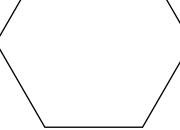
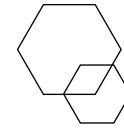
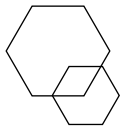
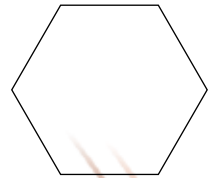
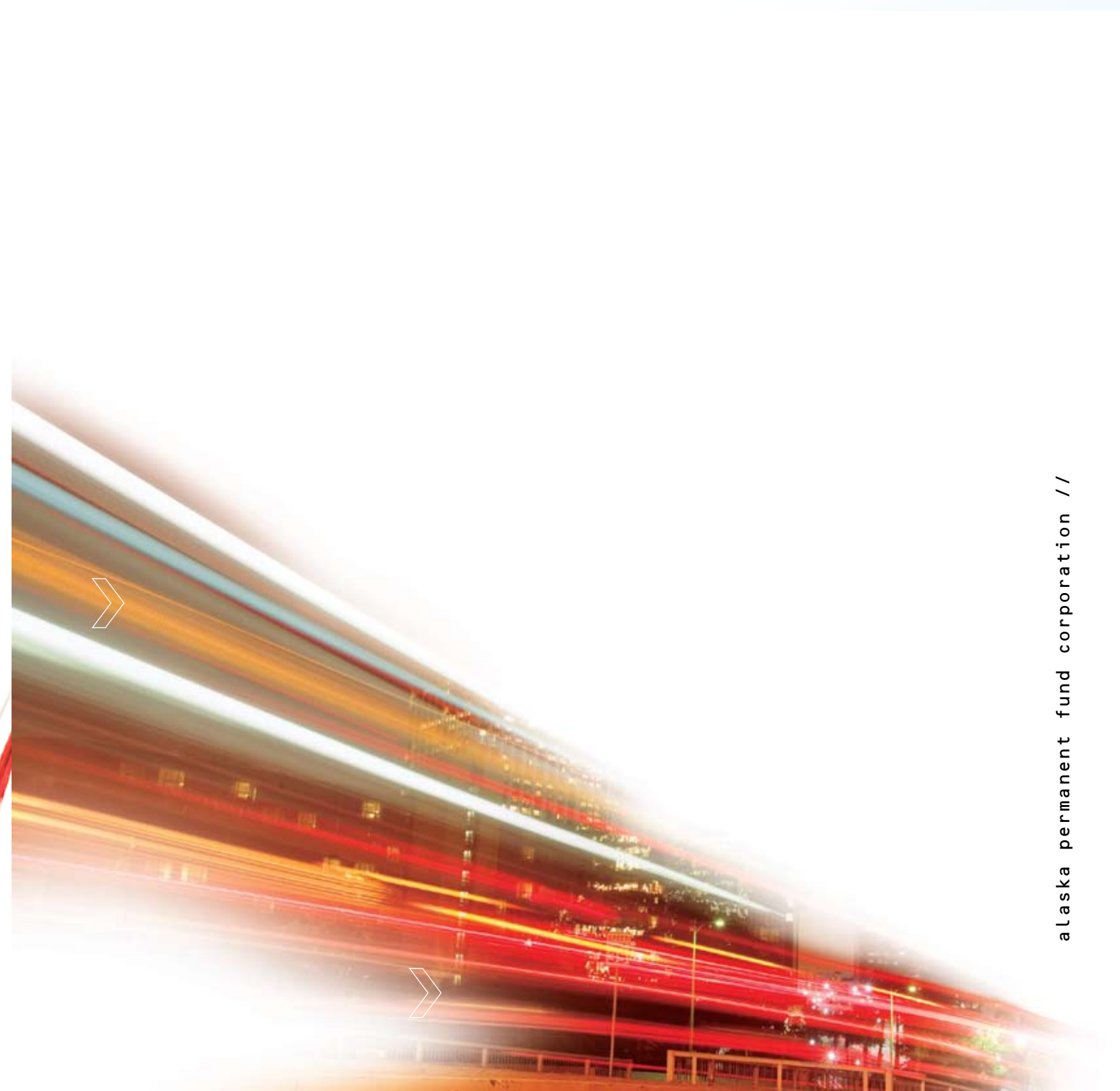
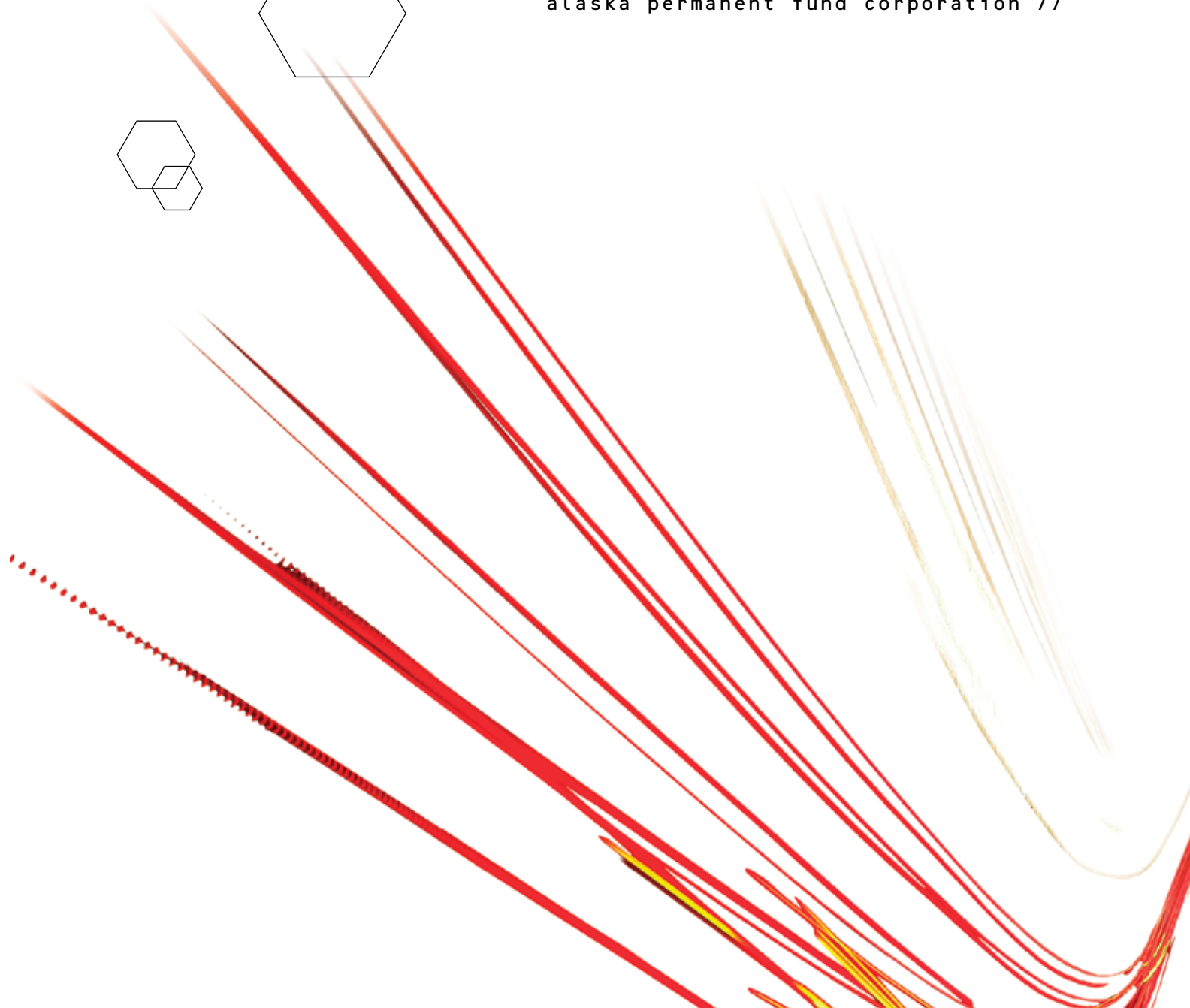
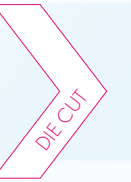




alaska permanent fund corporation //



WHAT IS A BILLION? 2007 ANNUAL REPORT



apfc.org



alaska permanent fund corporation //

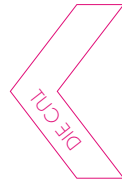
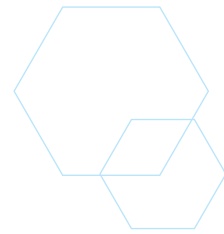


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WHAT IS A BILLION?

The Permanent Fund ended the fiscal year with a value of \$37.8 billion and paid out \$1 billion in dividends. In the last two fiscal years, the Fund reached \$31 billion for the first time, and grew to more than \$38 billion before paying out the dividend. As the Permanent Fund continues to grow and the billion dollar marks pass by, perhaps the size of the Fund becomes more difficult to comprehend. How often in our human experience are we faced with anything that numbers in a billion? Can we really appreciate what a billion means?

One way to approach it is to compare it to large numbers that we do have experience with:

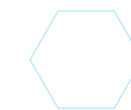
- A billion seconds ago, the year was 1975.
- If you were to count to a billion, it would take 32 years.
- A billion inches is 15,783 miles – more than half way around the circumference of the earth.
- In 2006, the estimated population of the United States was 299,000,000, almost a third of a billion.

Another way to approach it is to break it up into manageable parts:

In fiscal year 2007, the Permanent Fund earned a little more than \$5.4 billion on its investments. Roughly that breaks down to:

- \$454,000,000 a month
- \$14,900,000 a day
- \$622,000 an hour
- \$10,000 a minute

While the numbers may be hard to fully comprehend, what we can all appreciate is the foresight that Alaskans showed in 1976 when they voted to create the Permanent Fund.



The Alaska Permanent Fund (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 beneficiaries of the Fund are the State of Alaska and all present and future generations of Alaskans.

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





LETTER FROM THE CHAIR <

BOARD OF TRUSTEES

from left to right:

- William Moran
- Vice Chair Steve Frank
- Emil Notti
- Patrick Galvin
- Chair Carl Brady
- Bill Hudson

Fiscal year 2007 was a noteworthy year for the Permanent Fund, in which we celebrated the Fund's first 30 years and saw new milestones in the Fund's value. In 30 years the Fund has grown close to \$40 billion while paying out more than \$15 billion in dividends.

The Board has two equal responsibilities – to grow the Permanent Fund while limiting investment risk. To help achieve these goals the Board seeks out new investments, looking for prudent diversifying additions to the Fund's portfolio. This year the Board added an allocation to infrastructure investments, and in recognition that global markets are becoming more linked to one another, adjusted the stock investments to include a specific allocation to a global stock strategy. This will allow the managers assigned to these mandates to seek out the best investments wherever they are, without geographic constraints.

In the last year we welcomed three new Trustees to our board: Ketchikan banker William Moran, Commissioner of Revenue Patrick Galvin, and Commissioner of Commerce, Community and Economic Development Emil Notti. Commissioner Notti arrived with prior experience, having served on APFC's Board in 1985 and 1986.

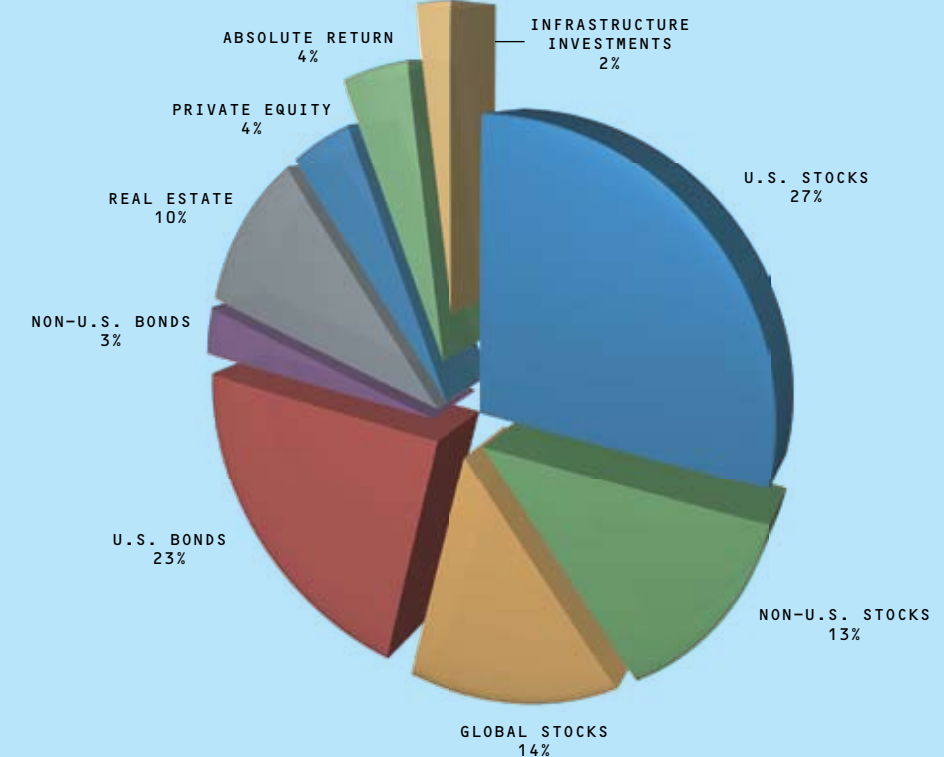
Since the Corporation was created, 44 Alaskans have served on the Board of Trustees, all of whom brought unique and valuable skills to their tenure. But I believe that one of the Trustees who left the Board this year merits a special mention.

Trustee Eric Wohlforth served almost 12 years on the APFC Board, including three years as chair. His legal career, with its emphasis in public finance law, has spanned almost 50 years. As the Alaska Commissioner of Revenue from 1970 to 1972, Trustee Wohlforth was in charge of investing the \$900 million in State receipts from oil lease sales. He has been the lead bond attorney for major Alaska public agency issuers and was the initial draftsman of the legislation creating several of Alaska's public corporations. Trustee Wohlforth brought an incredible amount of knowledge in finance law and investing to the Permanent Fund, and Alaskans are fortunate that he was a member of the Board for so many years.

Carl Brady, Chairman
Board of Trustees

APFC TARGET ASSET ALLOCATION

AS OF MAY 31, 2007



LETTER FROM THE EXECUTIVE DIRECTOR <



This year the Alaska Permanent Fund's investments returned 17.1%. Inflation was 3.2% for the fiscal year, producing a real return of 13.9%. While this isn't the highest return to date, it is a significant return and we are very pleased with the Fund's performance. The Fund ended the year with a value of \$37.8 billion, after transferring \$1 billion to the Permanent Fund Dividend Fund.

This year is a little bit unusual in that all of the Fund's portfolios had solid positive returns. The Fund's stock portfolios were the greatest contributors to the total return, despite a slow start to the fiscal year and a bumpy market correction in February. The Fund's US stock portfolio returned 19.2% and non-US stocks returned 31.6% for the fiscal year.

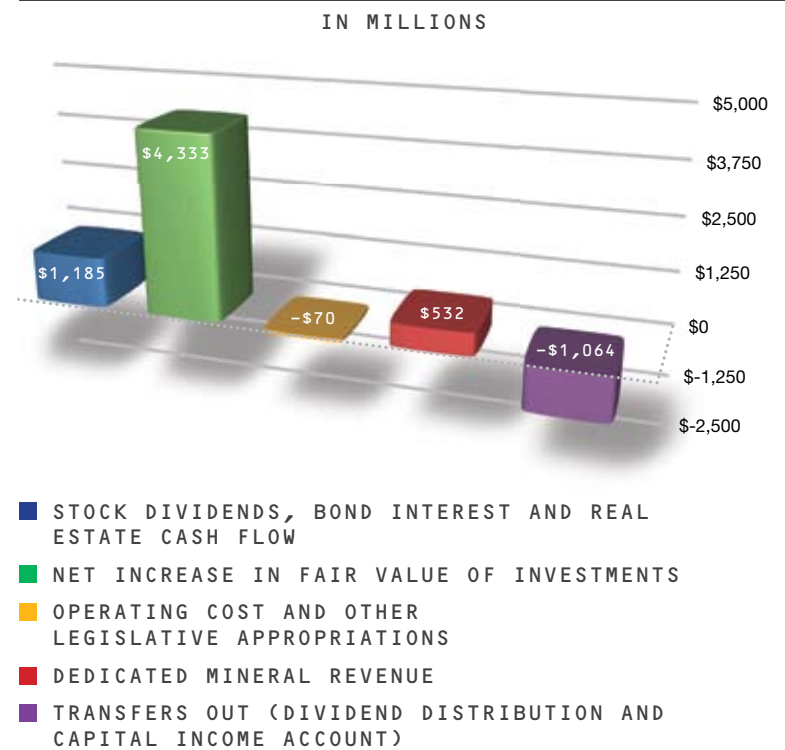
The Fund's US bond portfolio returned 6.2%, while the non-US portfolio returned 2.8% for the same period. The Fund's real estate portfolio had strong growth for the first three quarters of the fiscal year before falling off slightly in the final months, producing a 18.1% return. The absolute return portfolio returned 13.6% for the year.

The Permanent Fund's investments produced \$5.4 billion in revenues for the year, and the Fund received \$532 million in mineral royalties.

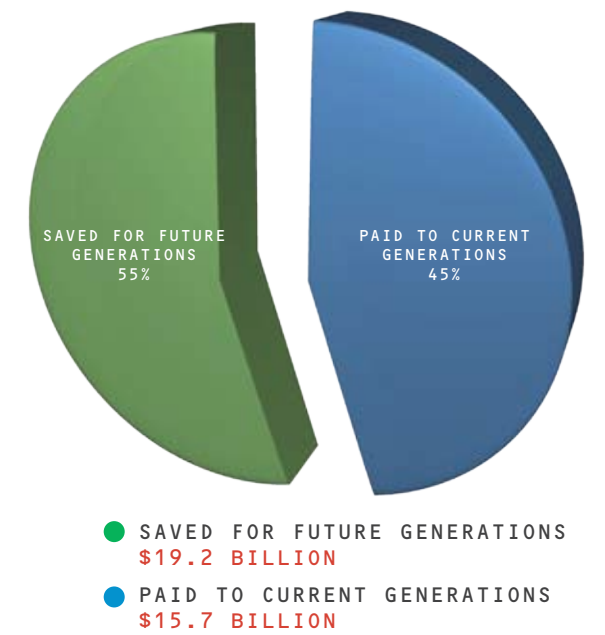
In my time at the APFC, I have continued to be impressed with the level of dedication that the staff commits to their work. This year we welcomed two new staff to the team: Chris Cummins is an investment officer on the fixed income desk, and Pamela Green joined the finance department as a portfolio accountant. We also saw the departure of two staff. Dave Stuart served as our Manager of Real Estate for more than two years. Chris Phillips was with the Fund for more than seven years, first as Director of Finance, later becoming the Corporation's Chief Financial Officer. I wish them both well in their future endeavors, and thank them for their professionalism and dedication to the Fund.

Michael J. Burns
Executive Director

SOURCES OF CHANGE IN FUND VALUE, FISCAL 07



USES OF FUND INCOME SINCE INCEPTION, IN BILLIONS

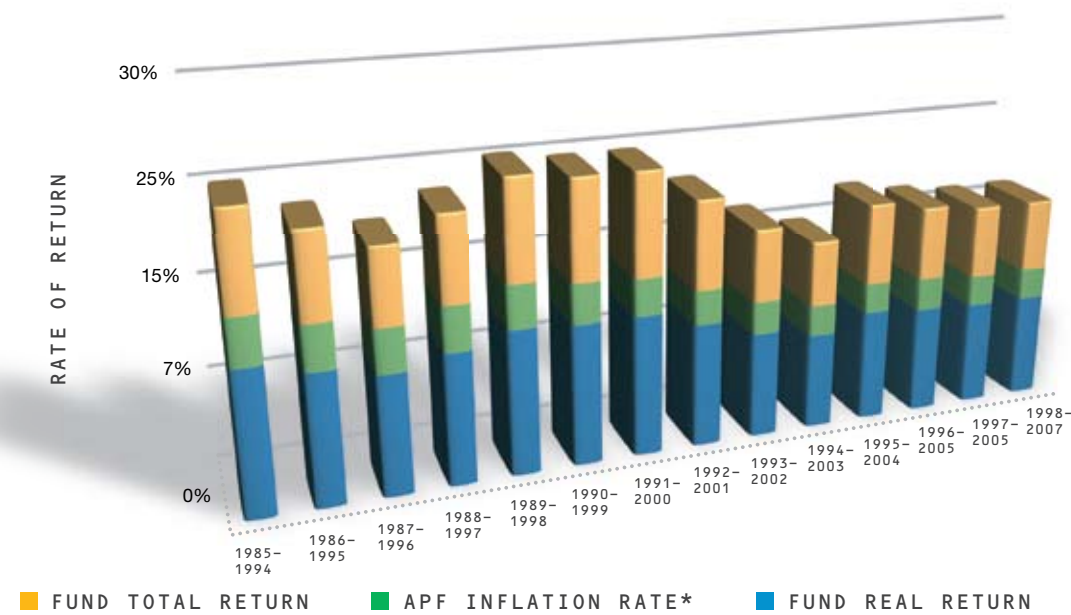


INVESTING FOR THE LONG RUN <

The Board of Trustees' statutory direction is to generate the maximum return while protecting principal. In order to meet both of these objectives, the Board sets an asset allocation that is designed to provide a 5 percent real rate of return over time with a prudent level of risk.

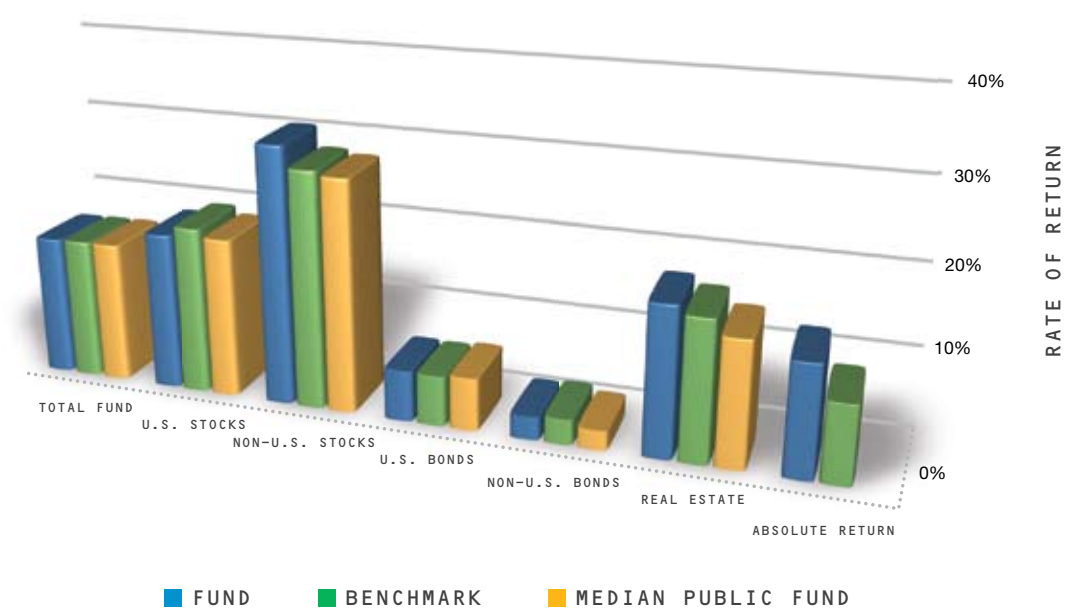
ROLLING 10-YEAR RETURNS

ANNUALIZED RETURNS FOR PERIOD ENDING JUNE 30, 2007



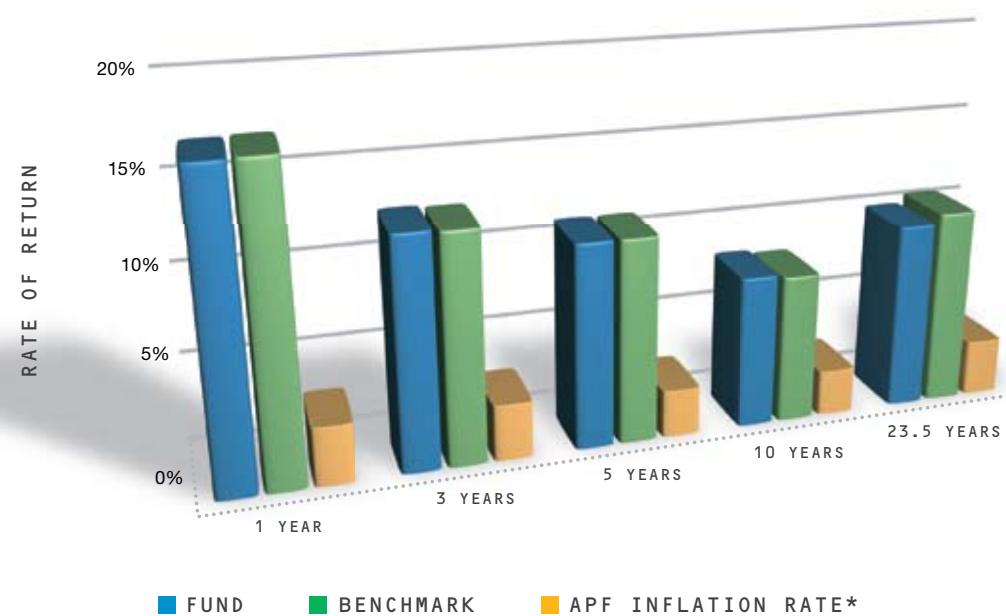
Each asset class that the Board invests in reacts differently under the same market conditions. Often when one asset class has strong returns, another will have lower or even negative returns. By diversifying the Fund's investments across a number of asset types, the Board better ensures a positive return under a range of market conditions, and lowers the total risk of the portfolio.

FUND FISCAL 2007 PERFORMANCE

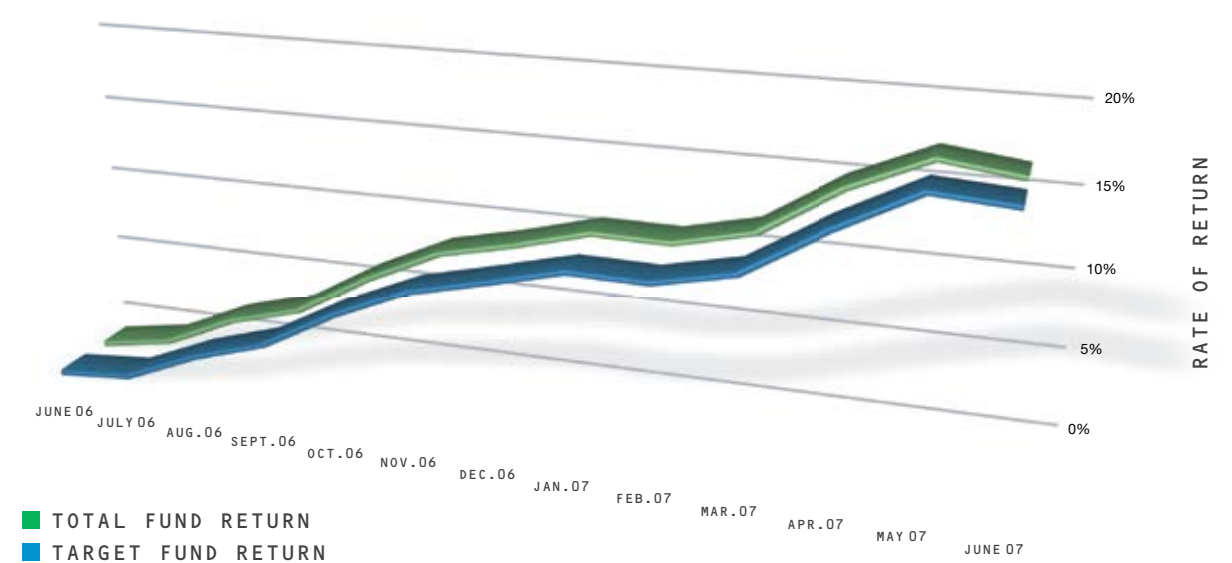


FUND'S LONG-TERM INVESTMENT PERFORMANCE

ANNUALIZED RETURNS FOR PERIOD ENDING JUNE 30, 2007



CUMULATIVE MONTH-TO-MONTH RETURNS FY07



*SEE PAGE 26 FOR DETAILED INFORMATION REGARDING THE APF INFLATION RATE.



The Permanent Fund's stock portfolios had very strong returns, contributing significantly to the Fund's total return, and ended the fiscal year with a combined value of \$23 billion.

Market overview

During the first quarter of the fiscal year, global stock markets fell sharply, touching at or close to their lowest values for the calendar year before turning around. Concern over high fuel prices and inflation lead to lows in July, but US and overseas markets rallied following the Federal Reserve's decision to hold interest rates steady in August. As oil prices and the housing market cooled, fears over inflation did as well, and the Dow Jones Industrial Average Index finished September close to its record high set in 2000.

The Federal Reserve continued to hold rates steady and oil prices continued to head downward through the fall. Combined with a mild start to the winter heating oil season, these conditions likely eased inflation fears and allowed the stock rally to continue through the second quarter. Continued economic expansion brought better than expected growth in the European markets. When combined with strong returns from emerging markets, non-US stocks were well ahead of the return on US stocks for the period.

A market correction in late February that began in China sent world stock markets into a downward slide. However, it quickly became apparent that the broader outlook had not changed. Chinese and other stocks recovered and turned up again at the end of March for a rally that held until June.

Portfolio performance

The US stock portfolio returned 19.2% for the fiscal year, trailing the composite benchmark return of 20.4%. The non-US portfolio returned 31.6%, ahead of the composite benchmark of 29.0%.

The new allocation to global stocks, which will be discussed further in this section, returned 8.9% for the period of January 1 through June 30, 2007, compared to the MSCI World Index return of 9.2% for the same period.

A global perspective

World economies are becoming more intertwined and individual markets are beginning to move in closer correlation to one another. As the world becomes more globalized, it makes less sense to constrain all of the Fund's managers to selecting stocks from specific geographic regions.

In recognition of the trend towards greater globalization, and in an effort to identify additional managers who provide the best investment ideas regardless of their geographical location, the Board of Trustees created a 14% allocation to global stocks in September. The Board transferred two pre-existing managers, UBS Global Asset Management and Lazard Asset Management, to the new allocation.

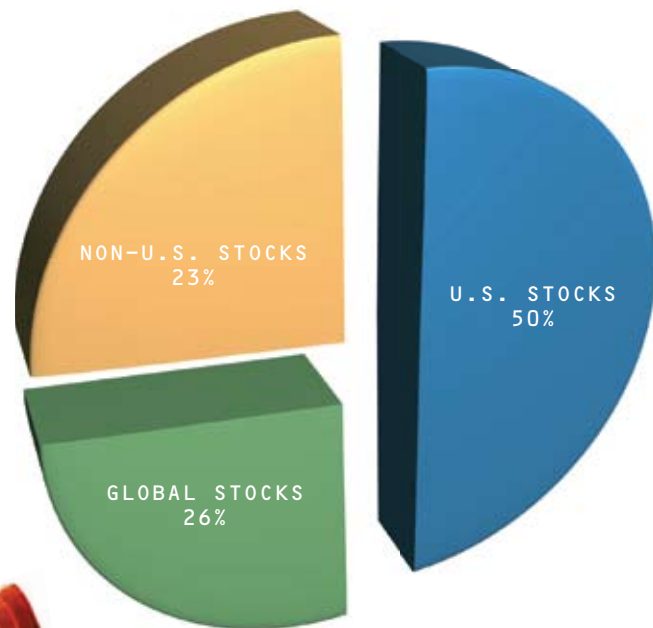
In November, two of the Fund's existing mandates, the non-US stock portfolio managed by Capital Guardian Trust Company and the US portfolio managed by McKinley Capital Management, were extended to global mandates. And in February the Board hired three new managers, Alliance Bernstein, GMO LLC and AQR Global Equity with mandates of \$500 million each, to round out the global allocation.

BREAKDOWN OF THE PERMANENT FUND'S STOCK PORTFOLIO

ALL DATA AS OF JUNE 30, 2007

STOCK PORTFOLIO

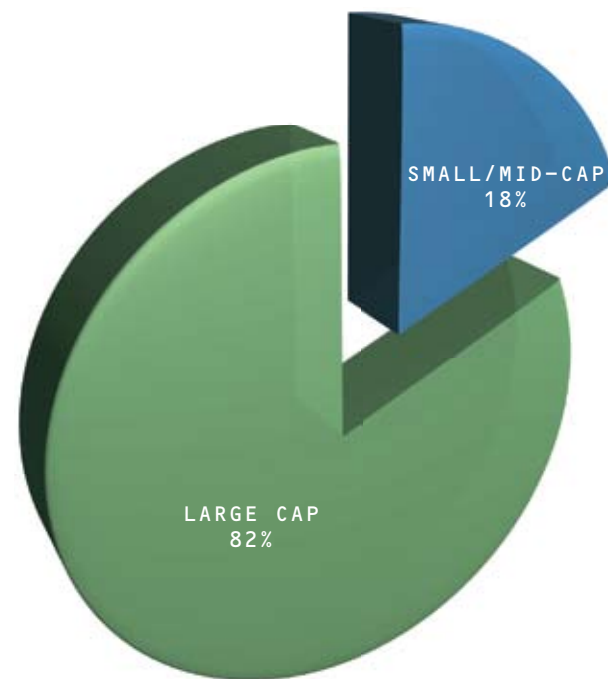
BY REGIONAL MANDATE



● NON-U.S. STOCKS \$5.4 BILLION
● GLOBAL STOCKS \$6.2 BILLION
● U.S. STOCKS \$11.4 BILLION
TOTAL \$23.0 BILLION

U.S. STOCK PORTFOLIO

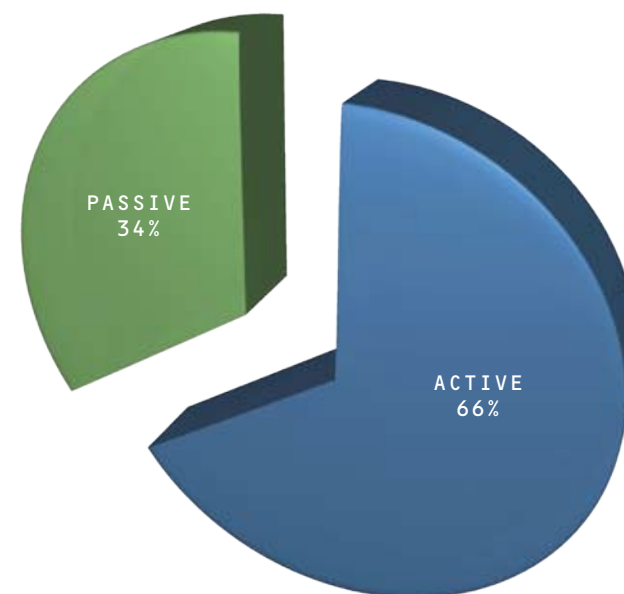
BY COMPANY CAPITALIZATION



● LARGE-CAP \$9.4 BILLION
● SMALL/MID-CAP \$2.0 BILLION
TOTAL \$11.4 BILLION

STOCK PORTFOLIO

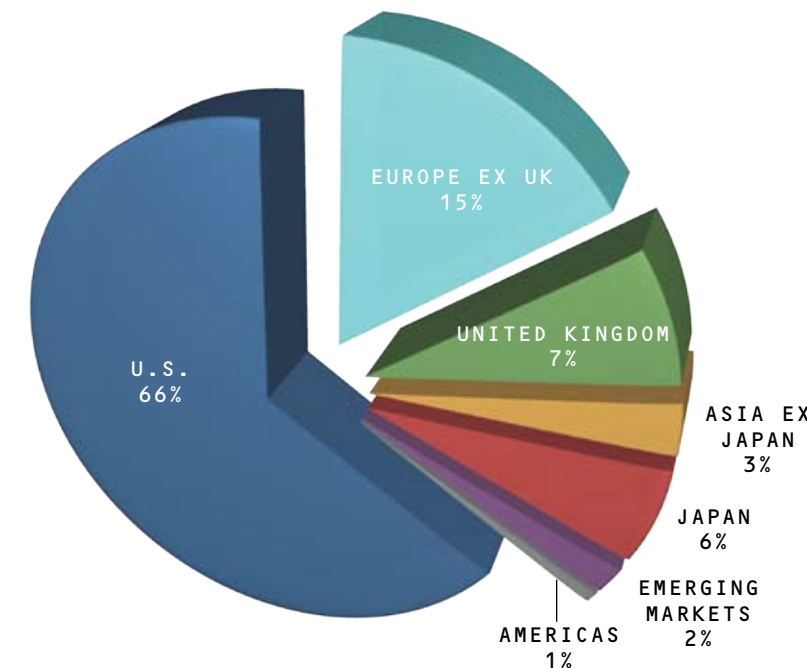
BY ACTIVE AND PASSIVE MANAGEMENT STYLES



● ACTIVE \$15.2 BILLION
● PASSIVE \$7.8 BILLION
TOTAL \$23.0 BILLION

STOCK PORTFOLIO

BY REGION



BONDS

The bond markets began fiscal 2007 on a low note, picked up in August for a rally that continued through May, and then turned down again. While the stock markets were in turmoil in February and March, bonds held steady and the Permanent Fund's bond investments had positive returns, well ahead of the inflation rate, while achieving the Fund's goals for fixed income for the fiscal year.

The US portfolio contributed to the Fund's strong overall growth with a return of 6.2%, ahead of the Lehman Aggregate Index return of 6.1% for the period. The non-US portfolio returned 2.8%, while the Citigroup Non-US World Government Bond Index returned 3.1%. The bond portfolio ended the fiscal year with a value of \$10.3 billion.

BREAKDOWN OF THE PERMANENT FUND'S BOND PORTFOLIO

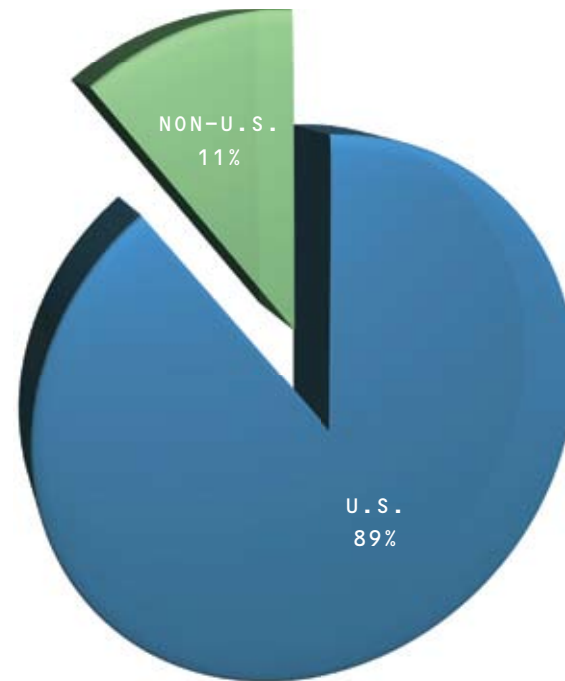
ALL DATA AS OF JUNE 30, 2007

INTERNAL VS. EXTERNAL MANAGEMENT



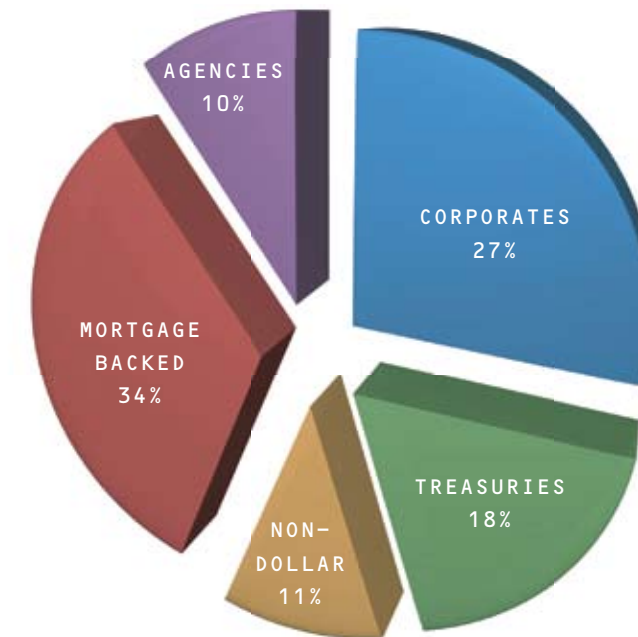
● EXTERNALLY MANAGED \$2.0 BILLION
● INTERNALLY MANAGED \$8.3 BILLION
TOTAL \$10.3 BILLION

U.S. VS. NON-U.S.



● NON-U.S. \$1.1 BILLION
● U.S. \$9.2 BILLION
TOTAL \$10.3 BILLION

COMPOSITION OF BONDS



● CORPORATES \$2.8 BILLION
● TREASURIES \$1.9 BILLION
● NON-DOLLAR \$1.1 BILLION
● MORTGAGE-BACKED \$3.5 BILLION
● AGENCIES \$1.0 BILLION
TOTAL \$10.3 BILLION

U.S. BONDS

The Fund's two core managers performed in-line with the Lehman Aggregate Index return of 6.1%. The \$8.6 billion APFC Internal Fixed Income account returned 6.2%, while Alaska Permanent Capital Management returned 6.1% and ended the year with \$327 million. The \$414 million core plus portfolio, a mix of core and high yield securities, managed by UBS Asset Management returned 4.7%.

The Fund's two new high yield bond managers, Goldman Sachs and Capital Guardian performed very well, both ahead of the Lehman US High Yield 2% Issuer Cap Index return of 3.0%. The allocation to high yield is modest at this time and expected to grow as opportunities become available. Goldman Sachs returned 3.6%, ending the year at \$103 million, and Capital Guardian returned 6.3%, ending with \$106 million. Because these new portfolios were created in the fall, the portfolio and index returns shown are for January 1 through June 30, 2007.

NON-U.S. BONDS

Rogge Global Partners manages a \$591 million bond portfolio for the Fund and returned 3.5%, almost a full 40 basis points ahead of the Citigroup Non-US World Government Bond Index return of 3.1% for the fiscal year. The \$561 million portfolio managed by Augustus Asset Management returned 2.1%.



Tyson's Corner Center expansion project in McLean, VA is entitled to add 3.5 million square feet of office, residential and hotel space.

REAL ESTATE

Real estate provided a significant addition to the Fund's overall growth, with a return of 18.1%. The Fund's real estate investments showed strong gains for the first three quarters of the fiscal year before falling off slightly in the final months. The portfolio ended fiscal year 2007 with \$3.7 billion market value in public and private real estate investments.

Public equity real estate

The real estate portfolio includes public equity real estate, primarily in the form of real estate investment trusts (REITs). In September the Fund changed the allocation of private equity and public equity real estate within the portfolio from 70/30 to 80/20.

To implement this change, the \$381 million AEW Focus REIT portfolio was liquidated and \$75 million was transferred to the AEW Global Real Estate Securities portfolio. This increased the portfolio's weighting toward global real estate securities, in recognition of the asset class' outstanding opportunities compared to US-only REITs. The balance of the liquidated funds was made available for the acquisition of suitable properties to add to the private equity real estate portfolio.

The \$822 million public equity real estate portfolio performed very well, with both managers beating their benchmarks. Wellington Management Co. returned 15.7% for the fiscal year, ahead of the MSCI US REIT Index return of 12.1% and the AEW Global portfolio returned 23.2%, ahead of the UBS Global Real Estate Investors Index return of 21.6%.

Private equity real estate

The private equity, or direct, real estate portfolio ended the year with a value of \$2.9 billion, and returned 17.1%. The NCREIF Property Index benchmark for the portfolio returned 17.2%.

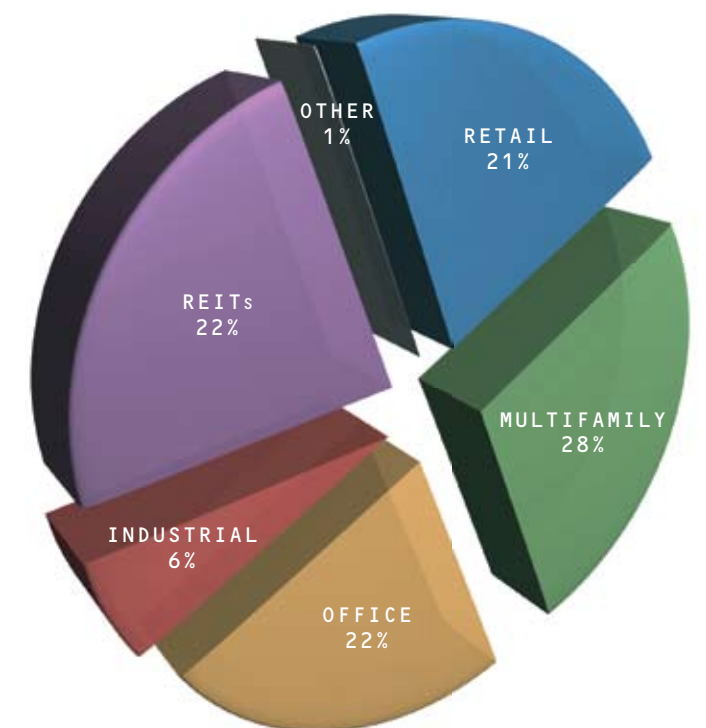
The Permanent Fund acquired three new properties during the fiscal year and sold seven properties.

Recent developments in one of the Fund's private equity investments, Tyson's Corner Center in McLean, VA, are very promising. The original investment in 1985 was \$21.8 million for a 14% ownership share. Over time, the percentage owned by the Fund has increased to 50%, and a conservative valuation of this property is in excess of \$1.5 billion.

Over the last year, APFC and its partner in the investment, Macerich, have pursued changes to the zoning for Tyson's Corner. Early this year, Fairfax County approved zoning to allow 3.5 million square feet of office, residential and hotel space to be added to the existing 2 million square feet of retail. The economic feasibility is currently being studied, and the expansion would take place over a number of years. The APFC's real estate advisors estimate that just having been granted the authority for the new development has significantly increased the value of the Fund's investment in this property.

REAL ESTATE DIVERSIFICATION

AS OF JUNE 30, 2007



ALTERNATIVE INVESTMENTS <

Private equity

Private equity investments, made directly in private firms, are usually illiquid and long-term in nature. As a result, it takes a number of years for a high-quality portfolio to build and begin to show returns. 4% of the Permanent Fund is allocated to private equity.

Pathway Capital Management, the APFC's private equity manager, has made commitments of 3%, or \$1.1 billion on behalf of the Fund to general partnerships with proven track records. As of June 30, \$344 million of this commitment was actually invested. At the present rate of growth, the amount invested in private equity partnerships should double in the next fiscal year. While a small number of the investments Pathway has made since the program began in 2004 have matured, the portfolio is still too new to show meaningful returns.

Absolute return

The Permanent Fund's absolute return portfolio ended the fiscal year with a value of \$1.6 billion, and returned 13.6%, ahead of its Libor + 4% benchmark return of 9.5%. Absolute return assets under management increased by 85% from the prior fiscal year-end.

Crestline Investors manages a \$631 million portfolio, and returned 14.4%. Lazard Asset Management LLC returned 13.3% and ended the year with \$139 million under management. The \$272 million Mariner Investment Group portfolio returned 11.1%.

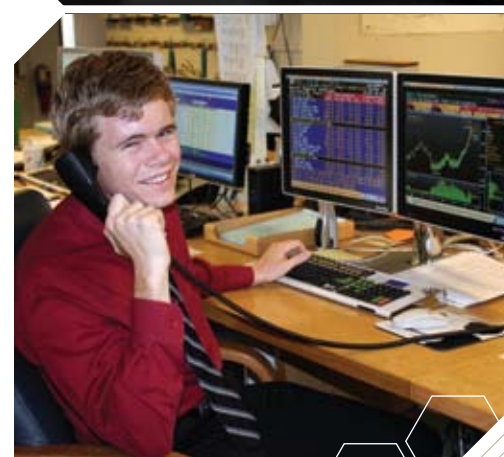
In September, the Board hired Pacific Alternative Asset Management Company (PAAMCO) and Lehman Brothers Alternative Investment Management LLC, with mandates of \$250 million each. The addition of these managers to the three existing managers was the conclusion of a plan approved by the Board in November 2005, to expand the Permanent Fund's absolute return strategies allocation to 4%.

PAAMCO returned 8.3% for the period of January 1 through June 30, 2007, and ended the year with a portfolio value of \$272 million. Lehman Brothers returned 6.5% with \$265 million under management. The benchmark return for this same period was 4.7%.

Distressed debt

Distressed investments arise when securities are trading at a deep discount to the "face" or nominal amount of their financial claim due to an underlying financial situation, and can bring increased returns with some corresponding risk. Distressed opportunity periods are cyclical in nature, and some observers are predicting that a new wave may be on the horizon. Crestline Investors, the Permanent Fund's longest-serving absolute return manager, manages a distressed opportunities fund designed to take advantage of opportunities when they appear.

In March, the Board of Trustees made a commitment of up to \$500 million to a custom version of Crestline's distressed opportunities fund created for the APFC. Like private equity, the allocation will only be invested as opportunities arise and will remain invested in bonds in the interim.



PICTURED CLOCKWISE FROM TOP LEFT:

Brian Bitzer, Kennedy Associates Real Estate Counsel
Olga Panitch, Rogge Global Partners
David Rushbrook, McKinley Capital Management
Daniel Gillespie, Alaska Permanent Capital Management

We'd like to thank our 2007 participating managers, who employed and mentored 12 Alaska college students this summer.

Alaska Permanent Capital Management / Anchorage

Augustus Asset Managers Ltd. / London

Alaska Permanent Fund Corporation / Juneau

Crestline Investors, Inc. / Fort Worth

GE Asset Management / Stamford

Kennedy Associates Real Estate Counsel / Seattle

McKinley Capital Management / Anchorage

RCM Global Investors / San Francisco

Rogge Global Partners / London

Sentinel Realty Advisors, Inc. / New York

APFC INTERNSHIP PROGRAM <

APFC and the management firms that invest Fund portfolios offer internships exclusively for qualified Alaska undergraduate and graduate students. Students attending school in Alaska and Alaskans attending school out of state may qualify for these opportunities, which are located throughout the US and in the UK as well. The intern program extends the benefits of Alaska's Permanent Fund to our students and our state universities, whose faculty and staff work closely with APFC to prepare their students to take advantage of the internships and contribute valuable work to the companies that hire them. Since the program's inception in 1988, 76% of the 250 interns have come from Alaska campuses: UAA, UAF, UAS and APU.

The State of Alaska Permanent Fund Corporation (APFC) management offers the following discussion and analysis of the financial activities of the Alaska Permanent Fund (Fund) for the fiscal year ended June 30, 2007. This discussion should be reviewed in conjunction with the financial statements and related notes which follow this section. This narrative is intended to provide management's insight into the results of operations from the past two fiscal years, and highlight specific factors that contributed to those results. This Management's Discussion and Analysis (MD&A) is comprised of three sections: 1) financial highlights, 2) discussion on using the financial statements, and 3) analysis of the financial statements.

Financial Highlights

- Due to strong investment markets throughout the 2007 fiscal year, the Fund ended the year with a historic record high net fund balance of \$37.8 billion, a 15% increase over the prior fiscal year end, and a 26% increase over the 2005 fiscal year end balance.
- With an excess of revenues over expenditures greater than \$5.4 billion, the 2007 fiscal year had the highest dollar increase since the inception of the Fund in 1976.
- Statutory net income, which is used to calculate the annual Alaska Permanent Fund dividend disbursement, also had a record high year in fiscal year 2007 at \$3.4 billion, with fiscal year 2006 being the second highest at \$2.7 billion. Fiscal year 2005 produced a statutory net income of \$1.75 billion, about half of the fiscal year 2007 amount.
- The unreserved fund balance, consisting of historical unappropriated realized earnings, also ended fiscal year 2007 at its highest level ever of \$4.1 billion, an approximate 60% increase over prior fiscal year.
- Several new asset managers and accounts were added to the Fund's portfolio over the past two fiscal years, including three global managers, four absolute return managers, one new index fund, two high yield managers, two equity extension strategy managers, and one new real estate operating company, all of which required the reallocation of funds from existing accounts to new investment accounts.

Using the Financial Statements

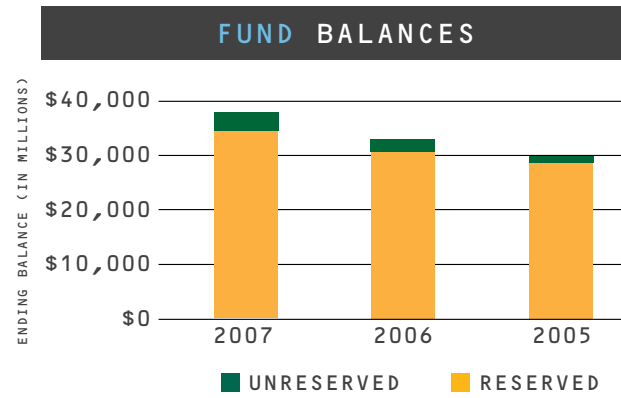
This section of the MD&A intends to provide an introduction to the Fund's required financial statement components which include: 1) the balance sheet, 2) the statement of revenues, expenditures and changes in fund balances, and 3) the notes to the financial statements.

BALANCE SHEETS

The Balance Sheets present all assets, liabilities and fund balances of the Fund as of June 30, 2007, as well as the prior fiscal year's ending balances at June 30, 2006.

Assets are grouped into broad categories for ease of readability and analysis. Readers of the Balance Sheets should be aware that receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Real estate assets shown on the Balance Sheets include both direct investments in real estate properties and stock holdings of real estate investment trusts (REITs). The alternative investments category consists of private equity investments as well as various strategies in absolute return investments. The securities lending collateral shown as an asset is cash received from stock and bond loans, which will be returned to the borrower at the conclusion of the loan.

Liabilities on the Balance Sheets consist mainly of obligations for investments purchased but not yet paid, shown in the accounts payable grouping, and for the annual dividend payable to the State of Alaska. Securities sold short is the market value of stocks sold by managers, but not yet owned. Securities lending collateral is the cash due to be returned to borrowers of the Fund's stocks and bonds, when those borrowed assets have been returned to the Fund.



Fund balances are shown in two different categories: reserved and unreserved. The largest portion of the fund balances is reserved (89% as of June 30, 2007), and cannot be spent by the State of Alaska. The remaining balance, the realized earnings, is available for government appropriations.

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

The Statements of Revenues, Expenditures and Changes in Fund Balances present the financial activity of the Fund over the twelve months ending June 30, 2007, as well as the activity for the prior fiscal year.

Revenues are shown in two different sections on the statement, separating cash receipts of various investment holdings such as interest, dividends, and real estate rental income, from the change in value of these same investment holdings. The first section of the revenues also includes miscellaneous income such as class action litigation proceeds and securities lending income. The second section of revenues includes both realized and unrealized gains and losses on investment holdings. Realized gains and losses are produced only through the sale of investments, while unrealized gains and losses are the result of market value changes in investment holdings without any corresponding sale of those holdings. Realized and unrealized gains and losses are summarized by broad asset type, similar to the groupings shown on the Balance Sheets, and represent the total net increase or decrease for the year in each asset category.

Also included on the Statements of Revenues, Expenditures and Changes in Fund Balances are the expenditures of the Fund, and other sources and uses of funds, to derive the total net change in fund balances from the prior year to the current year. Operating expenditures include fees paid to external investment managers, as well as the salaries of APFC employees and other routine operating costs such as rent, travel and legal fees. Legislative appropriations are obligations for support services received from other State of Alaska departments, and are appropriated through the State's annual budget process.

Dedicated State revenues transferred into the Fund's principal are based on a percentage of mineral revenues received by the State, and transfers out are for two purposes: 1) to pay the annual State of Alaska Permanent Fund dividend, and 2) to pay the annual deposit to the Alaska Capital Income Fund per Alaska Statute 37.13.145 (d).

NOTES TO THE FINANCIAL STATEMENTS

The Notes to the Financial Statements are an essential element to fully understand the financial aspects of the Fund, and to assist in the interpretation of all major components of the financial statements. The Notes to the Financial Statements can be found immediately following the Statements of Revenues, Expenditures and Changes in Fund Balances.

Financial Statement Analysis

This section of the MD&A is intended to provide an analysis of the past fiscal years' activities and specific contributors to changes in the net assets of the Fund. The fund balance of the Fund serves to provide a gauge of the financial strength of the entity. While assets of the Fund exceeded liabilities each year by a ratio of more than fifteen to one (excluding securities lending collateral, which is held separately by the custodian for repayment to the borrower upon a loan's completion), it is important to note that the reserved fund balance may not be spent, and therefore cannot be used to satisfy liabilities.

The following table was derived from the Balance Sheets of the Fund, and provides a comparison of the change between category balances at June 30 of 2006 and 2007.

Balance Sheets

June 30,	2007	2006	Net Change	Percent
Assets				
Cash and temporary investments	\$ 1,651,091,000	1,717,350,000	(66,259,000)	-3.86%
Receivables, prepaid expenses and other assets	394,248,000	375,839,000	18,409,000	4.90%
Investments	38,420,971,000	33,115,741,000	5,305,230,000	16.02%
Securities lending collateral invested	4,881,893,000	7,466,539,000	(2,584,646,000)	-34.62%
Total assets	\$ 45,348,203,000	42,675,469,000	2,672,734,000	6.26%
Liabilities				
Accounts payable	\$ 1,374,663,000	1,573,845,000	(199,182,000)	-12.66%
Securities sold short	201,596,000	0	201,596,000	100.00%
Income distributable to the State of Alaska	1,063,955,000	725,366,000	338,589,000	46.68%
Securities lending collateral	4,881,893,000	7,466,539,000	(2,584,646,000)	-34.62%
Total liabilities	7,522,107,000	9,765,750,000	(2,243,643,000)	-22.97%
Fund balances				
Reserved — principal				
Contributions and appropriations	27,496,893,000	26,104,252,000	1,392,641,000	5.33%
Unrealized appreciation-invested assets	6,197,582,000	4,220,699,000	1,976,883,000	46.84%
Total reserved	33,694,475,000	30,324,951,000	3,369,524,000	11.11%
Unreserved				
Realized earnings	4,131,621,000	2,584,768,000	1,546,853,000	59.84%
Total fund balances	37,826,096,000	32,909,719,000	4,916,377,000	14.94%
Total liabilities and fund balances	\$ 45,348,203,000	42,675,469,000	2,672,734,000	6.26%

The most notable changes in the Fund's assets from June 30, 2006 through June 30, 2007 were due to the strong investment markets, which increased the carrying value of invested assets. While cash and receivables changed only slightly from FY2006 to FY2007, investments increased by more than five billion dollars. There was a similar notable change from FY2005 to FY2006, when invested assets increased by approximately three billion dollars. The asset class with the largest return for FY2007 was equities, both domestic and non-domestic, with returns of 19% and 32% respectively. Every other asset class had strong returns as well. The ending value of securities lending collateral invested and the related liability is dependent upon the amount of securities out on loan on a particular day. These values can change significantly from day to day, as well as from year to year. To illustrate, the balance of securities lending collateral at June 30, 2005, 2006, and 2007 was \$4.6, \$7.5, and \$4.9 billion, respectively. The securities lending collateral at the end of each fiscal year was being held as security for short term loans of stocks and bonds.

Accounts payable liabilities are obligations due on securities purchased, but not yet settled for cash. Those open transactions at any date can vary widely, but are usually the largest portion of Fund payables, representing greater than 90% of the payable balance. The balance of payables due on securities purchased at June 30, 2007 was \$200 million less than the prior year's ending balance. Securities sold short is a new type of liability on the balance sheet, as FY2007 was the first year that assets of the Fund were invested through equity extension strategy managers. Those managers can sell stocks short and reinvest

the proceeds from those sales into additional stocks. The liability related to these types of investments is for the market value of the stocks that were sold, but never owned. Income distributable to the State of Alaska increased from FY2006 to FY2007 by approximately \$330 million, which represents the change in the Alaska dividend distribution. This change stems from the dividend calculation, which is based on a five year average of net income, excluding unrealized gains and losses. The FY2007 figure replacing the FY2002 amount in the average net income calculation was more than \$3 billion higher, creating the large increase in the dividend payable to the State for FY2007. As a comparison, at the end of FY2005, the balance due to the State of Alaska was \$559 million, only slightly more than half the amount that was due at the end of FY2007.

The fund balance increases between FY2007 and FY2006 again represent the strong financial markets. A portion of the increase is reflected in the unrealized balance with a near 47% jump, and the remainder is in the realized earnings, an increase of nearly 60%, which is after the liability for the income distributable to the State of Alaska has been removed from this fund balance. The fund balance at the end of FY2005 was not quite \$30 billion, so over the past two fiscal years, the balance grew by almost \$8 billion, which is more than 25%.

The following table is derived from the statement of revenues, expenditures and changes in fund balances, and shows the annual activity of the Fund. Changes from fiscal year 2006 as compared to fiscal year 2007 are shown in both dollars and percentages.

Statements of Revenues, Expenditures, and Changes in Fund Balances

Years Ended June 30,	2007	2006	Net Change	Percent
Revenues				
Interest, dividends, real estate and other income	\$ 1,184,900,000	975,446,000	209,454,000	21.47%
Net increase in the fair value of investments	4,332,946,000	2,159,884,000	2,173,062,000	100.61%
Total revenues	5,517,846,000	3,135,330,000	2,382,516,000	75.99%
Expenditures				
Operating expenditures	(63,782,000)	(57,230,000)	(6,552,000)	11.45%
Other Legislative appropriations	(6,013,000)	(5,800,000)	(213,000)	3.67%
Total expenditures	(69,795,000)	(63,030,000)	(6,765,000)	10.73%
Excess of revenues over expenditures	\$ 5,448,051,000	3,072,300,000	2,375,751,000	77.33%
Other financing sources (uses)				
Transfers in - dedicated State revenues	532,281,000	601,117,000	(68,836,000)	-11.45%
Transfers out – appropriations	(1,063,955,000)	(725,366,000)	(338,589,000)	46.68%
Net change in fund balances	4,916,377,000	2,948,051,000	1,968,326,000	66.77%
Fund balances				
Beginning of period	32,909,719,000	29,961,668,000	2,948,051,000	9.84%
End of period	\$ 37,826,096,000	32,909,719,000	4,916,377,000	14.94%

During FY2007, each of the major categories of cash receipt revenues (interest, dividends, and real estate) earned a greater amount than in FY2006, showing strengthening interest rates, dividend payouts, and occupancy in the real estate rental markets. The change in the fair value of investments in FY2007 more than doubled as compared to the prior year's earnings, due to the overall strength of the financial markets. Operating expenditures increased from FY2006 to FY2007 almost entirely due to higher asset management fees paid to external investment management firms. Because virtually all management fees are based on asset market values, when the investment markets go up, as they did in FY2007, fees increase as well. Similarly, operating expenditures increased from FY2005 to FY2006 by \$9.5 million, or 20%, due to increases in market values, which lead to increases in manager fees. FY2006 had the highest transfer in of dedicated State revenues in the history of the Fund. FY2007 fell behind that record by more than 11%, due mainly to the falling production rate of oil in the State. As a comparison, dedicated State revenues between FY2005 and FY2006 increased by \$121 million, or 25%, due to the steep increase in the average price of oil over those two years. While the price of oil has remained at record highs, it has not been enough to offset declining production. Transfers out of the Fund are for two purposes: 1) an appropriation to fund the annual dividend payment, and 2) an appropriation to fund the Alaska Capital Income Fund. Because the calculations for both of these amounts are based on realized earnings, which were higher in FY2007, they grew in comparison to the FY2006 amount by \$339 million, almost 47%. FY2005 had smaller total transfers out of \$559 million.

Economic and Investment Factors

The market value of and earnings from the Fund's assets are directly impacted by the volatility of the financial markets, as well as the changes in investment choices made by management, both internal and external to the Fund. Diversification of asset allocation and diversification of investments within each allocation is intended to mitigate the risk of volatility of the financial markets. The APFC, as a component unit of the State of Alaska, can be subject to changes in State statutes that govern the APFC and the Fund.

Additional Information

This financial report is designed to provide an overview of the Alaska Permanent Fund's ending net asset balances and fiscal year financial activities. This report does not include any other funds owned or managed by the State of Alaska. Due to the potential volatility of the financial markets, Fund values and income may vary greatly from time to time. For more information on the Fund, both current and historical, readers are encouraged to visit www.apfc.org on the internet, or send specific questions to the Alaska Permanent Fund Corporation at P.O. Box 115500, Juneau, Alaska 99811-5500.

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, 2007 and 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alaska Permanent Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2007 and 2006, and changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

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, 2007 and 2006, and its changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 17 through 21 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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

August 31, 2007



Balance sheets

June 30,	2007	2006
Assets		
Cash and temporary investments	\$ 1,651,091,000	1,717,350,000
Receivables, prepaid expenses and other assets	394,248,000	375,839,000
Investments —		
Marketable debt securities	10,324,896,000	9,343,451,000
Preferred and common stock	22,863,064,000	19,256,381,000
Real estate	3,155,699,000	3,367,049,000
Alternative investments	1,909,330,000	951,296,000
Alaska certificates of deposit	167,982,000	197,564,000
Total investments	38,420,971,000	33,115,741,000
Securities lending collateral invested	4,881,893,000	7,466,539,000
Total assets	\$ 45,348,203,000	42,675,469,000
Liabilities		
Accounts payable	\$ 1,374,663,000	1,573,845,000
Securities sold short	201,596,000	0
Income distributable to the State of Alaska	1,063,955,000	725,366,000
Securities lending collateral	4,881,893,000	7,466,539,000
Total liabilities	7,522,107,000	9,765,750,000
Fund balances		
Reserved — principal		
Contributions and appropriations	27,496,893,000	26,104,252,000
Unrealized appreciation on invested assets	6,197,582,000	4,220,699,000
Total reserved	33,694,475,000	30,324,951,000
Unreserved		
Realized earnings	4,131,621,000	2,584,768,000
Total fund balances	37,826,096,000	32,909,719,000
Total liabilities and fund balances	\$ 45,348,203,000	42,675,469,000

See accompanying notes to the financial statements.

Statements of revenues, expenditures and changes in fund balances

Years Ended June 30,	2007	2006
Revenues		
Interest	\$ 539,902,000	454,918,000
Dividends	422,185,000	342,570,000
Real estate and other income	222,813,000	177,958,000
Total interest, dividends, real estate and other income	1,184,900,000	975,446,000
Net increase (decrease) in the fair value of investments —		
Marketable debt securities	68,243,000	(446,683,000)
Preferred and common stock	3,873,915,000	2,338,113,000
Real estate	206,910,000	236,974,000
Alternative investments	192,114,000	43,980,000
Foreign currency forward exchange contracts and futures	(9,377,000)	(10,135,000)
Currency	1,141,000	(2,365,000)
Total net increase in the fair value of investments	4,332,946,000	2,159,884,000
Total revenues	5,517,846,000	3,135,330,000
Expenditures		
Operating expenditures	(63,782,000)	(57,230,000)
Other Legislative appropriations	(6,013,000)	(5,800,000)
Total expenditures	(69,795,000)	(63,030,000)
Excess of revenues over expenditures	5,448,051,000	3,072,300,000
Other financing sources (uses)		
Transfers in - dedicated State revenues	532,281,000	601,117,000
Transfers out - statutory and Legislative appropriations	(1,063,955,000)	(725,366,000)
Net change in fund balances	4,916,377,000	2,948,051,000
Fund balances		
Beginning of period	32,909,719,000	29,961,668,000
End of period	\$ 37,826,096,000	32,909,719,000

See accompanying notes to the financial statements.



June 30, 2007 and 2006

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”). These contributions to the Fund are to be invested in perpetuity. The Alaska State Legislature (the “Legislature”) created the Alaska Permanent Fund Corporation (the “APFC”), 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, and subsequent appropriation, (i) a portion of the annual realized earnings is transferred to the State’s dividend fund, (ii) a portion of the realized earnings sufficient to offset the impact of inflation on contributions and appropriations is transferred to the reserved balance of the Fund, and (iii) beginning in fiscal year 2005, the realized earnings on the balance of the North Slope royalty case settlement money (State v. Amerada Hess, et al.) is appropriated to the Alaska Capital Income Fund. The balance of the Fund’s realized earnings is held in the realized earnings account, and is subject to appropriation by the Legislature. Unrealized gains and losses on Fund assets are considered reserved, and are not available for appropriation, nor do they affect the realized earnings account. All assets are aggregated for investment purposes.

The Fund’s assets are held in a wide variety of investments, in accordance with Alaska statutes and regulations, and investment policies of the APFC. The majority of investments are in stocks and bonds, both domestic and non-domestic, private equity and public equity real estate, as well as alternative investments in private equity limited partnerships, and absolute return strategies. The Fund’s results of operations rely largely on the success of the financial markets. However, the volatility of markets, especially that of public and private equity markets, can cause substantial period-to-period fluctuations in operating results. Diversification by asset type can help to mitigate the volatility of operating results.

2. SIGNIFICANT ACCOUNTING POLICIES

The Fund’s financial statements are reported using the current financial resources measurement focus and the modified accrual basis 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, liabilities, revenues, and expenses for the period. Actual results could differ from those estimates.

DIVIDEND APPROPRIATIONS

Statutory net income excludes realized earnings from contributions made in the North Slope royalty case settlements (State v. Amerada Hess, et al.), and recorded unrealized gains and losses on the Fund’s investments. Current statutes require that one-half of twenty-one percent of the Fund’s five year rolling average of statutory net income be made available for the payment of dividend appropriations each year. However, amounts available for the dividend appropriations are further limited to no more than one-half of the realized earnings account balance at fiscal year end.

RESERVED FUND BALANCES

On June 18, 2003, the APFC received an Alaska Attorney General’s Opinion, clarifying the portion of Fund assets that is legally reserved. Based on that opinion, reserved fund balances consist of historical mineral revenue deposits to the Fund, special appropriations, and inflation proofing transfers within the Fund, as well as recorded unrealized appreciation or depreciation of invested assets.

INFLATION PROOFING

Alaska statutes require that the contributions and appropriations of the Fund be adjusted annually for the impact of inflation. The annual inflation proofing transfer within the Fund each year, from unreserved to the reserved fund balance, can only be done through legislative appropriation. The impact of inflation is measured by the percent change in each of the two prior calendar years’ averages of the United States consumer price index for all urban consumers applied against the total of

the reserved fund balance, excluding unrealized gains and losses, at the end of the fiscal year. The inflation rates were 3.23 percent and 3.39 percent, and were applied to the years ended June 30, 2007 and 2006, respectively.

INCOME TAXES

In the opinion of legal counsel, as integral parts of the State, the Fund and the APFC 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 earned by a state or any subdivision thereof, which is derived from the exercise of any essential governmental function. The Fund and the APFC perform an essential governmental function and are therefore also exempt from federal income taxes under that provision.

INVESTMENTS AND RELATED POLICIES

Carrying value of investments

Except for private equity real estate investments, the Fund’s investments are reported at fair market value in the financial statements. Unrealized gains and losses are reported as components of net income. Fair market values are obtained from independent sources for marketable debt and equity securities and real estate investment trusts. Fair market values of alternative investments are determined by managers of such investments, who are under contract with the APFC to provide such services.

Private equity real estate investments are carried at the equity value, which is historical cost plus the Fund’s share of undistributed earnings. If, upon analysis by management under applicable accounting rules, a permanent impairment of value has occurred, the investment is written down to fair market value by recording a permanent impairment loss on invested assets.

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

Investment policy

The Trustees have established a long-term goal of achieving a 5% real rate of return on the investment portfolio. To achieve this target, the Trustees allocate the Fund’s investments among various asset classes. In order to allow for market fluctuations and to minimize transaction costs, the Trustees also have adopted acceptable ranges around the targets. At June 30, 2007, the APFC’s asset allocation policy (with acceptable ranges) is summarized as follows:

Domestic equities	27% (± 6%)
International equities	13% (± 3%)
Global equities	14% (± 4%)
Domestic fixed income	23% (± 6%)
Non-domestic fixed income	3% (± 3%)
Infrastructure	2% (± 2%)
Real estate	10% (± 3%)
Private equity	4% (± 4%)
Absolute return	4% (± 3%)

In accordance with Alaska Statute 37.13.120, the Trustees have adopted regulations designating the types of assets eligible for investment. Those regulations follow the prudent-investor rule, requiring the exercise of judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the Fund over time while maximizing the expected total return from both income and the appreciation of capital.



Concentration of credit risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The Fund manages its concentration of credit risk by following its asset allocation resolution, and by diversifying investments among managers with varying investment styles and mandates. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with Trustee resolutions 07-04 and 06-06, respectively, as well as investment manager contracts. Those resolutions and contracts specify concentration limits for issuers and types of investments, and place substantial limits on the use of leverage. Managers are not permitted, under any circumstances, to encumber assets beyond those held in each separate account that is managed.

Credit risk

The APFC requires that its core fixed income managers invest in domestic bonds and non-domestic bonds that have an implied investment grade rating as defined by the U.S. Lehman Aggregate Index and the Citigroup World Government Bond Index, respectively. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain non-core investment managers are allowed to invest a specified amount of funds in bonds rated below investment grade.

The APFC does not have an allocation to cash. Managers are encouraged to limit the amount of cash they hold, and most cash reflects pending transactions yet to settle. The APFC manages the aggregate cash position of all domestic equity managers and the internal fixed income portfolios in a Unitized Cash Fund (UCF). The UCF is primarily intended to serve as an efficient mechanism for investing daily transactional cash. UCF securities must be rated by either Moody's or Standard & Poor's equivalents of P1 or A1 for short-term investments. A second internal cash management account is maintained to invest cash balances needed for pending settlements of to-be-announced (TBA) mortgage securities in the internal fixed income portfolio. The TBA Cash Management Account invests primarily in short-term asset-backed structured products. Such securities must have a minimum rating of AAA for asset backed bonds and either P1 or A1 for asset-backed commercial paper.

Custodial credit risk

The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund. For non-domestic securities held by sub-custodians, the APFC is indemnified against custodial credit risk by its primary custodian.

Foreign currency risk

Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets into various countries and currencies.

Interest rate risk

The APFC manages the Fund's exposure to fair value losses arising from changing interest rates by establishing effective duration guidelines in its fixed income investment policy. Duration is a measure that describes a portfolio's sensitivity to changes in interest rates. The duration of a portfolio is the average market value weighted duration of all bonds in the portfolio. In general, the major factors affecting duration are, in order of importance: maturity, prepayment frequency, level of market interest rates, size of coupon, and frequency of coupon payments. Duration will fall as interest rates rise. Effective duration attempts to account for the price sensitivity of a bond, including the impact of embedded options. As an example, for a bond portfolio with a duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0%.

The APFC's investment policy specifies an effective duration range for each long-term fixed income mandate (based on the respective portfolio's benchmark index duration) as follows: core domestic and core plus fixed income portfolios 80%-120%; non-domestic fixed income 50%-150%; and high yield fixed income 50%-200%. The APFC uses industry-standard analytical

software to calculate effective duration. The software takes into account various possible interest rates, historical and estimated prepayment rates, call and put options, and other variable cash flows for the effective duration calculation.

For short-term debt investments, the APFC's policy states that the weighted average day count of the short-term UCF cannot exceed 150 days, with a final maximum maturity of 14 months for non-securitized investments. The policy limits asset backed securities held in cash management accounts to a maximum average life of 12 months at time of purchase.

FORWARD EXCHANGE CONTRACTS

Fund managers hold a variety of forward currency contracts in their trading activities, and in the management of their foreign currency exchange rate risk exposure. These contracts are typically intended to neutralize the effect of foreign currency fluctuations, and the contract amounts do not appear on the balance sheet. Realized gains and losses are included in the net increase in the fair value of investments at the time the contract is closed or matures, and are determined based on the difference between the contract rate and the market rate at the time of maturity or closing. Unrealized gains and losses are also included in the net increase in the fair value of investments, and are calculated based on the difference between the contract rate and a forward market rate determined as of the balance sheet date.

A minority of forward exchange contracts are intended to manage, rather than neutralize, foreign currency fluctuations. Certain managers seek to control foreign exchange effects within their overall portfolio strategy rather than on a security by security basis. They attempt to optimize their foreign currency exposure in a market rather than accept the natural geographical exposure of the market's currency.

EQUITY INDEX FUTURES

Certain equity managers for the Fund are permitted to buy and sell equity index futures. The notional cost and market values of such futures are not required to be reported on the balance sheet of the Fund. Realized gains and losses on futures, as well as the net notional unrealized gains and losses, are included in the net increase in the fair value of investments.

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.

3. SHORT-TERM INVESTMENTS

All short-term investments bear interest at competitive rates and are summarized as follows at June 30:

	2007	2006
U.S. agencies	\$ 442,308,000	540,853,000
U.S. treasury bills	391,000	0
Commercial paper	345,061,000	242,836,000
Asset-backed securities	573,477,000	833,980,000
Total short-term investments	1,361,237,000	1,617,669,000
Cash and pooled funds	289,854,000	99,681,000
Total cash and short-term investments	\$ 1,651,091,000	1,717,350,000



At June 30, 2007, all commercial paper investments had A-1 ratings or better from Standard & Poor's, P-1 by Moody's, or an equivalent rating. Additionally all asset-backed securities were rated AAA by either Moody's or Standard & Poor's. U.S. agencies and treasury bills are either explicitly or implicitly guaranteed by the U.S. government and are not rated. Short-term investments held at fiscal year end 2007 in the UCF and TBA Cash Management Account had weighted average maturities of 8 and 23 days, respectively. At June 30, 2007, uninvested, uninsured cash of \$56,386,000 was held at the custodian or sub-custodian banks, mainly in interest bearing accounts. All remaining cash balances either were insured or were invested in short-term pooled investment funds, which were rated AAA by Standard & Poor's.

4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

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

	2007	2006
Interest receivable	\$ 100,451,000	89,084,000
Dividends receivable	31,717,000	28,727,000
Sales receivable	229,801,000	190,530,000
Foreign exchange contracts	2,724,000	8,172,000
Futures receivable	1,159,000	0
Contributions receivable	28,254,000	58,973,000
Prepaid and other receivables	142,000	353,000
Total receivables, prepaid expenses and other assets	\$ 394,248,000	375,839,000

5. MARKETABLE DEBT SECURITIES

Marketable debt securities at June 30 are summarized as follows:

	Cost	Market	Unrealized gains/(losses)
2007			
Treasury notes/bonds	\$ 1,914,224,000	1,911,793,000	(2,431,000)
Mortgage-backed securities	3,579,392,000	3,501,633,000	(77,759,000)
Other federal agencies	1,016,947,000	998,800,000	(18,147,000)
Corporate bonds	2,839,420,000	2,777,194,000	(62,226,000)
Non-domestic bonds	1,140,621,000	1,135,476,000	(5,145,000)
Total marketable debt securities	\$ 10,490,604,000	10,324,896,000	(165,708,000)
2006			
Treasury notes/bonds	\$ 2,171,304,000	2,141,787,000	(29,517,000)
Mortgage-backed securities	3,275,690,000	3,195,957,000	(79,733,000)
Other federal agencies	608,790,000	588,970,000	(19,820,000)
Corporate bonds	2,532,048,000	2,451,703,000	(80,345,000)
Non-domestic bonds	959,337,000	965,034,000	5,697,000
Total marketable debt securities	\$ 9,547,169,000	9,343,451,000	(203,718,000)

6. MARKETABLE DEBT CREDIT RATINGS

In order to manage credit risk for marketable debt securities, the APFC monitors daily market values of all securities and routinely reviews its investment holdings' credit ratings. For accounts with a core mandate, issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Account managers with non-core mandates are allowed to hold positions in assets with below investment grade ratings (high yield bonds, rated BB+ or below) based on the terms of Trustee resolutions, as further limited by the manager's contract. For purposes of this note, if credit ratings differ among Nationally Recognized Statistical Rating Organizations (NRSRO), the rating with the highest degree of risk (the lowest rating) is used.

At June 30, 2007, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO Quality rating	Domestic	Non-domestic	Total market value	Percent of holdings
AAA	\$ 1,196,097,000	699,148,000	1,895,245,000	18.35%
AA	551,683,000	4,502,000	556,185,000	5.39%
A	715,902,000	376,272,000	1,092,174,000	10.58%
BBB	656,658,000	15,291,000	671,949,000	6.51%
BB	44,813,000	29,543,000	74,356,000	0.72%
B	95,478,000	10,720,000	106,198,000	1.03%
CCC	57,357,000	0	57,357,000	0.56%
CC	875,000	0	875,000	0.01%
C	272,000	0	272,000	0.00%
D	267,000	0	267,000	0.00%
Total market value of rated debt securities	3,319,402,000	1,135,476,000	4,454,878,000	43.15%
U.S. government explicitly backed by the U.S. government	2,050,129,000	0	2,050,129,000	19.85%
U.S. government implicitly backed by the U.S. government	3,819,889,000	0	3,819,889,000	37.00%
Total market value debt securities	\$ 9,189,420,000	1,135,476,000	10,324,896,000	100.00%

7. MARKETABLE DEBT DURATION

In order to manage its interest rate risk on marketable debt securities, the APFC monitors daily market values and routinely reviews portfolio effective duration in comparison to an established benchmark. At fiscal year end, the aggregate holdings of debt securities were within the required duration range in relation to such benchmarks. At June 30, 2007, the effective duration by investment type, based on market value, is as follows:

	Percent of bond holdings	Duration
Domestic bonds		
Mortgages and other structured products	46.29%	4.61
Treasuries	20.85%	3.87
Corporate bonds	21.20%	6.27
Government sponsored	6.85%	3.46
Supra/Sovereign	4.81%	5.96
Total domestic bonds	100.00%	4.79
Non-domestic bonds		
Government and agency	92.90%	5.63
Corporate and other non-government	7.10%	6.73
Total non-domestic bonds	100.00%	5.71

The APFC manages the Fund's exposure to fair value losses arising from changing interest rates by establishing effective duration guidelines in its fixed income investment policy. Duration is used to explain a portfolio's sensitivity to changes in interest rates. The duration of a portfolio is the average market value weighted duration of all bonds in the portfolio. In general, the major factors affecting duration are, in order of importance: maturity, prepayment frequency, size of coupon, level of market interest rates, and frequency of coupon payments. Duration will fall as interest rates rise. Effective duration attempts to account for the price sensitivity of a bond, including the impact of embedded options. As an example, for a bond portfolio with a duration of 5.0, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of 5.0%.

8. CONCENTRATION OF CREDIT RISK

At June 30, 2007, more than 5% of the Fund's total net investments were held in securities of the issuer listed below:

Issuer of securities	Market value of holdings	Percent of total Fund
Federal National Mortgage Association (FNMA)		
Mortgage-backed securities	\$ 2,231,178,000	5.90%
Senior debt	226,752,000	0.60%
Equity	29,376,000	0.08%
Total	\$ 2,487,306,000	6.58%

Mortgage-backed securities represent pooled debt obligations of homeowners throughout the U.S. Although a large percentage of holdings of the Fund are aggregated through FNMA mortgages, the actual risk remains with the underlying loans, and the ability or inability to recover balances of loans in default from the underlying loan collateral. Risk is mitigated by the FNMA's guarantee of the underlying debt, and its implicit guarantee from the U.S. government.

9. PREFERRED AND COMMON STOCK

Except for one commingled fund and the equity extension strategy investments, all investments in preferred and common stock are held by the APFC's custodian banks in the name of the Fund. The commingled fund investment, the Emerging Markets Growth Fund (EMGF), managed by Capital International, Inc., is held by the custodian bank of the fund manager on behalf of the commingled fund's investors. The market values of the Fund's shares in the EMGF were \$980,792,000 and \$645,014,000 as of June 30, 2007 and 2006, respectively, and are included in the non-domestic values shown below. The value of the Fund's investment in the commingled fund represented approximately 6.4 percent and 5.9 percent of the total EMGF value at June 30, 2007 and 2006, respectively.

The equity extension strategy was new in fiscal year 2007, and differs from the traditional long-only equity strategy in that up to 40 percent of the account portfolio may be placed in short positions. These portfolios are held in custody in separate accounts in the name of the Fund at a prime broker. The market value of the long positions in the equity extension portfolios as of June 30, 2007 was \$981,117,000, and is included in the domestic equity values shown in the table below. The market value of the short positions in the equity extension portfolios as of June 30, 2007 was (\$201,596,000), and is shown on the balance sheet in the liabilities section.

Preferred and common stocks at June 30 are summarized as follows:

	Cost	Market	Unrealized gains
2007			
Domestic	\$ 11,065,757,000	14,430,696,000	3,364,939,000
Non-domestic	5,861,408,000	8,432,368,000	2,570,960,000
Total preferred and common stock	\$ 16,927,165,000	22,863,064,000	5,935,899,000
2006			
Domestic	\$ 10,297,205,000	12,617,686,000	2,320,481,000
Non-domestic	4,939,026,000	6,638,695,000	1,699,669,000
Total preferred and common stock	\$ 15,236,231,000	19,256,381,000	4,020,150,000

10. FOREIGN CURRENCY EXPOSURE

Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets into various countries and currencies. At June 30, 2007, the Fund's cash holdings and non-domestic public and private equity and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at market value):

currency	Cash	Public equity	Debt	Private equity	Total foreign currency Foreign exposure
Argentine Peso	\$ 0	0	4,542,000	0	4,542,000
Australian Dollar	(1,065,000)	370,724,000	31,207,000	0	400,866,000
Brazilian Real	10,000	37,831,000	13,441,000	0	51,282,000
Canadian Dollar	(154,000)	170,775,000	6,294,000	0	176,915,000
Chinese Yuan Renminbi	0	10,218,000	0	0	10,218,000
Colombian Peso	0	0	3,275,000	0	3,275,000
Cyprus Pound	0	21,193,000	0	0	21,193,000
Czech Koruna	12,000	5,174,000	5,281,000	0	10,467,000
Danish Krone	368,000	36,578,000	53,349,000	0	90,295,000
Egyptian Pound	150,000	9,297,000	2,614,000	0	12,061,000
Euro Currency	10,164,000	2,695,091,000	532,210,000	43,727,000	3,281,192,000
Hong Kong Dollar	1,064,000	188,439,000	0	0	189,503,000
Hungarian Forint	683,000	5,268,000	1,924,000	0	7,875,000
Indian Rupee	33,000	26,700,000	0	0	26,733,000
Indonesian Rupiah	6,000	3,853,000	3,901,000	0	7,760,000
Japanese Yen	4,692,000	1,422,753,000	338,038,000	0	1,765,483,000
Malaysian Ringgit	8,664,000	23,089,000	0	0	31,753,000
Mexican Nuevo Peso	72,000	18,430,000	1,647,000	0	20,149,000
New Israeli Shekel	0	12,597,000	0	0	12,597,000
New Taiwan Dollar	1,979,000	111,035,000	0	0	113,014,000
New Turkish Lira	(56,000)	14,407,000	10,692,000	0	25,043,000
New Zealand Dollar	290,000	14,942,000	0	0	15,232,000



Foreign currency cont.	Cash	Public equity	Debt	Private equity	Total foreign currency exposure
Norwegian Krone	174,000	46,601,000	0	0	46,775,000
Philippine Peso	0	412,000	0	0	412,000
Polish Zloty	440,000	7,603,000	9,852,000	0	17,895,000
Pound Sterling	9,174,000	1,599,624,000	105,949,000	15,145,000	1,729,892,000
Russian Ruble	0	7,001,000	0	0	7,001,000
Singapore Dollar	847,000	88,926,000	0	0	89,773,000
South African Rand	1,934,000	53,415,000	392,000	0	55,741,000
South Korean Won	0	115,654,000	9,683,000	0	125,337,000
Swedish Krona	(126,000)	150,668,000	17,901,000	0	168,443,000
Swiss Franc	421,000	470,676,000	0	0	471,097,000
Thai Baht	19,000	24,968,000	808,000	0	25,795,000
Uruguayo Peso	0	0	1,919,000	0	1,919,000
Total foreign currency exposure	\$ 39,795,000	7,763,942,000	1,154,919,000	58,872,000	9,017,528,000

Cash amounts in the schedule above include receivables, payables, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value.

11. REAL ESTATE

The APFC is authorized by State regulations to invest Fund assets in various forms of real estate, which generally take the form of private equity real estate 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. The APFC invests Fund assets in direct real estate through its ownership of interests in corporations, limited liability companies, and partnerships that own title to the real estate. External real estate management firms administer the Fund's private equity real estate investments.

The APFC routinely analyzes private equity real estate holdings for permanent impairment, in accordance with APFC resolution 06-07. For the fiscal year ending June 30, 2007, no real estate assets were at a market value deemed necessary for permanent impairment analysis. At fiscal year end June 30, 2006, one property was analyzed for permanent impairment, and it was determined that a write-down of value due to impairment was not warranted.

The carrying value of real estate at June 30, 2007 and 2006 was \$3,155,699,000 and \$3,367,049,000, respectively. Private equity real estate investments, property notes receivable, and residential mortgages are recorded in the financial statements using the equity method, which consists of the asset's historical cost plus the Fund's share of undistributed earnings from the asset. Public equity real estate investments (real estate investment trusts) are recorded in the financial statements at their market value.

In the ordinary course of business, the APFC has made Fund commitments related to real estate investments. In the opinion of management, meeting these commitments will not have a materially adverse effect on the Fund's financial position, results of operations, or liquidity.

Real estate investments at June 30 are summarized as follows:

	Cost/equity value	Market value	Unrealized gains	Financial statement carrying value
2007				
Real estate investment trusts	\$ 612,281,000	822,276,000	209,995,000	822,276,000
Alaska residential mortgages	47,000	47,000	0	47,000
Property note receivable	3,492,000	3,492,000	0	3,492,000
Private equity real estate -				
Retail	450,009,000	796,727,000	346,718,000	450,009,000
Office	722,057,000	835,658,000	113,601,000	722,057,000
Industrial	200,717,000	225,289,000	24,572,000	200,717,000
Multifamily	957,101,000	1,036,393,000	79,292,000	957,101,000
Total real estate	\$ 2,945,704,000	3,719,882,000	774,178,000	3,155,699,000
2006				
Real estate investment trusts	\$ 668,908,000	1,008,067,000	339,159,000	1,008,067,000
Alaska residential mortgages	60,000	60,000	0	60,000
Property note receivable	3,414,000	3,414,000	0	3,414,000
Private equity real estate -				
Retail	438,408,000	793,679,000	355,271,000	438,408,000
Office	756,211,000	865,242,000	109,031,000	756,211,000
Industrial	212,217,000	233,682,000	21,465,000	212,217,000
Multifamily	948,672,000	987,778,000	39,106,000	948,672,000
Total real estate	\$ 3,027,890,000	3,891,922,000	864,032,000	3,367,049,000

12. ALTERNATIVE INVESTMENTS

Alternative investments include absolute return strategies and private equity.

Absolute return strategies are investments in specialized funds with low market correlation. The Fund's absolute return strategies are managed through five distinct portfolios each of which have the Fund as the only limited partner and investor ("fund-of-one"). External investment management services are provided by each fund-of-one general partner. Absolute return strategies invest in a diversified portfolio of underlying limited partnership interests or similar limited liability entities. The Fund obtains fair value estimates for its partnership interests from each fund-of-one general partner, which are subject to annual audits. Many absolute return investments do not have readily ascertainable market values and may be subject to withdrawal restrictions and/or additional expenses upon early withdrawal of invested funds.

Private equity investments involve the purchase of limited partnership interests which typically invest in unlisted, illiquid common and preferred stock and to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired an external advisor to select limited partnership interests which are diversified by geography and strategy. This investment type is characteristically funded slowly over time as opportunities are identified by the external advisor and underlying general partners. General partners provide the Fund with fair value estimates of private equity investments utilizing the most current information available. Fair value estimates are further reviewed by the external advisor and are subject to annual audits.



Alternative investments at June 30 are summarized as follows:

	Cost	Market	Unrealized gains/(losses)
2007			
Absolute return strategy	\$ 1,355,269,000	1,565,445,000	210,176,000
Private equity	336,776,000	343,885,000	7,109,000
Total alternative investments	\$ 1,692,045,000	1,909,330,000	217,285,000
2006			
Absolute return strategy	\$ 784,290,000	844,732,000	60,442,000
Private equity	110,575,000	106,564,000	(4,011,000)
Total alternative investments	\$ 894,865,000	951,296,000	56,431,000

As of June 30, 2007, the APFC, on behalf of the Fund, had outstanding private equity investment commitments of approximately \$795 million.

13. ALASKA CERTIFICATES OF DEPOSIT

The APFC is authorized by State regulations and Trustee resolution 04-03, 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 securing these investments is either letters of credit from the Federal Home Loan Bank or pooled mortgage securities issued by U.S. government sponsored agencies.

14. SECURITIES LENDING

Under State regulation 15 AAC 137.510, the APFC is authorized to enter into securities lending transactions on behalf of the Fund. The APFC, through an agreement with the Bank of New York Mellon (the Bank), lends marketable debt and equity securities. These loans are fully collateralized with cash or U.S. government guaranteed marketable securities at not less than one hundred two percent (102%) of the market value of the loaned securities for domestic securities and one hundred five percent (105%) of the market value for non-domestic loaned securities. The APFC is able to sell any securities out on loan. Upon borrower default, the Bank may hold cash collateral or sell non-cash collateral. The APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against any loss resulting from counterparty failure, loss resulting from the reinvestment of collateral, default on collateral investments, or failure to return loaned securities.

Cash collateral received for securities on loan, which is required to be reported on the balance sheet of the Fund, is invested by the Bank in the name of the Fund. As of June 30, 2007, such investments were in overnight repurchase agreements, and had a weighted-average maturity of one day. The average term of the loans was also one day.

At June 30, the value of securities on loan and related collateral is as follows:

	2007	2006
Market value of securities on loan	\$ 4,741,057,000	7,251,052,000
Cash collateral	\$ 4,881,893,000	7,466,539,000

The Fund receives 80% of earnings derived from securities lending transactions, and the Bank receives 20%. During the years ended June 30, 2007 and 2006, there were no losses incurred as a result of securities lending transactions. The Fund received income of \$15,616,000 and \$15,836,000 from securities lending for the years ended June 30, 2007 and 2006, respectively.

15. ACCOUNTS PAYABLE

Accounts payable include trades entered into on or before June 30 that will settle after fiscal year end. Cash held for trade settlements is included in cash and short-term investments. Accounts payable at June 30 are summarized as follows:

	2007	2006
Accrued liabilities	\$ 17,312,000	14,338,000
Securities purchased	1,357,351,000	1,559,507,000
Total accounts payable	\$ 1,374,663,000	1,573,845,000

16. INCOME DISTRIBUTABLE TO THE STATE OF ALASKA

The Legislature appropriates portions of the Fund's statutory net income to the Permanent Fund Dividend Fund (Dividend Fund), a subfund of the State's general fund created in accordance with Alaska Statute 43.23.045 and administered by the Alaska Department of Revenue. The Dividend Fund is used primarily for the payment of dividends to Alaska residents. In addition, the Legislature has appropriated a portion of the dividend distribution to fund various other agency activities. Per statute, for fiscal year 2005 and subsequent years, realized earnings on the principal balance of the dedicated State revenues from the North Slope royalty case settlements (State v. Amerada Hess, et al.) have been appropriated out of the Fund to the Alaska Capital Income Fund (ACIF), and managed by the State treasury. Income distributable to the State at June 30 is summarized as follows:

	2007	2006
Dividends	\$ 989,489,000	660,626,000
Appropriation to the Departments of -		
Health and Social Services	12,885,000	12,885,000
Revenue	7,825,000	6,702,000
Corrections	6,211,000	4,552,000
Public Safety	3,790,000	2,777,000
Administration	1,068,000	782,000
Legislature	400,000	294,000
Total to Dividend Fund	1,021,668,000	688,618,000
Alaska Capital Income Fund	42,287,000	36,748,000
Total income distributable	\$ 1,063,955,000	725,366,000



17. RESERVED AND UNRESERVED FUND BALANCES

Fund balance activity during the years ended June 30 is summarized as follows:

	2007	2006
Reserved		
Balance, beginning of year	\$ 30,324,951,000	28,521,819,000
Dedicated State revenues	532,281,000	601,117,000
Inflation proofing transfer from realized earnings account	860,360,000	855,918,000
Change in unrealized market value appreciation on invested assets	1,976,883,000	346,097,000
Balance, end of year	\$ 33,694,475,000	30,324,951,000
Unreserved		
Balance, beginning of year	\$ 2,584,768,000	1,439,849,000
Inflation proofing transfer to reserved fund balance	(860,360,000)	(855,918,000)
Settlement earnings payable to ACIF	(42,287,000)	(36,748,000)
Dividends payable to Department of Revenue	(1,021,668,000)	(688,618,000)
Realized earnings, net of operating expenditures	3,471,168,000	2,726,203,000
Balance, end of year	\$ 4,131,621,000	2,584,768,000
Total		
Balance, beginning of year	\$ 32,909,719,000	29,961,668,000
Dedicated State revenues	532,281,000	601,117,000
Settlement earnings payable to ACIF	(42,287,000)	(36,748,000)
Dividends payable to Department of Revenue	(1,021,668,000)	(688,618,000)
Excess of investment revenues over expenditures	5,448,051,000	3,072,300,000
Balance, end of year	\$ 37,826,096,000	32,909,719,000

The composition of the contributions and appropriations reserved fund balance at June 30 is shown as follows:

	2007	2006
Dedicated State revenues	\$ 9,693,048,000	9,160,768,000
Special appropriations	6,885,906,000	6,885,906,000
Inflation proofing	10,765,028,000	9,904,667,000
Settlement earnings	152,911,000	152,911,000
Total contributions and appropriations	\$ 27,496,893,000	26,104,252,000

During the fiscal years 1990 through 1999, the Fund received dedicated State revenues from North Slope royalty case settlements (State v. Amerada Hess, et al.). Accumulated settlement related activity, which is included in the contributions and appropriations balance of the Fund at June 30, is \$424,399,000. By statute, realized earnings from these settlement payments are to be treated in the same manner as other Fund income, except that these earnings on settlements are excluded from the dividend calculation, and beginning in 2005 are to be appropriated to the ACIF managed by the State treasury. Prior to 2005, statute required such earnings to be appropriated to Fund principal of the reserved fund balance. Total realized earnings on settlement principal were \$42,287,000 in 2007 and \$36,748,000 in 2006. These earnings were accrued and subsequently transferred to the ACIF.

18. STATUTORY NET INCOME

By Alaska law, statutory net income is computed in accordance with accounting principles generally accepted in the United States of America (GAAP), excluding settlement income from the North Slope royalty case (State v. Amerada Hess, et al.) and any unrealized gains or losses. However, the excess of revenues over expenditures is required by GAAP to include certain unrealized gains and losses and income, regardless of source. Consequently, GAAP excess of revenues over expenditures and statutory net income differ. It is statutory net income that is used to compute the amount available for the annual Permanent Fund dividend.

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

	2007	2006
Excess of revenues over expenditures	\$ 5,448,051,000	3,072,300,000
Unrealized gains	(1,976,883,000)	(346,097,000)
Settlement earnings	(42,287,000)	(36,748,000)
Statutory net income	\$ 3,428,881,000	2,689,455,000

19. INVESTMENT INCOME BY SOURCE

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

	2007	2006
Interest		
Domestic marketable debt securities	\$ 406,032,000	347,679,000
Non-domestic marketable debt securities	41,980,000	39,590,000
Alaska certificates of deposit	8,924,000	6,835,000
Short-term domestic and other	82,966,000	60,814,000
Total interest	\$ 539,902,000	454,918,000
Dividends		
Domestic stocks	\$ 182,220,000	179,178,000
Non-domestic stocks	239,965,000	163,392,000
Total dividends	\$ 422,185,000	342,570,000
Real estate and other income		
Private equity real estate interest	\$ 280,000	340,000
Private equity real estate net rental income	161,345,000	114,142,000
Real estate investment trust dividends	33,184,000	46,784,000
Absolute return management expenses, net of dividend and interest income	(14,746,000)	(4,979,000)
Private equity management expenses, net of dividend income	(5,019,000)	89,000
Class action litigation income	30,811,000	2,589,000
Loaned securities, commission recapture and other income	16,958,000	18,993,000
Total real estate and other income	\$ 222,813,000	177,958,000



20. FOREIGN EXCHANGE CONTRACTS, FUTURES, AND OFF-BALANCE SHEET RISK

Public equity and bond asset managers for the APFC enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell, on behalf of the Fund, specified amounts of foreign currencies at specified rates on specified future dates for the purpose of protecting existing or anticipated positions in these currencies. The maturity periods for outstanding contracts at June 30, 2007 ranged between 13 and 143 days.

The counterparties to the FX 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 APFC considers the risk of default to be remote. The Fund's market risk as of June 30, 2007 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for fiscal year 2006 and 2007 are summarized as follows:

	2007	2006
Balances at June 30		
Face value of FX forward contracts	\$ 2,761,454,000	1,507,176,000
Net FX forward contracts receivable	2,724,000	8,172,000
Market value of FX forward contracts	\$ 2,764,178,000	1,515,348,000
Activity for fiscal years ending June 30		
Unrealized gains (losses)	\$ (5,412,000)	4,184,000
Realized losses	(9,616,000)	(14,319,000)
Net decrease in fair value of FX forward contracts	\$ (15,028,000)	(10,135,000)

Beginning in fiscal year 2007, certain equity investment managers for the Fund were permitted to trade in equity index futures. These assets are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity index futures are settled with cash for the net difference between the trade price and the settle price.

Activity and balances related to equity index futures for the fiscal year 2007 is summarized as follows:

	2007
Balances at June 30	
Face value of equity index futures	\$ 43,566,000
Net unrealized gain on futures	1,159,000
Market value of equity index futures	\$ 44,725,000
Activity for fiscal year ending June 30	
Unrealized gains	\$ 1,155,000
Realized gains	4,496,000
Net increase in fair value of futures	\$ 5,651,000

The face value of FX forward contracts and futures shown in this schedule is not required to be included in the balance sheet of the Fund. All other balance and activity amounts shown above are included in the financial statements of the Fund.

21. EXPENDITURES

Fund expenditures for the years ended June 30 are summarized as follows:

	2007	2006
APFC expenditures paid by the Fund		
Salaries and benefits	\$ 4,242,000	3,710,000
Communications	908,000	849,000
Consulting fees	489,000	593,000
Other expenses	468,000	446,000
Rent	362,000	254,000
Legal and audit fees	299,000	320,000
Travel	207,000	192,000
Public information and subscriptions	134,000	210,000
Property and equipment	95,000	345,000
Subtotal APFC expenditures	7,204,000	6,919,000
Investment management and custody fees		
Investment management fees	55,101,000	48,902,000
Custody and safekeeping fees	1,477,000	1,409,000
Subtotal investment management and custody fees	56,578,000	50,311,000
Total operating expenditures	63,782,000	57,230,000
Other Legislative appropriations from corporate receipts		
Department of Natural Resources	4,462,000	4,252,000
Department of Law	1,477,000	1,477,000
Department of Revenue	74,000	71,000
Total other Legislative appropriations	6,013,000	5,800,000
Total expenditures	\$ 69,795,000	63,030,000

Appropriations from corporate receipts to other State departments are allocated by the Legislature through the budget process, and are considered compensation to these departments for work done on behalf of the Fund throughout the year.



22. PENSION PLAN

All full-time, regular employees of the APFC participate in the State of Alaska Public Employees Retirement System (PERS), and all employees of the APFC participate in the Alaska Supplemental Annuity Plan (SBS-AP). PERS is a multiple-employer public employee retirement system. Retirement-reform legislation passed during 2005 created a new PERS Defined Contribution Retirement (DCR) Plan. Employees entering the system on or after July 1, 2006 are classified as Tier IV members and participate under the DCR portion of PERS. Employees who entered the system prior to July 1, 2006 are classified as Tier I, II or III members and participate under the PERS Defined Benefit Retirement Plan. Tier I-III employees were required to contribute 6.75 percent of their annual salaries to PERS in the years ended June 30, 2007 and 2006. Tier IV employees were required to contribute 8 percent of their annual salaries to PERS in the year ended June 30, 2007. The APFC contributed a matching 22.65 and 17.65 percent to the PERS system for the benefit of each Tier I-III employee during the years ended June 30, 2007 and 2006, respectively. The APFC contributed a matching 5 percent to the PERS system for the benefit of each Tier IV employee during the year ended June 30, 2007.

The SBS-AP is a defined contribution multiple-employer plan that was created under Alaska statutes effective January 1, 1980, pursuant to Internal Revenue Code section 401(a), to provide benefits in lieu of those provided by the Federal Social Security System. All APFC employees are required to contribute 6.13 percent of their annual salaries to SBS-AP, and the APFC contributes a matching 6.13 percent to the plan for the benefit of each employee, up to a specified maximum each year. Total salaries for employees covered by PERS for the years ended June 30, 2007 and 2006 amounted to \$2,948,000 and \$2,639,000, respectively. Total salaries for employees covered by SBS-AP for the years ended June 30, 2007 and 2006 amounted to \$2,519,000 and \$2,656,000, respectively.

The State of Alaska has recognized a net pension obligation (NPO) in the State's Comprehensive Annual Finance Report for the fiscal years ending June 30, 2007 and 2006. The NPO is the difference between the actuarially determined rate and the contributions actually paid into PERS. For the fiscal year ended June 30, 2007, the Department of Administration has estimated the NPO attributable to the Fund to be \$469,000, which represented a net increase of \$126,000 from the prior year.

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