching the age of 60, death, or permanent emigration, in which cases the members can no longer make contributions without having met eligibility requirements. Lump sum death payments are paid to a spouse, children, parents, grandchildren, grandparents, brothers or sisters, or other relatives supported by the deceased.



2. The Role of the National Pension Fund

As stipulated in Article 101 of the National Pension Act, the National Pension Fund serves as a reserve fund to secure the finances necessary for the implementation of the National Pension Scheme and to accordingly make payments of pension benefits. The Fund is composed of contributions, gains from asset management, a reserve, and a surplus in the settled account. In addition, Article 102 of the same Act stipulates that it is the responsibility of the Minister of Health, Welfare, and Family Affairs¹ to manage the Fund in line with the decisions of the National Pension Fund Management Committee. The management of the Fund should seek to maximize profits in order to stabilize the long-term financial position of the National Pension.

3. The Financing and Managing the National Pension Fund

A. Financing

The National Pension Fund is financed by contributions from the insured persons, proceeds from fund management, and retained earnings of the National Pension Service.²

Since its establishment in 1988, the National Pension Fund reserve as of 2008 has grown significantly to reach 235 trillion, 424.7 billion won, up 15 trillion and 884.7

¹ Pursuant to the reorganization of government setups in March, 2008, the title was changed from the Ministry of Health and Welfare to the Ministry of Health, Welfare, and Family Affairs.

² Pursuant to the amendment made in 2007 to the National Pension Act, the National Pension Corporation was renamed the National Pension Service.

billion won from previous year. Loss from investment amounted to -427 billion won based on market value and the amount of contribution less benefit was 16 trillion and 804.7 billion. Due to the relatively fast increase in benefit payment compared to the contribution along with loss caused by the global financial crisis, the fund reserve increased only by 7.2%, which is lower than previous year.

Fund Reserve in 2008 (accounting standards)

(Unit : KRW hundred million)

Welfare	Short-term	Bond	Stock	Alternative	Foreign Security lending	Total	Others	Fund Reserve
1,842	16,758	1,910,688	339,737	88,025	- 5,271	2,349,937	2,468	2,354,247

Note) This figure is based on the book value and differs from the amount of performance evaluation.

Income and expenditure of the Fund by fiscal year 2008

(Unit : KRW hundred million, %)

		Incom	е		Expenditure				5 - 1
year	Contributions	Investment returns	Others	Total	Benefit Payments	Operating Expense	Total	Increment	Fund Reserve
2004	171,433	102,978	1,192	275,604	29,140	3,329	32,469	243,135	1,410,080
2005	185,436	82,127	1,256	268,819	35,849	3,816	39,665	229,154	1,639,234
2006	201,523	101,038	1,651	304,212	43,602	4,032	47,634	256,578	1,895,812
2007	216,702	137,585	1,366	355,653	51,826	4,239	56,065	299,588	2,195,400
2008	229,855	-4,270	189	225,774	61,808	5,119	66,927	158,847	2,354,247

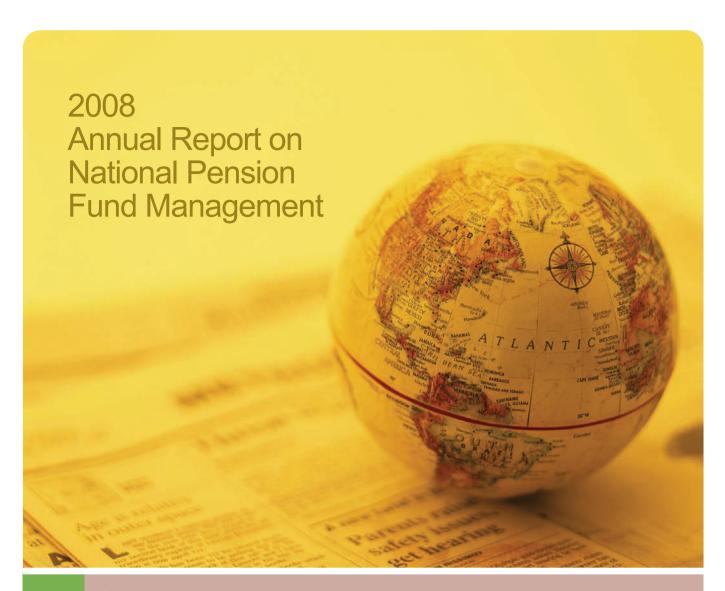
Note) Proceeds from fund management & Fund Reserve are calculated by market value

B. Managing

The decision-making authority and the management responsibility for the National Pension Fund rest with the Minister of Health, Welfare, and Family Affairs. The Minister of Health, Welfare, and Family Affairs manages the Fund according to the resolutions passed by the National Pension Fund Management Committee in order to manage the Fund with stability over the long-term as well as to maximize the Fund's profits. The methods used for investing the Fund are as follows:

- 1. Depositing or entrusting funds with financial institutions designated by the Presidential decree
- 2. Investing in public projects
- 3. Transaction and lending trading securities according to the stipulations of Article 4 of the Capital Market Consolidation Act
- 4. Trading in the derivatives of financial product indices according to Article 5.1 of the Capital Market Consolidation Act
- 5. Investing in welfare projects or lease businesses according to Article 46 of the National Pension Act
- 6. Acquiring and divesting assets for fulfilling the Fund's original purpose
- 7. Any terms of businesses defined by Presidential decree for profiting the Fund

As of the end of 2008, the fund reserve amounted to 235 trillion and 424.7 billion won, of which 235 trillion and 340.6 billion was invested into financial sector while 184.2 billion won was invested into welfare sector. Financial sector is composed of 81.2% fixed income, 14.6% equity, and 2.7% alternative assets. The cumulative returns on investment amounted to KRW 83 trillion, 735.5 billion as of end of 2008, and the returns accounted for 35.6% of the total fund reserve.



2. The Management System of the National Pension Fund

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1. Fund Management System and Work Flow

The National Pension Fund is reserved to provide pension benefit to Korean nationals in their old age. The Fund should pursue financial security and operate efficiently. The principles of the fund management systems are as follows:

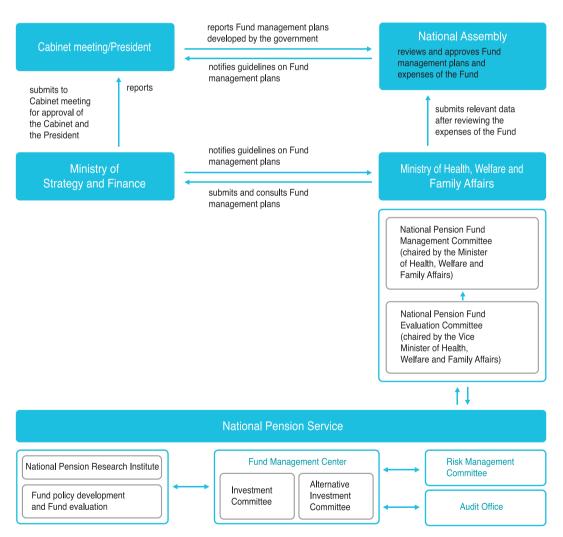
The principle of the National Pension Fund

principle	contents
Profitability	The management of the Fund should seek to maximize profits for the purpose of stabilizing the long-term finances of the National Pension and to reduce pressures from contributions imposed on present members and possible members of the next generation.
Stability	The Fund should be managed in a safe manner so as to keep risks of loss on invested assets within an allowable range.
Public benefit	The National Pension Fund is an important public system for the nation. The Fund should be managed in consideration of the effect on the National economy and financial market because its sheer size and universality can have effects on them.
Liquidity	Maintaining liquidity in the management of the Fund is pivotal to keeping the National Pension capable of paying benefits in a consistent manner. Along with this principle comes the mandate that there should be ways in advance to minimize the impact the National Pension may create on the domestic financial market upon the disposition of its invested assets.
Independence	The Fund should be managed under the principles mentioned above and these should not be breached for other purpose.

The supreme decision-maker for fund management lies with the management committee whose chairman is the Minister of Health, Welfare, and Family Affairs. According to the Fund Management Act, annual plans for the fund management are established through consensus with the Ministry of Strategy and Finance. Then, the plans are presented to the Cabinet Council and the National Assembly so that the National Assembly may determine whether to approve the plans. As for any revisions of fund management plans, only the National Assembly may approve them. However

committee's decision is respected and has been applied exception of the report to the national assembly about changes in fund management plan.

National Pension Fund Management



2. Fund Management Committee and Evaluation Committee

Because the size of the Fund is enormous and its influence on the national economy is great, distortions of the national economy may arise depending on how the Fund is managed. Therefore, a certain amount of restrictions is necessary. In order for the Fund to fulfill its obligation to make payments for the benefit in the future, both profitability and stability requirements should be met. Such requirements call for the appropriate allocation and management of the Fund. Also, prudent management of the Fund is absolutely necessary. In order to meet these requirements, the Ministry of Welfare has set up the National Pension Fund Management Committee, which deliberates on and resolves important issues that may affect the Fund.

The National Pension Fund Management Committee (hereinafter referred to as the "management committee") is the final decision making body for managing the Fund, and was established for the purposes of managing the Fund efficiently by evaluating and deliberating on important issues regarding the management guidelines, consensus on interest rates, annual management plans, and performance evaluation.

Under the management committee, the National Pension Fund Evaluation Committee (herein after referred to as the "evaluation committee"), which reviews the agenda to be presented to the management committee and provides its opinions after deliberating on and evaluating the Fund's performance, is to assist the management committee in deliberating on and evaluating the agenda.

The evaluation committee assists the management committee in deliberating on and resolving issues by providing technical and specialized opinions regarding the management of the Fund.

A. Responsibilities of the Management Committee and the Evaluation Committee

The management committee deliberates on and resolves important agenda such as

fund management guidelines, plans, details, interest on funds invested in the Public Fund, and other important agenda in managing the Fund. These are submitted by the Vice-Chairman of the management committee.

The evaluation committee deliberates on and evaluates such agenda as the composition of the fund's assets, accounting treatment of the fund, performance measurement of the fund, improvements that should be made in managing the fund, agenda that the Chairman of the evaluation committee considers should be addressed among the agenda to be submitted to the management committee, and other issues the management committee demands that the evaluation committee deliberate on.

B. Coordination of Management Committee's Interests

By appointing specialists who have a profound knowledge of and experience in the Pension Scheme as members of the management committee, the committee is highly specialized in managing the Fund. In addition, after the start of the National Pension Service, people's interest in the management of the Fund heightened, requiring transparency in its management. As a result, representatives of the insured persons were appointed as management committee members, and they comprise more than 50% of the committee members. Also, the submission and notification of the Fund's performances to the National Assembly are required.

More than half of the National Pension Fund Evaluation Committee members or 12 members out of the 20 members are representatives of the insured persons. These members ensure the fair representation of related institutions in the management of the Fund and the transparency of the Fund's management.

C. Composition and Selection of Committee Members

The management committee members are appointed by the Minister of Health, Welfare, and Family Affairs, who is the Chairman, the Vice-Minister of Knowledge Economy, the Vice-Minister of Food, Agriculture, Forestry and Fisheries, the Vice-Minister of Strategy and Finance, and the President of the National Pension Service. The committee members shall be composed of the people listed below. The term of service is for two years and re-election is allowed. However, the term for the Chairman is limited to his or her tenure.

- -Committee members who represent employers and recommended by employer organizations (3 members)
- -Committee members who represent employees and recommended by the organization that represents labor unions (3 members)
- Representative committee members shall be composed of the people listed below:
- Those recommended by agricultural and fishery organizations (2 members)
- Those recommended by the organization that represents the self-employed (2 members)
- Those recommended by consumer organizations and civic groups (2 members)
- Experts with profound knowledge and experience related to the Pension Schemes (2 members)

3. Expert Councils under the Fund Management Committee

A. Expert Council on Voting Rights Exercise

The Expert Council on Voting Rights Exercise was set up under the management committee for the exercise of voting rights on stocks held by the National Pension. The Expert Council is empowered with the authority to review the guidelines every year and to revise them in order to resolve matters concerning the exercise of voting rights with integrity.

The set-up of the Expert Council is based on the "Guidelines for Voting Rights Exercise," which the fund management committee resolved on December 22, 2005. The Expert Council reinforces professionalism and efficiency in the exercise of voting rights.

The expert council's functions are summarized below:

- Reviewing the general rules and specific details pertaining to the exercise of voting rights
- -Reviewing the voting rights exercised by the Fund Management Center
- Requests from the Chairman of the Fund Management Committee
- Resolving matters difficult for the Fund Management Center to decide whether to vote for or against
- -Matters acknowledged by the Chairman as necessary

The Expert Committee is composed of nine members, each with a two-year term, and a Chairman elected from among them. To increase its representativeness and professionalism, the members are elected from a diverse range of groups: 2 from the government; 2 from the employer sector; 2 from the employee sector; 1 from the individual insured persons; 1 from civic groups and; 1 from the research sector.

B. Expert Council on Performance Evaluation & Compensation

The Expert Council on the Performance Evaluation & Compensation was established under the Evaluation Committee for performance evaluation and unifying the compensation system of the Fund's management. In this regard, the Expert Council should be able to respond with flexible compensation policies to any environmental changes and enhance the performance of the fund management by attracting talented experts to join the group.

The set-up of the Expert Council was based on the "2008 Guidelines for the Fund Management," which the fund management committee resolved on May 25, 2007. According to the guidelines, the Expert Council is empowered with the authority to evaluate performances of the Fund and compensation levels. In November 28, 2007, the fund management committee resolved the set-up of the Expert Council and the relevant guidelines.

The Expert Council's functions are to: make proposals and advise on evaluation of the Fund's performance, settle payment rates of compensation for the fund managers, including the CIO of the National Pension Fund Management Center.

The Expert Council is composed of 12 members recommended by groups of the insured persons and groups of experts. The term is for two years.

4. Ministry of Health, Welfare, and Family Affairs

The Ministry of Health, Welfare, and Family Affairs is responsible for the health and welfare of the people, closely related to quality of life. The ministry is responsible for establishing policies that promote the health and affluence of the people.

The Ministry of Health, Welfare, and Family Affairs has various departments related to the National Pension Service, including departments that deal with policy-making and finance. In 2005, the Pension Agency and the National Pension Fund Review Agency were revised as the Pension Policy Headquarters and the National Pension Policy Director Agency. Also, the Pension benefit division was established, so that there were three divisions, including the Division of National Pension Policy and the Division of National Pension Finance. However since July 2009, Division of National Pension Benefit Payments integrated into the division of National Pension Policy. The Division of National Pension Policy is responsible for the improvement of the Pension Scheme's policy and for establishing and coordinating comprehensive plans related to the Pension and performs tasks related to the payment of the benefits. The Division of National Pension Finance is responsible for establishing and coordinating the plans for managing the Fund.



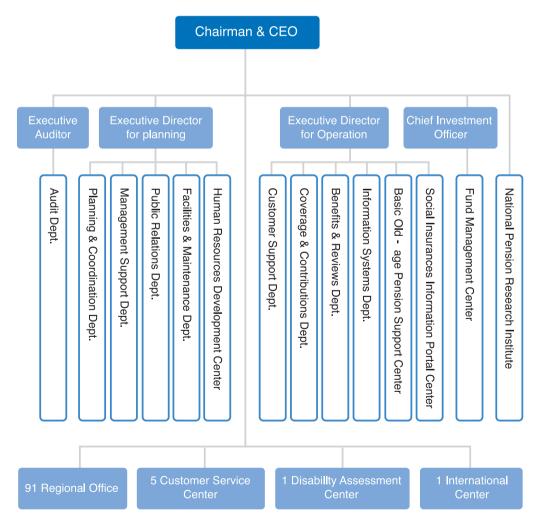
Major Responsibilities of the Divisions in the Ministry Related to the National Pension Scheme

Team name	Major tasks
Division of National Pension Policy	 Establishment and coordination of plans related to the National Pension Scheme Rules and regulations related to National Pension Scheme Imposition and collection of payments and regulations for insured persons' qualifications Direction and management for the National Pension Service Establishment of plans for computerizing the National Pension's tasks Education and promotion of the National Pension Scheme Management of the National Pension Scheme Review Committee Studies, research, and compilation of statistical data related to the National Pension Scheme Establishment of Variety range of old-age income security system Items related to social security agreements Each of the following items about National pension benefits Establishment of the benefit payment plans Management and improvement of the criteria for the benefit payments Adjustment of the level of National pension benefits Payments for the old-age pension, survivor pension, etc. Establishment of Improvement for the disability pension operating system and development plan Management of lump-sum refund system Each of following items about management of National Pension Fund's beneficiaries and payment service Innovations of benefit service system Management for the beneficiaries Matters related to the refund about unjust benefits International cooperation for foreigner and overseas beneficiaries management Matters related to the rights protection including claims for the re-examination of the benefits
Division of National Pension Finance	of the benefits 1. Establishment of the National Pension Fund management guidelines and plan 2. Each of the following items about National Pension Fund management - Establishment of strategic asset allocation and diversifying the investment policy - Risk management and internal control - Voting rights of shares held by the National Pension Fund - Evaluation and analysis of the Fund's performance - National Pension Fund's accounting management - Management of the Fund Management Committee 3. Establishment of policies related to the governance structure of the Fund 4. Establishment and coordination of the National Pension's welfare projects 5. Establishment of the actuarial analysis plan for the National Pension

5. National Pension Service

The Minister of Health, Welfare, and Family Affairs is in charge of the National Pension Scheme. In order to carry out operations more efficiently, an independent body equipped with specialized knowledge and decision-making authority became necessary. The result was the establishment of the National Pension Service on September 18, 1987 whose purpose was to carry out the operations of the Scheme.

Organization Chart for NPS



As the coverage of the National Pension has been continuously extended since 1987, the insured persons in the Scheme increased. As a result, the number of employees and the size of the organization expanded. There were 4,817 employees working for the National Pension Service in June 2008: 8 departments, 1 task force, and 3 center at the headquarters, the National Pension Research Institute, the National Pension Fund Management Center, 91 branch offices, and 5 call centers for integrated support.

The National Pension Service manages the history of insured persons, collects contributions, makes pension payments, manages funds and carries out welfare projects for past and present members and beneficiaries. The details are listed below:

Business of National Pension Service

Pension Business		 Management of the history of the insured persons Collection of Contributions Payment of Pension Benefits Management of Social Security Agreement
Fund Management Business	Public Business	Investment in Public Sector for Public Business
	Welfare Business	 Establishment of facilities for Senior Citizens Welfare, Children Welfare and Disabled Welfare and Provision of Loan Establishment and Operation of Hospitals, Vacation Facilities and Recuperation Facilities and the Provision of Loan Loan of Living Stabilization Fund (Educational Expenses, Medical Expenses)
	Financial Business	 Deposits and Money in trust in the financial institutions Purchase of Securities such as Beneficiary Certificates, Government Bond, Corporate Bond, Stock Real Estate, Venture fund and CRC Fund

6. National Pension Fund Management Center

The Minister of Health, Welfare, and Family Affairs entrusts the management of the Fund to the National Pension Service for the efficiency. In order to enhance the transparency and profitability of the Fund, the National Pension Act was revised in 1988. As a result, the number of management committee members increased from 15 to 21. Among the members, more than half are composed of representatives from the insured persons. Also, the details of the management of the Fund are submitted to the National Assembly and notified in the media.

The National Pension Service's fund management department changed its name from the Fund Management Department to the Fund Management Center(1999.Nov). An outside specialist was appointed as the head of the Fund Management Center. Also, specialists were recruited and a compensation system based on performance was introduced.

In 2001, the Outsourcing Team was established to focus on entrusting funds to the private sector and on overseas investment. The Research Team was established to support and check the Bond Management Team and Stock Management Team. Also, to strengthen risk management, the Risk Management Team was established. In 2004, the Alternative Investment Team was established to diversify investment portfolios. The team is responsible for investing in infrastructure, real estate, ventures, CRCs, private equity, and other areas. In order to manage overseas investments more efficiently as their size increases, the Overseas Investment Team was established in 2006.

The reorganization in 2006 included the upgrading of the Alternative Investment Team and the Overseas Investment Team into departments. The functions of Fund Management Center and the related committees are listed below in detail:

Roles of the Fund Management Center

Dept	Roles		
Investment Operation Department	Establishment and adjustment of business plans of the Fund management Central 2. Personnel management Collection and calculation of principal and interest, Settlement of speciaccounting of the Fund Management of banks for the transaction, custody bank for the asset Securities lending, leases for welfare projects		
Public Market Department	1. In-house investment in equity and fixed incomes (Inc. derivatives) 2. Management of the portfolio of domestic stocks for the investment 3. Establishment and execution of voting right guidelines for the domestic stocks 4. Selection of security companies for transaction, Management of distribution guidelines 5. Management of short-term asset		
Alternative Investment Department	1. Management of investment in infrastructure 2. Management of investment in domestic real estate 3. Management of investment in venture, CRCs, PEFs 4. Selection and management of external managers 5. Research on new alternative assets 6. Administration work related to supporting the Alternative investment committee		
Global Investment Department	1. In-house and outsourcing investment in oversea fixed incomes, equities and alternative investment 2. Selection, management, and evaluation of external managers of foreign asset (fixed Income, equities, alternatives) 3. Investment in foreign derivatives (including currency risk management) 4. Matters related to strategic alliances with foreign external managers 5. Management of short-term foreign currencies		
Investment Strategy Department	 Establishment of mid & long?term investment management plans Establishment of annual and monthly investment management plans Supporting the establishment of investment guidelines Matters related to Benchmark Indices Review and forecasting of global and domestic investment circumstances Matters related to strategic alliances with foreign pension funds and global organizations Supporting the Investment Committee Management of relationships with external organizations and web site Matters related to public relations and public meetings concerning Fund management and information database management Selection of Alternative investment committee Matters related to external management of domestic stock and bond market 		
Risk Management Department	1. Establishment of guidelines on risk management 2. Measuring risk 3. Management of risk budgeting 4. Performance analysis 5. Supporting the Risk Management Committee 6. Management and selection of the advisory organization of domestic alternative investment 7. Management of Computer system related to fund		
Compliance Officer	Establishment and management of standard relating to internal regulations and processes Monitoring and reporting the regulation observance of staff Instructing staff in regulation observance Others		

Other Committees in National Pension Service

Risk Management Committee

The role of the Risk Management Committee is to efficiently cope with risks involved in the management of the Fund. The annual meetings are held more than four times. Also, temporary meetings may be held by the Chairman or by at least one third of total members to deliberate on the following agenda items:

- Establishment of basic policies regarding risk management
- · Establishment and adjustment of limits for various risks such as limits of the overall risk and the limit of allowable risk levels for each asset class
- Establishment of limits and changes to risk
- · Establishment and management of a risk management system
- · Treatment of new investment assets
- · Matters acknowledged by the Chairman as necessary

Investment Committee

The role of the Investment Committee is to enhance transparency in the management of the Fund and to increase the efficiency of investments. Operated under the National Pension Fund Management Center, the committee consists of a Chairman, who is the CIO in NPS and its members-the Head of the Public Market Department, the Head of the Risk Management Department, the Head of the Investment Operation Department, the Head of the Overseas Investment Department, and three others from team leaders appointed by the Chairman. The committee deliberates and makes recommendations on matters concerning:

- · Monthly financial planning and asset management strategies
- · Asset allocation
- Setting of target rates of return

- · Setting investment ceilings
- Setting ceilings on allowable losses on investments
- Selection and management of asset management companies
- · Composition of in-house and external management

Alternative Investment Committee

The Alternative Investment Committee is intended to promote alternative investments and thereby earn steady gains for the Fund. Established in November 2006 under the National Pension Fund Management Center, the Alternative Investment Committee is composed of seven members, including the Chairman, (CIO), three from the Center, and three external experts appointed by the CEO of the National Pension Service.

A meeting can be held on demand due to decisions or changes related to domestic SOC investment ,specific project investment and discussion on details of matters that are approved by the chairman.

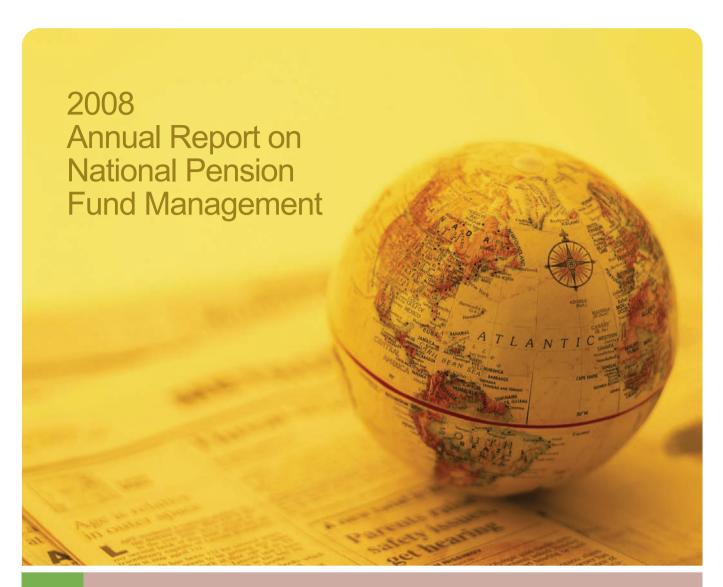
7. National Pension Research Institute

The National Pension Research Institute was established in 1995 for the purpose of researching matters related to the management of the Fund. The Financial Estimation and Analysis Team and the Pension System Research Team were established to research on not only the national pension but also on the measures for developing the social security system, on the management policies of the Fund (i.e. the allocation of assets), to evaluate the performance of the Fund Management Center, and to carry out financial calculations for stabilizing the national pension.

As of July 2009, National Pension Research Institute composed of Pension system team, Financial Estimation and Analysis Team, Panel Research Team in the Pension system Division, Fund Policy Team, Fund Evaluation Team in the Fund Policy Division and Administration & Research Assistant.

Related to the management of the fund, the Fund Policy Team researches the midterm and long-term asset allocation policies and annual asset allocation proposals. The Fund Evaluation Team prepares evaluation reports on the performance of the Fund Management Center. The institute researches asset allocation and measures, based on which funds are managed. The Fund Evaluation Team evaluates the investment performance of the Fund internally, as well as commissions outside institutions to evaluate the Fund's performance.





3. The Performance of the National Pension Fund

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1. Asset Allocation of the Fund

The National Pension Service possessed assets of the amount of KRW 235 trillion, 771.6 billion as of the end of 2008, based on market prices. By sectors, KRW 235 trillion 340.6 billion(99.8%) was invested in the financial sector and 184.2 billion(0.1%) in the welfare sector. The National Pension completed withdrawing its pubic fund deposits in 2005. With a global economic downturn, the national Pension increased the proposition of less riskier asset. Among the risky asset classes, the National Pension Fund decreases stocks and increases alternative investments.

Asset allocation in 2004 ~2008 (Market Value)

(Unit: KRW hundred million, %)

					Financi	al				
Year	Public	Welfare	Short- term	Bond	Stock	Altern- ative	Foreign Security Lending	Total	Others	Fund Reserve
2004	63,770	3,752	3,056	1,205,961	127,023	4,416	-	1,340,456	3,396	1,411,374
2005	0	3,145	6,685	1,414,824	203,949	7,798	-	1,633,256	3,533	1,639,934
2006	0	2,483	4,478	1,644,324	219,863	21,678	-	1,890,343	3,396	1,896,222
2007	0	2,036	3,726	1,748,340	384,226	54,061	-835	2,189,518	3,265	2,194,819
2008	0	1,842	16,758	1,911,240	342,635	88,044	-5271	2,353,406	2,468	2,357,716



2. Financial Performance

As of the end of 2008, the total asset value invested in the financial sector amounted to 235 trillion 340.6 billion won. The amount in the financial sector was 77.3% invested in domestic fixed Income, 12.2% in domestic stocks, 3.9% in foreign fixed income, 2.4% in foreign stocks and 3.7% in alternative investments.

The amount in the Financial sector

(Unit: KRW hundred million, %)

Classification		ation	20	007	200	08
	Classilla	auon	amount	weight	amount	weight
	Dome-	In-house	1,494,034	68.2	1,729,425	73.5
	stic	External	80,780	3.7	89,620	3.8
Б	Dome:	stic Total	1,574,814	71.9	1,819,045	77.3
Bond	F	In-house	150,588	6.9	60,351	2.6
	Foreign	External	22,938	1.0	31,844	1.4
	Foreign Total		173,526	7.9	92,195	3.9
ı	Bond Total		1,748,340	79.9	1,911,240	81.2
	Dome- stic	In-house	151,945	6.9	143,059	6.1
Stocks		External	178,468	8.2	142,901	6.1
Stocks	Dome:	stic Total	330,413	15.1	285,961	12.2
	Fore	ign	53,813	2.5	56,675	2.4
5	Stock Tota	ı	384,226	17.5	342,635	14.6
	Alternative	9	54,061	2.5	88,044	3.7
Sho	rt-term a	sset	3,725	0.2	16,758	0.7
Foreign	n Security	lending	-835	-0.0	-5,271	-0.2
Fir	nancial To	tal	2,189	9,518	2,350	3,406

The Pension Fund reported a rate of return of -0.21% on its investments in financial markets. The rate of return over the three years between 2006 and 2008 was 4.17% on an annual average. The rate of return over the five years between 2004 and 2008 was 5.29%.

Performance in Financial Sector for the Most Recent 5Years

(Unit:%)

2004	2005	2006	2007	2008	3year average	5year average
8.61	5.39	5.87	7.00	-0.21	4.17	5.29

Detailed Returns in the Financial Sectors

(Unit:%)

	Sectors		2008	3year average (06~08)	5year average (04~08)
	Dome-	In-house	11.00	6.48	5.62
	stic	External	10.94	6.42	-
Fixed	Dome	stic Total	11.00	6.48	5.62
Income	Oversea	In-house	14.15	7.91	7.00
	Uversea	External	5.18	2.24	-
	Overs	sea Total	12.46	7.24	6.63
	Bond Tota	al	11.07	6.53	5.62
	Dome-	In-house	-37.51	-3.33	9.38
Stocks	stic	External	-38.68	-3.44	10.30
JIUCKS	Dome	stic Total	-38.13	-3.33	9.87
	Overs	sea Total	-49.07	-14.12	-4.30
	Stock Tota	al	-39.98	-4.82	8.65
	Alternativ	/e	2.93	-	-
5	short-term a	asset	5.98	4.92	4.32

3. Analysis of performance on each asset type



A. Domestic Fixed Income

The National Pension's investment in domestic Fixed Income increased to KRW 181 trillion, 904.5 billion in terms of market value as of the end of 2008, a 15.50% increase from the previous year.

Domestic Fixed Income Investments

(Unit: KRW hundred million, %)

		2006		20	07	2008		
		Amount	Weight	Amount	Weight	Amount	Weight	
Do	mestic Fixed Income	1,480,033	90.0	1,574,814	90.1	1,819,045	95.2	
	In-house	1,425,816	86.7	1,494,034	85.5	1,729,425	90.5	
	External	54,217	3.3	80,780	4.6	89,620	4.7	

Note) The proportion compared to total Fixed Income

The characteristic of the domestic bond portfolio in 2008 was that Government bonds increased and financial bonds decreased. Comparing the weight of the domestic bond portfolio in National Pension with that of total bond market, the ratios of government bonds, special purpose bonds, and financial bonds seemed high but the ratio of total market was similar.

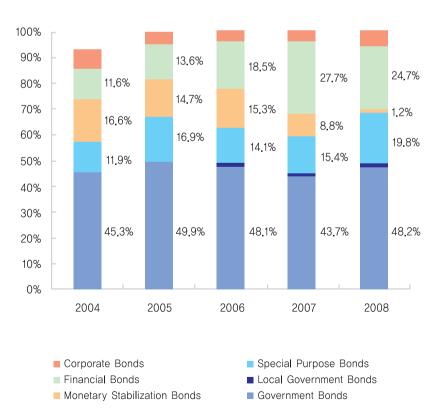
Proportion in Domestic Bond

(Unit: KRW hundred million, %)

	Total		In-house		External		Bonds market	Domestic Bonds	
	Amount	Weight	Amount	Weight	Amount	Weight	proportion	Benchmark	
Government Bonds	875,998	48.2	845,030	48.9	30,968	34.6	31.1	42.6	
Local Government Bonds	7,594	0.4	6,370	0.4	1,224	1.4	1.44	0.9	
Special Purpose Bonds	359,610	19.8	342,310	19.8	17,300	19.3	12.9	17.3	
Monetary Stabilization Bonds	22,622	1.2	16,819	1.0	5,803	6.5	13.8	12.5	
Financial Bonds	449,312	24.7	425,292	24.6	24,020	26.8	28.4	21.1	
Corporate Bonds	101,411	5.6	93,603	5.4	7,808	8.7	12.4	7.1	

Note) Except deposit and cash

Proportion of Domestic Bond Holding by Type



Returns from Domestic Fixed Income

(Unit:%)

Ite	m	2004	2005	2006	2007	2008	3year average (2006~2008)	5year average (2004~2008)
Domestic	In-house	8.38	0.46	5.86	2.73	11.00	6.48	5.62
Fixed	External	4.51	0.33	5.81	2.67	10.94	6.42	-
Income	Total	8.39	0.45	5.86	2.73	11.00	6.48	5.62

Returns from Domestic Fixed Income in 2008

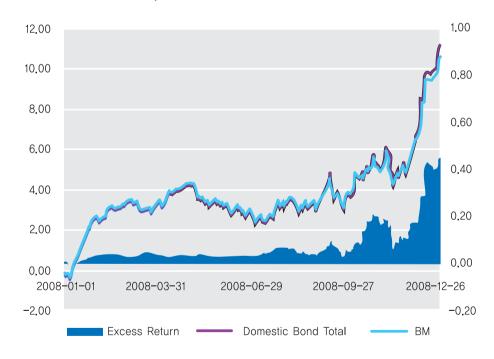


Return compared to the Benchmark Index (Domestic Bond)

(Unit:%)

Item	2008년			3year average ('06~'08)			5year average ('04~'08)		
ILCITI	NPS	BM	Excess	NPS	BM	Excess	NPS	BM	Excess
In-house	11.00	10.54	0.46	6.48	6.30	0.18	5.62	5.49	0.13
External	10.94	10.14	0.80	6.42	6.23	0.19	-	-	-
Total	11.00	10.54	0.46	6.48	6.30	0.17	5.62	5.49	0.13

Compared to the Benchmark Index in 2008



B. Overseas Fixed Income

As of the end of 2008, the value of the Fund's foreign bond holdings (for both internally and externally managed Fixed Income) was estimated at KRW 9.2 trillion, a year-on-year decrease of 47% from the previous year. Also, investment in foreign Fixed Income yielded a rate of return of 12.46%.

Investment in Overseas Fixed Income

(Unit: KRW hundred million, %)

	Item	20	06	20	07	2008		
item		Amount	Weight	Amount	Weight	Amount	Weight	
Oversea Fixed Income		164,291	8.7	173,526	7.9	92,195	3.9	
	In-house	154,299	8.2	150,588	6.9	60,351	2.6	
	External	9,992	0.5	22,938	1.0	31,844	1.4	

Note) The proportion compared to total Financial Asset

Return from Overseas Fixed Income

(Unit:%)

ltem	2006	2007	2008	3year average (2006~2008)	5year average (2004~2008)	
In house	7.32	2.57	14.15	7.91	7.00	
In-house	(3.17)	(8.92)	(14.61)	(8.80)	7.00	
External	1.19	0.43	5.18	2.24		
Externat	(2.56)	(4.80)	(4.92)	(4.09)	_	
Total	7.18	2.33	12.46	7.24	/ /2	
	(3.14)	(8.62)	(13.13)	(8.22)	6.63	



A. Domestic Equities

The Fund's domestic equity assets as of the end of 2008 were estimated at KRW 28.6 trillion in market value, a year-on-year decrease of KRW 4.4trillion. This is because estimated losses overwhelmed gain through new investment. NPF made new investments of KRW 9.7 trillion (KRW 5.7 trillion for in-house management, 4.1 trillion for external management) in 2008, but losses of KRW 14.2 trillion(KRW 6.5 trillion for in-house management, 7.7 trillion for external management) was recorded due to the downward stock market.

Investment in Domestic Equities

(Unit : KRW hundred million, %)

	20	06	20	07	2008		
	Amount	Weight	Amount	Weight	Amount	Weight	
Total	207,225	100.0	330,413	100.0	285,961	100.0	
In-house	101,301	48.9	151,945	46.0	143,059	50.0	
External	105,924	51.1	178,468	54.0	142,901	50.0	

Among the domestic equity, equity managed by in-house managers amounted to KRW 14.3 trillion while externally managed equity amounted to KRW 14.3 trillion, so the weight of the externally managed equity became about 50%. Looking at the investment allocation for the past seven years, in-house management has decreased while external management showed an increasing trend. However, this trend has reversed in 2008.

As of the end of 2008, the Fund's equity holdings represented 4.4% of the total market value of Korean stock market, including KOSDAQ. This is an increase of 1.33%p from the previous year's 3.07%. In case of only the KOSPI, the Fund's equity holdings accounted for 4.68%, an expansion of 1.40%p from 3.28% in the previous year.

The Amount of Equities Held by the Fund Relative to the Market

(Unit: KRW hundred million, %)

	2008							
	NPS	Market	Weight					
Total	274,230	6,230,122	4.40					
KOSPI	269,112	5,768,875	4.66					
KOSDAQ	5,118	461,246	1.11					

NPF is investing KRW 28.2 trillion into 527 kinds of stocks as of the end of 2008. In 146 kinds of stock items which is worth of KRW 20.6 trillion, the Fund owned more than 5% of shareholding in the total number of stocks. These stocks account for 27.7% of the number of total investment stock, and 73.2% of the total market value. The average owning rate in domestic equity investment is 3.51%.

Share of Domestic Stocks

(Unit: Item, KRW billion, %)

						Total	average		
				1~3%	3~5%	5~10%	over 10%	Total	Shares
	In-h	nouse	22	77	34	10	0	143	2.18
Stocks	Ext	ernal	151	181	91	76	9	508	2.81
	Domestic	Total	144	147	90	129	17	527	3.51
	Stocks	Weight(%)	27.3	27.9	17.1	24.5	3.2	100.0	0.01
	In-ho	use	20	720	2,762	10,387	416	14,306	
Price	Exte	rnal	144	930	2,983	9,148	653	13,858	
TITCE	Domestic	Total	164	1,651	5,745	19,534	1,069	28,164	
	Stocks	Weight(%)	0.6	5.9	20.4	69.4	3.8	100.0	

Note) Based on the end of 2008

The 2008 daily average number of domestic stocks traded by NPF was 40.49million, which accounted for 0.47% of the whole stock market. The average daily value traded by NPF was 139.8 billion won, which took up 2.17% of the whole market.

Transaction Volume & Amount

(Unit: thousand shares, KRW hundred million, %)

	Tran	saction Volume		Amount			
	NPS Market Portion		NPS	Market	Portion		
Total	4,049	859,321	0.47	1,398	64,319	2.17	
KOSPI	3,685	355,205	1.04	1,340	51,896	2.58	
KOSDAQ	364	504,115	0.07	57	12,422	0.46	

Based on the type of equities held, the proportion of large cap stocks is high while the proportion of small and medium cap stocks and stocks listed in KOSDAQ is low compared to the market overall. Especially, the in house management stock portfolio was made of 93.9% of large cap companies, 4.3% of mid cap companies, and 0.2% in KOSDAQ stocks. The externally managed stock portfolio is composed of 78.4% of large cap companies, 14.1% mid cap companies, 1.3% small cap companies, and 3.5% in KOSDAQ stocks.

Proportion of Equities Held by Type

(Unit: KRW hundred million , %)

	In-house		External		Domestic Equities		Weight in	(A-B)
	Market Value	Weight	Market Value	Weight	Market Value	Weight(A)	Market(B)	(/ ())
Large-Cap.	134,278	93.9	108,537	78.4	242,815	86.3	76.3	10.0
Middle-Cap.	6,146	4.3	19,462	14.1	25,608	9.1	9.5	-0.4
Small-Cap.	-	0.0	1,762	1.3	1,762	0.6	2.6	-2.0
Others	2,292	1.6	3,865	2.8	6,157	2.2	4.2	-2.0
KOSDAQ	343	0.2	4,775	3.5	5,118	1.8	7.4	-5.6
Total	143,059	100.0	138,401	100.0	281,460	100.0	100.0	0.0

The return on domestic equity was -38.13%, which was 1.50%pt higher than the benchmark return of KOSPI_T -39.63%. The three year and five year average return on domestic stocks managed by NPS was 1.5%pt and 1.36%pt higher than the benchmark return respectively.

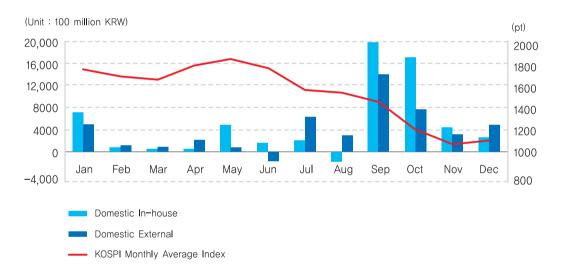
Return from Domestic Equities

(Unit:%)

		2007		2008		3year average('06~'08)			5year average('04~'08)			
	NPS	BM	Exc	NPS	BM	Exc	NPS	BM	Exc	NPS	BM	Exc
In-house	36.41	32.89	3.52	-37.51	-38.21	0.70	-3.33	-4.47	1.14	9.38	8.57	0.81
External	41.69	34.85	6.84	-38.68	-40.13	1.45	-3.44	-5.16	1.71	10.30	8.29	2.01
Total	39.25	35.07	4.18	-38.13	-39.63	1.50	-3.33	-4.84	1.51	9.87	8.51	1.36

In 2008, the Fund bought domestic equity worth of 39 trillion and 888.9 billion but sold 29 trillion and 440.5 billion won so the net buying was worth of 10 trillion and 484.4 billion won. Domestic equity buying was concentrated for the second half, but in house management and external management showed different pattern of selling and buying.

Monthly Net buying of domestic equity



B. Overseas Equities

As of the end of 2008, the external management balance for the overseas equity owned by the Fund was 5 trillion and 667.5 billion won, an increase of 5 trillion and 381.3 billion won from the previous year. North American equity and Europe equity took up the majority of the investment. Compared to the benchmark MSCI AC Ex Korea, the Fund had 7.4% more on Europe equity and 10.9% and 3.2% less for North America and Japan respectively.

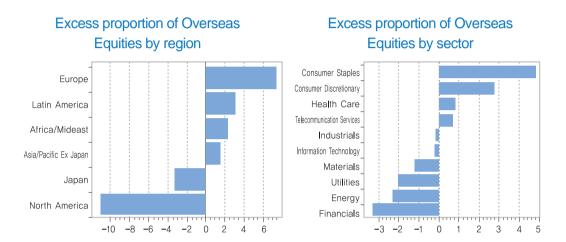
Proportion of Overseas Equities Held by Region

(Unit : %)

Region	Fund	MSCI AC Ex Korea	Excess
North America	38.3	49.2	-10.9
Europe	36.1	28.8	7.4
Asia/Pacific Ex Japan	9.4	7.9	1.5
Japan	7.5	10.7	-3.2
Latin America	5.0	2.0	3.0
Africa/Mideast	3.6	1.4	2.3
Total	100.0	100.0	0.0

Note) Based on the end of 2008

According to the overseas stock portfolio as of 2008, the weight of Customer Staple and Consumer Discretionary is very high but that of finance, energy, and utility sector is low compared to those of the benchmark.



Based on Korean won, the return on overseas equity was -49.07%, which was 14.3%pt lower than the benchmark MSCI World Index(-34.76%). The rate of return based on US dollar was -42.89%, which is 0.91%pt less than the benchmark. The Korean won and US dollar based 5-year average rate of return on overseas equity by the Fund was -4.30% and -0.96% respectively.

Returns of Overseas Equities

(Unit:%)

	2006	2007	2008	5year Average
KRW Returns(A)	16.87	6.41	-49.07	-4.30
USD Returns(B)	19.60	9.98	-42.89	-0.96
Benchmark(C)	20.07	9.04	-41.98	-0.94
KRW-USD(A-B)	-2.73	-3.57	-6.18	-3.34
Benchmark(B-C)	-0.46	0.95	-0.91	-0.02



Other Financial Sectors

A. Alternative Investment

At the end of 2008, the National Pension Fund invested KRW 8 trillion and 804.4 billion in alternative assets, representing 3.7% to the financial sector assets of the Fund. The Fund's alternative investments have grown gradually since 2003 and increased by 63% compared to that of 2007.

Alternative Investments in 2008

(Unit: KRW hundred million)

	Cla	assification	Evaluated Value
		Real Estate	18,316(21%)
		SOC	32,715(37%)
Domestic	Others	Venture	3,178
Domestic		Private Equity Fund	16,116
		CRC	3,754
		Acquisition Finance	573
		Real Estate	5,642(6%)
Oversea		Infrastructures	177(0.2%)
	Private Equity Fund		7,573(9%)
		Total	88,044(100%)

As of the end of 2008, the Fund is supposed to invest KRW 11 trillion and 179.8 billion into Real Estate, SOC, and other alternative assets.

Domestic Alternative Investments Relative to Contracts in 2008

(Unit : KRW hundred million, %)

Classification	Real Estate	SOC		Total				
Ciassification Real Estate		300	Venture	PE	CRC	Acquisition Finance	Total	
Investment Commitments	27,907	47,961	4,645	24,941	5,774	570	111,798	
Cumulative Investment	18,235	32,611	4,365	15,862	5,531	570	77,174	
execution	(65.0)	(68)	(94)	(64)	(96)	(100)	(69)	

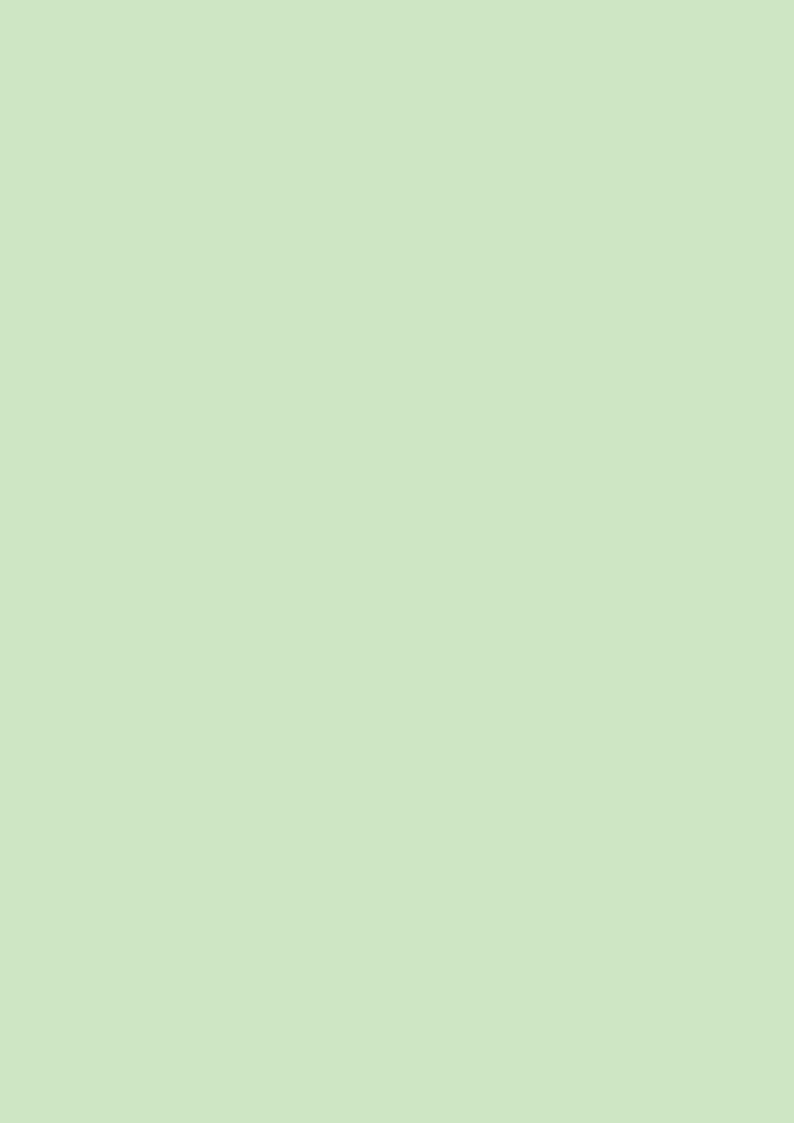
As of the end of third quarter in 2008, the Fund was investing 15 kinds of overseas real estate fund and the total contracted investment amount was about US \$ 756million and the real invested amount was 55% of the contracted amount. According to the investment contract by region, investment in Europe accounted for 30%, united States 25%, and 11% and 34% in Asia and Global investment respectively. Also 94% of the contracted investment amount was through private equity type investment. The number of the externally managed overseas private equity fund was 16 and contracted amount was US \$1.6 billion and 5.508 million. Actual invested amount was US \$644.52 million and the actual investment was 38.9% of the contract. As for the portfolio by region, overseas private equity fund had invested 64.9% in the United States, 21.1% in Europe, 8.6% in Asia and 0.9% in Africa.

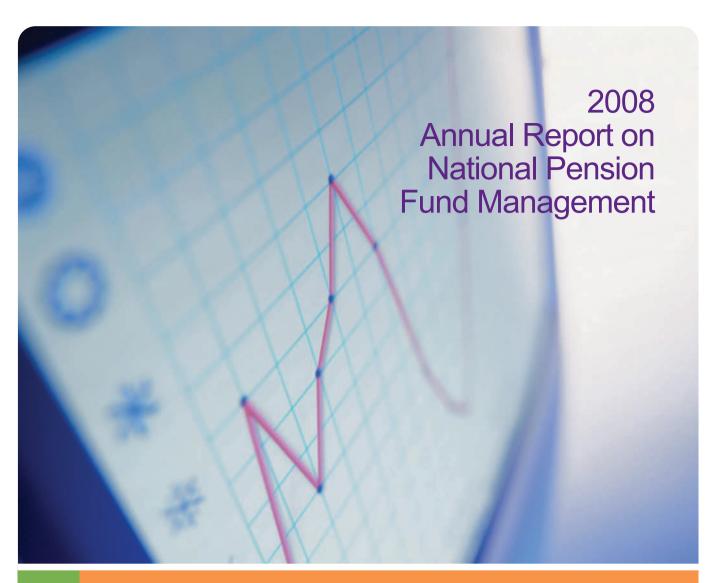
The rate of return on total alternative investment in 2008 was 2.93%, a decrease of 4.8% from 7.73% in 2007. In case of the return by sector, the rate of return on domestic real estate was the highest rate of 6.09%, SOC 3.5% and others 1.98% respectively.

Returns from Alternative Investment

			2008	2007	
		Real Estate	6.09%	4.19%	
		SOC	3.50%	3.47%	
	Others	Total	1.98%	9.76%	
Domestic		Venture	1.06%	10.53%	
Domestic		Private Equity Fund	3.95%	6.78%	
		CRC	-4.80%	15.64%	
		Acquisition Finance	2.81%1	-	
,		Total	3.70%	6.33%	
		Real Estate	0.09%	9.33%	
Overseas		Infrastructures	-2.13%21	-	
Overseas		PEF	-2.77%	3.76%	
		Total	-1.35%	5.98%	
,		Total	2.93%	7.73%	







4. Investment Management of the National Pension Fund



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To improve the management of the National Pension Fund, guidelines are drawn up pursuant to Article 105 of the National Pension Act, Article 81 of the Enforcement Decree of the National Pension Act, and Article 79 of the National Finance Act.

1. The Objective of Fund Management

The aim of the management of the National Pension Fund is to maximize the return and therefore to contribute to its long-term financial stability (Article 102, National Pension Act). What this means is that the management of the Fund is intended not only to maintain the real value of contributions paid and the yields obtained for stable benefit payments, but also to further the return on investment with a view to reducing public contribution burdens or increasing the benefit levels.

2. Guidelines

The Guideline for the National Pension Fund Management are reviewed and revised every year by the Ministry of Health, Welfare, and Family Affairs and enter into effect with the decision of the National Pension Fund Management Committee.

The 2009 Guidelines present workable management targets, investment policies and strategies, and standards for performance assessment, all within the scope of the current law. Long-term return on investment, as the Guidelines recommend, should exceed the sum of the rate of real growth, inflation and adjustment(a). Shortfall risk-or the risk that

the five-year rate of return on investment falls below the cumulative rate of price increases over the same period-are prescribed to be kept within a range of 10%. Furthermore, each year a five-year plan is developed for strategic asset allocation, stipulating that an action plan be established every year to respond duly to changes on benefits and contributions, as well as in market conditions. In this regard, any variations in connection with tactical asset allocation that fall outside the allowable range are to be reported with evidence to the Committee. The Guidelines seek diversified asset class portfolios, with a view to reduce risks. The Fund is managed in a number of sectors, including the welfare sector and the financial sector. The financial sector includes domestics stocks, overseas stocks, domestic Fixed Income, foreign Fixed Income, alternative investment products, and other financial commodities. In addition, the Guidelines provide basic prescriptions for risk management, performance evaluation, external management, voting, and rules of conduct for those involved in the management of the Fund, and reporting, public announcement, auditing, and detailed guidelines for each segment of the investment portfolios.

A. Strategic Asset Allocation

Strategic asset allocation is the process of establishing an asset allocation based on the objective analysis of markets. This refers to determining the relative portion of an asset group with an understanding of the expected return rate and the risk tolerance. The strategic asset allocation should proceed after considerations on reviewing the expected return rate and the financial conditions of the Fund, such as prospects of the Fund's assets and liabilities, after given. Also, this process should be managed with an awareness of the principles of the National Pension Fund.

The fund management committee devises a five-year plan for the Fund. These plans are developed for strategic asset allocation, stipulating that an action plan be established every year to respond duly to changes in benefits and contributions as well as in market conditions.

B. Tactical Asset Allocation

Tactical asset allocation refers to allocating assets after tactically adjusting them within the range allowed by the strategic asset allocation in order to meet and take advantages of market conditions. The tactical asset allocation is established every year based on the strategic asset allocation.

This asset allocation can be adjusted strategically by the Fund's management committee within the allowed range as stipulated by the annual fund management plan. The plan is established in accordance with changes in global and domestic economic conditions and with the prospects for global financial markets. Where the relative portion of asset groups exceeds its range, approval from the fund management committee must be obtained, with clear explanations.

C. Types of Asset Groups

The Guidelines for the National Pension seek to diversify asset classes of portfolios with a view of reducing risks and increasing returns. In this regard, the NPS executes investments according to the guidelines, under constant review. The Fund is managed in various sectors, as declared by the fund management plan, including the welfare sector and the financial sector. The financial sector includes Domestics stocks, Overseas stocks, Domestic Fixed Income, Foreign Fixed Income, Alternative Investments, and other Financial Instruments.

D. Benchmark Index

The main purpose of the benchmark index is to indicate fund management by sectors and to evaluate performance. The benchmark index for each sector is shown below:

Sector	Benchmark Index
Domestic Stocks	KOSPI
Oversea Stocks	MSCI AC World Index
Domestic Fixed Income	Customized Index
Oversea Fixed Income	Lehman Global Aggregate Index
Alternatives	Benchmark by detailed asset classes

The indices generally admitted in the market are also used for the benchmark index for the Fund. However, in consideration of the characteristics of the Fund, the benchmark index for each sector is allowed to be replaced with the specific index. The benchmark index contains the goal and principle, etc. of the asset management of the Fund, and its appropriateness and validity, therefore, should be constantly reviewed and complemented each year. If one of the benchmark indexes is considered to lack validity and appropriateness, then it will be replaced with another index by a resolution of the fund management committee.

E. Risk Management

The term risk recognition refers to the probability of unexpected losses on assets and events occurring that are expected to have a negative impact on the achievement of asset management targets. The risks are classified into market risk, credit risk, liquidity risk, legal risk, and operational risk.³

The risk value should be measured in an accurate and objective way from statistical data and specific data, such as market data. The NPS manages the risk management system for measuring and managing major risks of the fund, and is improving risk management systems through adjustments and modifications.

In order to enhance efficiency in the management of the Fund, a Risk Management Committee was established and operates in the National Pension Service, including outside risk management experts. The Head of the Risk Management Department in charge of controlling risk should report important matters regarding risk management in the Fund to the Risk Management Committee and the Minister of Health, Welfare, and Family Affairs.

In accordance with the range of risk tolerance suggested and decided in the fund management plan, the total risk tolerance for the amount available and by sectors are established and managed each year. Risk tolerance is allocated to each asset class and

³ Market risk is the possibility of a decrease in the value of assets resulting from changes in such market factors as stock price, interest rates, and exchange rates, and can be measured in value-at-risk (VaR), a statistical measure. Credit risk is the possibility of a decrease in the value of invested assets that arises when the transaction counterpart or the issuer loses their capacity to meet their liability to pay interest and principal. Credit risk is measured by "exposure," "expected loss," and "credit VaR." Liquidity risk is the risk that an asset sold may not receive its full market value due to a lack of liquidity or poor market performance. Legal risk refers to the potential for economic losses on the part of the Fund resulting from uncertainly in the interpretation of law and contracts. Operational risk is the potential for economic loss, or loss in reputation, of the Fund resulting from inadequate internal processes, systems, and people involved.

managed within the total risk tolerance. The NPS makes a report on the adjustment of the total risk tolerance to the Risk Management Committee in case of actual risk exceeding its tolerance level.

F. Performance Evaluation

In order to obtain trust in the National Pension Fund, an evaluation of the Fund's performance should be managed and open to the public with transparency and objectivity. The purpose of the performance evaluation is to encourage improvements and growth of the Fund.

The annual evaluation is made simultaneously with the long-term evaluation (more than 3 years), and the evaluation may not include only quantitative evaluations comparing with benchmarks, but also qualitative evaluation items such as improvements of management systems and risk management.

The evaluation of the Fund's performance results is performed by the Fund Evaluation Team and external evaluation experts after consulting with the fund management evaluation group. The Evaluation Committee evaluates the Fund performance based on this, and reports to the Fund Management Committee.

The NPF compensation evaluation is based on GIPS to improve the credibility of performance evaluation. In principle, the return rate of compensation evaluation is based on the time weighted return rate. For the entire Fund, the value-weighted return can be simultaneously used. Depending on the conditions of investment, the return rate of book value may be used for the compensation evaluation. The return rate is calculated in consideration of total income, including unrealized gains and realized gains.

G. Outsourcing

A reserved portion of the Fund should be externally managed for hedging against risk and elevating return rates. In this regard, outsourcing is intended to access the professionalism of a management company. In consideration of the amount of the Fund, external management will be assigned simultaneously with internal management of the Fund. Thus, the fund management committee is in charge of deciding the outsourcing portion of investments in each sector and their amounts.

The selection of a fund management company should be in accordance with objectives and transparent standards and procedures. The NPS should review regularly reports from the outsourcing companies; details on external management, such as investment details, return rates, and conditions of fund management and the companies involved. Also, the NPS should periodically check matters such as whether the outsourcing companies are complying with outsourcing investment guidelines, and assess the management performance to decide whether to continue with the arrangement.

H. Voting Right Exercise

The voting rights of stocks held by the National Pension should be exercised for multiplication of its assets. Voting rights should be exercised with honesty to benefit the insured persons and beneficiaries of the National Pension Fund and to contribute to enlarging its value.

The fund management committee established the "Guidelines for Voting Rights Exercise," which outlines rules relating to exercising voting rights, such as general rules,

procedures, and notices. In principle, voting rights should be exercised by the National Pension Service. The Expert Council on Voting Rights Exercise resolves matters difficult for the NPS to decide. Also, the council is responsible for reviewing the "Guidelines for Voting Rights Exercise" and for reporting related agenda items to the fund management committee.

I. Ethic Rules for Investment Manager

The staff of the Ministry of Health, Welfare, and Family Affairs and the NPS shall do their best to maintain their obligations as trustees when managing assets of the members and beneficiaries of the Fund.

J. Reports, Public Announcements, and Audits

The NPS is in charge of reporting periodically to the Minister of Health, Welfare, and Family Affairs, and submitting to the fund management committee information regarding the status of Fund management, risk management, Fund performance, and details and standards of voting rights.

The NPS announces information on its webpage regarding the Fund for its members, beneficiaries, and relatives of the Fund so they know the status of the Fund's management and its plans. Information such as the policies of the Fund, the Fund management plan, the regulations of the Fund's management, monthly status and returns of management, outsourcing status, results of performance evretations, financial statements, lists of external management companies, and details on voting rights exercised are announced through the webpage of the NPS.

The auditor of the NPS audits the accounts every half year, including the following: yearly or monthly plans of the Fund management, any violations of law and iniquities in the Fund's management, matters of execution orders from the Minister of Health, Welfare, and Family Affairs, and any other necessary matters for audit, etc. The auditor reports the results of the audit to the Minister of Health, Welfare, and Family Affairs.

K. Detailed Guidelines of Investments for each asset type

1) Domestic Equities

Domestic equity investments should be long-term oriented and designed to achieve the highest possible returns within an acceptable level of risk. For internal management, the portfolio is composed in advance with shares from an investable universe. Internal management seeks passive management over the mid to long-term. External management seeks active management and diversification of investment techniques by taking advantage of the expertise of external managers.

2) Domestic Fixed Income

In principle, investments in Fixed Income seek a stable rate of return over the long term by holding to maturity and diversifying the portfolio by bond type, issuer, issuing group, and maturity profile. Investments must be managed in consideration of the bond issuer's credit rating, the spread of risk-free Fixed Income and target Fixed Income, etc. The duration of Fixed Income can be adjusted in an allowed range in order to seek high returns. The National Pension Service reviews the total credit exposure of Fixed Income exposed to credit risk by issuer and industry. The total credit exposure should be submitted to the National Pension Fund Management Committee.

3) Overseas Investments

Overseas investment is managed with the intention of complementing domestic investments and, therefore, increasing the efficiency of diversified asset allocation.

Overseas investments are also intended to enhance investment skills over the long-term by strengthening the relationships with world-renowned investment managers. From a long-term perspective, overseas investments should be expanded in proportion with considerations of assets for the Fund's benefits. This will minimize the impact the National Pension may have on the domestic financial market upon the disposition of invested assets to pay out benefits.

The Fund Management Committee may regulate the policy for controlling the FX exposure that occurs from overseas investments. The National Pension Fund Management Center manages FX exposure within the range of the FX position decided by the Risk Management Committee, and submits the management status of FX exposure to the National Pension Fund Management Committee every year.

4) Alternative Investments

Alternative investments come with higher returns and higher risk levels than other investment sectors such as equities and Fixed Income. This characteristic should be efficiently used for additional returns. The Fund has invested in alternative assets such as real estate, infrastructure, venture capital, CRC (Corporate Restructuring Company) and PEF (private equity funds). New products are continuously discussed in terms of their viability as alternative investments.

Allocated alternative investments are performed within a definite period of time after contract in consideration of specialty, such as yearly granted contractual limits. There is a separate decision-making organization, referred to as Alternative Investment Committee, that strengthens efficiency and professionalism in alternative investments in addition to the investment committee.

Alternative investments should be made in accordance with the advice of outside specialists or professional institutes for the establishment of detailed investment plans, execution of investments, and post-management, etc. In addition, except for investments in, and loans for, infrastructure, alternative investments should, in principle, be externally managed.

5) Short-Term Assets

Short-term assets refer to assets for which management will be performed within a duration of 3 months. Investments in short-term assets should first consider the liquidity and safety of the target product. Short-term assets should be performed with a minimal amount of money, and invested in products with high returns.

6) Lending Security

Lending security is positively encouraged for the additional profitability of the Fund.

3. Asset Allocation Strategy

A. Strategic Asset Allocation

This is the process of establishing a long-term target asset allocation in terms of the market neutral perspective, and refers to decisions on the relative portion of the asset group. The analysis of long-term target asset allocation by the National Pension Service is conducted using the integrated analysis of Pension Assets & Liabilities Integrated Management as well as a detailed analysis of economic variables, cash flow of the pension, and the status of overall assets as a potential for investment.

The optimal long-term target asset allocation of the National Pension fund is decided by considering the sum of the rate of real economic growth and inflation $+\alpha$ as the expected rate of return of mid-term asset allocation, and then by establishing a maximum limit of risk granted for management purposes in order to contribute to the maintenance of the value of the Fund and its long-term financial stability. The maximum limit of risk is decided by considering the "minimum deposit rate that may occur after 5 years" and the "possibility of losses through the year" and it also considers that the probability which the portfolio investment return should not exceed the accumulated consumer price growth rate for 5 years should be kept under 10%.

In more detail, the analytical process used to derive the strategic asset allocation of the Fund is handled using the following procedures and methods. In advance, after the implementation of domestic and overseas economic prospects and analysis, the expected rate of return and expected risks are estimated using input variables such as past data from each asset group. In this case, the expected rate of return should be established in consideration of economic prospects. With such input variables, an

⁴ The National Pension's financial sector investment portfolios include domestic stocks, overseas stocks, domestic Fixed Income, overseas Fixed Income, alternative investment products, and other financial products. The benchmark applied to the "top asset group" is the benchmark suggested in the Guidelines.

efficient frontier is derived, and then the portfolio able to accomplish the expected rate of return for the Fund within the required level of risk tolerance among efficient investment opportunities is selected as the optimal selection, with the mid-term asset allocation (draft) then derived.

Process of Strategic Asset Allocation

Asset Class Review Data Set-up Estimation Process Set-up of EFL domestic stock Historical data Estimating expected Constructing a domestic bond for the return of return of each asset efficient frontier foreign stock class and covariance based on the each asset class foreign bond in the portfolio. matrix. estimation. alternative **Simulation of Optimal Asset Allocation** Driving optimal asset allocation that can meet the target return under the risk tolerance constraint.

When allocating the assets, the amount available of the Fund is divided into domestic Fixed Income, foreign Fixed Income, domestic stocks, foreign stocks, and alternative investments. They can be divided in detail by assets and management methods within the asset mix, and the assets can be divided with separate benchmark indexes determined by asset type. The benchmark index can be used with a separate index that reflects the nature of the Fund's assets other than the index generally used in the market. This index implies the goals and principles, etc. of the asset management of the Fund, and therefore, its appropriateness and validity should be consistently reviewed and supplemented.

On the other hand, the National Pension Management Committee determines the annual target asset allocation of the Fund reserve in the Fund management plan every year, after reviewing the expected returns and risks within the range of the upper and lower risk tolerance levels on the efficient frontier, based on intermediate-term and long-term asset allocation plans. In the Fund management plan, the portion based on the allocated amount by asset class can be recommended. However, to respond flexibly to unanticipated market conditions, a range based on target asset allocation for each asset group can be established in the Fund management plan.

B. Tactical Asset Allocation

Tactical asset allocation refers to allocating assets after tactically adjusting them within the range allowed by the strategic asset allocation plans in order to meet and take advantage of changing market conditions. This asset allocation can be adjusted strategically by the fund management center within the allowed range as stipulated by the annual Fund management plan and in accordance with changes in the global and domestic economic conditions, and given the prevailing prospects for global financial markets. Furthermore, the reason for adjusting plans for strategic asset allocation purposes must be specified in the yearly & monthly Fund management plans of the relevant year.

4. Risk Management System

A. Basic Principles

Risk management is intended to recognize, measure, and control a variety of risks accompanied with the Fund management activities and comply with the principles of management in all investment affairs. Asset returns are generated with the proper management of risks. In that regard, risks should be duly perceived and estimated in an accurate and objective way, and the assets should be constantly managed so that they are not exposed to excessive risks as they pursue the target returns.

B. Management System

In order to manage the risks from the investments, National Pension Service(NPS) has a system that classify and deal with the risk such as market and credit one. NPS develops and implements the plan for managing each risk and checks risk index reflecting from the characteristics of the Fund. The regulations of National Pension Fund Management includes who, when and whom should report for risk management. The Fund Management Committee determines the amount of risky assets and the Center manages the risks within the range allowed from the Committee.

In order to enhance efficiency and transparency in the management of the Fund, a Risk Management Committee was established in the National Pension Service under the direct control of the Chairman, and an Investment Committee and an Alternative Investment Committee now also operate in the Fund Management Center. Furthermore, in order to control risk, risk management is carried out by each team within the fund management center first; then the risk management department exclusively in charge of risk control and performance evaluation within the fund management center oversees all risk controls. The head of the risk management department reports important matters

Risk Management Framework

	Sectors	Risks	Managing methods
	Establishment of Fund management planning (Fund Management Commitee)	Asset allocation Risk (Mid long-Term)	Determine the size of Risk assets(Ex. stock)
Plan	Annual financial planning (Fund Management Center)	Asset allocation Risk (Mid-Term)	Risk Budgeting
	Monthly financial planning (Fund Management Center)	Asset allocation Risk (Short-Term)	The allocation of risky assets every month by the short-term market prospect
		Active Risk	Managing Tracking Errors Total Active Risk Active Risk from the tactical asset allocation Active Risk from asset classes
		Market Risk	Market VaR management Market risk management of stock sector Portfolio gap- Management of each stock return-Management of integrated stock shareholding (in-house, external) Management for risk of new products types - risk management of new type investment-examining risk in advance for a new security
Operation	Investment Risk	Credit Risk	Investable stock management Investment limit management Total Exposure management Indirect exposure management of stock, bond each institution, liability, credit rate Risk Index management Credit VaR management Credit Scoring management
		Alternative Investment Risk	 Applying decision making system other that that of general securities investment Classifying the asset soundness and implementing the allowance reserve for bad assets operation for the asset evaluation committee
		Exchange Risk	exposure limit management of off-board derivative examining the risk related to lending overseas securities exposure limit establishment of foreign exchange
	Operational Risk	payment risk/ Asset Management	Introduction/ Operation of Security STP Security management by external banks Double checking against payment errors, financial mistakes double checking securities and bad assets
Evaluation	Internal/External Evaluation Research Center	Evaluating and review	wing the Fund performance and risk management

on risk management in the Fund's management to the Risk Management Committee and the Minister of Health, Welfare, and Family Affairs.

C. Establishing Limits and Management

In accordance with the range of risk tolerance levels suggested in the Fund management plan, the total risk tolerance for the amount available is established and managed each year. The total risk tolerance is divided into two sectors, Market VaR and Credit VaR. In addition to the systematic risk related to strategic asset allocation, active risk is separately managed. Risk tolerance is allocated to each asset class and managed within the total risk tolerance scheme.

Risk Allocation and Management Cycle



5. Issues and Changes in Fund Management

A. The Fund Management Strategy of National Pension to overcome the global financial crisis

Korean economy and Financial Markets were affected by the 2008 global financial crisis. Even though Korean economy experienced the financial instability and impact from high oil price, its growth rate sustained 4% until the three quarters of 2008. However, in the fourth quarter of the year, financial unrest changed into a crisis. While world economy dropped into severe recession, Korean economic growth fell rapidly simultaneously and the liquidity of foreign exchange currency was also in a serious situation. In November, the exchange rate to US dollar jumped to \$\psi_1,500\$ (SERI CEO Information 2008.12.24).

The National Pension Management Committee in October 23, 2008 changed the target asset allocation of 2008 to response the global financial crisis strategically. For example, the committee raised the weight of the domestic fixed income investment from 66.4% to 72.4% to enhance the stability of the Fund. The target ratios of the overseas equity and fixed income investment were changed from 6.9% to 3.6% and 6.9% to 4.1% respectively, resulting from the unstable prospect of the financial market and the difficult situation of foreign exchange currency market.

The Pension Fund in 2008 reported a rate of return of -0.21%(time weighted compound rate) on its investments in financial markets, 7.21% points down from the year before.

The annual rate of return over the three and five years became 4.17% and 5.29% respectively, down from the previous years. However, the investment return in financial markets exceeded 1.68% comparing to the benchmarking index.

In addition, the return of 2008 was relatively good comparing to the damages of global funds which reported the annual return of -20%, resulting from the financial crisis.

B. Establishing and Implementing Mid-to Long-Term Management Strategies for the National Pension Fund

According to the analysis of the financial structure of the National Pension, the income of the year can pay the benefits of the year sufficiently. Thus, there is no need to allocate the Fund to short-term asset. Reducing the financial burden of the future generations and delaying the time of the Fund depletion might be dependent on how well can we allocate and manage the assets from the mid- or long-term perspective.

For this reason, NPS prepares long-term asset allocation & fund management plan based on annual prospective overview report. Through Fund management committee's consideration and voting, fund is appropriately segmented in each division and managed efficiently. In general, all reserved fund is classified as mid-to long-term assets. Short- term assets are invested in bonds including domestic bonds.

C. Mid-to Long-Term Asset Allocation Plan

1) Background of Mid- to Long-Term Asset Allocation Plan

As National Pension Fund's impact on the financial environment and the national economy has expanded, establishment of the long-term Fund management plan was needed.

Due to the growth of the Fund scale, the long-term strategy always reconsiders profitability & stability to manage it more efficiently. It often sets management policy through diversification of investment options and focus on decentralization of asset. NPS is increasing its investment in equities, alternative assets and overseas investments. According to this policy direction, National Pension Fund has plan to mid-term asset

allocation for next 5year since 2006.

2) Mid-Term Asset Allocation for 2009~2013 year

The target rate of return is the real economic growth rate (4.7%) + Inflation rate (2.8%) + α , as part of an effort to enhance the rate of return for the Fund's asset investments in an active fashion.

The potential that the five year rate of return on investment falls below the cumulative rate of price increases in the same period or, to put it simply, the shortfall risk is recommended to be held within a range of 10%. This is because the National Pension, for now, is in a growth stage as it collects more than it pays out in benefits, and therefore can afford risks of such a level to increase the gains. The National Pension, in view of the impact it may have on the domestic capital market, increased its investment in overseas stocks and Fixed Income in order to increase the rate of return on its overall investments. Investment in higher-risk assets like domestic stocks and alternative investment products will also be increased in a stepwise manner.

Target rate of return in 2008

	2007 (Mid-term plan for 08~12year)	2008 (Mid-term plan for 09~13year)
Real economic growth rate (A)	4.5%	4.7%
Inflation rate(B)	2.6%	2.8%
α(C)	0.2%	0.0%
Target rate of return(A+B+C)	7.3%	7.5%

D. Strategic Alliances with Foreign Organizations

As National Pension Fund extends the scale of investment, the need for diversification, which means the extension of overseas and alternative investments, is on the increase. To strengthen the expertise it lacks in overseas asset management, the National Pension Service in 2006 sought to form strategic alliances with foreign organizations and pension funds in other countries with proven expertise and excellent track records in international asset management.

As of December 2008, the National Pension selected World Bank, Morgan Stanley Investment Management, Credit Suisse Asset Management as strategic alliance partners. Dispatching trainers to these alliance partners was implemented to attain know how on investment management.

On the other hand, the National Pension selected such overseas pension funds as the ABP of the Netherlands and the CPPIB of Canada as alliance partners. In July of 2007, memoranda of understanding with overseas pension funds were concluded. With these agreements, the NPS and alliance partners discussed issues regarding the Fund's management and market information through seminars, joint research, and joint investments, etc.

E. Voting Right Exercise

Until 2005, the big step for exercising voting rights had been decided in the asset management guideline. NPS had exercised voting rights through the detailed guideline. Making voting right exercise more rational and transparent, however, required the involvement of the National Pension Fund Management Committee. The Committee resolved, when it drew up the Guidelines for 2006 in May 2005, to set up an advisory committee to decide on guidelines for the exercise of voting rights. After nine meetings, the Advisory Committee, in December 2005, finalized the "Guidelines for Voting Right

Exercise" and decided to have them subjected to review every year.

In addition, the Management Committee in 2006 set up an Expert Council on voting right exercise. The Expert Council is empowered with the authority to review and decide on matters concerning the exercise of voting rights on stocks held by the National Pension and is to report to the Committee.

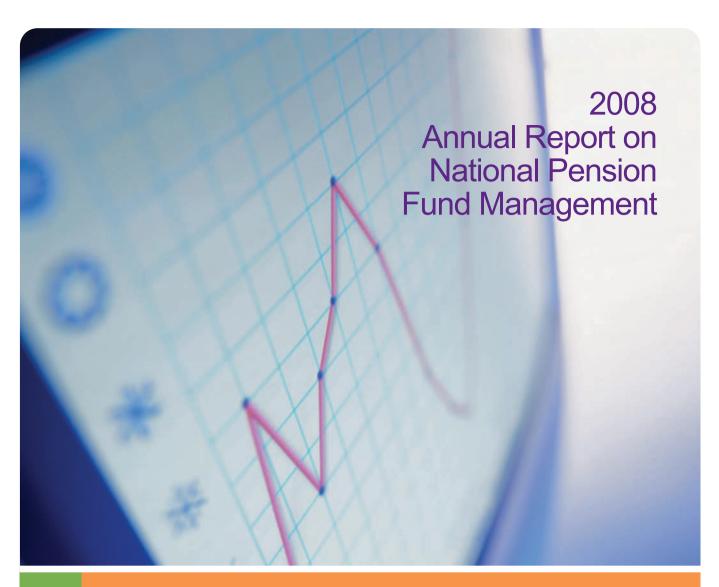
The Expert Council's functions are to: review the general rules and specifics pertaining to the exercise of voting rights; review the voting rights exercised by the Fund Management Center; resolve matters that are difficult for the Center to decide upon, and; review and resolve other matters upon requests from the Chairman of the Fund Management Committee. The Expert Committee is composed of members numbering between five and nine, each serving a two-year term, and a Chairman elected from among them. To increase its representativeness and professionalism, the members are elected from the following sectors: 2 from the government; 2 from the employer sector; 2 from the employee sector; 1 representing individual insured persons; 1 from civic groups and; 1 from the research sector. Resolutions are taken by a majority of the votes cast by a majority vote with at least half of the members present. Throughout 2008, three meetings were held.

In 2008, the National Pension exercised voting rights in a total of 2,010 cases, of which 1,899 cases were voted for (94.5%) and 109 cases voted down.

Voting Right Exercise in 2008

Year	Voting	Details			
i eai	Vourig	Voted for	Voted down	Abstained	
2008	2,010	1,899	109	2	
	2,010	94.5%	5.4%	0.1%	





5. Financial Statements

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1. National Pension Fund Special Accounting

The National Pension Service prepares financial statements in accordance with the National Pension Act, the Enforcement Decree of the National Pension Act, Fund Accounting Regulations, and the Generally Accepted Accounting Principles in the Republic of Korea. The significant accounting policies used in the preparation of financial statements are as follows.

A. Major Differences from Korean GAPP

① Pension Disbursement(Pension Benefit Transfer-out, Pension Benefit Reserves Transfer-in) and Pension Benefit Reserves

"Pension Benefit Transfer-out" is an amount transferred to the General Business Accounting to pay benefits. The amount of Contribution less Pension Benefit Transfer-out is journalized as an expense, or Pension Benefit Reserves Transfer-in, and this amount is accumulated into Pension Benefit Reserves in Equities.

② General Business Accounting Assets, Welfare Business Accounting Assets

They are adjustment accounts that show the Fund Management Accounting's relationships with General Business Accounting and Welfare Business Accounting. General Business Accounting Assets is composed of the funds transferred out to acquire assets for the General Business while Welfare Business Accounting Assets is composed of the fund transferred out for operating Welfare Business. Net asset values of the General Business Accounting Assets and Welfare Business Accounting Assets are journalized at the end of the fiscal year.

3 Leasehold Deposit Received

It is an adjustment account that indicates security deposit which Fund Management Accounting receives from General Business Accounting of National Pension Service. Security deposit on lease of buildings which General Business Accounting of NPS owns is supposed to be transferred into Fund Management Accounting.

4 Fund Transfer-in

"Fund Transfer-in" is the amount of the fund transferred when the National Pension Service was commissioned by the Ministry of Health, Welfare, and Family Affairs to manage the National Pension Fund.

⑤ Government Subsidy for Administrative Expenses, Administrative Expenses Transfer out

"Government Subsidy for Admin Expenses" are government subsidy for administrative expenses of NPS. "Administrative Expenses Transfer out" is used to cover the fund management expenses for the Ministry of Health, Welfare, and Family Affairs and the administrative expenses of NPS.

6 Profit/Loss of General Business Accounting and Welfare Business Accounting

They indicates the transferred profits from General Business Accounting and the changes in net asset values of General Business Accounting Assets and Welfare Business Accounting Assets at the end of the fiscal year. When changes in net asset values of General Business Accounting or Welfare Business Accounting occur due to the Net Income(Loss) for the Year, Fund Management Accounting journalizes the changes as Non-Operating Profit/Loss and treats it by adding to or subtracting from the General Business Accounting Assets or Welfare Business Accounting Assets.

B. Pension Contributions

Pension Contributions (the amount deposited into the National Pension Fund Account at the Bank of Korea as of the balance sheet date) are added to the revenue, based on the contribution revenue recognition principle as specified in Accounting Standards for the Insurance Industry (Industry-Specific Working Rules of Accounting, Korea Financial Accounting Standards). Other revenue sources are recorded on an accrual basis.

The total pension contributions billed from the inception of the National Pension (January 1, 1988) to December 31, 2008 amounted to KRW 201 trillion 39 billion 797 million of which KRW 194 trillion 306 billion 104 million has been collected. The rest, 3.3% of the billed amount, or KRW 6 trillion 733 billion 693 million is not recognized as part of pension contributions.

C. Securities

At the time of acquisition, securities are categorized as one of held-to-maturity securities, trading securities, or available-for-sale securities. The appropriateness of such categorization is reviewed on every balance sheet date.

Held-to-maturity securities include debt securities with fixed maturity and fixed or determinable cash flows, for which the Fund has the ability and intention to hold until maturity. Trading securities are securities acquired for generating short-term profits. Available-for-sale securities include securities that are recorded neither as held-to-maturity securities nor trading securities.

The historical costs of securities are calculated by considering market price plus incidental expenses. Held-to-maturity securities are estimated in terms of amortized acquisition cost, and trading and available-for-sale securities in terms of fair value. However, non-marketable available-for-sale securities are carried at cost when their fair value cannot be measured reliably.

In case of marketable available-for-sale securities, the market price is taken as fair value and it is supposed to be closing prices of the balance sheet date. Debt securities whose market quotations are unavailable are carried at a value measured using the value of future cash flows, at a reasonable discount rate determined by the credit ratings of one or more independent credit rating agencies. The fair value of non-marketable securities is their trading price presented by fund managers.

Unrealized gains or losses of holding trading securities are recorded in the Income Statement, and the unrealized gain or losses of holding Available-for-sale securities are recorded as Unrealized Gain or Loss on Available-for-sale securities in Accumulated Other Comprehensive Income, which is charged to current profit or loss in a lump sum at the time of disposal or impairment recognition. When the face value of Held-to-Maturity Securities differs from the acquisition cost, the effective interest rate method is applied to amortize the difference over the remaining term of the securities.

Impairment loss is evaluated on every balance sheet date based on objective evidence. If the realizable value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, and if the fair value of equity securities is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to realizable value and the resulting valuation loss is charged to current profit or loss.

Trading securities, Available for Sale Securities that are sure to be sold within one year, and Held to Maturity Securities whose maturity falls on within one year from the Balance Sheet Date are categorized as Current Assets.

D. Securities by Equity Method

Equity Securities over which the Fund is able to exercise significant influence are accounted for using the equity method. Under the method, the Fund records changes in its proportionate ownership as Equity in Income/Loss of Equity Method Accounted Investee(Net Income/Loss of the Year), Retained Earnings, or Unrealized Gain/Loss on Equity Method Accounted Investments, depending on the nature of the underlying change in the book value of the investee. When the book value of equity method investments is less than zero due to the accumulated losses of the investee, the Fund discontinues the application of the Equity Method and record zero for Securities by Equity Method.

E. Listing of Foreign Assets and Liabilities

Non-monetary foreign assets and liabilities are recorded in KRW based on the prevailing rate of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate announced by Seoul Money Brokerage Service, Ltd. on the balance sheet dates. Gains or Losses on Foreign Currency Translation are recorded as current profit or loss.

F. Accounting for Derivatives

Derivatives are carried at fair value at the time of initial contract and every balance sheet date, and the attributable transaction costs are recognized in profit or loss when incurred.

Fair Value Hedge Accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. Cash Flow Hedge Accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability that is attributable to a particular risk.

At the inception of the transaction, the type of hedging instruments, the risk management objective, and hedging strategies are officially documented. These derivatives are evaluated whether they are highly effective in hedging the risks both at hedge inception and at every balance sheet date.

In case of Fair Value Hedge Accounting, the gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in the current profit or loss item.

The effective portion of gain or loss on a derivative instrument designated as a Cash Flow Hedge is recorded as Accumulated Other Comprehensive Income(Loss). And then, it is recognized as current profits or losses in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in Accumulated Other Comprehensive Income(Loss) is added to or deducted from the asset or the liability. When a hedging instrument expires or is exercised, so a hedge no longer

meets the criteria for hedge accounting, future accounting treatment for the Accumulated Other Comprehensive Income items is still the same. However, when a forecasted transaction is no longer expected to occur, so the Cash Flow Hedge Accounting is discontinued, the Unrealized Gain or Loss on Derivatives which is carried in Accumulated Other Comprehensive Income is recognized as current profit or loss immediately.

G. Use of Assumptions

To draw up financial statements based on accounting standards that are widely accepted in Korea, the National Pension Service uses a variety of rational assumptions in its work on matters concerning the valuation of assets and liabilities, gains and expenditures. The valuation of derivatives also use that assumptions and therefore, these valuation can be different from real value.



2. Financial Statements

Balance Sheet

Account	20	08	2007		
Assets					
I. Current Asset		46,935,418,660,909		67,793,838,167,946	
(1) Quick Assets		46,935,418,660,909		67,793,838,167,946	
1. Cash & Cash Equivalents	1,646,391,454,170		372,464,536,221		
2. Short-term Financial Instruments	450,000,000,000		200,000,000,000		
3. Short-term securities investment	14,305,920,797,560		15,194,482,843,480		
4. Available-for-sales Securities	28,027,903,047,732		49,572,823,300,512		
Government Bond	10,497,242,566,267		7,200,479,559,621		
Municipal Bond	-		20,134,538,029		
Special Bond	3,788,231,737,183		5,375,594,462,907		
Financial Bond	9,401,497,049,630		25,297,467,585,744		
Credit Financial Bond	39,787,998,668		-		
Corporate Bond	847,482,149,605		693,996,886,593		
Overseas Securities	25,065,244,500		217,457,590,940		
Long-term Entrusting Contracted Asset	3,428,596,301,879		8,768,666,778,432		
• others	-		1,999,025,898,246		
5. Short-term Loan	5,691,160,322		6,594,473,063		
6. Accounts Receivables	38,675,066,804		67,331,204,127		
7. Accrued Income	2,252,061,565,953		1,782,251,712,097		
8. Interest Receivables	83,370,768,368		52,150,364,487		
9. Prepaid Expenses	125,404,800,000		545,739,733,959		
II. Non-Current Asset		195,027,226,329,761		152,334,029,102,244	
(1) Investments		194,637,504,979,761		152,119,107,752,244	
1. Available-for-sales Securities	189,163,652,841,371		146,940,273,972,587		
• Stock	798,970,992,443		145,829,719,175		
Government Bond	72,746,525,327,408		59,035,153,665,460		
Municipal Bond	611,266,398,173		411,144,588,530		
Special Bond	30,220,661,606,849		17,559,421,978,201		
Financial Bond	32,195,812,817,161		26,496,721,599,571		
Credit Financial Bond	1,467,803,903,659		797,473,569,310		
Corporate Bond	8,470,895,046,059		4,767,105,491,184		
Overseas Securities	8,162,886,452,451		13,979,126,991,700		
Long-term Entrusting Contracted Asset	19,823,495,293,068		17,156,136,748,331		
Overseas Entrusting Contracted Asset	11,946,055,496,341		1,518,602,120,481		
• Others	2,719,279,507,759		5,073,557,500,644		

Account	2008		2007		
2. Securities by Equity Method	2,724,132,778,600		2,841,716,279,404		
3. Long-term Loan	2,147,530,427,633		1,014,842,979,432		
4. Derivatives280,490,064,132		899,480,698,237			
5.General business accounting asset	248,467,657,032		344,582,831,308		
6. Welfare business accounting asset	73,231,210,993		78,210,991,276		
(2) Other non-current assets		389,721,350,000		214,921,350,000	
1.Long-term prepaid Expenses	389,721,350,000		214,921,350,000		
Total Assets		241,962,644,990,670		220,127,867,270,190	
Liabilities					
I. Current Liability	375,476,897,787		36,565,648,670		
(1) Account Payables	373,427,059,407		36,419,565,680		
(2) Withholdings1,912,493,150		-			
(3) Taxes Payables137,345,230		146,082,990			
II. Non-Current Liability		5,635,364,911,472		467,851,191,268	
(1) Derivatives Liabilities	5,607,530,051,332		440,101,430,858		
(2) Leasehold Deposit Received	27,834,860,140		27,749,760,410		
Total Liability		6,010,841,809,259		504,416,839,938	
Equities					
I. Capital		153,765,283,797,690		136,960,547,698,020	
(1) Pension Benefit Reserves	153,764,948,535,790		136,960,212,436,120		
(2) Fund Transfer-In	335,261,900		335,261,900		
II. Accumulated Other		444,210,957,306		(293,574,766,137)	
Comprehensive Income					
(1) Unrealized Gain on Available	9,901,533,671,271		4,430,396,370,412		
-for-sale Securities					
(2) Unrealized Loss on Available	(7,865,275,743,700)		(5,364,903,932,794)		
- for- Sale Securities					
(3) Unrealized Gain on Equity	6,447,951,737		4,528,308,543		
Method Accounted Investments					
(4) Unrealized Loss on Equity	(10,753,621,221)		(3,201,539,753)		
Method Accounted Investments					
(5) Unrealized Gain on Derivatives	-		807,987,955,745		
(6) Unrealized Loss on Derivatives	(1,587,741,300,781)		(168,381,928,290)		
III. Retained Earnings		81,742,308,426,415		82,956,477,498,369	
(1) Earnings Reserve	82,961,718,127,910		67,344,542,719,894		
(2) Unappropriated Retained Earnings	(1,219,409,701,495)		15,611,934,778,475		
Total Equities		235,951,803,181,411		219,623,450,430,252	
Total Liabilities and Equities		241,962,644,990,670		220,127,867,270,190	

Income Statement

Aggerrat	000	0	(Unit: KRW)		
Account	200	J8	2007		
I . Pension Contributions		22,985,539,795,370		21,670,181,500,610	
(1) Pension Contributions	22,985,539,795,370		21,670,181,500,610		
II . Operating Revenues		16,675,357,166,637		16,930,285,386,181	
(1) Income from Financial Assets	16,585,437,261,058		16,894,862,985,723		
1. Interest on Available-for-Sale Securities	8,193,689,470,133		7,311,663,890,333		
2. Interest on Foreign Currency Bond	661,393,840,410		577,450,645,708		
3. Interest on Short-term Financial Instruments	26,152,739,724		11,422,059,023		
4. Interest on Deposit	71,254,306,024		39,524,207,041		
5. Interest on Trading Securities	82,520,547		132,219,175		
6. Dividend	289,613,809,534		224,589,060,528		
7. Commissions Received	184,911,459,653		69,741,283,863		
8. Gain on Sale of Trading Securities	57,923,739,014		873,360,953,377		
9. Gain on Valuation of Trading Securities	36,626,329,677		3,281,437,441,041		
10. Gain on Sale of Available-for-Sale Securities	6,105,572,613,374		3,960,245,874,977		
11. Equity in Income of Equity Method Accounted Investees	127,079,500,573		195,723,100,835		
12. Gain on Trading of Derivatives	315,900,752,673		328,665,990,045		
13. Gain on Valuation of Derivatives	280,490,064,132		-		
14. Gain on Foreign Currency Translation	-		14,877,588,067		
15. Gain on Foreign Currency Tranactions	234,746,115,590		6,028,671,710		
(2) Income from Loan	89,919,905,579		35,422,400,458		
1. Interest on Loan	89,919,905,579		35,422,400,458		
Ⅲ. Pension Disbursement	07,777,00,077	22,985,539,795,370	00,122,100,100	21,670,181,500,610	
[1] Pension Benefit Reserves Transfer-In	16,804,736,099,670	22,700,007,770,070	16,487,570,679,160	21,070,101,000,010	
(2) Pension Benefit Transfer-Out	6,180,803,695,700		5,182,610,821,450		
IV. Operating Expenses	0,100,000,070,700	17,407,730,665,758	0,102,010,021,400	1,059,026,979,361	
[1] Commissions Paid	287,769,350	17,407,700,000,700	5,678,433,590	1,007,020,777,001	
(2) Loss on Sale of Trading Securities	804,866,131,521		125,871,608,326		
[3] Loss on Valuation of Trading Securities	6,042,143,785,365		457,503,752,982		
[4] Loss on Sale of Available-for- Sale Securities	1,113,850,701,362		77,863,132,454		
(5) Equity in Loss of Equity Method Accounted Investees	118,351,872,932		10,509,628,721		
(6) Loss on Trading of Derivatives	5,473,271,897,746		54,257,404,965		
(7) Loss on Valuation of Derivatives					
(8) Loss on Foreign Currency Translation	3,756,020,573,814		312,221,683,987		
(9) Loss on Foreign Currency Transactions	18,749,636,127		15,121,334,336		
	80,188,297,541	(722 272 /00 121)	13,121,334,330	15 071 250 /0/ 020	
V. Operating Income(loss)		(732,373,499,121)		15,871,258,406,820	
VI. Non-operating Income		19,848,645,879	//2.01/.//2	153,280,931,126	
(1) Reversal of Impairment Loss on Long-term Investment Securities	10.077.000.000		463,016,442		
(2) Government Subsidy for Admin Expenses	18,864,000,000		136,973,000,000		
(3) Income from general Business Accounting	-		14,508,449,328		
(4) Sundry incomes	984,645,879	501.001.010.050	1,336,465,356	(40.404.550.454	
VII. Non-operating Expenses		506,884,848,253		412,604,559,471	
(1) Admin Expenses	403,110,030,026		410,737,092,335		
1.for National Pension Service	402,784,143,126		410,492,101,145		
2.for Ministry of health, welfare and family affairs	325,886,900		244,991,190		
(2) Loss on General Business Accounting	98,307,450,152		-		
(3) Loss on Welfare Business Accounting	5,454,289,806		1,847,080,426		
(4) Sundry Expenses	13,078,269		20,386,710		
VIII. Ordinary Income(loss)		(1,219,409,701,495)		15,611,934,778,475	
IX. Net Income for the Year(loss)		[1,219,409,701,495]		15,611,934,778,475	

Statement of Retained Earnings

Account	2008	2007
I . Unappropriated Retained Earnings	(1,219,409,701,495)	15,611,934,778,475
(1) Retained Earnings at the beginning of the period	-	-
(2) Net Income(loss) for the Year	(1,219,409,701,495)	15,611,934,778,475
II . Appropriated Retained Earnings	(1,219,409,701,495)	15,611,934,778,475
(1) Earnings Reserve	(1,219,409,701,495)	15,611,934,778,475
III. Unappropriated retained earnings carried over to subsequent year	-	-



Statement of Cash Flow

Account	200	8	200	2007		
I .Cash flows from operations		20,210,652,173,131		24,248,019,732,166		
(1) Cash In-Flow from annuity premiums and other sources	26,806,896,016,479		29,840,393,352,071			
1. Contributions	22,985,539,795,370		21,670,181,500,610			
2. Gains from financial assets	8,791,080,946,135		7,742,213,796,334			
3. Interest from loans	78,895,796,174		34,544,193,015			
4. Government subsidy for admin expenses	18,864,000,000		136,973,000,000			
5. General accounting profits	19,983,881,023		19,050,754,310			
6. Sundry incomes	984,645,879		1,336,465,356			
7. Gains from derivatives	(5,088,453,048,102)		236,093,642,446			
[2] Cash outflow due to benefit payments	(6,596,243,843,348)		(5,592,373,619,905)			
1. Benefit payments	6,178,901,448,860		5,184,513,068,290			
2. Admin expenses	417,332,880,689		407,860,551,615			
3. Other sundry expenses	9,513,799		-			
		(18,937,434,425,316)		[24,323,414,412,201]		
[1] Cash inflow from investment activities	87,447,462,016,648		54,155,200,712,982			
Decrease in short-term financial instruments	200,000,000,000		626,000,000,000			
2. Decrease in short-term trading securities	3,041,632,880,950		4,106,105,771,420			
Decrease in available-for-sale securities	83,296,010,545,208		49,062,257,007,274			
4. Decrease in securities by equity method	318,839,691,592		294,553,317,143			
5. Decrease in prepaid expenses	545,739,733,959		-			
6. Decrease in loans	33,046,646,600		43,861,736,503			
7. Decrease in general business accounting assets	3,794,504,673		8,593,455,418			
8. Decrease in welfare business accounting assets	7,627,700,616		7,010,907,484			
Increase in leasehold deposits received	770,313,050		6,818,517,740			
(2) Cash outflow due to investment activities	[106,384,896,441,964]		(78,478,615,125,183)			
1. Increase in short-term financial instrumentss	450,000,000,000		625,177,940,976			
2. Increase in short-term trading securities	8,610,549,542,335		5,593,782,827,760			
Increase in available-for-sale securities	94,741,052,084,716		69,505,465,540,141			
Increase in isecurities by equity method	1,100,482,992,953		1,763,070,380,715			
5. Increase in prepaid expenses	300,204,800,000		512,910,433,959			
6. Increase in loans	1,164,830,782,060		445,360,120,000			
7. Increase in general business accounting assets	9,417,872,390		12,272,699,281			
8. Increase in welfare business accounting assets	7,673,154,190		12,950,317,151			
Decrease in leasehold deposits received	685,213,320		7,624,865,200			
Ⅲ. Cash flows from financial activities		709,170,134		479,207,132		
[1] Cash inflow from financial activities	709,170,134		479,207,132			
1. Increase in earnings reserve	709,170,134		479,207,132			
IV. Increase In cash(decrease) (I + II + III)		1,273,926,917,949		(74,915,472,903)		
V . Beginning cash		372,464,536,221		447,380,009,124		
VI. Ending cash		1,646,391,454,170		372,464,536,221		

3. Auditor's Report

Independent Auditor's Report

To Minister of the Health, Welfare, and Family Affairs and the National Pension Fund Management Committee:

February 6, 2009

We have audited the accompanying balance sheet of the National Pension Service as of December 31, 2008 and December 31, 2007, and the related statements of income, retained earnings, and cash flow for the same said years ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We audited in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

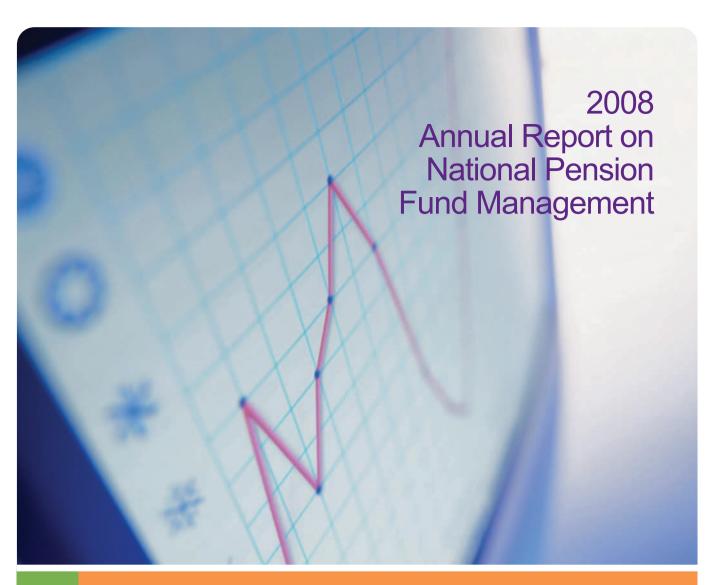
In our opinion, the financial statements referred to above present fair, in all material respects, the financial position of the National Pension Service as of December 31, 2008 and December 31, 2007, and the results of its operations and its cash flows for the same years ended are in conformity with the National Pension Act, the Enforcement Decree of the National Pension Act, Generally Accepted Accounting Principles, fund accounting regulations, and the accounting principles accepted in the Republic of Korea.

As explained in footnote 8, NPS revised some of its accounting regulations to clarify the transactions regarding fund transfers between accountings. Leasehold Deposit Received, Funds for Tangible Asset Acquisition, Other General Business Accounts are united into General Business Accounting Assets while General Accounting Profits, Depreciation Cost, Tangible Asset Liquidation Loss was united into Profit/Loss for General Business Accounting. Also, account name has been changed from Funds for Welfare Business into Welfare Business Accounting Assets, and from Loss of Welfare Facilities Business into Loss of Welfare Business Accounting. These changes do not affect the current and previous terms' financial status and performances, and the 2007 financial statements for comparison purposes has been revised according to the changed accounting regulations.

Sung Bok Yoon Samjong KPMG Group CEO







6. Key Statistics

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Revenue & Expenditure of the Fund by Year

(Unit : million KRW)

	2008	2007	2006	2005	2004	2003
Revenue	32,348,289	35,399,040	30,694,760	26,972,453	23,956,155	21,975,630
Contributions	22,985,540	21,670,181	20,152,304	18,543,584	17,143,347	15,610,907
Investment Yield ¹	9,343,091	13,592,213	10,377,349	8,303,263	6,693,581	6,364,301
Transfer-In	-	-	0	0	0	0
Government Subsidy	18,949	136,166	164,774	124,414	119,195	0
Surplus on Closing	709	480	333	1,192	32	422
Expenses	6,605,028	5,606,497	4,763,422	3,966,506	3,246,927	2,463,185
Benefit Payments	6,180,804	5,182,611	4,360,239	3,584,900	2,914,015	2,328,449
General&Admin. Expenses	409,396	404,100	390,732	369,431	320,324	122,564
Fees&Charge	3,174	3,053	2,857	2,838	3,462	4,149
Operating Expenses of Research Institute	3,551	3,795	2,625	2,788	2,655	2,074
Operating Expenses of Welfare town	8,103	12,938	6,969	6,549	6,471	5,949
Fund Increment	25,743,261	29,792,543	25,931,338	23,005,947	20,709,228	19,512,445
Fund Investment Amount ²	237,750,006	212,006,745	182,214,202	156,282,864	133,276,917	112,567,689
Fund Investment Amount(Market price)	235,424,703	219,623,450	189,581,162	163,923,366	141,007,966	116,694,485

Note 1. Total revenues and expenses in the applicable year

^{2.} Prepared using cash basis accounting methods

Asset Allocation by Year

(Unit : million KRW)

	2008	2007	2006	2005	2004	2003
Total	235,424,703	219,539,945	189,606,491	163,948,592	141,007,966	116,694,485
Public Sector	0	0	0	0	6,383,976	15,273,961
Welfare Sector	184,204	203,621	248,256	302,455	365,375	432,305
Financial Sector	234,993,677	219,009,916	189,059,665	163,350,870	134,041,480	100,797,636
Equities	33,973,704	38,470,449	21,986,279	20,394,906	12,701,549	9,125,848
Domestic In-House Mgmt	14,011,099	15,240,818	10,130,054	10,318,102	6,684,103	5,451,992
Domestic External Mgmt	14,294,265	17,848,426	10,592,427	9,395,371	5,674,251	3,517,045
Overseas Equities	5,668,341	5,381,205	1,263,798	681,433	343,195	156,811
Fixed Incomes	190,739,688	174,626,940	164,225,703	141,482,371	120,041,882	90,984,750
Domestic In-House	172,563,526	149,186,154	142,374,917	124,385,738	111,619,937	90,386,975
Domestic External Mgmt	8,961,962	8,078,035	5,421,691	5,135,623	4,116,781	0
Oversea Fixed Income	9,214,199	17,362,751	16,429,095	11,961,010	4,305,164	597,775
Alternative Investments	8,802,476	5,406,136	2,167,831	779,834	437,626	240,450
Time deposits	314,102	217,279	206,679	0	554,813	0
Money Market Investments	1,690,807	372,615	447,844	668,534	305,610	446,588
Foreign Security Lending	-527,100	-83,503	25,329	25,226	0	0
Others	246,822	326,410	298,570	295,266	217,135	190,583

Return on Investment by Year

(Unit:%)

	2008	2007	2006	2005	2004	2003
Total	0.01	6.84	5.77	5.61	8.07	7.03
Public Sector		-	-	4.16	4.71	4.9
Welfare Sector	-0.77	1.52	3.63	3.6	3.9	4.53
Financial Sector	0.00	6.86	5.77	5.65	8.41	7.58
Equities	-42.87	33.66	5.49	57.57	9.93	37.08
Domestic In-House Mgmt	-37.46	34.37	5.66	55.69	10.26	35.08
Domestic External Mgmt	-40.41	39.42	4.19	62.88	9.21	40.91
Overseas Equities	-59.69	3.7	19.11	10.76	16.16	11.47
Fixed Income	10.51	2.65	5.81	0.25	8.3	5.09
Domestic In-House Mgmt	10.64	2.68	5.69	0.57	8.36	5.09
Domestic External Mgmt	10.89	2.46	5.81	0.4	8.25	-
Overseas Fixed Income	9.14	2.43	6.89	-5.05	5.99	-
Alternative Investments	2.73	6.08	6.59	8.48	0.82	-
Money Market Investments	5.87	4.75	4.19	3.5	3.66	3.93

Agenda of the Management Committee and the Evaluation Committee Meetings Held in 2008

Classification	on	т	A 1
Type of meeting	Date	туре	Agenda
		Review	Closing of the fund in 2007(draft)
The first		Review	Regulation for Performance Evaluation & compensation Committee(draft)
Fund Management Evaluation	08.2.19	Review	Investment in overseas resource development of the Fund(draft)
Committee		Report	Report on long-term fund management strategy
	rype Review - Closing of the fund in 2007(draft) Review - Regulation for Performance Evaluation & compensation Committee(draft) Report - Report on the management of the National Pension Fund in 2007 Report - Report on long-term fund management strategy Review - Regulation for Performance Evaluation & compensation Committee(draft) Report - Report on the management of the National Pension Fund in 2007 Review - Regulation for Performance Evaluation & compensation Committee(draft) Review - Report on long-term fund management strategy Review - Report on long-term fund management strategy Report - Report on long-term fund management strategy Report - Report on long-term fund management strategy Report - Report on long-term fund management strategy Internal Auditor's report on the fund in the second half of the year - Report on the management of the National Pension Fund in 2007 Report - Report on the management of the National Pension Fund in 2007 Review - Plans for lending to the insured & Changes in 2008 fund management plus in overseas resources development[draft] Report - Report on the management of the fund at the end of February, 2008 Report - Proposal for mid and long term asset allocation of the fund management[2009-2013 years] Review - Proposal for mid and long term asset allocation of the fund management[2009-2013 years] Review - Proposal for mid and long term asset allocation of the fund management[2009-2013 years] Review - Performance Evaluation of the Fund in 2007[draft] Report - Plan for the reorganization of fund management[draft] Review - Performance Evaluation of the Fund in 2007[draft] Report - Plan for the reorganization of fund management duidelines[draft] Report - Plan for the reorganization of the Management Duidelines[draft] Review - 2009 National Pension Fund Management Guidelines[draft] Report - Report on the management of the National Pension Fund in 2008 Review - 2009 National Pension Fund Management Guidelines[draft] Report - Report on the management of the Nati		
		Review	Closing of the fund in 2007(draft)
The first		Review	Regulation for Performance Evaluation & compensation Committee(draft)
Fund Management	'08.2.21	Report	Report on long-term fund management strategy
Committee		Report	Internal Auditor's report on the fund in the second half of the year
		Report	Report on the management of the National Pension Fund in 2007
Second Fund Management Committee		Review	Plans for lending to the insured & Changes in 2008 fund management plan
	'08.4.11	Review	Investment plan in overseas resources development(draft)
Committee		Report	Report on the management of the fund at the end of February, 2008
Formal Gathering -Evaluation Committee	'08.5.20	Report	
Formal Gathering -Fund Management Committee	'08.5.22	Report	
Second		Review	
Fund Management	'n8 5 27	Review	Performance Evaluation of the Fund in 2007(draft)
	00.0.27	Review	2009 National Pension Fund Management Guidelines(draft)
99		Report	Plan for the reorganization of fund management(draft)
		Report	Report on the management of the National Pension Fund in 2008
	·08.5.29 -	Review	Proposal for mid and long term asset allocation of the fund manageme (2009~2013 years)
Third		Review	Performance Evaluation of the Fund in 2007(draft)
Committee		Review	2009 National Pension Fund Management Guidelines(draft)
		Report	Plan for the reorganization of fund management(draft)
		Report	Report on the management of the National Pension Fund in 2008
Third		Review	2009 National Pension Fund Management Guidelines(draft)
Fund Management Evaluation	'08.6.24	Review	Compensation Guidelines of the Performance Evaluation of the Fund (draft)
Committee		Report	Report on the management of the National Pension Fund in the end of May 2008
Fifth	608.6.30	Review	2009 National Pension Fund Management Guidelines(draft)
Fund Management		Review	Compensation Guidelines of the Performance Evaluation of the Fund (draft)
Evaluation Committee Third Fund Management Committee Third Fund Management Evaluation Committee Fifth		Report	Report on the management of the National Pension Fund at the end of May, 200

Agenda of the Management Committee and the Evaluation Committee Meetings Held in 2008 (Continued)

Classification	on	_	Annada				
Type of meeting	Date	Type	Agenda				
Fourth Fund Management	100.0.0	Report	Report on the management of the Fund in August, 2008				
Evaluation Committee	'08.9.24	Report	Plans for the establishment of the Investment Policy Committee(draft)				
Fourth Fund Management	608.9.24	Report	Investment plan for Hedge Fund of National Pension Fund				
Evaluation Committee	00.7.24	Report	Report on 2008 National Pension financial recalculation				
Fifth Fund Management	608.9.26	Report	Report on the management of the Fund in August, 2008				
Committee	00.7.20	Report	Report on 2008 National Pension financial recalculation				
Fifth Fund Management Evaluation Committee	'08.10.21	Review	Changes in 2008 fund management plan(draft) and future fund management plan				
Sixth Fund Management Committee	608.10.23	Review	Changes in 2008 fund management plan(draft) and future fund management plan				
Sixth		Report	Early termination for Currency Swap with the Bank of Korea				
Fund Management Evaluation	'08.11.25	Report	Plans for 2009 Long-term Asset Allocation TFT				
Committee		discussion	Discussion of economic trends and future prospects				
Seventh	ʻ08.11.28	Report	Early termination for Currency Swap with the Bank of Korea				
Fund Management		Report	Proposal for 2009 Mid-term asset allocation TFT of the Fund Management				
Committee		discussion	Discussion of economic trends and future prospects				
		Review	Changes to 2009 National Pension Fund Management Guidelines(draft)				
Seventh	'08.12.23	Review	• Changes in 2008 External Management Plan and Plans for 2009 External Management				
Fund Management Evaluation		Review	Changes to guidelines for exercising stock voting rights of National Pension(draft)				
Committee		Review	Detail guidelines for Performance, Evaluation, and Compensation of the Fund				
		Report	Report on Lending Rate for Childcare & Elderly Welfare Facilities				
	08.12.29	Review	Changes to 2009 National Pension Fund Management Guidelines(draft)				
Eighth		Review	Changes in 2008 External Management Plan and Plans for 2009 External Management				
Fund Management		Review	Changes to guidelines for exercising stock voting rights of National Pension(draft)				
Committee		Review	Detail guidelines for Performance, Evaluation, and Compensation of the Fund				
		Report	Report on Lending Rate for Childcare & Elderly Welfare Facilities				

Number of Workplaces and the Insured Persons by Year

(Unit: workplace, person)

Year	Total	Workplace-based		Individual-	based Insure	Voluntarily	Voluntarily &	
real		Workplace	Insured Persons	Sub-total	Urban	Farming & Fishery	Insured	Continuously Insured
' 88.12	4,432,695	58,583	4,431,039	-	-	-	1,370	286
' 92.12	5,021,159	120,374	4,977,441	-	-	-	32,238	11,480
' 95.12	7,496,623	152,463	5,541,966	1,890,187	-	1,890,187	48,710	15,760
' 96.12	7,829,353	164,205	5,677,631	2,085,568	-	2,085,568	50,514	15,640
' 99. 4	16,268,779	174,496	4,992,716	11,113,148	9,045,812	2,067,336	34,250	128,665
' 99.12	16,261,889	186,106	5,238,149	10,822,302	8,739,152	2,083,150	32,868	168,570
' 00.12	16,209,581	211,983	5,676,138	10,419,173	8,381,451	2,037,722	34,148	80,122
'01.12	16,277,826	250,729	5,951,918	10,180,111	8,132,036	2,048,075	29,982	115,815
' 02.12	16,498,932	287,092	6,288,014	10,004,789	7,997,593	2,007,196	26,899	179,230
'03.12	17,181,778	423,032	6,958,794	7,764,234	7,902,223	2,062,011	23,983	234,767
'04.12	17,070,217	573,727	7,580,649	9,412,566	7,403,424	2,009,142	21,752	55,250
'05.12	17,124,449	646,805	7,950,493	9,123,675	7,154,658	1,969,017	26,568	23,713
'06.12	17,739,939	773,862	8,604,823	9,086,368	7,113,584	1,972,784	26,991	21,757
'07.12	18,266,742	856,178	9,149,209	9,063,143	1,976,585	7,086,558	27,242	27,148
'08.12	18,335,409	921,597	9,493,444	8,781,483	1,940,510	6,840,973	27,614	32,868

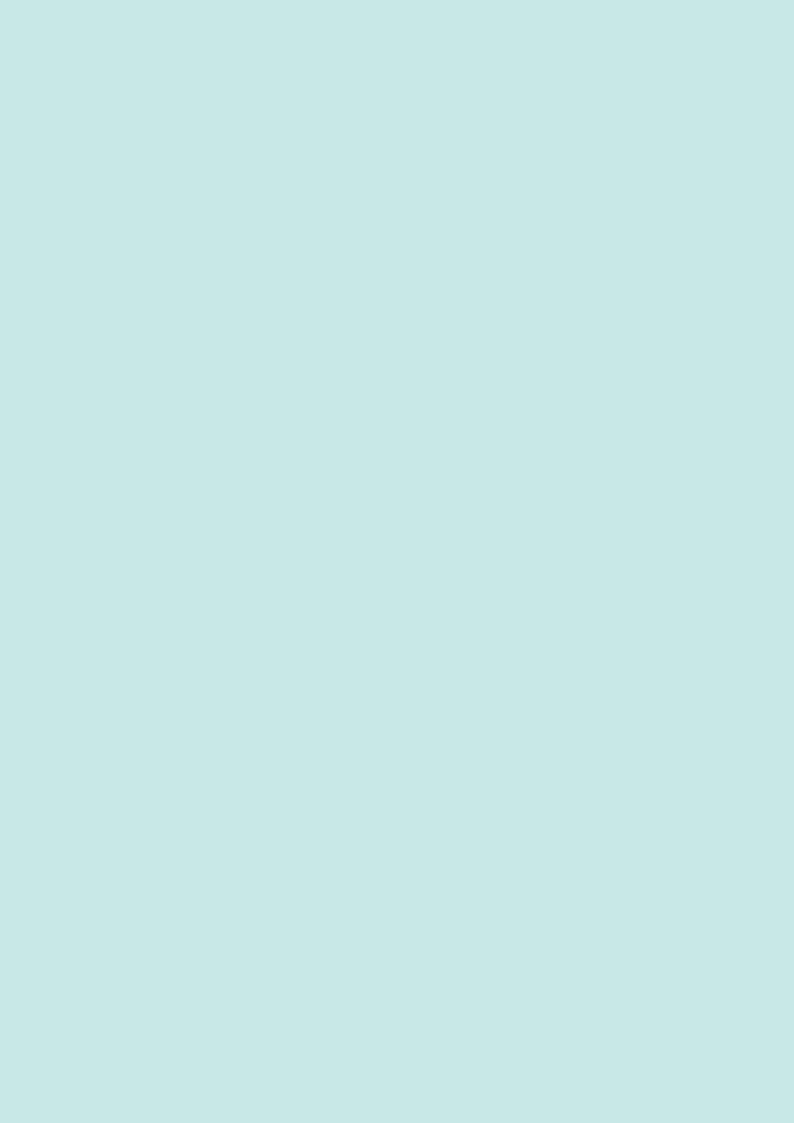
Benefit Payments by Type & Year

Accumulation from '88.1.1 to the end of December. 2008.

(Unit: Person, Million KRW)

	Payment type			100.40	0000.40	0004.40	0005.40	0000.40	0007.40	2008. 12	
		Payment	туре	'93.12	2003.12	2004.12	2005.12	2006.12	2007.12	Cumulative	Current Month
	T	otal	beneficiary	1,745,829	8,848,623	9,349,378	9,704,810	10,055,677	10,466,816	10,904,034	2,348,067
	10	Jlal	Amount	709,190	18,318,593	21,232,607	24,817,508	29,177,747	34,360,358	40,541,160	555,641
		Sub-	beneficiary	35,620	1,108,415	1,500,194	1,749,633	1,973,767	2,250,948	2,537,213	2,332,455
		total	Amount	60,070	7,222,136	9,791,103	13,001,147	16,900,516	21,649,503	27,414,488	514,887
		Sub-	beneficiary	10,971	852,350	1,202,939	1,411,375	1,592,056	1,824,490	2,064,085	1,926,198
		total	Amount	6,447	5,123,910	7,111,359	9,642,896	12,746,056	16,603,765	21,369,292	427,860
		Special	beneficiary	10,971	759,065	1,068,000	1,231,930	1,359,646	1,517,216	1,673,576	1,552,081
	0	Sheciar	Amount	6,447	4,514,574	6,170,638	8,199,948	10,501,214	13,145,721	16,181,115	266,312
Р	L	Full	beneficiary	0	0	0	0	0	0	12,798	12,734
E	ט	rull	Amount	0	0	0	0	0	0	49,586	8,249
N	Α	Reduced	beneficiary	0	25,884	55,753	87,219	123,540	173,807	216,084	210,137
S	G		Amount	0	34,303	154,877	395,201	850,372	1,601,661	2,659,399	96,374
١	Е	Early	beneficiary	0	67,219	78,717	91,271	107,656	131,766	159,202	149,125
1			Amount	0	574,819	785,212	1,046,032	1,391,558	1,851,560	2,471,217	56,628
0		Pension	beneficiary	0	182	469	955	1,214	1,701	2,425	2,121
N		Sharing	Amount	0	214	632	1,715	2,912	4,823	7,975	297
	Г	isability	beneficiary	4,012	48,439	58,361	68,632	80,035	90,439	100,776	66,014
		risability	Amount	9,787	536,787	700,416	894,347	1,119,955	1,365,832	1,633,932	22,799
	c	Survivor	beneficiary	20,637	207,626	238,894	269,626	301,676	336,019	372,352	340,243
	Survivor		Amount	43,836	1,561,439	1,979,328	2,463,904	3,034,505	3,679,906	4,411,264	64,228
	c	ub-total	beneficiary	1,710,209	7,740,208	7,849,184	7,955,177	8,081,910	8,215,868	8,366,821	15,612
L	Sub-totat		Amount	649,120	11,096,457	11,441,504	11,816,361	12,277,231	12,710,855	13,126,672	40,754
U M	_	Disability	beneficiary	4,238	23,197	26,806	30,953	35,851	41,018	45,920	363
Р	DISAUILITY		Amount	7,463	114,645	143,942	179,655	223,895	272,221	320,141	3,526
•		Refund	beneficiary	1,705,971	7,690,395	7,790,145	7,886,223	8,001,617	8,122,817	8,260,471	14,444
S U	'	Keluliu	Amount	641,657	10,940,140	11,243,333	11,568,218	11,968,891	12,337,265	12,685,291	35,513
М		Death	beneficiary	0	26,616	32,233	38,001	44,442	52,033	60,430	805
		Death	Amount	0	41,672	54,229	68,488	84,445	101,369	121,240	1,715

[•] Accumulated amount of Disability Pension Payment (1st~3rd class) plus Lump Sum Disability Payments (4th class) is 1 trillion 954 billion KRW (146,696 cases)



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