Table of contents

The Alaska Permanent Fund: a public trust investing for Alaska's future

The Alaska Permanent Fund is an investment savings account that belongs to the State of Alaska. It was created in 1976 by a voter-approved amendment to the Alaska Constitution. The Fund is established as a public trust. This means that the principal of the Fund is to be invested in perpetuity. The beneficiaries of the trust are the State of Alaska and all present and future generations of Alaskans.

The Permanent Fund is made up of two parts: principal and income. The principal is invested permanently and cannot be spent without amending the state constitution with a majority vote of the people. Decisions about uses of the earnings are made each year by the people's elected representatives — the Alaska State Legislature and the Governor. The Fund is managed by the Alaska Permanent Fund Corporation (APFC).

About this report

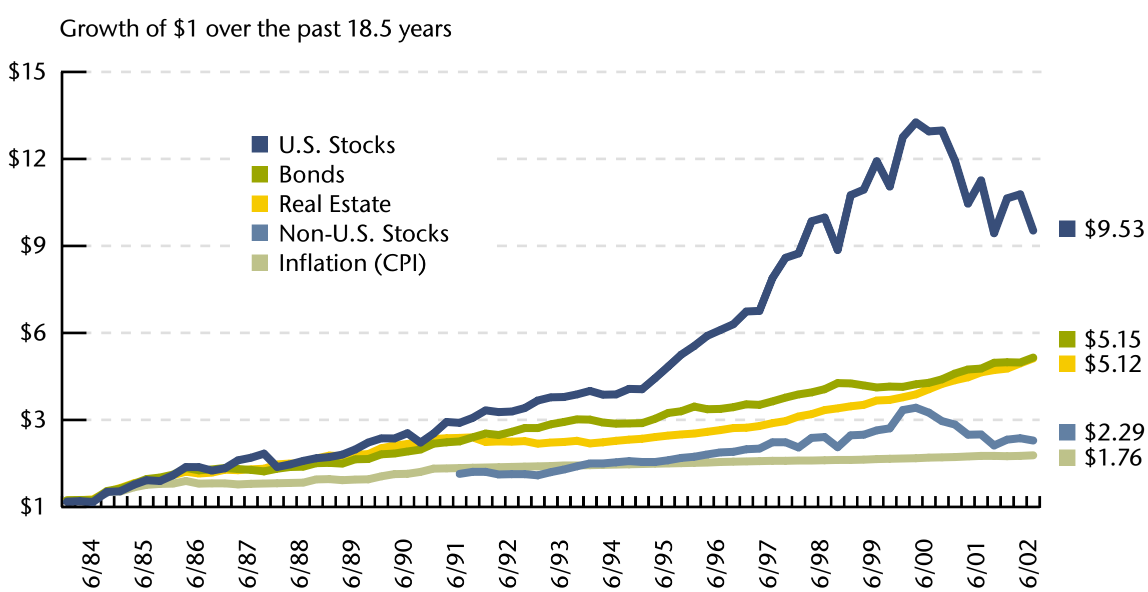
Maturity. Balance. Permanence.

These are the hallmarks of a successful fund in times of uncertainty – which Alaskans are facing in investment markets, in the economy and in fiscal debates.

Fund is mature – an institutional investor with a long-term investment horizon and a disciplined investment philosophy and process designed to achieve a 5 percent real (after inflation) rate of return over time, recognizing that there will be good markets and bad.

Fund is balanced – with an asset allocation based on the principles of diversification, intergenerational equity and risk management to achieve safety of principal and maximization of return.

Fund is permanent - and its real value has been maintained, even though inflation over the past two decades has cut the purchasing power of a dollar nearly in half. Thanks to enduring public support for inflation-proofing, a portion of Fund income has been retained annually since 1983 to offset inflation. The greatest danger to the Fund's permanence is not declining financial markets, it is inflation. Viewed from a long-term perspective, despite prolonged periods of volatility, financial markets tend to rise over time. Inflation, on the other hand, is like a thief in the night and must be guarded against with never-ending vigilance. To ensure that the Fund continues, permanently, to retain a portion of each year's income for inflation-proofing, the Trustees have proposed a constitutional spending limit on the annual payout of Fund income (see page 22).



Letter from the Chair

Dear Alaskans:

Fiscal year 2002 was a tough year for investors, but the Alaska Permanent Fund weathered it better than most. The September 11 terrorist strikes shut down major portions of the U.S. financial markets for four days, but within one week of the markets' reopening, the Fund, with the determined, professional assistance of our custodian, the Bank of New York, successfully sold $1.1 billion in securities to fund the 2001 Permanent Fund dividend (see story page 11).

Despite double-digit negative returns from the U.S. stock market, the well-diversified Fund managed to moderate its losses by earning significant positive returns in bonds and real estate and ended the year down only 2.2 percent, thus out-performing both its benchmark and the average public pension fund.

Maturity. Balance. Permanence.

A year like this demonstrates quite clearly why it is important to take a disciplined, long-term investment approach and then, regardless of volatility, stay the course. Due diligence matters. Diversification matters. Maturity, balance and permanence matter.

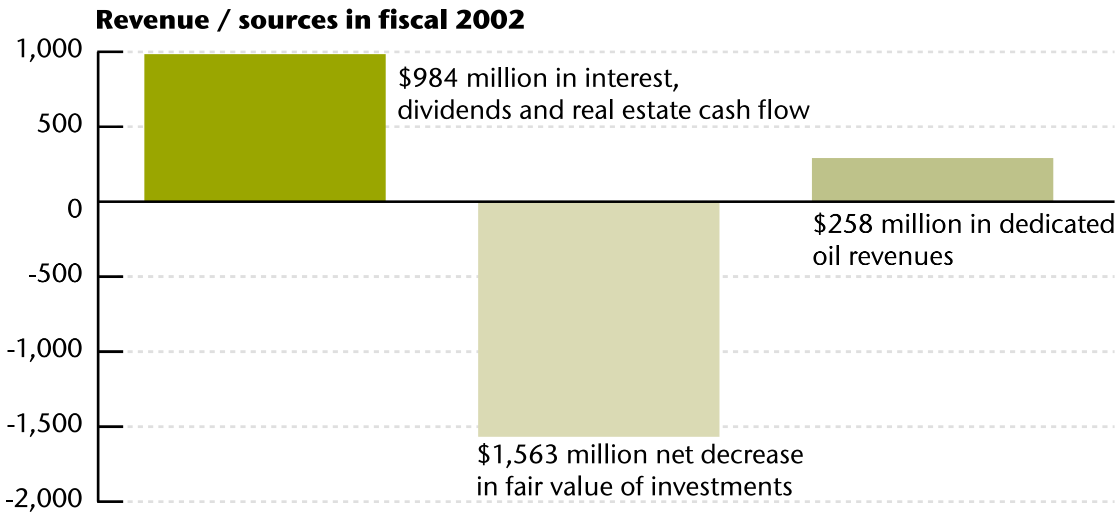
I am proud of the accomplishments of the Board of Trustees, the staff, the external managers and all the other fiduciaries who helped manage the Alaska Permanent Fund this year. Under trying circumstances, the Fund excelled. In terms of performance, the Fund was in the top quartile. In terms of costs, the Fund is managed more cost-effectively than the average fund.

In terms of benefits for the current generation, there were adequate funds to pay both the 2001 and 2002 Permanent Fund dividends – thanks to a large earnings reserve account built up and retained during the good years. For the benefit of future generations, the principal of the Fund was fully inflation-proofed for the 20th consecutive year, its long-term purchasing power kept whole.

Board of Trustees: From left. Wilson L. Condon, Vice Chair Eric E. Wohlforth, Chair Jim Sampson, Janie Leask, Bruce M. Botelho, Clark S. Gruening.

Corporate governance

The rash of accounting scandals in corporate America was another source of difficulty in fiscal 2002, particularly in June when, coupled with poor economic news, the Fund's performance actually turned from positive to negative after recovering from losses earlier in the year. To fully protect the interests of Alaska shareholders, the Board has become increasingly engaged in corporate governance. The increased involvement began last year with Board educational sessions on proxy voting practices in April 2001; fiduciary responsibilities in May 2001; class action



litigation in February 2002; and external manager conflict of interest policies in March 2002.

The Board has also taken a number of actions: in November 2001, we established a Corporate Governance Committee chaired by the Attorney General; in February of this year, the Fund joined the Council of Institutional Investors, a shareholders' rights organization comprised of public, private and union pension plan sponsors; and in March and June, the Board adopted new policies on proxy voting and class action litigation.

The Board will be active on corporate governance issues and we will do our best to hold the companies in which the Fund invests to high standards of accountability.

Support for complete and protected inflation-proofing

The Board and the staff were also engaged during the year in public policy debates. The Board recommended an important amendment to the state constitution which, while it has not yet been adopted by the legislature, has been widely discussed and supported by prominent Alaskans and newspaper editorial boards. This proposed constitutional amendment will again be proposed in 2003 as an essential part of any long-range fiscal plan for the State of Alaska. For more information on this issue, please read *The Trustees' Papers, Volume VII: Making the case for complete and protected inflation-proofing,* which is available on the APFC web site at www.apfc.org.

Long-term investment goals

While periodic market corrections are inevitable – and frequently healthy over the long term – they can challenge even the most focused, long-term investor. The Board's asset allocation policy balances the risks of negative returns in the short term against the rewards of higher positive returns over the long term. On behalf of the Board, I assure you that short-term losses will not lead to the abandonment of the Fund's commitment to long-term investment goals.

Sincerely,

Jim Sampson

Jim Sampson
Chair, Board of Trustees

Executive Director's letter

Dear Alaskans:

Against the backdrop of a war on terrorism, economic uncertainty and extreme financial market volatility, the Alaska Permanent Fund earned a negative 2.2 percent total return in fiscal 2002. Including both investment results and contributions in and transfers out, the Fund's market value declined from $24.8 billion a year earlier to $23.5 billion on June 30, 2002. During the year, losses were mitigated by a well-diversified asset allocation and by superior relative performance by staff and external managers who, on balance, added value.

Fiscal 2002 was the second down year in a row for the Fund; last year, the Fund recorded its first-ever annual loss, minus 3.3 percent. Although negative returns are never good news, it is noteworthy that this was also the third year in a row that the total Fund out-performed its benchmark target return, in 2002 by 1.4 percent, last year by 1.2 percent and in 2000 by 1.4 percent. That means, in a prolonged down market, we preserved capital. Specifically, the implementation of Board investment strategy during the last three years preserved nearly $1 billion in capital compared to the passive alternative – if the Fund had been invested 100 percent in passive stock, bond and real estate index funds. In fact, your Fund has outperformed its benchmark for the last 1-, 3- and 5-year periods.

Strong relative performance
The Alaska Permanent Fund's performance was also better than the average pension fund and ranked in the top quartile of all large public funds. This is partially due to the fact that the Fund is slightly more risk averse than the average fund, with a 53 percent allocation to equities, which is below the 59 percent allocation of the median public fund.

For fiscal year 2002, Permanent Fund U.S. stocks were down 15.4 percent and non-U.S. stocks were off 8.6 percent, but U.S. bonds were up 8.0 percent and real estate was up 10.3 percent. With the exception of bonds, each of these portfolios beat their benchmarks: the Fund's U.S. stocks outperformed the Russell 3000 broad market, the non-U.S. stock portfolio outperformed the MSCI EAFE (Europe, Australia and Far East) index and the real estate portfolio outperformed its custom target.

Income received from investments including dividends from stocks, interest from bonds and real estate cash flow totaled $984 million for fiscal 2002. Not surprisingly in a time of historic equity bear markets, this income was more than offset by $685 million in realized losses from the sale of securities (mainly stocks) for less than their purchase price and $878 million in unrealized, or paper, losses.

Principal and earnings reserve
The Fund has two parts, constitutionally protected principal, which can never be spent, and an earnings reserve. The principal grew by more than $800 million in fiscal 2002 – including $258 million from oil revenues and $602 million from inflation-proofing based on an annual inflation rate of 2.83 percent.

The earnings reserve, which acts as a cushion against poor financial markets, ended the year with a June 30 balance, after accounting for dividends and inflation-proofing, of $1.6 billion. Two years ago, this account ended the year with $6.5 billion.

What caused the $4.9 billion decline in the earnings reserve? About one-quarter of it ($1.3 billion) was transferred to principal for inflation-proofing over the last two years. That money remains in the Fund, ensuring its long-term purchasing power. Another 40 percent of it has gone to dividends ($2 billion combined for 2001 and 2002). The rest, approximately one-third ($1.6 billion) reflects the depreciation in the market value of the Fund's investment portfolios, primarily stocks.

Other highlights

Janie Leask, manager of community relations for Alyeska Pipeline Service Company, was appointed by the Governor to serve on the Fund's Board. Leask replaced retiring Trustee Melphine Evans.

The Board replaced one value-style equity manager during the year and hired three new ones. The new managers include Dodge & Cox and Tukman Capital Management, both located in the Bay Area, to manage large-cap value stock portfolios, and T. Rowe Price of Baltimore, Maryland to manage a portfolio of small-cap value stocks.

As calculated by statutory formula, the 2002 dividend transfer totals $926 million, $187 million less than last year's $1.113 billion distribution. Although a 17 percent reduction, the 2002 dividend payout is still the fourth largest in the Fund's history.

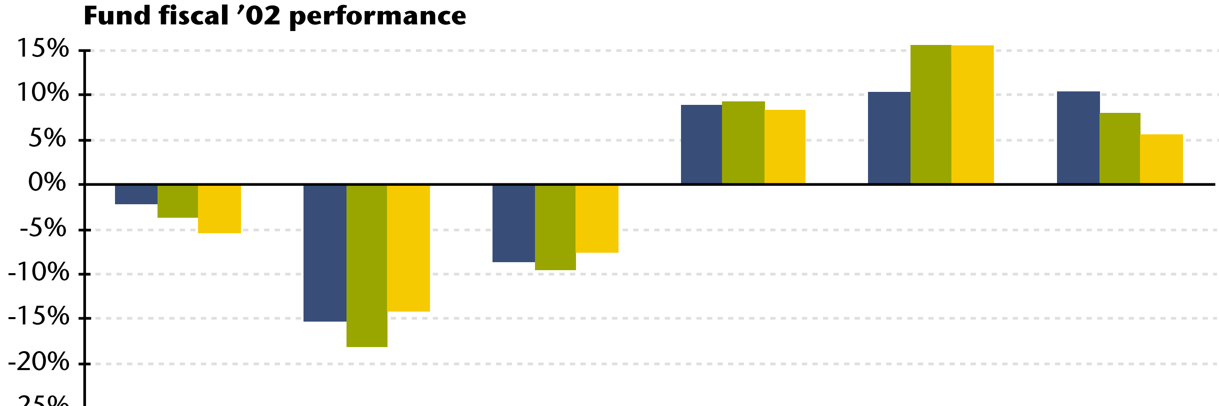
Lastly, as principal officer, I confirm responsibility for establishing and maintaining effective internal controls over financial reporting and affirm that this report fairly presents the Fund's financial condition.

As we look ahead, it is important to remain focused on the fundamentals: strategic asset allocation, risk management, diversification, regular rebalancing, due diligence and a disciplined investment approach.

Sincerely,

Robert D. Storer
Executive Director

Fund fiscal '02 performance

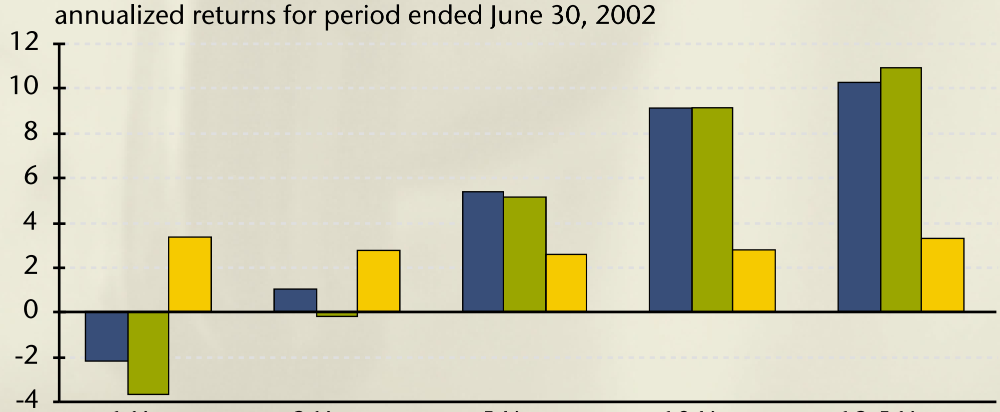


	Total Fund	U.S. Stocks	International Stocks	U.S Fixed Income	International Fixed Income	Real Estate
Fund	-2.2%	-15.4%	-8.6%	8.0%	10.2%	10.3%
Benchmarks	-3.7%	-17.2%	-9.5%	8.6%	15.7%	7.2%
Median fund	-5.2%	-14.8%	-7.4%	7.5%	15.7%	5.6%

maturity

> Maturity is the capacity
> to endure uncertainty.
>
> – John H. Finley

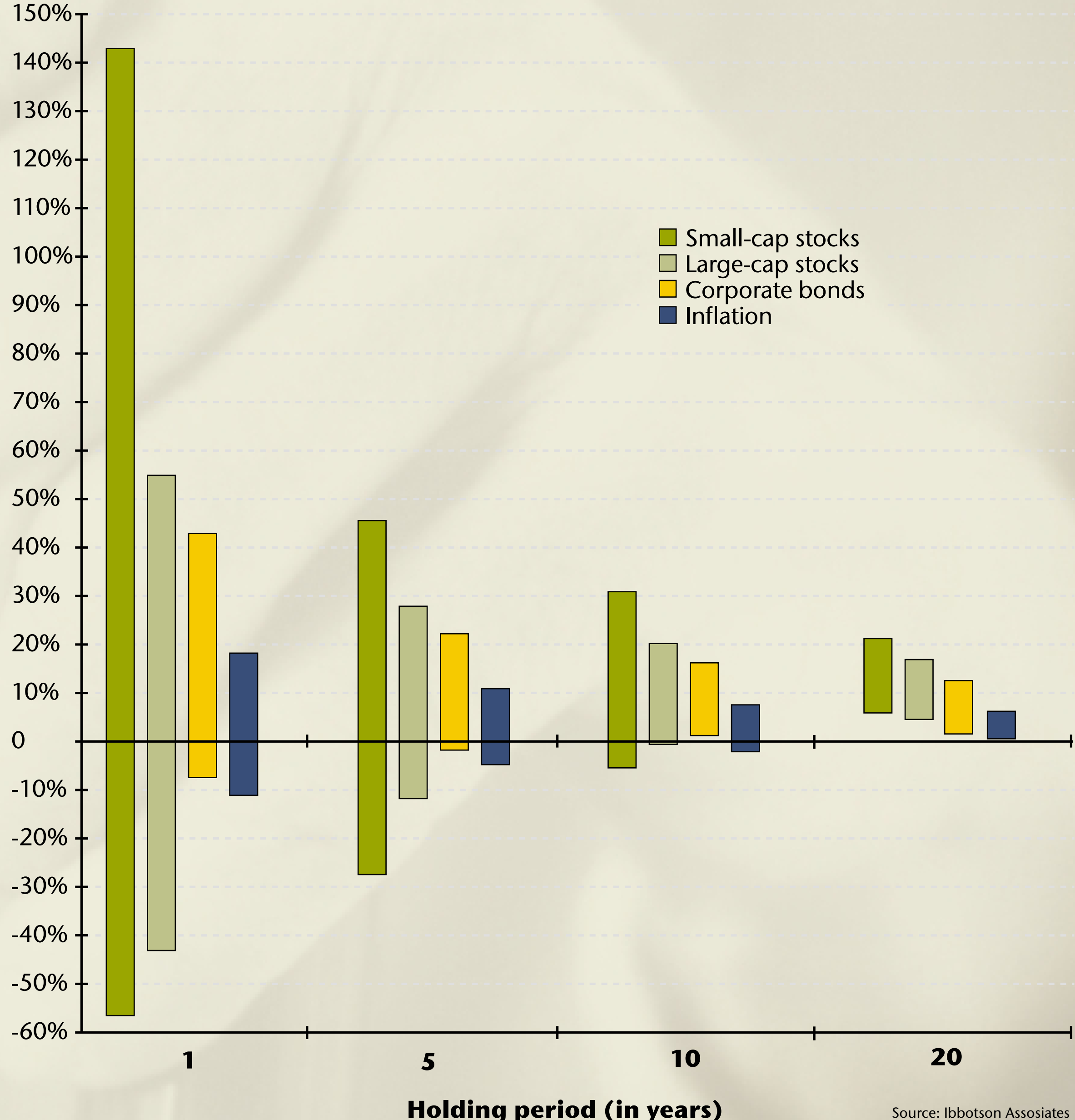
Fund's long-term investment performance
annualized returns for period ended June 30, 2002



	1-Year	3-Years	5-Years	10-Years	18.5-Years
Total Fund	-2.2%	1.1%	5.6%	8.6%	10.2%
Benchmark	-3.7%	-0.3%	5.3%	8.6%	10.9%
Inflation	2.8%	2.8%	2.5%	2.7%	3.4%

Uncertainty in investing is defined as risk, or volatility in returns. As the holding period increases, the range of annual returns narrows and the uncertainty is diminished. That is the advantage of being a long-term investor, like the Alaska Permanent Fund.

Range of average annual returns for stocks, bonds and inflation, 1926 - 2001



U.S. stocks

For the second consecutive year, the Fund's U.S. stock portfolio suffered large losses, with an overall loss of 15.4 percent. Even that magnitude of loss, fortunately, represented better performance than the unmanaged alternative of the major market indices such as the S&P 500, which declined 18.0 percent and the Russell 3000 broad market index, which declined 17.2 percent. In investing, just as in sports, a good defense is an important component of any team's strength.

The market environment for most of the year saw smaller stocks do better than larger ones, and the value style of investing do better than strategies that emphasize growth. The burst of enthusiastic performance by growth stocks in the second quarter of the fiscal year was not sustained after the December quarter. Only small-capitalization value stocks produced a positive return for the fiscal year, returning 8.5 percent. The Fund benefited from having about 20 percent of its domestic stocks allocated to smaller stocks and from maintaining a balance between value and growth.

Two new equity managers that practice a value style were hired during the year. Dodge & Cox was given a large-stocks mandate and T. Rowe Price a small-stocks mandate. Both performed quite well relative to their benchmarks and peers after their funding in September. At the end of the year, the Board hired Tukman Capital Management, a well-regarded firm from the Bay Area, to manage a value-style, large-stocks portfolio.

As shown in the accompanying tables, the other large-cap, value-style managers outperformed their long-term benchmark, the Russell 1000, for the year but did not capture all the potential benefit of value stocks as represented by the Russell 1000 Value Index. The large-cap growth managers underperformed the Russell 1000 for the year, as would be expected in this market environment. They all managed to limit the losses a little better than the index of large growth stocks, the Russell 1000 Growth Index.

Smaller growth stocks were a difficult challenge for active managers during the year as they moved in and out of favor with extreme volatility and with extreme differences between value and growth stocks. Capital Guardian's quarterly returns, for example, fluctuated like this: down 27.6 percent, up 28.9 percent, up 6.1 percent, down 13.4 percent. These are remarkable results by any standards for three-month periods. At the end of the year, neither Dresdner RCM nor Capital Guardian had been able to keep pace with their long-term benchmark, the Russell 2000 Index of smaller stocks, but both performed relatively well versus the small-cap growth index.

U.S. equity managers' performance

for periods ended June 30, 2002

U.S. LARGE-CAP STOCKS	Last year	Last 3 years	Last 5 years	Last 10 years	Last 18.5 years
Passive managers					
Deutsche Asset Management S&P 500	-17.9%	-9.0%	3.8%	11.4%	13.2%
Deutsche Asset Management S&P 500 Enhanced	-18.0%				
S&P 500 Index	-18.0%	-9.2%	3.7%	11.4%	13.2%
Large-cap value managers					
UBS Global Asset Management	-13.8%	-6.8%	2.0%		
Dodge & Cox *					
Invesco Capital Management	-16.0%	-9.6%	0.7%	9.7%	
Lazard Freres	-13.6%	-8.5%	2.2%		
Russell 1000 Index	-17.9%	-8.6%	3.9%	11.4%	13.0%
Russell 1000 Value Index	-9.0%	-2.9%	6.5%	13.0%	13.8%
Large-cap growth managers					
AllianceBernstein	-23.2%				
Dresdner RCM - Large Cap	-18.1%	-1.9%	11.5%	14.8%	15.8%
McKinley Capital Management	-26.1%				
Putnam Investments	-24.4%	-14.0%			
Russell 1000 Index	-17.9%	-8.6%	3.9%	11.4%	13.0%
Russell 1000 Growth Index	-26.5%	-16.2%	-0.3%	8.9%	11.5%

U.S. SMALL-CAP STOCKS	Last year	Last 3 years	Last 5 years	Last 10 years	Last 18.5 years
Passive managers					
Deutsche Asset Management S&P 1000	-3.6%	7.5%	11.6%		
S&P 1000 Index	-3.2%	7.3%	11.5%		
Small-cap core managers					
Capital Guardian - Small Cap	-14.6%	-7.3%			
Russell 2000 Index	-8.6%	1.7%	4.4%	11.0%	9.8%
Small-cap value managers					
T. Rowe Price - Small Cap *					
Russell 2000 Index	-8.6%	1.7%	4.4%	11.0%	9.8%
Russell 2000 Value Index	8.5%	12.0%	9.7%	14.8%	12.9%
Small-cap growth managers					
Dresdner RCM - Small Cap	-18.2%	-8.1%			
Russell 2000 Index	-8.6%	1.7%	4.4%	11.0%	9.8%
Russell 2000 Growth Index	-25.0%	-9.6%	-2.0%	6.2%	6.2%
Permanent Fund composite U.S. stocks	**-15.4%**	**-7.2%**	**3.8%**	**11.2%**	**13.0%**
Target benchmark (Russel 3000 Index)	**-17.2%**	**-7.9%**	**3.9%**	**11.3%**	**12.7%**

* Dodge & Cox and T. Rowe Price were funded at the end of the first quarter of fiscal 2002.

Staying the course

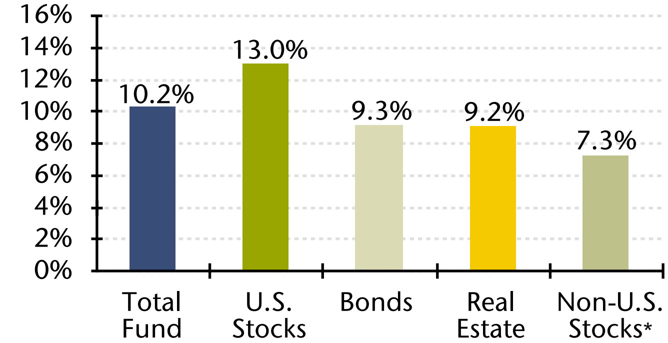
The current bear market in U.S. stocks, which began in 2000 and was still in effect as of June 30, 2002, is the worst in the Fund's history and the third most severe in modern times. The biggest declines occurred in 1929-1932 and 1973-1974.

According to data from Ibbotson Associates, there have been 14 calendar years since 1926 when large-capitalization stocks have earned positive returns after a period of negative returns. In those years, the average annual gain has been 28 percent, ranging from a low of 4 percent to a high of 54 percent.

The accompanying bear market charts do not indicate that investing in the stock market should be avoided. On the contrary, many studies have shown that, over long periods of time, and including the impact of historic bear markets, the stock market has produced far greater returns than other, more conservative investment classes. Sometimes, however, bear markets happen, and when they do, they cause a significant reduction in the value of stocks. To offset these occasional, temporary, but inevitable losses, prudent investors always diversify among various asset types and they practice patience.

For a well-diversified and patient investor like the Alaska Permanent Fund – which as of June 30, 2002, held 34 percent of its assets in U.S. stocks, 16 percent in non-U.S. stocks, 11 percent in real estate and 39 percent in fixed income – risk is diminished over time. Although there is a one-in-four chance that the total Permanent Fund will earn a negative return in any single year, there is only a one-in-20 chance that the Fund will earn a negative return over a five-year holding period, and virtually no chance of a negative return over a 10-year period. That is the benefit of diversification and of "staying the course."

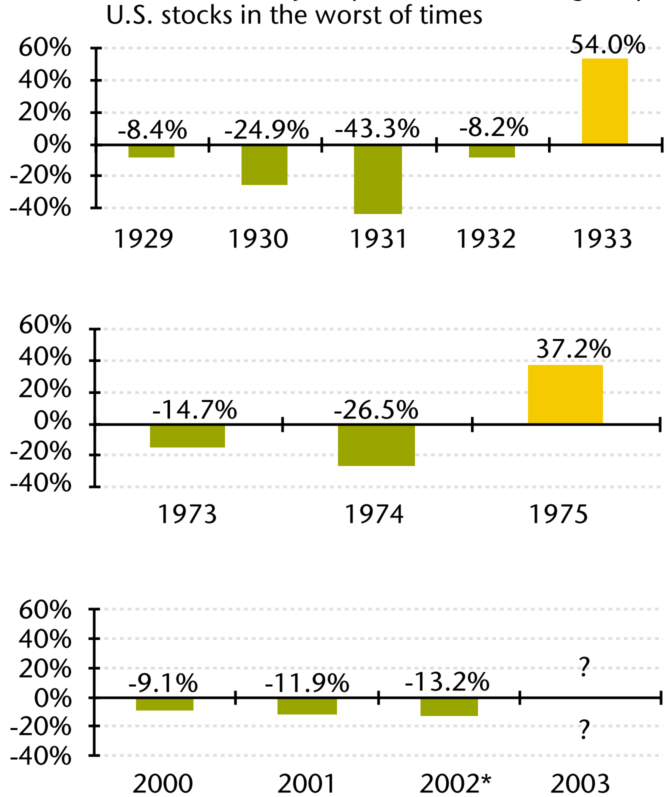
Fund's long-term average annual total returns
(18.5 years as of June 30, 2002)



* Non-U.S. Stocks 10-Years

Source: Callan Associates, Inc.

Comparison of bear markets
Annual calendar-year performance of large-cap, U.S. stocks in the worst of times



* First half only

Source: Ibbotson Associates

The annual returns for large-cap stocks in 1934, 1935 and 1936 were, respectively, -1.4 percent, 47.7 percent and 33.9 percent. The annual returns for large-cap stocks in 1976, 1977 and 1978 were, respectively, 23.8 percent, -7.2 percent and 6.6 percent.

Long-term performance. From January 1, 1926 to June 30, 2002, large-cap stocks earned 10.4 percent compounded annually, compared to 5.8 percent for corporate bonds.

Professionalism under pressure

It was terrorism on an unprecedented scale. On September 11, our country was rocked by horrific attacks in New York City, Washington, D.C. and Pennsylvania. Our lives were impacted emotionally and spiritually, as well as financially. This is a vignette about a very small part of the aftermath of those events which illustrates how people, struggling with loss and in extremely difficult circumstances, can manage, somehow, simply to continue to do their required jobs.

The attack in New York destroyed the World Trade Center and damaged critical telecommunications infrastructure in lower Manhattan. Stock exchanges closed for the rest of the week and trading in government bonds was halted for two days. The U.S. financial system was stressed.

In this environment, wire transfers for the 2001 Alaska Permanent Fund dividends had already been scheduled for September 20. Before that could happen, however, bonds had to be sold and cash received. But, bond trades that had previously settled in one day now took five, and computer and phone systems upon which traders and custodians had become dependent were in disaster recovery mode. It was a time for grace, or professionalism under pressure. Many professionals rose to the occasion, including the Federal Reserve which quickly provided needed liquidity for the system.

Another institution which acted professionally in the aftermath of September 11 was the Fund's custodian bank, the Bank of New York (BoNY). Founded by Alexander Hamilton in 1784, BoNY is a linchpin in the critical business of clearing securities and transferring funds within the United States and around the world. On a typical day, they transfer $900 billion in funds between financial institutions. But, these were not typical days for the Bank which had offices immediately adjacent to the World Trade Center rubble and also at 1 Wall Street.

Displaced BoNY workers who had lost friends and colleagues struggled with back-up systems and borrowed equipment. Working in strange locations, they simply handled the work that needed to be done to prove the resilience of the system in the face of an external attack. They accomplished their tasks, as many did in those terrible days last fall.

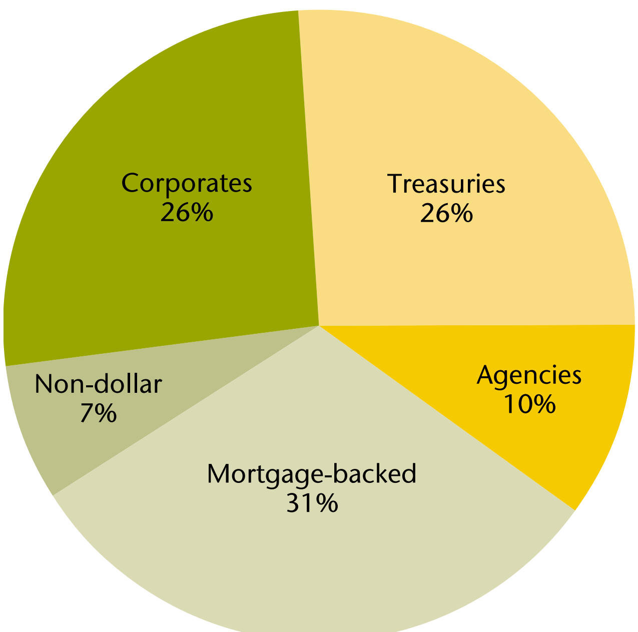
The employees of the Bank of New York are to be commended, as are the APFC's fixed income staff in Juneau and the network of broker-dealers with whom they trade. By working together as professionals, they managed to sell and successfully clear $1.1 billion in securities to fund the 2001 Permanent Fund dividend. On time and as scheduled.

Governor Knowles, second from right, thanks Fund officials for their efforts on behalf of the people of Alaska. From left, Executive Director Robert D. Storer, Director of Finance Chris Phillips, and Bank of New York Vice-Presidents Fran Kapner and Karolyn Ferris.

Fixed income

Fixed-income assets had another year in the sun. Domestic fixed income, which comprises more than a third of the Fund, returned 8 percent last year. For the three-year period shown in the table on the facing page, the 7.7 percent annualized return is nearly 15 percentage points better than the annual return earned by stocks over the same period.

Composition of bonds as of June 30, 2002



International fixed income broke a multi-year losing streak by posting a 10.2 percent return. Prior-year losses had reflected the ongoing strength of the dollar against other currencies; the long-expected weakening of the dollar in 2002 produced most of the positive return from international fixed-income. The international fixed-income three-year annualized return, while less than 3 percent, is still nearly 8 percent more than international equities earned over the same period.

For the fiscal year, several fixed-income managers reported strong performance of their portfolios against benchmark indices.

Among domestic portfolios, Alaska Permanent Capital Management and UBS Global Asset Management (formerly known as Brinson Partners) both beat the Lehman U. S. Aggregate Index (by 29 and 34 basis points, respectively). AllianceBernstein and the internally managed portfolio under-performed, although the latter's return of 8.0 percent exceeded the median of bond managers in the universe monitored by consultant Callan Associates. Internationally, Julius Baer outperformed the Salomon World Government Bond Index (50 percent hedged in U. S. dollars) by 38 basis points, while Rogge Global Advisors under-performed.

Diversification and rebalancing

Now that bonds have outperformed stocks by such a large margin and for so long, one might think it must be time to move money elsewhere. That is not the case for the Fund, partly because rebalancing already occurs on an ongoing basis.

Consider that, each year, the dividend is financed from cash, investment income and sales of those assets which have grown to exceed their asset allocation targets. In fiscal 2001 and 2002, that has mainly meant fixed-income and real estate-related assets. Additionally, the Trustees have redirected gains from fixed income into buying stocks as prices have fallen. By these actions, the Fund restrains the growth of fixed-income investments relative to other asset classes. Thus, at the end of the fiscal year, fixed-income investments represented 38.9 percent of total assets, compared to the target of 37 percent. However, most of the funding for the 2002 dividend is derived from the internally managed bond portfolio. That will again bring fixed-income assets close to their target allocation.

Besides providing a balance to other Fund investments, fixed income contributes other important elements to the Fund's asset mix. Among them are a current interest yield of nearly 5 percent, high overall quality, excellent liquidity, low transaction costs, low management fees and returns in excess of the inflation rate.

These contributing elements – quality, liquidity and low transaction costs -- were extremely helpful to the Fund immediately following the terrorist attacks in September 2001. The dividend funding had been scheduled to be accomplished by the 20th of September, but financial markets were first closed, and then in turmoil, for a number of days following the 11th. As it turned out, the security of high-quality bonds made them a refuge for investors selling stocks, and their liquidity enabled the Fund to execute more than a billion dollars worth of bond sales at suddenly higher prices.

What can happen next

As this is being written, financial markets are reflecting economic weakness: stocks are declining and capital is flowing into bonds. When bonds begin to under-perform, it will happen because the economy is stronger or because bonds have become over-valued (lost their margin of safety), or both. Unfortunately, it is not possible to know when this might happen or from what level of valuation. That is why the Trustees do not invest the entire Fund in bonds when there is concern about economic weakness and why they never take all the money out of bonds when rates decline. Instead, the Board sticks close to its strategic, long-term asset allocation targets.

Fixed-income managers' performance

for periods ended June 30, 2002

	Last year	Last 3 years	Last 5 years	Last 10 years	Last 18.5 years
U.S. FIXED INCOME					
APFC - Internal Fixed Income	8.0%	7.7%	7.2%	7.1%	9.3%
Lehman Aggregate/GovCredit Index (1)	8.6%	8.0%	7.6%	7.4%	9.5%
Alaska Permanent Capital Management	8.9%	7.5%	7.2%		
UBS Global Asset Management	9.0%	8.2%	7.5%		
AllianceBernstein	6.8%	7.4%	7.1%		
Lehman Aggregate Index	8.6%	8.1%	7.6%		
Permanent Fund composite U.S. fixed income	**8.0%**	**7.7%**	**7.2%**	**7.1%**	**9.3%**
Target benchmark	**8.6%**	**8.0%**	**7.6%**	**7.4%**	**9.5%**
INTERNATIONAL FIXED INCOME					
Julius Baer	10.7%	3.6%	5.4%		
Rogge Global Partners	9.8%	2.4%	5.9%		
Salomon Non-US World Gov Bond Index (50% Hedged) (2)	10.4%	4.9%	4.1%		
Permanent Fund composite international fixed income	**10.2%**	**3.0%**	**5.7%**		

(1) From 12/31/00: Lehman Aggregate; prior to 12/31/00: Lehman GovCredit

(2) Salomon Non-U.S. Gov Bond Index only through 6/30/99

balance

Balance for the Alaska Permanent Fund Corporation means investing for safety and return. It means being disciplined in times of market euphoria and staying focused on the fundamentals during periods of uncertainty. It means global diversification and allocating assets prudently among stocks, bonds and real estate. It means balancing the risk of short-term losses with the rewards of long-term gains, and it means providing benefits for current and future generations.

APFC Mission

Maximize the value of Alaska's oil revenues through prudent long-term investment and protection of principal to produce income to benefit all current and future generations of Alaskans.

Fund investment returns

Annual returns for Fund-managed portfolios (1992-2002) ranked in order of performance (from best to worst)

FY 92	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
U.S. fixed income **14.4%**	U.S. stocks **15.0%**	Non-U.S. stocks **19.2%**	U.S. stocks **24.5%**	U.S. stocks **26.2%**	U.S. stocks **29.4%**	U.S. stocks **26.5%**	U.S. stocks **19.4%**	Non-U.S. stocks **23.2%**	Real estate **14.3%**	Real estate **10.3%**
U.S. stocks **13.4%**	Non-U.S. stocks **14.3%**	U.S. stocks **2.6%**	U.S. fixed income **12.9%**	Non-U.S. stocks **16.2%**	Non-U.S. stocks **18.9%**	Real estate **15.6%**	Real estate **9.9%**	Real estate **10.6%**	U.S. fixed income **11.4%**	U.S. fixed income **8.0%**
Non-U.S. stocks **-0.4%**	U.S. fixed income **13.0%**	Real estate **1.7%**	Real estate **7.8%**	Real estate **8.0%**	Real estate **9.0%**	U.S. fixed income **11.4%**	Non-U.S. stocks **9.4%**	U.S. stocks **8.7%**	U.S. stocks **-13.1%**	Non-U.S. stocks **-8.6%**
Real estate **-5.3%**	Real estate **-0.5%**	U.S. fixed income **-1.9%**	Non-U.S. stocks **4.6%**	U.S. fixed income **4.2%**	U.S. fixed income **7.8%**	Non-U.S. stocks **8.1%**	U.S. fixed income **1.7%**	U.S. fixed income **3.7%**	Non-U.S. stocks **22.9%**	U.S. stocks **-15.4%**

Source: Callan Associates

Fund asset allocation

	June 30, 2002 market value (in millions)	% of total Fund	Target allocation
FIXED INCOME			
U.S. managers			
APFC - Internal Fixed Income	$ 7,880	32.1%	
Alaska Permanent Capital Management	260	1.1%	
UBS Asset Management	327	1.3%	
Alliance Bernstein	365	1.5%	
Alaska CD Program	79	0.3%	
Subtotal	**8,911**	**36.3%**	**35% +/- 7%**
International managers			
Julius Baer	300	1.2%	
Rogge Global Partners	357	1.5%	
Subtotal	**657**	**2.7%**	**2% +/- 2%**
Total fixed income	**9,568**	**38.9%**	**37% +/- 5%**
STOCKS			
U.S. active managers			
Alliance Capital	116	0.5%	
UBS Asset Management	603	2.5%	
Dodge & Cox	438	1.8%	
Dresdner RCM - large cap	1,004	4.1%	
Invesco Capital Management	423	1.7%	
Lazard Freres	445	1.8%	
McKinley Capital Management	128	0.5%	
Putnam Investments	454	1.8%	
Capital Guardian - small cap	483	2.0%	
Dresdner RCM - small cap	291	1.2%	
T. Rowe Price - small cap	319	1.3%	
Subtotal	**4,704**	**19.1%**	
U.S. passive managers			
Deutsche S&P 500	2,172	8.8%	
Deutsche S&P 500 Enhanced	680	2.8%	
Deutsche S&P 1000	697	2.8%	
Subtotal	**3,549**	**14.4%**	
Total U.S. stocks	**8,253**	**33.6%**	**37% +/- 7%**
International active managers			
Capital Guardian	449	1.8%	
Clay Finlay - Europe	539	2.2%	
Schroders Pacific Rim	172	0.7%	
UBS Asset Management	602	2.5%	
Lazard Freres	477	1.9%	
Dresdner RCM	130	0.5%	
Schroders Capital Management - Emerging Markets	187	0.8%	
Capital Guardian - Emerging Markets	252	1.0%	
Subtotal	**2,808**	**11.4%**	
International passive managers			
Deutsche Asset Management EAFE	1,211	4.9%	
Subtotal	**1,211**	**4.9%**	
Total international stocks	**4,019**	**16.4%**	**16% +/- 5%**
Total stocks	**12,272**	**50.0%**	**53% +/- 5%**
REAL ESTATE			
Direct investments			
AEW Capital Management	190	0.8%	
CB Richard Ellis	375	1.5%	
Henderson Investors	82	0.3%	
Kennedy Property	212	0.9%	
L&B Property	311	1.3%	
LaSalle Property	337	1.4%	
Sentinel I & II	193	0.8%	
Subtotal	**1,700**	**6.9%**	
Other			
REITs	797	3.2%	
Mortgages/CMBS	223	0.9%	
Commingled funds	3	0.0%	
Subtotal	**1,023**	**4.2%**	
Total real estate	**2,723**	**11.1%**	**10% +/- 2%**

Alaska Permanent Fund imports capital from around the world

Global investments

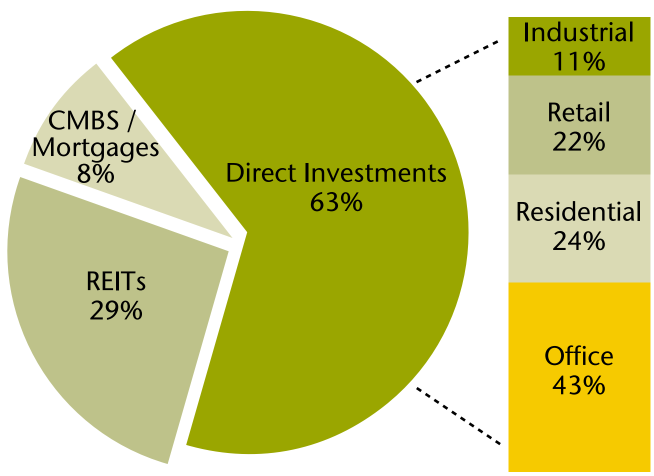
Counting just the 50 percent of the Fund invested in U.S. and international equities, the Permanent Fund owns more than $12.1 billion in individual shares of 2,936 companies located in 44 countries around the globe, including $8.3 billion in 1,867 companies headquartered in the U.S. (data as of June 30, 2002).

Real estate

The Fund's real estate investments provided good diversification benefits, consistent positive cash flow and strong returns in fiscal 2002. Indeed, this portfolio of direct holdings of individual properties, real estate investment trusts (REITs) and commercial mortgage-backed securities (CMBS) has been the Fund's best performing asset class for the seven years ended June 30, 2002, with a total return for that period of 11.1 percent.

Real estate has proven to be a good and consistent provider of balance for the Fund. This year, for example, as the market value of equities declined, one effect was to boost the Fund's real estate target allocation above its 10 percent target for the entire year. This had a positive effect on total Fund performance, as real estate was one of the two asset classes with double-digit positive returns in fiscal 2002 (the other being non-U.S. fixed income). It also gave real estate managers the ability to prune under-performing assets and take profits in those that had done well.

Real estate diversification as of June 30, 2002



As a sign of its maturity, real estate proceeds were used for the first time ever to help fund the Permanent Fund dividend in September 2001. Specifically, $100 million in CMBS were liquidated. As fiscal 2002 ended, staff set in motion the liquidation of the remaining debt-oriented real estate assets (approximately $200 million) to contribute to funding the 2002 dividend. Lend Lease had successfully managed these commercial mortgages (private and public) and whole loans for approximately 2.5 years.

With respect to individual properties held by the Fund, there were no new acquisitions this year, but there were significant sales of retail assets and some changes in the office portfolio. Three retail assets were sold during the year and a major change was made in the ownership of a fourth; the net effect was a $40 million reduction in the size of this portfolio. Two under-performing assets, Oakwood Mall in Enid, Okalahoma and Southpoint Galleria in Pittsburgh, Pennsylvania, were sold, as was a portion of a very attractive suburban Chicago retail complex known as Danada Center.

The change in ownership involved the Fund's largest retail holding – Tysons Corner Center in suburban Washington, D.C. After a nationwide review, the Fund chose Wilmorite Properties as its new partner in this regional mall, a transaction which brought to the Fund both new capital and a capable operating partner with a great deal of retail experience.

In the office portfolio, there were two significant actions in fiscal 2002. The first involved marketing and accepting bids on the Fund's single largest real estate asset – the Warner Center in suburban Los Angeles. Ultimately, the decision was made to divide the property and sell to two different purchasers. The sale will close in fiscal 2003. The second office property sold was the ARAmark Center, a large office building located in Philadelphia, Pennsylvania.

The Fund's investments in publicly traded REITs were very successful in fiscal 2002 with total returns of 19.3 percent. As of June 30, REITs totaled $797 million at market value, 29 percent of the real estate portfolio. Because this sector of the stock market was attractive to investors looking hard for yield and diversification, the price of many real estate companies reached historic highs this year. Accordingly, the Fund began the process of liquidating all its holdings in the REIT managed by Simon Property Group. The Fund had been an investor in this group of real estate stocks for over 10 years.

The total portfolio closed the year with a market value of $2.7 billion which included $326 million in unrealized gains.

Tysons Corner Center

Real estate managers' performance

for periods ended June 30, 2002

	Last year	Last 3 years	Last 5 years	Last 9.5 years
Direct Investments				
AEW Capital Management	8.2%	10.2%	19.1%	
CB Richard Ellis	11.4%	10.2%	10.6%	
Heitman	-0.9%	15.1%	15.8%	8.3%
Henderson Investors	7.4%	10.8%	11.4%	
Kennedy Property	4.1%	7.7%	8.6%	8.3%
L&B Property	-1.4%	6.1%	8.8%	6.0%
LaSalle Property	7.4%	15.3%	11.5%	9.7%
Sentinel I & II	6.8%	9.5%	10.0%	11.2%
NCREIF Classic Index	4.4%	9.5%	12.0%	9.8%
REITs				
AEW Capital Management Focus Group	20.6%	18.2%		
AEW Capital Management REITs	17.6%	16.2%		
Simon Property Group	29.6%	20.1%	14.8%	10.0%
Morgan Stanley REIT Index	16.0%	14.0%	7.8%	
Mortgages/CMBS				
Lend Lease	12.5%	10.5%		
Lehman Brothers Credit A Index	8.0%	7.7%		
Total Real Estate				
Net of fees	10.3%	11.8%	12.1%	9.4%
Gross of fees	10.8%	12.3%	12.7%	10.0%
Target Index (65% / 20% / 15%)				
NCREIF/MS REIT/Lehman Brothers Credit A Index	7.2%	10.2%	10.7%	9.1%

International stocks

Equities Manager Michael T. Bell and his colleagues oversee investment activities of the Fund's 13 external stock managers.

Non-U.S. stocks fell for a second consecutive year as international economies continued to suffer the effects of a global slowdown in business activity. The good news is that the decline was significantly less than that experienced in the U.S. While the index of the 500 largest U.S. stocks, the S&P 500, was down 18.0 percent for the year ended June 30, 2002, the Morgan Stanley Capital International (MSCI) EAFE Index for developed countries was down much less at minus 9.5 percent, and the MSCI Emerging Markets Free Index for less-developed countries was actually up 1.3 percent.

With more than 30 percent of the Fund's global equity holdings in international stocks ($4.0 billion of $12.3 billion), the relatively better performance of international stocks enhanced the Fund's overall return. In addition, although neither of the APFC's active emerging markets managers matched the positive performance of their benchmark index, the Fund was also helped by the allocation of 11 percent of the international stocks to emerging markets. In total, the Fund's international stocks lost 8.6 percent in fiscal 2002.

Among the managers, UBS Global, formerly called Brinson Partners, was the best performing active manager of a developed markets portfolio. Retaining its leading position from last year, its loss of only 0.1 percent reflected a defensive, value-oriented position throughout the year. All of the other actively managed portfolios failed to perform as well as their international benchmarks.

Two managers have been given a global mandate by the Board of Trustees. Managing against a global benchmark, the MSCI World Index, UBS Global and Lazard Asset Management thereby have the opportunity and the challenge to determine how to balance their portfolios between U.S. and international markets. Measured against this world index benchmark, both managers did well, adding from just under 3 percent to nearly 8 percent in value.

Non-U.S. stocks by region

as of June 30, 2002

Europe ex UK	42%
United Kingdom	21%
Americas	10%
Asia ex Japan	7%
Japan	16%
Other	4%

International equity managers' performance

for periods ended June 30, 2002

INTERNATIONAL STOCKS	Last year	Last 3 years	Last 5 years	Last 10 years
EAFE passive managers				
Deutsche Asset Management - EAFE	-9.5%	-6.6%	-1.4%	
Morgan Stanley Capital International (MSCI) EAFE Index	-9.5%	-6.8%	-1.6%	5.4%
EAFE active managers				
UBS Global Asset Management *	-0.1%	0.2%	2.8%	
Lazard Freres *	-11.1%	-6.1%	0.6%	
Dresdner RCM	-16.7%	-8.0%		
Capital Guardian	-10.4%	-3.4%	3.9%	10.7%
MSCI EAFE (Europe, Australia and Far East) Index	-9.5%	-6.8%	-1.6%	5.4%
Europe manager				
Clay Finlay	-11.0%	-0.8%	5.2%	10.7%
MSCI Europe Index	-7.7%	-6.0%	2.5%	8.5%
Pacific manager				
Schroders Capital Management - Pacific Rim	-11.0%	-4.7%	-8.2%	2.3%
MSCI Pacific Basin Index (1)	-13.5%	-8.4%	-10.0%	-0.4%
Emerging markets managers				
Capital Guardian Emerging Market Growth Fund	-4.1%	-5.4%		
MSCI Emerging Markets Free Index	1.3%	-6.3%	-8.4%	2.5%
Schroders emerging markets	-2.9%	-10.7%		
MSCI Emerging Markets Free Custom Index (2)	1.3%	-6.1%		
Permanent Fund international stocks composite	**-8.6%**	**-4.6%**	**0.5%**	**7.3%**
Target benchmark	**-9.5%**	**-6.8%**	**-1.6%**	**5.4%**

GLOBAL EQUITIES	Last year	Last 3 years	Last 5 years	Last 8.5 years
Global equity managers				
UBS Global Asset Management - Combined	-7.3%	-2.9%	2.9%	9.0%
Lazard Freres - Combined	-12.4%	-7.9%	1.2%	8.5%
MSCI World Index (3)	-15.2%	-8.5%	1.4%	7.9%
Permanent Fund global composite	**-9.8%**	**-5.5%**	**-2.0%**	**8.7%**

* UBS and Lazard Freres have a global mandate. They manage both U.S. and international equity accounts, which combine together to achieve the global returns.
(1) From 12/31/00: MSCI Pacfic Basin; prior to 12/31/00: Custom Pacific
(2) From 12/31/00: MSCI Emerging Markets Free Index; prior to 12/31/00: MSCI Emerging Markets Free ex Malaysia
(3) From 12/31/00: MSCI World; prior to 12/31/00: 60% S&P 500, 40% MSCI EAFE

permanence

The greatest danger to the Fund's permanence is not declining financial markets, it is inflation. That is why protecting the Fund against inflation has always been the Trustees' highest public policy priority.

To ensure the Fund's permanence, the Trustees have proposed a constitutional spending limit on the annual payout of Fund income. The limit would be set at 5 percent of the Fund's five-year average market value. The Fund is expected to average an 8 percent annual return in the future, which would allow the residual 3 percent growth to be retained, permanently, in the Fund for inflation-proofing.

The Trustees' proposed constitutional amendment did not pass in the last legislative session. It will be re-introduced in January. If it is approved by the 23rd Legislature, Alaskans will have the opportunity to vote on a Permanent Fund proposal in the November 2004 General Election which they can whole-heartedly support as being in the best interests of both current and future generations.

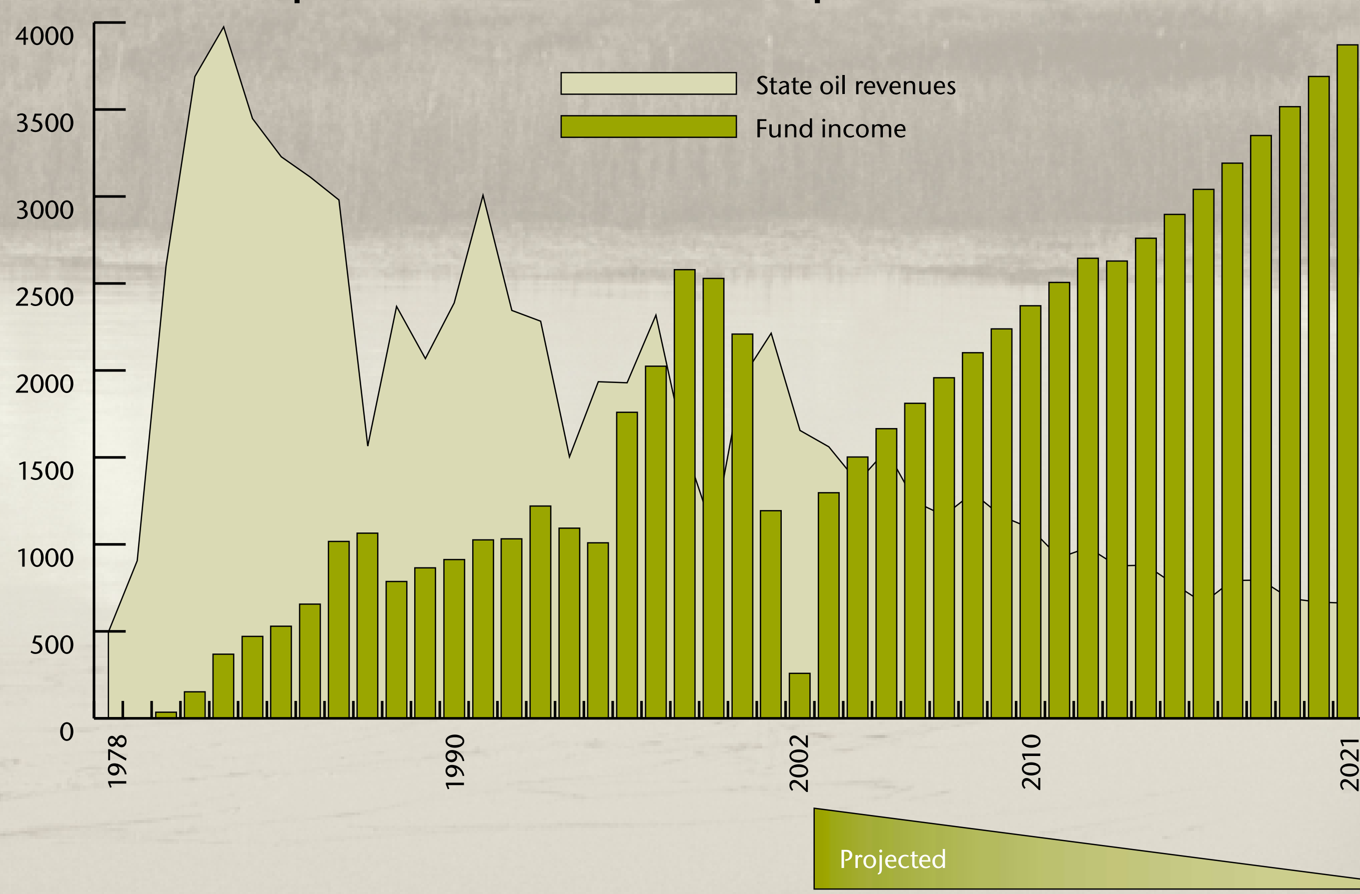
In addition to providing complete and protected inflation-proofing, the Trustees' proposal would also maximize distributions of the Fund's sustainable income over the long term. This is significant because the Permanent Fund will be the state's largest source of revenue in the future – it is projected to produce more than twice as much as petroleum over the next 25 years alone.

Thus, maximizing the Fund's income stream and making it sustainable is of critical importance. Think of it as protecting the Fund's sustainable yield.

As Trustee Gruening put it in testimony before the legislature last session, "In managing fishery stocks, the only sensible choice is to avoid taking too much of any stock so that, over the long term, the harvest is maximized. Of course, over-harvesting can reap short-term rewards of more fish, more money, but the inevitable result is, at best, fewer fish, less money and, at worst, permanent impairment or destruction of a fisheries stock, or a large public savings account."

For more information on this issue, please read *The Trustees' Papers, Volume VII: "Making the case for complete and protected inflation-proofing"*, which is available on the APFC web site at www.apfc.org.

The relationship of Fund income to state oil revenues: past and future



APFC is an investment company

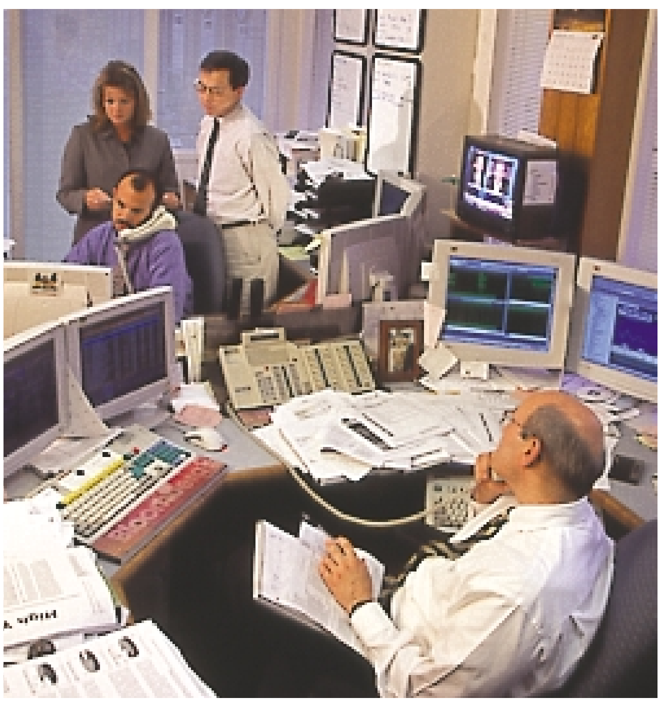
As indicated in the mission statement (see page 15), the primary business of the Alaska Permanent Fund Corporation is investment management. The corporate structure reflects that fundamental focus on investments and is very much akin to that used by private investment management firms.

On an organizational chart, the APFC engages in two main functions: Investments and support operations. The first is led by Chief Investment Officer (CIO) Allan Moore and the second by Chief Operating Officer (COO) Robert N. Bartholomew. Both individuals report directly to the executive director who reports to the Board of Trustees.

Departments within the support operations section include Administration, Finance, Information Technology and Communications. Sections within the Investments department include equities, fixed income and real estate.

Staff changes

The APFC welcomed four new employees during the year and made four promotions within the company. Julie Hamilton became the new Controller, replacing Valerie Mertz who had nine years of service with the APFC. Becky Baxter was hired as an Administrative Assistant for Finance, Jeanne Mungle became the new Procurement Specialist and Chris LaVallee, a former APFC intern and employee, returned as an Accountant. Tobie Putman was promoted from Portfolio Accountant to Investment Officer/Fixed Income, Karen Emberton was promoted from Accountant to Portfolio Accountant, Christy Leer was promoted from Investment Associate to Investment Officer/Real Estate and Joan Cahill was promoted from Communications Assistant to Communications Specialist.



CIO Allan Moore and the Fixed Income staff strive for above-average, risk-adjusted investment performance with below-average operational costs.

Manager Peter Naoroz and the Real Estate Investment team oversee a portfolio consisting of 57 assets located in 22 states and the District of Columbia.

Business continuity plan

The IT department supervised by Marshal Kendziorek strives to enhance quantitative capabilities while providing an uninterrupted flow of information.

On September 11, 2001, the Information Technology department already had, in hand, a draft version of an RFP (Request for Proposal) for an APFC Business Continuity Plan. They had been working on it actively for several months. The RFP was issued within 90 days and by January 2002, the APFC had a company with expertise in this area under contract to assist in the plan's development.

Developing a comprehensive plan that will enable the APFC, which requires reliable, highly sophisticated technology, to react appropriately and in a timely manner if disaster strikes is a complex process. Although, statistically, the probability of a major disaster is remote, the consequences of an occurrence could be severe. It is anticipated that the project will be complete in fiscal 2003.

The primary objective of the business continuity plan is to enable the organization to survive a disaster and to reestablish normal business operations. In order to survive, the APFC must assure that critical operations can resume normal processing within a reasonable time frame. Therefore, the goals are: (1) identify weaknesses and implement a disaster prevention program; (2) minimize the duration of a serious disruption to business operations; (3) facilitate effective coordination of business continuity tasks; and (4) reduce the complexity of the recovery effort.

Chief Operating Officer Robert N. Bartholomew oversees all non-investment departments, including Administration pictured here.

Corporate governance

From the point of view of institutional investors, corporate governance is at the heart of financial success because, in today's global world, what distinguishes the most successful businesses is their outstanding ability to compete. Competition, however, only thrives when the rules are fair, clear and universally followed.

When there is corruption, misrepresentation, lack of transparency or inadequate legal and regulatory frameworks, competition is stifled and everyone's financial success is put at risk. Good corporate governance, on the other hand, fosters fair competition. It provides assurance that investors have the information they need to make prudent decisions and that the information is accurate.

This year, there were a rash of accounting scandals in corporate America. WorldCom, Enron, Arthur Andersen, Global Crossing, ImClone Systems, Adelphia Communications, Tyco International – these companies and others were placed under investigation for possible criminal acts. As a result of the public's outrage, Congress passed, in record time, the Sarbanes-Oxley Act to strengthen corporate governance.

Financial reporting, accounting and the supervision of custodial relationships for the Fund are the responsibility of Director of Finance Chris Phillips and her department.

Corporate governance is an important issue to the Trustees, both for U.S. and non-U.S. companies. Entrusted by Alaskans to manage the Permanent Fund in the best interests of current and future generations, the Board has a fiduciary responsibility to act prudently when making decisions about where and how to invest Fund assets. Because the majority of the Fund is invested in corporations, how corporations behave matters to Alaskans.

Counting just the 50 percent of the Fund invested in U.S. and international equities, the Permanent Fund owns $12.1 billion in individual shares of 2,936 companies located in 44 countries around the globe, including $8.3 billion in 1,867 companies headquartered in the U.S. (data as of June 30).

As for the impact of the accounting scandals on the Permanent Fund, consider the two largest known to date: Enron and WorldCom. The Fund lost $13 million and $55 million, respectively, as investors lost confidence in these companies in 2001 and 2002 due to the overstatement of earnings and other fraudulent accounting practices. Although the Fund did realize capital gains on the sale of these stocks and bonds in 1998-2001 which offset all but $2.4 million of the losses, the APFC will pursue legal action to seek recovery of all losses caused by the companies' misrepresentation of their financial statements. Such corporate corruption is inexcusable, intolerable, reprehensible and, not least, criminal.

Commitment to Alaska

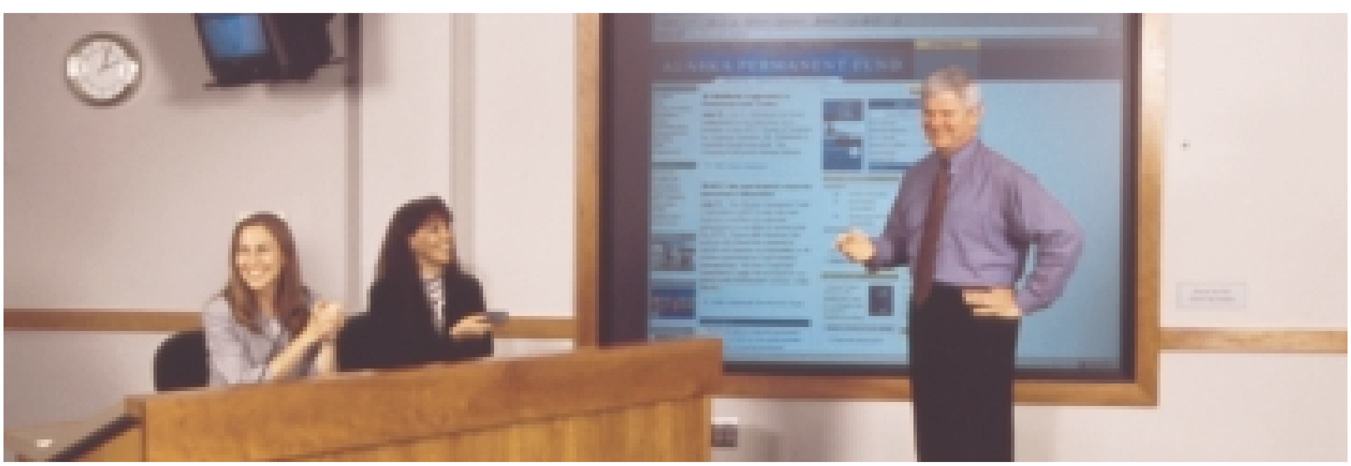
The APFC's commitment to Alaska extends beyond its fiduciary responsibility to protect and grow Alaska's large and unique public savings account. The APFC also manages money for three other Alaska funds, directs a popular internship program for Alaska college students, makes in-state investments when the Fund can earn competitive rates of return at comparable levels of risk and, of course, provides income each year for an annual dividend to all Alaska residents who make application and qualify.

As of June 30, the APFC was managing $303.0 million for the Alaska Mental Health Trust Fund; $101.0 million for the Alaska Science and Technology Endowment Fund and $4.6 million for the International Trade and Business Endowment Fund.

The intern program, which began in 1988 as a way for the Fund to help Alaska's best and brightest young people gain entry into the financial services industry, is a cooperative effort involving the APFC and its various investment managers, as well as placement offices at Alaska's colleges. Students are accepted to intern either directly with the APFC or with one of its investment managers. The program has a high success rate for permanent placement. One of this year's interns, Matt Wood, who interned with the APFC Finance department this summer, has since been hired as a permanent employee.

In terms of in-state investments, the Fund lends money to Alaska banks, in the form of certificates of deposit, totaling $78.6 million as of June 30, 2002 and has real estate investments outstanding with three Alaska properties. There are also two Alaska money managers working for the Fund – Alaska Permanent Capital Management and McKinley Capital Management – and an Alaska directed brokerage program which provides opportunities for seven Alaska businesses to share in the commissions generated by Fund stock trades.

Lastly, another of the Fund's fiduciary requirements is to provide objective and reliable information to the administration, the legislature and the people of Alaska on all matters affecting the Fund. This requirement is met through publishing various financial reports during the year, providing oral and written testimony on pending legislation and other public policy issues and maintaining an active speakers bureau and web site at www.apfc.org.



Director of Communications Jim Kelly and department work to ensure that open discussion and interaction occurs between the corporation and the people of Alaska.

Management's discussion and analysis

This Management's Discussion and Analysis (MD&A) is a new section of the Alaska Permanent Fund's (Fund) annual report required by GASB 34, a new rule established by the Governmental Accounting Standards Board. This section is intended to make the financial statements more understandable to the average reader who is not familiar with traditional accounting terminology.

This annual report has three integral parts: the narrative with charts and graphs preceding the financial statements, this Management's Discussion and Analysis and the financial statements with the accompanying notes. Together, they present the Fund's financial performance during the fiscal year ended June 30, 2002. Prior fiscal year information is shown as needed for comparative purposes.

Required financial statements

GASB 34 requires two financial statements: the balance sheet and statement of revenues, expenditures and changes in fund balances. These statements report financial information about the Fund's activities using generally accepted accounting principles.

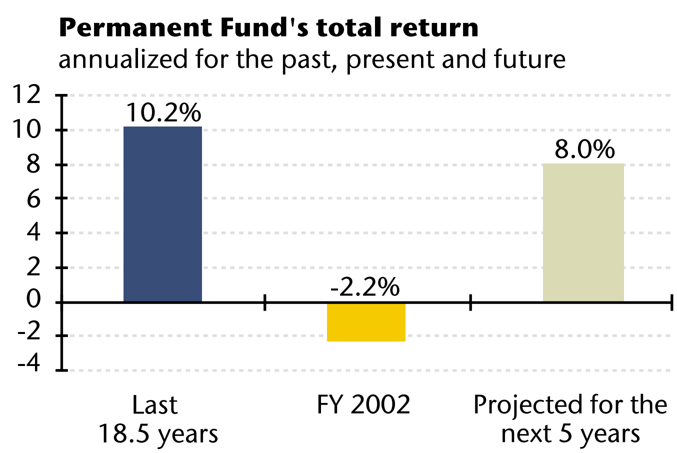
Balance sheets

The balance sheets report assets, liabilities and fund balances of the Fund. Fund balances are composed of principal and earnings reserve as of June 30, 2002 and June 30, 2001.

Assets. Assets represent the value of the Fund's investments on the financial statement dates, recorded at fair market value. Assets are the investments that generate revenue for the Fund, like stocks, bonds and real estate, and also include cash, receivables and prepaid expenses. Cash amounts represent not just cash but also short-term liquid investments. All assets are valued at their fair market, or recoverable, value as of the dates shown, except direct real estate holdings which are valued under the equity method of accounting, pursuant to generally accepted accounting principles. The equity method of accounting is defined as cost plus the Fund's portion of the property's undistributed earnings.

Liabilities. Liabilities represent claims against the Fund paid subsequent to June 30, 2002 and June 30, 2001.

Principal and earnings reserve. Fund balances are comprised of two components. Principal includes mineral revenues received by the Fund, inflation-proofing transfers from the earnings reserve and special legislative appropriations. The earnings reserve is where all income is accounted for and retained until distributed in accordance with law. The values shown for the earnings reserve are net of the deductions required for the Fund's liabilities.



	As of June 30, 2002	As of June 30, 2001	$ increase (decrease)	% change
Assets				
Cash	**$ 614,997,000**	544,014,000	70,983,000	13.0%
Receivables	**355,261,000**	365,158,000	(9,897,000)	-2.7%
Marketable debt securities	**9,160,003,000**	10,005,722,000	(845,719,000)	-8.5%
Preferred and common stock	**12,052,016,000**	12,617,711,000	(565,695,000)	-4.5%
Real estate	**2,540,323,000**	2,504,466,000	35,857,000	1.4%
Alaska certificates of deposit	**78,592,000**	147,423,000	(68,831,000)	-46.7%
Total assets	**$ 24,801,192,000**	26,184,494,000	(1,383,302,000)	-5.3%
Liabilities				
Accounts payable	**345,626,000**	253,160,000	92,466,000	36.5%
Income distributable to State of Alaska	**930,353,000**	1,116,444,000	(186,091,000)	-16.7%
Total liabilities	**$ 1,275,979,000**	1,369,604,000	(93,625,000)	-6.8%
Fund balances				
Principal	**21,884,170,000**	21,047,579,000	836,591,000	4.0%
Unrealized earnings reserve	**505,255,000**	1,383,576,000	(878,321,000)	-63.5%
Remaining earnings reserve	**1,135,788,000**	2,383,735,000	(1,247,947,000)	-52.4%
Total fund balances	**$ 23,525,213,000**	24,814,890,000	(1,289,677,000)	-5.2%

The table above shows the value of Fund assets by type as of June 30, 2002 and 2001 as well as liabilities and fund balances. The mix of Fund assets reflects the asset allocation decisions made by the Board of Trustees of the Alaska Permanent Fund Corporation (APFC), implemented by APFC staff. The dollar and percentage changes in the value of those assets, between those two points in time, are due to two primary factors: a reduction of assets caused by the payment of Permanent Fund dividends in September 2001 and the impact of declining financial markets.

The decrease in the amount of Alaska certificates of deposit represents implementation of new collateral requirements during fiscal year 2002. Subsequent to June 30, 2002, the Alaska certificate of deposit program has grown to a level greater than that of June 30, 2001.

The decrease in liabilities at June 30, 2002 results from the lower dividend liability owed to the Department of Revenue for the Permanent Fund dividend program. The decrease is due to lower realized earnings produced by the Fund.

Principal of the Fund was increased in fiscal 2002 by the dedicated mineral revenues deposited in principal and the annual inflation-proofing transfer from earnings reserve. The decrease in the unrealized earnings reserve reflects the impact of the declining financial markets. The reduction of the remaining earnings reserve is a result of lower fiscal 2002 realized income, the annual dividend payment to the Department of Revenue and the inflation-proofing transfer to principal.

Statements of revenues, expenditures and changes in Fund balances

The statements of revenues, expenditures and changes in fund balances account for all of the current- and prior-year's investment revenues and show the activity that occurred during each of the last two fiscal years.

Revenues. Revenues include dividends from stocks, interest from bonds and cash flow from real estate investments. Also included is the change in the fair market value of the investments held by the Fund.

Expenditures. The Fund's operating costs include all expenditures required to manage the Permanent Fund and include in-house expenses as well as external manager and custodial fees. Expenditures are subtracted from revenues.

Other financing sources/uses. These lines account for the mineral revenues received by the Fund as well as all appropriations out of the Fund, transfers to the dividend fund being the largest distribution.

Changes in fund balances. The bottom lines of this statement show the net effect of all the Fund's activities during the year on fund balances. For fiscal 2002, for example, the Fund net assets were worth $24.8 billion at the beginning of the year and $23.5 billion at the end of the year. This statement accounts for the change in Fund value.

	Years Ended June 30			
	2002	2001	$ increase (decrease)	% change
Revenues				
Dividend, interest and real estate income	**$ 984,082,000**	1,091,078,000	(106,996,000)	-9.8%
Total net increase (decrease) in the fair value of investments	**(1,562,979,000)**	(1,975,480,000)	412,501,000	20.9%
Total revenues	**$ (578,897,000)**	(884,402,000)	305,505,000	34.5%
Less operating expenditures	**38,124,000**	39,490,000	(1,366,000)	-3.5%
Deficiency of revenues over expenditures	**$ (617,021,000)**	(923,892,000)	306,871,000	33.2%
Transfers in	**257,697,000**	339,315,000	(81,618,000)	-24.1%
Transfers out	**930,353,000**	1,116,444,000	(186,091,000)	-16.7%
Net change in fund balances	**(1,289,677,000)**	(1,701,021,000)	411,344,000	24.2%
Fund balances beginning of period	**24,814,890,000**	26,515,911,000	(1,701,021,000)	-6.4%
Fund balances end of period	**$ 23,525,213,000**	24,814,890,000	(1,289,677,000)	-5.2%

Statutory income calculation				
Deficiency of revenues over expenditures	**(617,021,000)**	(923,892,000)	306,871,000	33.2%
Settlement earnings and unrealized losses	**874,003,000**	2,122,997,000	(1,248,994,000)	-58.8%
Statutory net income	**$ 256,982,000**	1,199,105,000	(942,123,000)	-78.6%

Fiscal years 2001 and 2002 are most notably marked by below-average performance in the financial markets. In fiscal 2002, the Fund produced a negative 2.2 percent return, following a negative 3.3 percent return in fiscal 2001. Dividends and real estate income were substantially the same in fiscal 2002 as in the prior fiscal year, however interest income on bonds was lower due to a lower overall level of interest rates. Both years saw substantial depreciation in the value of assets held by the Fund, primarily in stocks.

The operating expenditures of the Fund were lower in fiscal year 2002 due to investment management fees paid on assets with a lower overall market value. Transfers into the Fund represent the Fund's share of Alaska mineral revenue. The Fund's lower mineral contribution in fiscal year 2002 reflected a lower average price of oil.

The lower dividend distribution from the Fund reflects the impact of the five-year averaging formula of the Fund's statutory income, outlined in statute AS 37.13.140 and AS 37.13.145. As the Fund replaces years of higher statutory income with years of lower statutory income, the result is lower distributions.

Economic factors

The market value of Fund assets is directly impacted by the activity of the various financial markets. Subsequent to fiscal year-end, the Fund's net asset value has been affected by the volatility of the financial markets; however, diversification in different asset types has helped to mitigate the volatility.

Provided below is a table summarizing the changes to principal and earnings reserve. Additional information on changes to principal and earnings reserve can be found in the notes to the financial statements.

FY02 Principal (in millions)		FY02 Earnings Reserve (in millions)				
			Unrealized	**Realized**	**Total**	**Total Fund**
Beginning balance	$21,047.6	Beginning balance	$1,383.6	2,383.7	3,767.3	24,814.9
Mineral revenue	257.7					257.7
		Change in unrealized gains	-878.3		-878.3	-878.3
		Income – dividends, interest, real estate income		984.1	984.1	984.1
		Realized gains (losses)		-684.7	-684.7	-684.7
		Dividend liability		-925.8	-925.8	-925.8
		Appropriations to state agencies		-4.5	-4.5	-4.5
Inflation-proofing	602.3	Inflation-proofing transfers to principal		-602.3	-602.3	0
Settlement adjustment	-23.4	Settlement adjustment		23.4	23.4	0
		Fund operating expenditures		-38.1	-38.1	-38.1
Total year-end	**$21,884.2**	**Total year-end**	**$505.3**	**1,135.7**	**1,641.0**	**23,525.2**

Independent auditors' report

The Board of Trustees
Alaska Permanent Fund Corporation
(A Component Unit of the State of Alaska):

We have audited the accompanying balance sheets of the Alaska Permanent Fund as of June 30, 2002 and 2001, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the Alaska Permanent Fund Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain 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.

As discussed in note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2002 and 2001, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Permanent Fund as of June 30, 2002 and 2001, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, the Alaska Permanent Fund adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, effective July 1, 2000.

The management discussion and analysis on pages 28 through 31 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Anchorage, Alaska
August 2, 2002

Financial statements

Balance sheets

	June 30	
	2002	2001
Assets		
Cash and temporary investments	$ 614,997,000	544,014,000
Receivables, prepaid expenses, and other assets	355,261,000	365,158,000
Investments –		
Marketable debt securities	9,160,003,000	10,005,722,000
Preferred and common stock	12,052,016,000	12,617,711,000
Real estate	2,540,323,000	2,504,466,000
Alaska certificates of deposit	78,592,000	147,423,000
Total investments	23,830,934,000	25,275,322,000
Total assets	$ 24,801,192,000	26,184,494,000
Liabilities		
Accounts payable	$ 345,626,000	253,160,000
Income distributable to the State of Alaska	930,353,000	1,116,444,000
Total liabilities	1,275,979,000	1,369,604,000
Fund balances		
Reserved:		
Principal	21,884,170,000	21,047,579,000
Unreserved:		
Unrealized earnings reserve	505,255,000	1,383,576,000
Remaining earnings reserve	1,135,788,000	2,383,735,000
Total earnings reserve	1,641,043,000	3,767,311,000
Total fund balances	23,525,213,000	24,814,890,000
Total liabilities and fund balances	$ 24,801,192,000	26,184,494,000

The accompanying notes are an integral part of the financial statements

Statements of revenues, expenditures and changes in fund balances

	Years ended June 30	
	2002	2001
Revenues		
Interest	$ **576,268,000**	710,312,000
Dividends	**180,487,000**	155,551,000
Real estate and other income	**227,327,000**	225,215,000
Total interest, dividends, real estate and other income	**984,082,000**	1,091,078,000
Net increase (decrease) in the fair value of investments -		
Marketable debt securities	**265,704,000**	359,608,000
Preferred and common stock	**(1,876,590,000)**	(2,486,857,000)
Real estate	**90,947,000**	119,877,000
Foreign exchange contracts	**(41,742,000)**	37,172,000
Currency	**(1,298,000)**	(5,280,000)
Total net decrease in the fair value of investments	**(1,562,979,000)**	(1,975,480,000)
Total revenues	**(578,897,000)**	(884,402,000)
Expenditures		
Operating expenditures	**(38,124,000)**	(39,490,000)
Deficiency of revenues over expenditures	$ **(617,021,000)**	(923,892,000)
Other financing sources (uses)		
Transfers in	**257,697,000**	339,315,000
Transfers out	**(930,353,000)**	(1,116,444,000)
Net changes in fund balances	**(1,289,677,000)**	(1,701,021,000)
Fund balances		
Beginning of period	**24,814,890,000**	26,515,911,000
End of period	$ **23,525,213,000**	24,814,890,000

The accompanying notes are an integral part of the financial statements

Notes to financial statements

June 30, 2002 and 2001

1. Entity

The Constitution of the State of Alaska (the "state") was amended by public referendum in 1976 to dedicate a portion of certain natural resource revenues to the Alaska Permanent Fund (the "Fund"). The principal of the Fund is to be invested in perpetuity. The Alaska State Legislature (the "Legislature") created the Alaska Permanent Fund Corporation (the "Corporation"), a component unit of the state that is administered by a board of trustees (the "Trustees"), to manage the investments of the Fund. By statute, (i) a portion of annual earnings is transferred to the state's dividend fund, and (ii) a portion of the earnings reserve account sufficient to offset the impact of inflation is transferred to the principal of the Fund. The balance of the Fund's earnings is held in the earnings reserve account and is subject to appropriation by the Legislature.

The accounting and reporting policies of the Fund conform to generally accepted accounting principles. The Fund follows the modified accrual method of accounting. In preparing the financial statements, management is required to make estimates and assumptions as of the date of the balance sheet that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and revenue and expenses for the period. Actual results could differ from those estimates. The more significant accounting and reporting policies applied in the preparation of the accompanying financial statements are discussed in note 2.

The Fund's assets are held in a wide variety of investments, in accordance with Alaska statute and internal investment policies. The investments include stocks and bonds, both domestic and non-domestic, as well as real estate investments, both direct equity and publicly traded securities. The Fund's results of operations rely in large part on the success of financial markets. However, the volatility of markets, especially equity markets, can cause substantial period-to-period fluctuations in operating results. Diversification in different asset types helps to mitigate the volatility of operating results. According to the state Constitution, the principal of the Fund is to be invested in perpetuity. Therefore, negative earnings of the Fund's assets do not affect principal. All earnings of the Fund, negative and positive, realized and unrealized, are accounted for in the earnings reserve account of the Fund.

2. Significant accounting policies

The Fund adopted Governmental Accounting Standards Board Statement No. *34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) on July 1, 2000. This statement, known as the "reporting model" statement, affects the way the Fund presents financial information.

GASB No. 34 requires the basic financial statements of permanent funds to include balance sheets and statements of revenues, expenditures and changes in fund balances. These statements are required to be accounted for on the current financial resources measurement focus and the modified accrual basis of accounting. The adoption of GASB No. 34 had no cumulative effect on fund balances.

Dividend appropriations

Current statutes require that one-half of twenty-one percent of the Fund's net income for the last five fiscal years, excluding earnings from contributions made in the North Slope royalty case *(State v. Amerada Hess, et al.)* settlements and unrealized gains and losses, be made available for the payment of dividends and other appropriations each year.

Forward exchange contracts

The Fund is party to a variety of forward contracts in its trading activities, and in the management of its foreign exchange rate exposure. These contracts are speculative in nature and the contract amounts do not appear on the balance sheet. Realized gains and losses are included in net income at the time the contract settles, and are determined based on the difference between the contract rate and the market rate at the time of settlement. Unrealized gains and losses are calculated using foreign currency market rates at the balance sheet date.

Fund balances

Reserved fund balances consist of the principal of the Fund. Unreserved fund balances consist of both unrealized and realized earnings of the Fund.

Inflation-proofing

State statute requires that the principal of the Fund be adjusted for the impact of inflation annually. The impact of inflation is measured by the change in the prior calendar year average of the United States consumer price index for all urban consumers, applied against the balance of contributed equity at the end of the fiscal year. The inflation rates were 2.83% and 3.37%, and were applied to the years ended June 30, 2002 and 2001, respectively.

Interest income

Interest income is accrued monthly as earned.

Income taxes

As integral parts of the state, the Fund and the Corporation are not subject to federal or state income taxes. In addition, the Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or any subdivision thereof, which is derived from the exercise of any essential governmental function. The Fund and the Corporation perform an essential governmental function and are therefore exempt from Federal income taxes under that provision, as well.

Investments

The Fund's marketable securities, excluding direct real estate investments, are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of net income. Fair values are obtained from independent sources for marketable debt and equity securities and real estate investment trusts.

Real estate commingled funds, direct real estate investments and direct commercial mortgages are carried at historical cost plus the Fund's share of undistributed earnings. If, in the opinion of management, a permanent impairment of value has occurred, the investment is written down to fair market value by a charge to operations.

Securities transactions
Securities transactions are recorded on the trade date that securities are purchased or sold.

Transfers in
Contributions from dedicated state revenues are recorded when certain revenues defined by statute are received or reported by the Alaska Department of Natural Resources. Contributions from appropriations and other sources are recorded when received.

Transfers out
Transfers out to other state agencies are recorded when measurable and when resources are available for distribution.

3. Cash and temporary investments

All cash and temporary investments bear interest at competitive rates, and are summarized as follows at June 30:

	2002	2001
Cash [a]	$ 60,241,000	111,649,000
U.S. agencies [b]	94,657,000	60,839,000
Treasury bills [b]	130,516,000	0
Commercial paper [c]	329,583,000	371,526,000
Total cash and temporary investments	$ 614,997,000	544,014,000

a) Share ownership in a money market fund, payable on demand. Collateralized by underlying securities held by the fund in the name of the custodian.
b) Debt obligations guaranteed by the U.S. government, held by the custodian in the name of the Fund.
c) Commercial paper rated investment grade, held by the custodian in the name of the Fund.

4. Receivables, prepaid expenses and other assets

Receivables, prepaid expenses and other assets at June 30 are as follows:

	2002	2001
Interest receivable	$ 117,127,000	144,902,000
Dividends receivable	19,694,000	13,973,000
Sales receivable	169,329,000	154,712,000
Foreign exchange contracts	0	8,152,000
Contributions receivable	44,195,000	43,419,000
Other receivables	4,916,000	0
Total receivables, prepaid expenses and other assets	$ 355,261,000	365,158,000

5. Marketable debt securities

The Corporation is authorized by statute to invest Fund assets in (i) corporate bonds rated investment grade; (ii) obligations of the United States Treasury, its agencies and instrumentalities; and (iii) foreign obligations of comparable quality. All marketable debt securities are held by custodian banks in the name of the Fund. Marketable debt securities at June 30 are summarized as follows:

	Cost	Market	Unrealized gains/(losses)
2002			
Treasury notes/bonds	**$ 2,321,949,000**	**2,348,416,000**	**26,467,000**
Mortgage-backed securities	**2,783,112,000**	**2,848,395,000**	**65,283,000**
Other federal agencies	**874,940,000**	**916,058,000**	**41,118,000**
Corporate bonds	**2,354,458,000**	**2,395,091,000**	**40,633,000**
Non-domestic bonds	**601,132,000**	**652,043,000**	**50,911,000**
Total marketable debt securities	**$ 8,935,591,000**	**9,160,003,000**	**224,412,000**
2001			
Treasury notes/bonds	$ 2,266,045,000	2,214,159,000	(51,886,000)
Mortgage-backed securities	2,516,102,000	2,521,856,000	5,754,000
Other federal agencies	1,657,298,000	1,708,042,000	50,744,000
Corporate bonds	2,954,476,000	3,005,088,000	50,612,000
Non-domestic bonds	587,719,000	556,577,000	(31,142,000)
Total marketable debt securities	$ 9,981,640,000	10,005,722,000	24,082,000

6. Preferred and common stock

The Corporation is authorized by statute to invest Fund assets in the preferred and common stock of United States and non-domestic corporations. All preferred and common stock investments are held by custodian banks in the name of the Fund.

The Corporation may invest Fund assets in (i) equity securities up to 55% of total Fund investments, and (ii) other investments, which meet the test of prudence, including those currently authorized by law, up to 5% of total Fund investments. Preferred and common stocks at June 30 are summarized as follows:

	Cost	Market	Unrealized gains/(losses)
2002			
Domestic	**$ 8,017,837,000**	**8,268,628,000**	**250,791,000**
Non-domestic	**3,904,855,000**	**3,783,388,000**	**(121,467,000)**
Total preferred and common stock	**$ 11,922,692,000**	**12,052,016,000**	**129,324,000**
2001			
Domestic	$ 7,608,189,000	8,924,945,000	1,316,756,000
Non-domestic	3,752,908,000	3,692,766,000	(60,142,000)
Total preferred and common stock	$ 11,361,097,000	12,617,711,000	1,256,614,000

7. Real estate

The Corporation is authorized by statute to invest Fund assets in real estate improved by substantially rented buildings located in the United States. Real estate investments may take the form of direct equity interests, real estate title-holding entities, real estate investment trusts, real estate operating companies or other entities whose assets consist primarily of real property, debt obligations secured by real property or similar entities. All real estate investments are held by the Corporation in its own name on behalf of the Fund, and are managed by professional real estate management firms. Real estate investment trusts and commercial mortgage backed securities are held by custodian banks in the name of the Fund.

The carrying value of real estate at June 30 was $2,540,323,000 in 2002 and $2,504,466,000 in 2001. Carrying value consists of the equity value of direct real estate investments, commingled funds and commercial mortgages and the market value of real estate investment trusts and commercial mortgage backed securities.

In the ordinary course of business, the Corporation has made Fund commitments related to real estate investments. In the opinion of management, meeting these commitments will not have a material adverse effect on the Fund's financial position, results of operation or liquidity. Real estate investments at June 30 are summarized as follows:

	Book value	Market	Unrealized gains/(losses)	Carrying value
2002				
Commingled funds	**$ 2,635,000**	**3,262,000**	**627,000**	**2,635,000**
Real estate investment trusts	**619,440,000**	**783,189,000**	**163,749,000**	**783,189,000**
Commercial mortgage backed securities	**132,371,000**	**138,459,000**	**6,088,000**	**138,459,000**
Commercial mortgages	**71,821,000**	**74,094,000**	**2,273,000**	**71,821,000**
Alaska residential mortgages	**106,000**	**106,000**	**0**	**106,000**
Property note receivable	**3,141,000**	**3,141,000**	**0**	**3,141,000**
Direct investments -				
Retail	**341,228,000**	**360,338,000**	**19,110,000**	**341,228,000**
Office	**639,827,000**	**738,188,000**	**98,361,000**	**639,827,000**
Industrial	**192,834,000**	**187,918,000**	**(4,916,000)**	**192,834,000**
Residential	**367,083,000**	**407,983,000**	**40,900,000**	**367,083,000**
Total real estate	**$ 2,370,486,000**	**2,696,678,000**	**326,192,000**	**2,540,323,000**
2001				
Commingled funds	$ 4,783,000	8,984,000	4,201,000	4,783,000
Real estate investment trusts	559,071,000	651,590,000	92,519,000	651,590,000
Commercial mortgage backed securities	221,026,000	223,773,000	2,747,000	223,773,000
Commercial mortgages	72,035,000	72,035,000	0	72,035,000
Alaska residential mortgages	117,000	117,000	0	117,000
Direct investments -				
Retail	398,817,000	430,200,000	31,383,000	398,817,000
Office	625,644,000	725,416,000	99,772,000	625,644,000
Industrial	184,223,000	197,485,000	13,262,000	184,223,000
Residential	343,484,000	388,148,000	44,664,000	343,484,000
Total real estate	$ 2,409,200,000	2,697,748,000	288,548,000	2,504,466,000

8. Alaska certificates of deposit

The Corporation is authorized by statute to invest Fund assets in certificates of deposit or the equivalent instruments of banks, savings and loan associations, mutual savings banks and credit unions doing business in Alaska. Collateral, primarily in the form of U.S. government securities or letters of credit from the Federal Home Loan Bank, secure these investments.

9. Accounts payable

Accounts payable at June 30 are summarized as follows:

	2002	2001
Accrued liabilities	$ **10,748,000**	9,505,000
Service fees payable	**0**	1,754,000
Foreign exchange contracts	**18,229,000**	740,000
Securities purchased	**316,649,000**	241,161,000
Total accounts payable	$ **345,626,000**	253,160,000

10. Income distributable to the State of Alaska

The Legislature appropriated a portion of the Fund's statutory net income for various purposes, including the payment of dividends to qualified residents of the State of Alaska. In addition, the Legislature appropriated a portion of the Fund's earnings reserves to fund various other agency activities. Income distributable to the state at June 30 is summarized as follows:

	2002	2001
Dividends	$ **897,453,000**	1,082,300,000
Appropriation to the Departments of –		
Corrections	**4,258,000**	3,615,000
Health and Social Services	**13,008,000**	16,147,000
Revenue	**5,245,000**	5,099,000
Public Safety	**5,380,000**	5,376,000
Legislature	**462,000**	64,000
Total to dividend fund	**925,806,000**	1,112,601,000
Other agencies	**4,547,000**	3,843,000
Total income distributable	$ **930,353,000**	1,116,444,000

11. Principal and earnings reserve

Principal and earnings reserve activity during the years ended June 30 is summarized as follows:

	2002	2001
Principal		
Balance, beginning of year	$ 21,047,579,000	20,014,648,000
Dedicated state revenues	257,697,000	339,315,000
Inflation-proofing transfer	602,278,000	685,929,000
Settlement earnings, net of adjustments	(23,384,000)	7,687,000
Balance, end of year	$ 21,884,170,000	21,047,579,000
Earnings reserve		
Balance, beginning of year	$ 3,767,311,000	6,501,263,000
Appropriation to other state agencies	(4,547,000)	(3,843,000)
Inflation-proofing transfer	(602,278,000)	(685,929,000)
Settlement earnings, net of adjustments	23,384,000	(7,687,000)
Dividends	(925,806,000)	(1,112,601,000)
Deficiency of revenues over expenses	(617,021,000)	(923,892,000)
Balance, end of year	$ 1,641,043,000	3,767,311,000
Total		
Balance, beginning of year	$ 24,814,890,000	26,515,911,000
Dedicated state revenues	257,697,000	339,315,000
Appropriation to other state agencies	(4,547,000)	(3,843,000)
Dividends	(925,806,000)	(1,112,601,000)
Deficiency of revenues over expenses	(617,021,000)	(923,892,000)
Balance, end of year	$ 23,525,213,000	24,814,890,000
Earnings reserve breakout		
Unrealized earnings reserve	$ 505,255,000	1,383,576,000
Remaining earnings reserve	1,135,788,000	2,383,735,000
Total earnings reserve	$ 1,641,043,000	3,767,311,000

The composition of the principal balance of the Fund at June 30 is shown as follows:

	2002	2001
Dedicated state revenues	$ 7,328,438,000	7,070,741,000
Appropriations from the state	6,885,906,000	6,885,906,000
Inflation-proofing	7,531,628,000	6,929,350,000
Settlement earnings	138,198,000	161,582,000
Total principal	$ 21,884,170,000	21,047,579,000

During the fiscal years 1990 through 1999, the Fund received dedicated state revenues from North Slope royalty case *(State v. Amerada Hess, et al.)* settlements. By statute, realized earnings from these settlement payments received are to be treated in the same manner as other Fund income, except that these earnings on settlements are excluded from the dividend calculation. Total realized earnings on settlement principal were $4,318,000 in 2002 and $22,230,000 in 2001. Of these amounts, $4,318,000 and $14,543,000 during 2002 and 2001, respectively, were added to inflation-proofing. The remaining earnings of $7,687,000 during 2001, were added to Fund principal in accordance with law. Accumulated settlement related activity, which is included in the principal balance of the Fund at June 30, is shown as follows:

		2002	2001
Settlement -			
Principal	$	**194,083,000**	229,242,000
Earnings		**138,198,000**	161,582,000
Inflation-proofing		**62,112,000**	62,948,000
Total settlement principal	$	**394,393,000**	453,772,000

During the fiscal year ended June 30, 2002, settlement principal as of July 1, 2001, was reduced by $63,697,000 to reclassify deposits made during the fiscal years 1990 through 1999, which had included some non-settlement payments in settlement principal, and had not included other amounts that should have been credited to principal. A total of $40,313,000 was reclassified from settlement principal to general principal, and the remaining $23,384,000 was reclassified from reserved to unreserved fund balances as of July 1, 2001. The reclassification had no effect on net income.

12. Statutory net income

By Alaska law, statutory net income is computed in accordance with generally accepted accounting principles (GAAP), excluding settlement income from the North Slope royalty case *(State v. Amerada Hess, et al.)* and any unrealized gains or losses. However, net income is required by GAAP to include unrealized gains and losses and all other income, regardless of source. Consequently, GAAP net income and statutory net income differ. It is statutory net income that is used to compute the Permanent Fund dividend.

Statutory net income for the years ended June 30 is calculated as follows:

		2002	2001
Deficiency of revenues over expenditures	$	**(617,021,000)**	(923,892,000)
Unrealized losses		**878,321,000**	2,145,227,000
Settlement earnings		**(4,318,000)**	(22,230,000)
Statutory net income	$	**256,982,000**	1,199,105,000

13. Investment income by source

Investment income during the years ended June 30 is summarized as follows:

	2002	2001
Interest		
Marketable debt securities	$ **558,641,000**	656,442,000
Alaska certificates of deposit	**2,614,000**	7,633,000
Cash and other interest	**15,013,000**	46,237,000
Total interest	$ **576,268,000**	710,312,000
Dividends		
Domestic preferred and common stock	$ **109,104,000**	89,212,000
Non-domestic preferred and common stock	**71,383,000**	66,339,000
Total dividends	$ **180,487,000**	155,551,000
Real estate and other income		
Real estate interest	$ **18,939,000**	22,297,000
Real estate dividends	**45,974,000**	39,130,000
Other real estate income	**150,999,000**	150,226,000
Loaned security and other income	**11,415,000**	13,562,000
Total real estate and other income	$ **227,327,000**	225,215,000

Under Statute 37.13.120(f), the Corporation is authorized to enter into securities lending transactions on behalf of the Fund. The Corporation, through an agreement with the Bank of New York (the "Bank"), lends marketable debt and equity securities. These loans are fully collateralized at not less than one hundred two percent (102%) of the market value of the loaned securities for U.S. securities and one hundred five percent (105%) of market value for non-U.S. securities. The Corporation and the Fund are fully indemnified by the Bank against any loss resulting from a default on a loaned security. The Corporation is able to sell any securities out on loan. The Bank may sell collateral upon borrower default. The Bank receives a portion of the earnings derived from securities lending. There was $2,743,599,000 and $3,670,925,000 in loaned securities outstanding for the years ended June 30, 2002 and 2001, respectively. During the years ended June 30, 2002 and 2001, there were no losses incurred as a result of securities lending transactions.

14. Net realized losses on currency

Net realized losses on foreign currency inventory were $1,298,000 and $5,280,000 for the years ended June 30, 2002 and 2001, respectively. Currency gains and losses resulting from the purchase and sale of securities are included as part of the net increase or decrease in the fair value of the traded securities.

15. Foreign exchange contracts and off-balance sheet risk

The Corporation entered into foreign currency forward exchange contracts to buy and sell, for the Fund, specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing cash positions in these currencies. The maturity periods for these contracts ranged from one to five months. At June 30, 2002, the Fund had net unrealized losses with respect to such contracts.

The counterparties to the foreign currency forward contracts consisted of a diversified group of financial institutions. The Fund is exposed to credit risk to the extent of non-performance by these counterparties; however, the Corporation considers the risk of default to be remote. The Fund's market risk is limited to the difference between contractual rates and market rates at the end of the fiscal year.

On behalf of the Fund, the Corporation had net purchase contracts payable totaling $18,229,000 as of June 30, 2002 and net sale contracts receivable totaling $7,411,000 as of June 30, 2001. Foreign currency forward exchange contracts resulted in net unrealized losses of $25,640,000 for the year ended June 30, 2002 and net unrealized gains of $12,125,000 for the year ended June 30, 2001, including prior year reversals in each year. The Fund had realized losses amounting to $16,102,000 for the year ended June 30, 2002 and realized gains of $25,047,000 for the year ended June 30, 2001.

16. Operating expenses

Operating expenses of the Corporation, paid for by the Fund, for the years ended June 30 are summarized as follows:

		2002	2001
Salaries and benefits	$	**2,800,000**	2,687,000
Travel		**227,000**	235,000
Communications		**845,000**	978,000
Custody and safekeeping fees		**1,681,000**	1,701,000
Consulting fees		**505,000**	369,000
Investment management fees		**30,258,000**	32,135,000
Legal and audit fees		**353,000**	278,000
Public information and subscriptions		**343,000**	245,000
Rent		**313,000**	154,000
Property and equipment		**241,000**	203,000
Other expenses		**558,000**	505,000
Total operating expenses	$	**38,124,000**	39,490,000

17. Pension plan

All full-time employees of the Corporation participate in the State of Alaska Public Employees Retirement System (PERS), a multiple employer public employee retirement system. Total salaries and benefits for employees covered by PERS for the years ended June 30, 2002 and 2001 amounted to $2,781,000 and $2,670,000, respectively. Corporation employees are required to contribute 6.13% of their annual salaries to PERS. The Corporation contributes the remaining amounts necessary to pay benefits when due. These contributions represented 7.20% and 8.09% of covered salary expenses in the years ended June 30, 2002 and 2001, respectively.

18. Sale of assets

Subsequent to year-end, the Corporation sold Fund assets that were invested in commercial mortgage backed securities and Simon Property Group securities. Gross proceeds from the sale of these assets totaled $206,993,000, resulting in a net realized gain of $25,381,000. These assets were liquidated as a routine matter. This action does not reflect a change in the asset allocation policy.

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