

Interimreport 2/2008

Report from the board of directors - Account & balance - Notes



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Interim report second quarter 2008

Stable result recorded

- At the end of the second quarter KLP had profits of NOK 901 million for allocation
- Book returns ended unchanged at 1.8 per cent after the second quarter, whilst value adjusted returns rose 0.1 percentage points to -2.0 per cent
- KLP is making its first property investment in Sweden
- KLP is launching non-life insurance in the personal insurance market

Developments during the quarter

The result after the end of the second quarter 2008 has been characterised by a turbulent financial market. The equity market ended weakly up after major fluctuation whilst both Norwegian and global interest rates rose markedly and led to a fall in the market value of bonds. The disquiet also had a negative effect on the Norwegian property market. For KLP the quarter ended with a financial return of 0.1 per cent (value adjusted).

Good buffers at the start of the year and a moderate risk profile in asset distribution contributed to a stable book result during the quarter without use of supplementary reserves. The book result for the common portfolio in excess of guaranteed interest was NOK 513 million for the half-year. Including other elements of income, profit for interim allocation to customers was NOK 727 million. In addition there is the company's profit which after interim allocations amounted to NOK 174 million.

Accounting principles

The amended Norwegian Insurance Act came into force on 1 January 2008. Among other things, the Act involves a fundamental revision of the principles for the apportionment of surpluses between the insurance customers and the companies' owners, which also involves a clearer division between the customers' saved assets and the insurance company's own assets. These are presented in the report as, respectively, the common portfolio and the corporate portfolio. In a mutual company the customers are also the owners, so the surplus in the corporate portfolio allocated to the owners is in reality allocated to the customers.

KLP's property business is organised so that all significant property investments are incorporated in separate limited companies. As emphasized by the Financial Supervisory Authority of Norway, investments in property companies are to be brought to book as Subsidiaries, associated enterprises and jointly controlled undertakings, not as investment properties. KLP has therefore revised its

accounting practice and shows investments in property companies as a sub item under subsidiaries.

Results

The corporate portfolio

Net income in the corporate portfolio at the end of the second quarter produced an interim profit of NOK 93 million. Including other income and deductions (e.g. the recommended allocation to customers) the company will produce a total profit of NOK 174 million.

The common portfolio

Management of the common portfolio produced a book profit of NOK 513 million in excess of guaranteed interest. Including other elements of income, the interim profit for allocation to customers was NOK 727 million. This represents a reduction in interim allocation compared to the first quarter, which is due to the financial income during the second quarter not covering the interest requirement to the same extent as the first quarter figure. Provision for guaranteed interest during the second quarter amounted to NOK 1 308 million.

Provision for guaranteed interest is covered by book financial returns after the first half-year without contingent appropriation of supplementary reserves.

Total premium income (not including premium reserves received in connection with transfers in) was NOK 2 872 million during the quarter (2 496 million)¹.

At the end of the second quarter, total premium income amounted to NOK 5 553 million (NOK 4 925 million).

Once again both the administration result and the risk result were positive in the second quarter by NOK 25 million and NOK 87 million respectively. So far this year the administration profit is NOK 44 million and the risk profit is NOK 175 million.

¹ Figures in brackets show the corresponding period for the previous year



Operating expenses over the quarter amounted to NOK 136 million (133 million) and so far this year NOK 286 million (289 million). This confirms that KLP is maintaining its cost-effective operation.

Interim profit allocation for the first half-year			
NOK millions	Customers	Company	Total
Interest profits	513	0	513
Risk profits	180	-5	175
Administration profits		44	44
Interest guarantee premium		77	77
Net income corporate portfolio		93	93
Return on corporate portfolio allocated to customers	34	-34	0
Total profits	727	174	901

Financial solidity and capital-related matters

KLP's total assets amounted to NOK 192.2 billion at the end of the quarter (185.0 billion).

Capital adequacy as at 30 June 2008 was very satisfactory at 11.8 per cent (12.2 per cent). The authorities' minimum capital adequacy requirement is 8.0 per cent. At the end of the second quarter the company's buffer capital was NOK 9 539 million.

Discounts in the long-term bonds portfolio were NOK 2 872 million. There were no net unrealised gains (securities reserve fund) at the end of the quarter.

Supplementary reserves exceeding one year's guaranteed interest were NOK 2 338 million.

Total solvency capital at the end of the second quarter was NOK 19 113 million.

Asset management

Return on capital All figures as a %	Q2	Year to date
Common portfolio		
Return on capital I - booked	0,0	1,8
Return on capital II - value-adjusted	0,1	-2,2
Return on capital III - value-adjusted incl. changes in the value of long-term bonds	-1,2	-3,2
Corporate portfolio		
	0,6	1,7
Total assets		
Return on capital I - booked	0,1	1,8
Return on capital II - value-adjusted	0,1	-2,0
Return on capital III - value-adjusted incl. changes in the value of long-term bonds	-1,1	-3,0

Investments in the common portfolio

Investments in the common portfolio - distribution of assets	
All figures as a %	30.06.2008
Short-term shares	22,1
Short-term bonds	19,2
Liquidity/money market	5,3
Long-term bonds/hold to maturity	33,1
Lendings	8,9
Property	11,4
Total	100,0

Shares

After a heavy fall during the first quarter the equity markets have shown a slightly positive trend through the second quarter. The benchmark KLP applies rose by 0.8 per cent through the second quarter. Since 31 December 2007 the index has fallen by 12.1 per cent.

So far this year management of equities in KLP's common portfolio has produced a negative return of 12.0 per cent, i.e. 0.1 percentage points better than the benchmark.

Equity exposure in the common portfolio, including share derivatives, amounted to 16.0 per cent at the end of the quarter.

Interest-bearing investments

Short-term bonds in the common portfolio showed a negative return of 1.2 per cent during the quarter. So far this year the portfolio has produced a negative return of 0.1 per cent. KLP's portfolio of short-term bonds comprises bonds with good rat-



ings. During the quarter the market value of these bonds was affected in a negative sense by the interest rate rise.

Liquidity/money market instruments in the common portfolio produced returns of 2.3 per cent, whilst the portfolio of long-term bonds produced a return of 2.7 per cent.

The return on the lending portfolio was 2.8 per cent over the first half year.

Property

The unease in the financial markets was accompanied by falls in value for parts of KLP's property portfolio. This was partially balanced by higher rent incomes in other parts of the portfolio as well as renewal of leases/increased occupancy.

In total the result was that KLP wrote down the value of property investments in the common portfolio in the second quarter by NOK 702.2 million, corresponding to 3.5 per cent of the value of the property. Overall return so far this year on property in the common portfolio was 2.6 per cent. Taking into account the write-down the return was negative with 0.9 per cent.

During the second quarter KLP has made its first property investment in Sweden through the purchase of an apartment hotel in Malmo.

Other activities

Non-life insurance

Notwithstanding weak financial returns of 0.1 per cent over the first half year, KLP Skadeforsikring AS was able to report a profit of NOK 28 million at the end of the second quarter. Total premium volume amounted to NOK 548 million, a reduction of NOK 10 million compared to the same period last year.

In June KLP Skadeforsikring launched insurance for the personal market, for the moment limited to certain customer segments. The products will be launched for a broader market in September. The capital situation remains good with capital adequacy of 32.1 per cent.

Fund management/asset management

Net new subscriptions to KLP's securities funds from external institutional customers amount to NOK 2 billion so far this year. This is primarily because of great interest in the index-tracker equity-based unit trust products and the global credit fund.

Through its management operation, KLP Kapitalforvaltning AS achieved added value for its customers to a total of NOK 214 million in excess of the index.

Social responsibility

KLP attaches importance to socially responsible behaviour in its business. In its asset management KLP excludes companies that can be linked to breaches of UN norms, as well as tobacco producers. In addition the recommendations made by the Ethical Council for the administration of the Norwegian Government Pension Fund – Global are followed. At the end of the second quarter there were 50 companies in all that did not satisfy KLP's ethical criteria.

In June KLP Skadeforsikring received its certificate showing the company to be Eco-Lighthouse certified. This is a certification scheme that helps private and public sector enterprises to operate in an environmentally friendly and at the same time profitable manner.

KLP is one of the instigators of the establishment of the Norwegian Microfinance Initiative.

Corporate management

At the meeting of the Supervisory Board on 14 May, Arne Øren was elected Chairman of the KLP Board of Directors, succeeding Siri Austeng, and Gunn Marit Helgesen was elected a member of the Board of Directors succeeding Ole Hetland. Until the elections to the Board, Gunn Marit Helgesen was chair of KLP's Supervisory Board. Ingunn Foss was elected the new chair of the Supervisory Board.

With effect from 3 July some changes have been made in KLP's group management. KLP wants greater focus on the potential technology has to strengthen the company's competitive power. To achieve this KLP's IT section has been converted into a separate division reporting directly to the Group CEO. The manager of the IT Division, Rune Mæland, has therefore moved into KLP's group management team.

Mari Thjømmøe, CFO, has left KLP. Aage E. Schaanning has taken over the position as Acting CFO. Until further notice Morten Hvistendahl has taken over as Managing Director of KLP Kapitalforvaltning AS. Both Schaanning and Hvistendahl are in the group management team. Acting Executive Vice President, Group Services, Øivind Amundsen has also left KLP. Roy Halvorsen is acting in the position and has also joined the group management team.



Future prospects

Seen in isolation, higher interest rates are favourable to the company's business, even though the market value of bonds is going down. With higher interest rates and a balanced risk profile in asset allocation KLP is well placed to continue to provide its pension customers with good and stable returns.

Only four of KLP's 333 municipal and county administration customers have chosen to review their pension provider in 2008. This is an encouragement to pursue the continuous work of improving and developing KLP's good and close relationships with its customers, its high level of service and the Group's overall service and product offerings.

KLP considers itself well positioned to strengthen its market position "for the days to come".

Oslo, 19 August 2008

The Board of Directors of Kommunal Landspensjonskasse



Accounts Kommunal Landspensjonskasse after the second quarter 2008

Profit and loss account	Q2	30.06.
NOK million	2008	2008
Premium income	2 921	5 602
Net income from investments in the common portfolio	43	-4 042
Income from investments in subsidiaries, associated and jointly controlled undertakings	-450	-223
Interest and dividends, financial assets	1 815	3 865
Net operating income - property	0	0
Value adjustments on investments	-1 084	-8 547
Realised gains and losses on investments	-239	864
Other insurance related income	122	267
Claims	-1 703	-6 133
Adjustments to insurance liabilities, contractual liabilities, brought to income statement	-2 246	5 660
Assets associated with insurance contracts, contractual liabilities	1 201	-727
Insurance related operating expenses	-134	-282
Other insurance related expenses	-118	-264
Profit from technical accounts	85	81
Net income from investments in the corporate portfolio	60	190
Other income	-7	-2
Management expenses and other expenses in connection with the corporate portfolio	-45	-95
Profit from non-technical accounts	7	93
Profit before tax expense	92	174
Profit before other profit components	92	174
Other profit components	-2	0
TOTAL PROFITS	90	174



Accounts Kommunal Landspensjonskasse after the second quarter 2008

Balance
NOK million

30.06.2008

ASSETS

ASSETS IN THE CORPORATE PORTFOLIO

Intangible assets	182
Investments	11 590
Receivables	639
Other assets	474
Pre-paid costs and earned, not yet received income	40
Total assets in the corporate portfolio	12 927

ASSETS IN THE CUSTOMER PORTFOLIOS

Investments in the common portfolio	
Shares and ownership interests in real estate subsidiary	18 503
Receiveables from and securities issued by subsidiaries, associated companies and joint venture companies	57
Financial assets calculated at amortised cost	74 347
Financial assets calculated at fair value	86 350
Total assets in the customer portfolios	179 256

TOTAL ASSETS	192 183
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OWNERS' EQUITY AND LIABILITIES

Paid-up equity I	4 157
Retained earnings	3 284
Risk equalisation fund	261
Other retained earnings	2 848
Non-allocated profit	174
Subordinated loan capital etc.	3 447
Insurance obligations in life insurance - contractual obligations	177 081
Provision for obligations	353
Obligations	3 750
Costs accrued, and received not earned income	111
TOTAL EQUITY AND LIABILITIES	192 183



Note 1 Accounting principles

The accounts in this interim report are the accounts for Kommunal Landspensjonskasse (KLP) and for the Group for the period from 1 January 2008 up to and including 30 June 2008 (the first six months). The accounts have not been audited. The interim accounts do not contain all the information required of completed annual accounts. These notes have been prepared for KLP's accounts, whilst the notes to the group accounts follow further on in the report.

The interim accounts have been submitted, as was the case with the annual accounts for 2007, in accordance with Regulation no. 1241 of 16 December 1998: The Regulation on annual accounts etc. for insurance companies (the annual accounts regulation). The annual accounts regulation has been amended with effect from 1 January 2008 as a result of amendments to the insurance legislation and adaptation to EU-approved International Accounting Principles (IFRS/IAS).

The changes in the accounts resulting from amendments to the accounts regulation were accounted for in the Report for the first quarter. We therefore recommend reading the quarterly report in the context of the Report for the first quarter 2008 and the Annual accounts for 2007. These can be obtained by contacting the company's head office at Karl Johans gate 41b, Oslo, or at www.klp.no.

This quarter the principle has been changed as follows:

A presentation of property investments through subsidiaries

Property owned through subsidiaries is presented as investment in subsidiaries and associated companies. Earlier these were presented along the same lines as investment property/property for own use. For accounting purposes, these investments are assessed under the equity method of accounting whereby the property company's accounts have been revised so that that part of the profit that is included takes account of changes in the value of the underlying property.

Note 2 Pension, own employees

As at 30 June 2008 there has been no new computation of the pension obligations in relation to the company's own employees. The pension cost for the period is therefore equivalent to pension premiums paid in and operating pensions paid out for the period, amounting to NOK 11.8 million.

Note 3 Investment property owned directly or indirectly via property company

The portfolio of investment properties including investment properties owned via subsidiaries was valued at 30 June 2008. The valuation led to a write-down of NOK 745.7 million for the group and corporate portfolios combined.

Note 4 Segment information

The company's business segments are defined in relation to business areas where risk and returns are distinguish themselves from each other. The company operates within the three segments: life insurance, non-life insurance, and asset management. Other business is not specified.

NOK millions	Life-insurance	Non-life-insurance	Asset-management	Other	Eliminated	Total
Profit/loss	172,6	28,3	33,2	-1,6	-58,5	174,0



Group accounts after the second quarter 2008

Note 5 Operating expenses

NOK millions	Q2 2008	30.06.2008
Staff expenses	58	131
Depreciation	10	18
Other operating expenses	69	137
Total operating expenses	136	286

Note 6 Changes in owners' equity KLP

NOK millions	Paid-up equity	Fund for revaluation	Reinsurance provisions	Other equity	Total equity
Owners' equity at 31.12.2006	3 720	0	0	2 115	5 835
Equity contribution paid in	521	0	0	0	521
Repaid equity contribution	-22	0	0	0	-22
Added from the profit for the period	0	0	0	267	267
Owners' equity as at 31.12.2007	4 219	0	0	2 382	6 601
Re-alloc. of contingency fund to risk equalization fund	0	0	262	0	262
Unrealised gains on financial assets corp. capital	0	0	0	380	380
Reclassified premium fund group life	0	0	0	86	86
Equity contribution paid in	5	0	0	0	5
Repaid equity contribution	-67	0	0	0	-67
Allocated from the profit for the period	0	0	-1	174	173
Owners' equity as at 31.03.2008	4 157	0	261	3 022	7 441

Note 7 Capital adequacy

The company's capital adequacy is as follows:	30.06.2008
Capital adequacy	11,8 %

Group accounts after the second quarter 2008

Profit and loss account NOK millions	Q2 2008	01.01.08- 30.06.08	Q2 2007	01.01.07- 30.06.07
Premiums for own account	3 263	6 100	2 638	5 407
Current return on financial investments	2 109	4 305	2 365	4 089
Net gain on financial investments	-1 479	-7 983	1 319	1 888
Net income from investment properties	-400	-173	1 365	1 609
Net profit from investments in associated companies	10	17	8	14
Other income	149	330	348	571
Total income	3 652	2 595	8 042	13 579
Claims/indemnities for own account	-2 001	-6 533	-1 745	-4 283
Change in provisions for the non-life business	-1	-11	12	14
Change in technical provisions for the life business	-2 253	5 620	-2 483	-4 545
Net costs subordinated loans and perpetual subordinated loans	-136	-94	-42	-106
Operating expenses	-142	-346	-131	-297
Other expenses	-167	-317	-231	-424
Total expenses	-4 700	-1 681	-4 621	-9 641
Operating profits	-1 048	914 075	3 421	3 939
Non-allocated funds to life insurance customers	1 196	-732	-3 392	-3 841
Group pre-tax profits	149	182	30	98



Group accounts after the second quarter 2008

Balance sheet NOK millions	30.06.2008	31.12.2007
ASSETS		
Intangible assets	253	208
Tangible fixed assets	1 026	737
Investments in associated companies	319	270
Investment properties	19 862	17 865
Debt instruments held to maturity	31 827	31 657
Debt instruments at fair value in the profit and loss account	42 101	44 457
Equity instruments at fair value in the profit and loss account	40 038	45 537
Financial derivatives	886	977
Loans and receivables for investment purposes	57 374	54 327
Other loans and receivables, incl. on insurance customers	1 612	689
Assets in unit-linked life insurance	4	2
Cash and bank deposits	529	1 069
Total assets	195 830	197 795
OWNERS' EQUITY AND LIABILITIES		
Equity paid in	4 100	4 220
Retained earnings	3 732	3 225
Total equity	7 832	7 445
Perpetual subordinated loan(s)	551	577
Subordinated loan capital	2 895	2 937
Technical provisions, life insurance	177 390	182 577
Provisions , unit-linked life insurance	4	2
Provisions for premiums, claims and contingency fund, non-life insurance	2 329	2 050
Pension obligations	463	463
Financial derivatives	965	486
Other short-term liabilities	3 399	1 258
Total owners' equity and liabilities	195 830	197 795
OFF-BALANCE SHEET ITEMS		
Possible obligations	2	2



Note 1 Accounting principles

The accounts in this interim report represent the consolidated group accounts of Kommunal Landspensjonskasse (KLP) and its subsidiaries. The interim accounts reflect the period from 1 January 2008 until 30 June 2008 and have not been audited

The interim accounts for the Group have been submitted in accordance with EU approved International Accounting Standards (IAS/IFRS). The interim accounts do not contain all the information required of complete annual accounts and this interim report should be read in the context of the annual accounts for 2007 and the interim accounts for the first quarter 2008. These can be obtained by contacting KLP's head office at Karl Johansgate 41b, or at www.klp.no.

Note 2 Equity reconciliation

NOK millions	Equity paid in	Other equity	Fund for revaluation	Misc. provisions for fund(s)	Total equity 30.06.08	Total equity 30.06.07
Equity 01.01	4 220	2 857	88	280	7 445	6 095
Net equity payments in/out	-63	-	-	-	-63	455
Revaluation of properties used by Group	-	-	1	-	1	7
Premium fund	-	-86	-	86	-	-
Risk equalization fund	-	-	-	263	263	-
Provision for natural catastrophes	-	-	-	8	8	-
Provision for administration costs	-	-	-	-1	-1	-
Changes in allocation to guarantee scheme, non-life	-	-	-	0	0	-
Minimum requirement for reinsurance, non-life	-	-	-	3	3	-
Currency conversion foreign subsidiary	-	-5	-	-	-5	-17
Profit for the period	-	182	-	-	182	98
Other changes	-57	57	-	-	-	0
Equity CB (closing balance)	4 100	3 005	88	639	7 832	6 638

Note 3 Segment information - result according to IFRS by business area

NOK millions	01.01. - 30.06.08	01.01. - 30.06.07	01.01. - 31.12.07
Life insurance before allocation of profit	914	3 939	3 955
Profits to customers (provisional distribution during interim periods)	-732	-3 841	-3 607
Profit to owner(s) (provisional distribution during interim periods)	182	98	348
Non-life insurance	28	15	52
Asset management	33	25	47
Other business	-2	7	12

Total profits will not tally with Group profits since profits from subsidiaries have been booked according to the equity method of accounting and consequently they have been included in the parent company's profit.



Note 4 Operating expenses

NOK millions	01.01 - 30.06.08	01.01. - 30.06.07	01.01. - 31.12.07
By type:			
Personnel costs	205	187	362
Depreciation	17	17	40
Other operating expenses	124	92	438
Total operating expenses	346	296	840
By function:			
Insurance-related administrations costs	129	198	419
Other costs/expenses	217	98	421
Total operating expenses	346	296	840

KLP Eiendom's administration costs are not included in the listing above since they reduce the income from properties.

Note 5 Properties for investment

Investment properties in the Group were written down by a total of NOK 712 million for the second quarter 2008.





Kommunal Landspensjonskasse

Org.nr. 938 708 606
P.O. Box 1733 Vikta, 0121 Oslo
Norway
E-mail: klp@klp.no
www.klp.no

Head Office

Karl Johans gate 41 b, Oslo
Norway
Tel: +47 22 03 35 00
Fax: +47 22 03 36 00

Regional Office

Vågsallmenningen 16, Bergen
Norway
Tel: +47 55 54 85 00
Fax: +47 55 54 85 90

