FINANCIAL SECTION

Financial Highlights for Fiscal Year 2007

- Net assets of the Pension Fund increased by $9.4 billion, or 12.9 percent, over the previous fiscal year. The Pension Fund out-performed its market benchmarks for fiscal year 2007, generating an additional $500 million in value for the fund compared to benchmark returns.

- The rate of return on investments was 17.1 percent, an increase from the 9.8 percent rate of return in the prior fiscal year. This marks the fund's highest return in nine years.

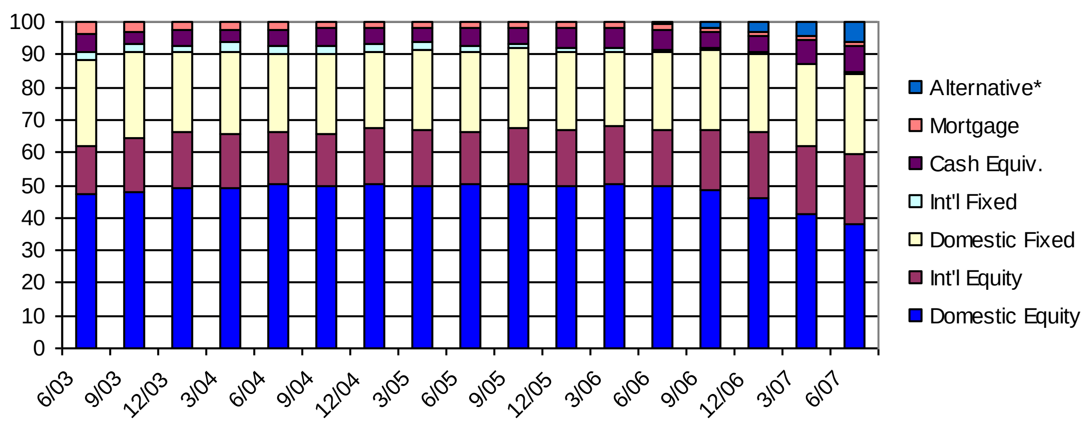
- The Cash Management Fund had no exposure to investments backed by sub-prime mortgages, enabling the Pension Fund to avoid the turmoil that affected some other money market funds.

- The Pension Fund continued to move away from investments solely in public equity and fixed income securities into a variety of new asset classes, building its alternative investment portfolio by funding nearly $4 billion in commitments during the fiscal year and establishing new relationships with 17 private equity funds, 19 real estate funds and 17 new hedge funds. Alternative investments returned 12.4 percent for the fiscal year.

- The Fund paid $5.5 billion in monthly retirement benefits to 236,787 retirees and beneficiaries during fiscal 2007. This compares to $5.2 billion paid to 227,816 retirees and beneficiaries during the 2006 fiscal year.

- The Fund received member and employer contributions of $1.51 billion and $2.24 billion, respectively, during fiscal 2007, compared with member and employer contributions of $1.45 billion and $1.93 billion, respectively, for fiscal 2006.

STATE OF NEW JERSEY COMPOSITE ASSET ALLOCATION HISTORY



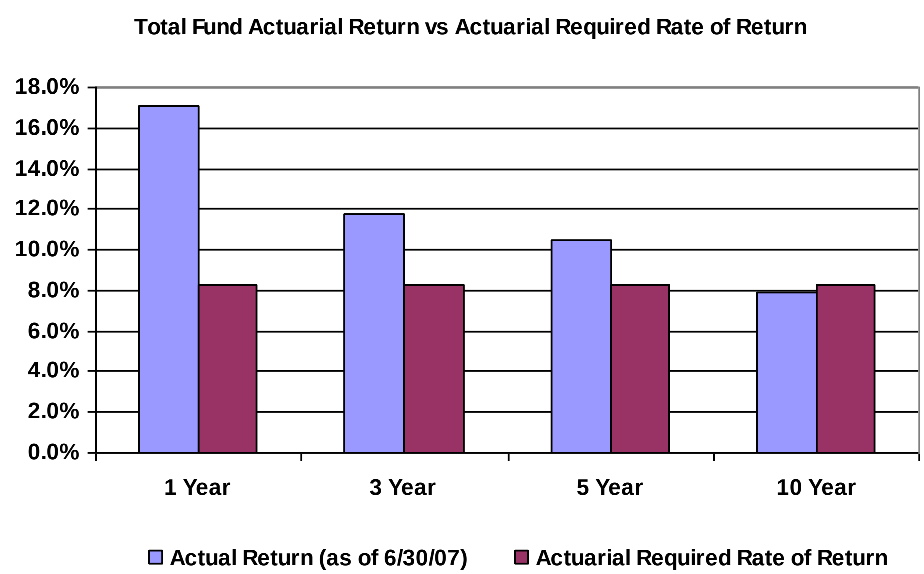
Alternative Investment Program started 9/05

10-Year Financials Summary

Market Values and Total Rates of Return

for Pension Fund for Fiscal Years ending June 30

	$ Billion	Return
2007	82.5	17.1%
2006	73.1	9.8%
2005	69.8	8.7%
2004	67.8	14.1%
2003	62.6	3.3%
5-year annualized return (thru 6/30/07)		10.5%
2002	63.3	(9.0)%
2001	72.2	(10.4)%
2000	82.6	12.0%
1999	76.2	16.0%
1998	67.3	22.7%
10-year annualized return thru 6/30/07		7.9%



Summary of Results for Fiscal Year 2007

Pension Fund Performance Summary

Net assets June 30, 2007: $82.5 billion
Net assets June 30, 2006: $73.1 billion

Benchmark (Indexed returns in each asset class): 15.6 percent
Actual rate of return: 17.1 percent

Net asset growth: $9.4 billion, or 12.9 percent

Management of New Jersey's Pension Fund earned a 17.1 percent rate of return for fiscal year 2007, exceeding both the Pension Fund's overall benchmark and the 8.25 percent assumed rate of return used by actuaries when calculating the Fund's future obligations. Individually, the Fund's four major asset classes – domestic equity, domestic fixed income, international equity and short-term money market securities in the Cash Management Fund – also exceeded their respective benchmarks for the fiscal year, as detailed below.

The strong returns were achieved even as the Division took steps to reduce risk by diversifying the pension portfolio, including the continued strengthening of an alternative investments program (see "Alternative Investments," below). As of June 30, 2007, the asset allocation of the Pension Fund was 38.3 percent in domestic equity, 23.9 percent in domestic fixed income, 20.9 percent in international equity, 8.2 percent in short-term money market securities, 6.1 percent in alternative investments and 2.0 percent in other classes.

Total Pension Fund assets were boosted by a $1.1 billion contribution from the State of New Jersey on June 29, 2007.

Net Pension Fund withdrawals were $2.7 billion during the 2007 fiscal year (net of employer and employee contributions), primarily for benefits paid out to retirees and other beneficiaries. These payments were more than offset by net investment income of $13.0 billion, consisting of interest and dividend income of $2.3 billion, net appreciation of $9.8 billion in the fair value of the underlying portfolio, and net securities lending income of $35.8 million.

How Pension Assets Are Managed

New Jersey's Pension Fund draws its income from the contributions of active employees, contributions from the state as authorized annually by the legislature, the contributions of county and local government employers, and income from the appreciation of Fund assets managed by the Division. Pension assets are managed by Division professionals in five different investment portfolios:

Domestic Equity Portfolio (Common Pension Fund A)
Domestic Fixed Income Portfolio (Common Pension Fund B)
International Equity Portfolio (Common Pension Fund D)
Alternative Investments Portfolio (Common Pension Fund E)
Cash Management Fund

Domestic Equity

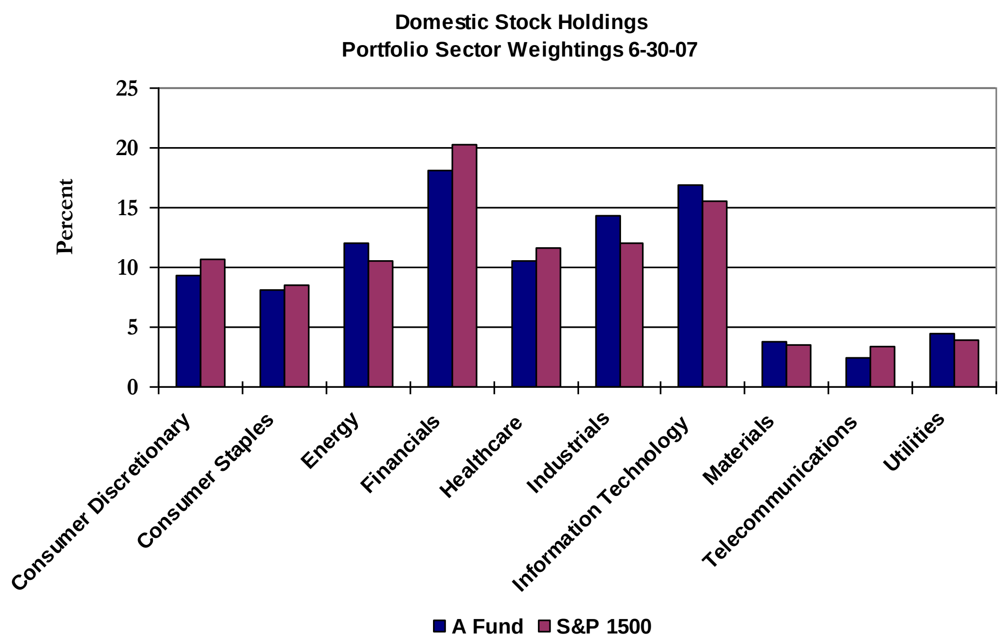
Annual Return Benchmark: 20.2 percent
(S&P 1500 Composite Index)
Actual return on investment: 21.0 percent

The Domestic Equity Portfolio out-performed the overall equity market in fiscal year 2007, as measured by the Standard & Poor's 1500 Composite Index.

The major factors contributing to the Division's out-performance were its stock selection within the technology sector and the relative lack of exposure to commercial banks and other financial services equities with connections to the residential mortgage market during the fiscal year.

The Domestic Equity Portfolio is broadly diversified by economic sector. While exposure to most sectors and industries is comparable to that of the overall market benchmark, the portfolio ended the fiscal year "overweight" (meaning a level of investment that exceeds that in the overall market benchmark, in percentage terms) in the industrial, energy and information technology sectors, and "underweight" (meaning a level of investment that is lower than that in the overall market benchmark, in percentage terms) in the financial, consumer discretionary and health care sectors.

The percentage of the Pension Fund invested in domestic equities declined over the fiscal year from 49.5 percent to 38.3 percent, consistent with the long-term strategy of the Council, as well as other major public pension funds, to reduce holdings in U.S. stock in order to fund other types of investments. Total domestic equity investments at the end of fiscal year 2007 were $31.5 billion.



Domestic Fixed Income
Annual Return Benchmark: 4.4 percent
(Blend of the Lehman U.S. Government/Credit and Lehman Long Government/Credit Indices)
Actual return on investment: 5.2 percent

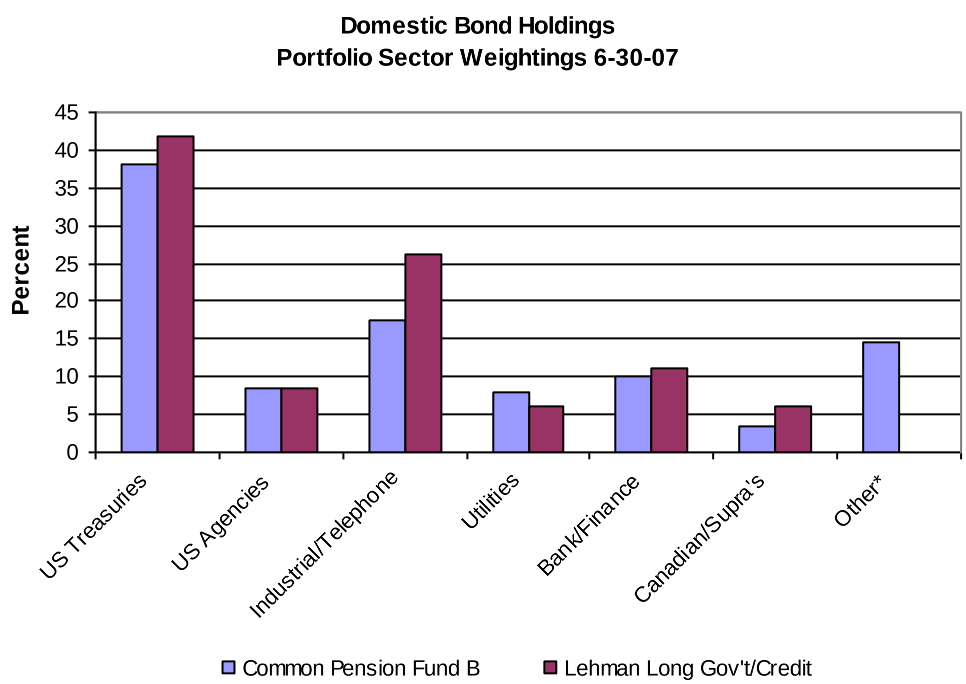
The Pension Fund's Domestic Fixed Income portfolio significantly out-performed its benchmark for fiscal year 2007. Several factors contributed to this out-performance, most significantly the Division's decisions to reduce holdings of corporate bonds and to avoid subprime mortgage-backed securities.

Also contributing to the portfolio's out-performance was the credit quality of corporate bonds in the portfolio, which remains superior to the securities in the indices that comprise the market benchmark.

The Division extended the duration of the portfolio from five years to nearly eight (7.84) years during fiscal 2007, to better match the anticipated benefit payments of the various pension plans.

The percentage of the portfolio invested in domestic fixed income securities (including federally guaranteed mortgage-backed securities) held steady at 23.9 percent as compared to the previous fiscal year.

The portfolio is overweight in U.S. Treasury securities versus the index on a duration-adjusted basis, with the major underweight being U.S. Agency securities.



** US Agency Mortgage Backed Securities*

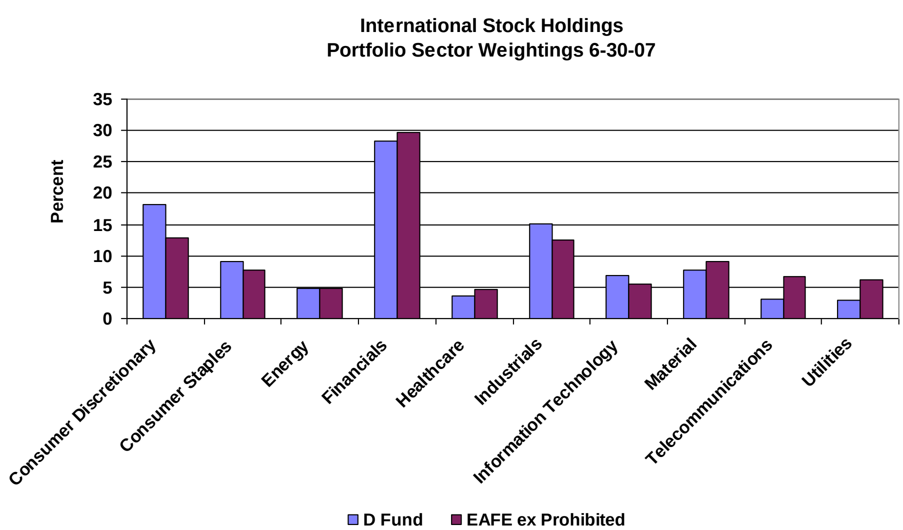
International Equity

Annual Return Benchmark: 27.3 percent
(MSCI-EAFE Index ex-prohibited securities)
Actual return on investment: 28.5 percent

Despite volatile and challenging markets, the International Equity portfolio earned a 28.5 percent return for the fiscal year, and out-performed the general market as measured by the Morgan Stanley Capital International-Europe, Australia and Far East Index (minus those index companies with ties to Sudan, in which the Division is prohibited from investing. See "State and Federal Legislation Update" in this report).

The percentage of the portfolio invested internationally in both equities and fixed-income securities rose in fiscal year 2007, ending at 20.9 percent. Within the international portfolio, international equities rose from $13.0 billion to $17.2 billion. In the Fund overall, international fixed income investment dropped from $1.2 billion to about $1 billion.

The International Portfolio is underweight in Japanese equities, in a belief that Japanese equity performance will be negatively impacted by an anticipated slowdown in global economic growth.



Alternative Investments

Hedge Funds -- Annual Return Benchmark: 14.3 percent
(HFRI Fund of Funds Composite Index)
Actual net return on investment: 13.2 percent

Private Equity – (No benchmark)
Actual net return on investment: 13.7 percent

Real Estate -- Annual Return Benchmark: 18.3 percent
(National Council of Real Estate Investment Fiduciaries Property Index, NPI, plus 100 basis points)
Actual net return on investment: 16.5 percent

The Alternative Investment portfolio, introduced in 2005 to reduce pension fund risk by diversifying fund investments beyond traditional stocks and bonds, also boosted the Fund's overall performance for fiscal year 2007.

At the close of the fiscal year, the portfolio had $10.2 billion in approved commitments, of which $6 billion had been invested. Of the total commitments, $4.8 billion was in private equity (including domestic and international buyout funds, venture capital, distressed and mezzanine debt funds); $2.6 billion was in real estate; and $2.8 billion was in hedge funds, both direct and fund of funds.

The State Investment Council also authorized a commitment of four percent of the portfolio in June 2007 dedicated to commodities and other inflation-sensitive assets. A total of $502 million was invested in commodity-linked notes as of June 30, 2007, with total returns on the matured one-year notes of 25.22 percent (for two notes maturing January 31, 2008) and 36.97 percent (for two notes maturing February 28, 2008). The Division also invested in two commodities funds in Fiscal Year 2008.

Cash Management Fund

Annual Return Benchmark: 5.06 percent
(90-Day U.S. Treasury Bills)
Actual Return on Investment: 5.47 percent

Despite the increased risks associated with securities backed by sub-prime mortgages, the Cash Management Fund's historically conservative position with regard to asset-backed commercial paper, coupled with an early divestment of its limited holdings, allowed the fund to deliver strong returns for the year.

The average daily compounded rate of return for State participants was 5.47 percent, compared with 4.31 percent the prior fiscal year. The average daily compounded rate for "Other-Than-State" participants (counties, municipalities, school districts and the agencies or authorities created by any of these) was 5.35 versus 4.20 for the previous fiscal year. The higher rates of return of the latest fiscal year followed the pattern of rising short-term interest rates in the United States.

Historically the Cash Management Fund has had limited exposure to asset-backed commercial paper (debt issued by stand-alone entities that can potentially invest in a variety of securities, including those collateralized by subprime mortgages). The Division has also utilized strict criteria for eligible investments, and capped its exposure to any one issuer. Nevertheless, the Division became increasingly concerned about potential exposure to asset-backed commercial paper in the spring of 2007, and began a series of steps to eliminate the Cash Management

Fund's exposure to these securities with no negative impact to performance. As of September 2007, the Cash Management Fund has no exposure to asset-backed commercial paper.

More than 180 state funds and more than 1,180 other-than-state entities invested in the fund in fiscal year 2007. The average maturity of the portfolio at fiscal year end was 62 days.

Costs of Management

Costs for managing all funds: 7.8 cents per $100 under management

The Division of Investment maintains one of the lowest costs of all public pension funds, largely because it ranks near the top nationally among all public and corporate pension funds in the percentage of funds managed internally. The Division ranks fifth nationally among all funds in the size of assets managed internally.

As part of its investment plans for fiscal years 2007 and 2008, the Division in 2007 began a process of engaging external managers to invest portions of the Pension Fund in certain types of investments (e.g., small cap and small-mid cap domestic equity, high-yield fixed income, and emerging market international equity), where the Division lacked the resources and expertise to invest directly. The first investments were made by these external managers in December 2007, and will be included in the fiscal year 2008 report.

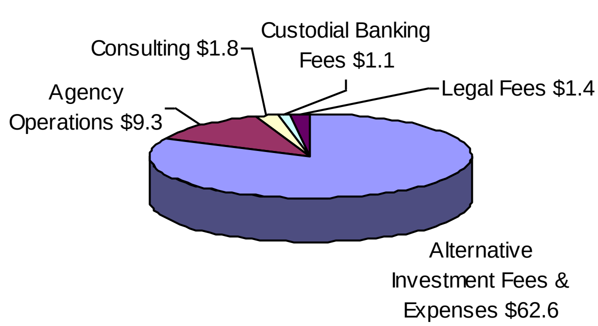
The Division also invests in a number of alternative investment funds. The decision to invest in each alternative investment fund is made internally; each fund's individual investment decisions are made by its own investment management. The alternative investment funds charge the Pension Fund management fees and expenses in connection with their respective investments.

The Division spent $76.2 million in fiscal year 2007 for management of $97.4 billion in total assets. Operating expenses for staff compensation, overhead and equipment were $9.3 million, and represent about 12 percent of total costs. Remaining expenses include fees for alternative investment management, consulting services, custodial banking and legal services, as shown in the chart below.

Note: Alternative investment fees and expenses are directly linked to positive returns realized by the investment manager.

Total Management Costs (millions)

For fiscal year ended June 30, 2007



Total Management Costs (millions)
For fiscal year ended June 30, 2007

Alternative Investment Fees & Expenses	$62.6
Agency Operations	9.3
Consulting	1.8
Custodial Banking Fees#	1.1
Legal Fees^	1.4
Total all costs*	**$76.2 million**
Total assets under management	**$97.4 billion**
Costs as a percentage of assets under management	**0.078%**
Cost per each $100 under management	**7.8 cents**

 # Excludes banking fees satisfied by compensating (minimum) balances

^ As paid to outside attorneys. Legal services provided by the New Jersey Attorney General's Office are included within Agency Operations costs.

** Excludes brokerage commissions totaling $34.8 million for fiscal 2007 on domestic and foreign equities in all funds managed by the Division, because these commissions are accounted for as part of the cost (for purchase) or proceeds (for sales) for each respective transaction. The brokerage commission total of $34.8 million includes $4.8 million in "soft dollar" commissions used to procure systems and services critical to the Division's trading and research.*

Summary of Results for Calendar Year 2007

Pension Fund Performance (Unaudited)

Total Market Value of Pension Fund on December 31, 2007: $81.3 billion
Overall Annualized Return as of December 31, 2007: 9.21 percent

In addition to out-performing its fiscal-year benchmarks, the Pension Fund out-performed its calendar-year benchmarks in each major asset class.

The Domestic Equity portfolio returned 7.69 percent, versus a benchmark return of 5.47 percent. This strong result is attributable to an underweight exposure to financials and stock selection within the industrial and technology sectors.

The Domestic Fixed Income portfolio returned 8.41 percent versus 6.92 percent for a blend of the Lehman U.S. Government/Credit and Lehman Long Government/Credit Indices, the benchmark for this portfolio. Even though the portfolio remains short in duration versus the index (which hurt performance in a period of declining interest rates), this was more than offset by an underweight exposure to corporate bonds, particularly in the financial sector.

Within the International Equity portfolio, investments returned 11.53 percent, versus 11.49 percent for the Division's custom benchmark (MSCI EAFE ex-prohibited securities). Despite lagging the index earlier in the year, this portfolio had an excellent fourth-quarter performance (particularly in December), driven by an underweight position in Japanese stocks. This portfolio also included $200 million during calendar year 2007 assigned for investment in emerging markets.

	Market Values (Billions)		**Calendar Year 2007**
	12/31/06	**12/31/07**	**Returns**
Common Fund A - Domestic Equity	$35.8	$29.9	7.69%
S&P 1500			*5.47%*
Common Fund B - Domestic Fixed Income	$18.4	$22.9	8.41%
Blend of Lehman US Government/Credit and Lehman Long Government Credit			*6.92%*
Common Fund D - International Equity	$16.1	$16.1	11.53%
MSCI EAFE ex-prohibited (Division's custom benchmark)			*11.49%*