

Annual Report 2007

We'll keep up the good work in Salmisaari.



VARMA

*The cover shows the building site of Varma's new office in the Salmisaari district of Helsinki.
Good work creating opportunities for more good work.*



Annual report 2007

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Annual General Meeting

Varma Mutual Pension Insurance Company will hold its Annual General Meeting on 27 March 2008, starting at 10 a.m., at the company headquarters at Annankatu 18, Helsinki.

Annual report and other publications

Varma's annual report is available in Finnish, Swedish and English. The annual report and Varma's other publications can be ordered and printed at www.varma.fi.

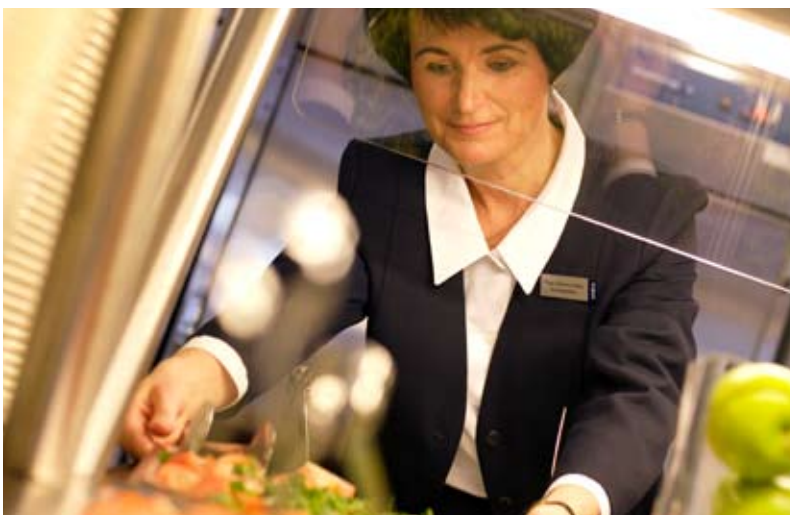
Varma secures pensions

Varma Mutual Pension Insurance Company is the largest earnings-related pension insurer and investor in Finland. The company is responsible for the statutory earnings-related pension cover of more than 780,000 people. Premiums written totalled €3.1 billion in 2007 and pension payments stood at €3.1 billion. The value of the company's investment assets stood at €28.4 billion at the end of 2007.

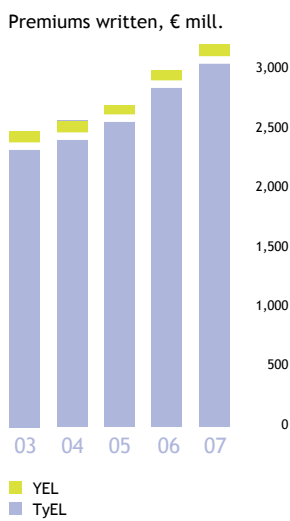
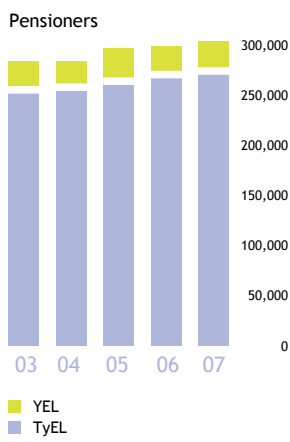
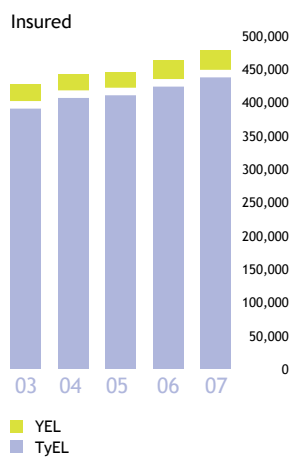
| Key figures (parent company) | 2007 | 2006 |
|--------------------------------------------------------|---------|---------|
| Premiums written, € mill. | 3,147 | 2,983 |
| Pension payments to pensioners, € mill. ¹⁾ | 3,065 | 2,886 |
| TyEL insured 31 Dec. | 447,000 | 426,000 |
| YEL policies | 37,300 | 37,400 |
| Pensioners 31 Dec. | 302,000 | 296,000 |
| Investment portfolio, € mill. | 28,418 | 26,858 |
| Investment income, € mill. | 1,632 | 2,330 |
| Return on invested capital, % | 6.0 | 9.4 |
| Total result, € mill. | 495 | 1,121 |
| Loading profit, € mill. | 27 | 29 |
| Operating expenses in relation to loading income, % | 74 | 72 |
| Transfer to client bonuses, € mill. | 92 | 78 |
| % of TyEL payroll | 0.6 | 0.6 |
| Technical provisions, € mill. | 25,571 | 23,774 |
| Solvency capital, € mill. | 7,033 | 6,666 |
| Solvency capital/technical provisions, % ²⁾ | 31.5 | 32.1 |
| Solvency capital/solvency limit | 1.9 | 2.1 |
| Personnel 31 Dec. | 635 | 667 |

1) Before the reduction of received clearing of pay-as-you-go (PAYG) pensions.

2) Ratio calculated as a percentage of technical provisions used in calculating the solvency limit.



The year 2007 in brief



Operating on a difficult investment market, Varma can nevertheless be satisfied with the reasonable financial performance in 2007. The company posted an investment return of 6.0%, and though faced with new competitive challenges, it was able to strengthen its position as Finland's largest earnings-related pension insurer.

Varma's total result for 2007 amounted to €495 (2006: 1,121) million. The return on investments, calculated at fair value, was 6.0% (9.4%) and the market value of investments €28.4 (26.9) billion.

On a volatile investment market, Varma's performance was reasonable. Diversification of its investment assets outside traditional equity and fixed-income markets in sectors such as hedge funds (which generated a return of 11.4%) softened the impact of a difficult end to 2007.

At the end of the year, Varma's solvency stood at €7,033 (6,666) million, or 31.5% (32.1%) of technical provisions.

Operating cost efficiency remained good and the loading profit amounted to €74 (72) million.

More competition

The new Employees Pensions Act (TyEL) also widened the competitive field for Varma. The earnings-related pension insurance market, a sector characterised by stability, became livelier in 2007 as Etera lost its pension insurance monopoly on short-term and temporary employment relationships.

Varma did well in the new competitive situation and was able to strengthen its position as Finland's largest earnings-related pension insurer. Premiums written increased

by 5%, to €3.1 billion. The number of insured employees and entrepreneurs grew by 4%, to 484,000, and the figure for account transfers was also good: €45 (15) million.

In 2007, Varma reserved €92 (78) million or 3.9% of the employees' TyEL contribution for client bonuses.

More pension decisions

Varma made some 23,200 new pension decisions during 2007, which was 5.9% more than in the previous year. There was growth in all pension types, as the age groups reaching the lower age limits of different pension categories were larger than before.

The number of pensioners exceeded 300,000 for the first time.

A new head office and pension records

Varma made preparations for sending the first earnings-related pension records to its individual clients. Starting in 2008, private-sector employees

"Varma will send about 700,000 earnings-related pension records to its present and former individual clients."

and entrepreneurs will receive a pension record each year, detailing their private-sector earnings and the pension accrued by the end of the previous year.

Varma will send about 700,000 pension records to its present and former individual customers.

Varma will be moving to a new head office in the Salmisaari district of Helsinki in late summer 2008. Some of the company's present premises at Annankatu were leased to the European Chemicals Agency in 2007.

Balance sheet at fair value (parent company), € mill.

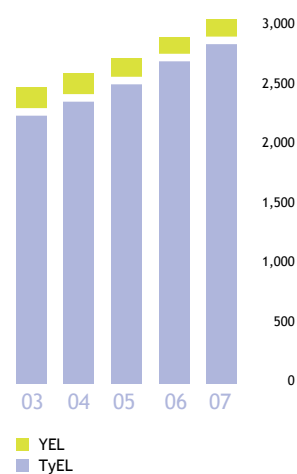
| Assets | 2007 | 2006 |
|---------------------------------------------------------------------|--------|--------|
| Investments | 28,418 | 26,859 |
| Receivables | 1,100 | 693 |
| Furniture and fixtures | 8 | 5 |
| | 29,526 | 27,557 |
| Liabilities | | |
| Capital and reserves | 80 | 76 |
| Depreciation difference | 0 | 0 |
| Valuation differences | 3,721 | 3,604 |
| Provision for future bonuses | 3,259 | 3,008 |
| Items included in solvency capital | 7,060 | 6,688 |
| Provision for current bonuses (for client bonuses) | 92 | 77 |
| Equity-linked provision for current/future bonuses | 8 | 0 |
| Equalisation provision | 938 | 910 |
| Technical provision | 21,274 | 19,778 |
| Technical provisions excluding provision for current/future bonuses | 22,220 | 20,688 |
| Other liabilities | 154 | 102 |
| | 29,526 | 27,557 |

Income statement at fair value (parent company), € mill.

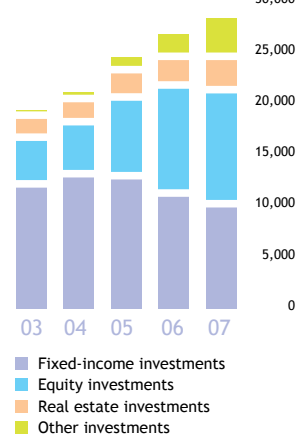
| | 2007 | 2006 |
|--------------------------------|------------|--------------|
| Premiums written | 3,147 | 2,983 |
| Claims paid | -2,750 | -2,556 |
| Change in technical provisions | -1,443 | -1,542 |
| Net investment income | 1,647 | 2,344 |
| Total operating expenses | -100 | -104 |
| Taxes | -7 | -4 |
| Total result* | 495 | 1,121 |

*Result at fair value before change in provision for current and future bonuses and equalisation provision, used mainly to strengthen solvency.

Pensions paid, € mill.

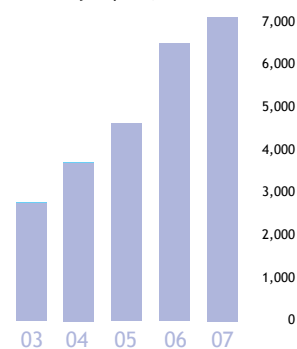


Investment portfolio, € mill.*



*Classified according to risk

Solvency capital, € mill.



Good results on a difficult market

Everybody was kept busy at Varma during 2007. Under the new Employees Pensions Act, all private-sector employment relationships were opened up to competition between earnings-related pension insurance companies and the company updated its strategy for 2008–2012. Varma is Finland's largest earnings-related pension insurer, which makes us behave with humility and determination. We want to improve and develop our services so that we can retain our position and strengthen it in the most challenging customer sectors.

Many of Varma's internal development projects not only last a long time but also involve a lot of work. They are based on our assessments concerning the developments in the Finnish economy and particularly in the country's corporate and sectoral structures during the next few years. Varma and other players in the earnings-related pension sector can only maintain their high service levels if they carry out substantial investment in information-system projects. The projects must also be implemented more efficiently than similar projects in the past. During the year under review, Varma managed to keep its operating cost efficiency at good levels in spite of the investment in the information systems. Varma's operating costs accounted for 74 per cent of the expense loading included in the insurance contributions.

There is a lot of debate about pensions in Finland these days. A smoothly-functioning earnings-related pension system with a solid funding basis is a source of security for citizens in a rapidly changing and turbulent world. The fact is that, in terms of service levels and transparency, the earnings-related pension system funded by private companies operating in Finland and their employees is well ahead of similar systems in the public sector. A concrete example of this is the pension

record, which all private-sector employees will receive during 2008. This year, Varma will for the first time be sending pension records to its 700,000 individual clients. The pension record project and putting all the necessary information about the recipients' pension cover in the documents will be a major challenge to Varma's customer service and the information systems used by Finland's earnings-related pension system. Varma's insurance and pension services were making preparations for this huge project during the year.

The number of Varma's pensioners exceeded 300,000 in autumn 2007. At the end of the year, the company had a total of 484,000 insured employees and entrepreneurs. At the start of 2007, short-time employment relationships and household employment were opened up to competition between earnings-related pension insurers. Varma managed to do well in the new situation.

Successful risk management on a difficult investment market

Varma's investment return, 6 per cent, was reasonable considering the challenging market situation during the last months of the year. At the same time, the company's solvency remains

strong. The new provisions on margins and solvency that came into effect at the start of the year have resulted in wider differences between portfolios held by different pension insurance companies. This helps in lowering the overall risk in the system. The average five-year (2003–2007) return on Varma's investments was 8.5 per cent, which corresponds to a real return of 7.3 per cent. The fact that the company has diversified its investments outside fixed-income and equity markets helped to increase returns. We are proposing to increase client bonuses to €92 million, which would be 0.64 per cent of the payroll of the insured. A series of good investment years has given Varma a high degree of solvency, which provides the company with a strong buffer against market uncertainties.

Listed companies must improve their administrative practices

As equity markets become more challenging, more attention must be paid to market liquidity. During the year under review, Varma was actively involved in the development of Finland's capital and investment markets. It made extensive use of its shareholder rights and will also continue to do so. Finnish equity markets and Finland's listed companies must adopt better administrative practices so that investors such as earnings-related pension insurers can invest more extensively in Finnish companies and broaden the range of their investments.

Finally, I would like to thank all Varma employees for their good work in 2007 and our customers for the confidence they have shown in our company.

Matti Vuoria
President and CEO





VARMA'S CORE FUNCTION

Our operations are based on employment in Finland and developing the earnings-related pension scheme

We handle pensions correctly and on time, and promote well-being at work



We invest pension assets profitably and securely

We take care of our customers' earnings-related pension provision efficiently and competitively

VALUES: SUCCESS THROUGH CUSTOMER-ORIENTED COOPERATION

Performance means that each Varma employee is responsible for their own results and the company's **success**. A good performance helps to make the earnings-related pension system more efficient and smooth-functioning.

Customer orientation means identifying the needs of the customers and acting accordingly. Customer service at Varma is smooth and friendly.

Cooperation is based on openness and flexibility. Varma respects and values the work done by others.

Securing pensions through good work

Varma's strategy for the period 2008–2012 can be summed up as follows: strengthening the company's market position and safeguarding the earnings-related pensions and benefits and their funding basis. In its day-to-day operations, Varma is guided by its strategy and values.

Varma revised its strategy in autumn 2007. During the period 2008–2012 the company aims to strengthen its market position in all customer groups and, in accordance with its core task, to safeguard the funding of earnings-related pensions and other benefits.

As part of its strategy, Varma will provide a more focused response to its customers' changing needs and supply the services best tailored to the needs of the earnings-related pension sector. The emphasis will be on improving online services.

Facing the prospect of an ageing workforce, Finnish companies are paying more attention to occupational well-being. The rehabilitation and well-being services offered by Varma support working capacity and help to keep pension costs under control.

Obtaining good returns on pension assets will become more important in the coming years. Good returns will mean less pressure on pension contributions. Varma is determined to remain the leader in a changing earnings-related pension sector by carrying out its responsibility with maximum efficiency.

Pensions are secured through good work – for this reason Varma is setting itself higher targets.

Varma aims to meet its strategic objectives by excelling in six areas

- **Varma is Finland's best pension investor.**
Varma's aim is to be Finland's best pension investor and reach the top European league. Varma manages its investments in a cost-efficient manner.
- **Varma provides the best-tailored services.**
By providing a range of tailored services Varma can meet the special needs of different customer sectors. New services will be developed for enterprises and small businesses.
- **Varma is the most efficient earnings-related pension insurer.**
To ensure cost-efficient management of earnings-related pensions Varma is automating its processes and providing more electronic services.
- **Partnerships bring added value.**
Partnerships will give Varma a competitive edge and help it to provide flexible services tailored to its customers' needs.
- **Varma is the leader in the earnings-related pension sector.**
Varma is actively involved in the development of the earnings-related pension system.
- **Varma is known for its good work.**
Varma is an active communicator, conveying its messages in a transparent and easy-to-understand manner.



In its advertising campaign in autumn 2007, Varma emphasized that taking care of others is an investment in the future. The campaign was part of the 'Hyvää työtä' (Good Work) theme, underlining the company's responsible operating approach.

VARMA AIMS TO BE THE LEADING EARNINGS-RELATED PENSION INSURER

Varma is an active and responsible player in the earnings-related pension insurance sector, and by promoting efficiency and responsibility it sets a good example for others. At the same time, labour market parties can also make use of its expertise in important earnings-related pension development projects.

Finland's statutory earnings-related pension system has been created by tripartite agreement involving the Government and the labour market organisations. These parties play an important role in the drafting of legislation, administration of agencies implementing

the legislation, and the appeals process. Labour market organisations also have their representatives on Varma's governing bodies.

Private sector earnings-related pensions are financed with pension contributions paid by the employees and employers.

The system of joint agreement has meant that the parties have been able to make difficult decisions and it has also helped them to become committed to long-term development work. One example is the reform of Finland's earnings-related pension system in 2005.

Responsible for managing pensions

Varma's financial responsibility can be summed up as efficient operations and investment of pension assets. From the social point of view, the crucial factor is the correctness of the pension decisions, which is also a question of protecting the legal rights of the insured.

Varma aims to be Finland's most efficient earnings-related pension insurer and to offer the services best tailored to its customers' needs. Dealing with the insured, the policy holders and the pension recipients in a responsible manner means dealing in a transparent and accurate manner.

Financial responsibility is also reflected in investments

Pensions can only be paid if pension assets are invested in a profitable and secure manner. High investment returns also help to ease the upward pressures on pension contributions caused by an aging population. Security of investments is ensured by efficient diversification of the funds into different asset classes and by meeting solvency regulations. By having an investment portfolio with the right risk level, Varma can adhere to its pension promises in all market situations.

Managing pensions means taking a long-term perspective. This enables Varma to put money in growth companies and support society's basic structures and competitiveness through investments in such areas as infrastructure modernisation.

Varma is an active and responsible shareholder in companies in which it has invested pension assets, and it expects them to observe good corporate governance principles.

Pension assets are the property of the insured and the policyholders, and

Varma aims to make its investments more transparent and provide more information about its investment performance. In 2007, the company started providing investment reports on a quarterly basis.

Cost-efficiency is an important competitive edge in the investment of pension assets. Each year, Varma commissions a survey on the costs of its investments activities by an independent agency specialising in assessing the costs of pension investors on an international basis. The surveys have shown that Varma's investments are cost-efficient.

Social responsibility is based on law

There are detailed legal provisions covering the making of pension decisions, paying of pensions, and collection of pension contributions. Managing the tasks in a responsible manner also requires quick action, accuracy and efficient dissemination of information.

Most of the disability pension applications (78%) are approved unchanged. By law, employees are entitled to vocational rehabilitation if their working capacity is at risk. When making pension decisions, Varma must take a comprehensive approach and act in accordance with the provisions governing the sector.

Appeal systems help to ensure that all the decisions are made on the same basis. Varma keeps records on

the correctness of its decisions, on the number of rejected applications and the changes appeal bodies make to them. In 2007, some 93% of all decisions rejecting applications were upheld. Each year, an independent outside expert makes an assessment of the disability pension applications rejected by Varma and the way they are handled.

In connection with her 2007 audit, the Parliamentary Ombudsman assessed how well Varma is adhering to legal and good governance requirements in its statutory pension decisions. The assessment was part of the auditing of insurance companies and social security appeal bodies. In her statement, the Ombudsman concluded that Varma adheres to the principles of good governance and that the company makes its pension decisions quickly and in accordance with all requirements.

"Managing pensions means taking a long-term perspective."

More competition meant livelier markets

The new Employees Pensions Act (TyEL) provided Varma with new competitive opportunities in 2007. A lively year on the insurance market was a success for Varma and the company was able to strengthen its position as an insurance-provider for large companies. In the future, Varma will focus on acquiring more customers in the small-enterprise sector.

The combination of Finland's private-sector earnings-related pension legislation into the new TyEL act marked the biggest change in Finland's earnings-related pension system so far. The competitive situation resulting from the new act made the stable markets livelier: a record number of new insurance policies were taken and account transfers between companies were at unusually high levels.

The new TyEL act also brought changes in the employers' insurance obligation. Pension insurances for short-term and temporary employment relationships, until now an Etera monopoly, were opened up to competition. This made managing earnings-related pension insurances easier for the customers as they can now put the insurances of all staff members under the same roof. A large number of Varma's customers seized the opportunity and concentrated their insurances on Varma.

A record number of new earnings-related pension insurance policies came into force at Varma during the year: 9,900, compared with 8,300 in 2006.

More extensive online services

The new TyEL act also meant more electronic insurance services at Varma. This is because Varma wants to make the business of earnings-related pension insurance as quick and easy as possible.

A new service was added to the 'Kansio' online service for those employers who want to provide a monthly notification of their employment relationships and combine the notifications with the payment of their contributions. The service has proved popular in companies that have a large number of short-time and seasonal employment relationships.

At the same time, a large number of households made use of the online 'Pesti' service intended for temporary employers.

Varma has improved the availability of its online offerings by making them accessible to the users of Nordea's and Iff's web services. Varma's services can now be accessed with netbank codes.

About 35% of Varma's corporate clients manage their earnings-related pension insurance business online. In 2007, some 81% of all employment and annual notifications were made electronically. This was in excess of Varma's targets.

Smooth online systems for entrepreneurs

Varma is continuously developing services for entrepreneurs and the aim is to make doing business with Varma both quick and smooth.

Electronic forms were added to the 'Kansio' online service, the aim being to make its use smoother. Varma is

also planning to introduce electronic invoicing in spring 2008.

Customer service events for small businesses were held in seven localities. The events attracted a total of 400 entrepreneurs and the feedback was extremely positive.

In 2007, Nordea General Insurance launched corporate insurance services in Finland, which also helped to put cooperation between Varma and Nordea on a stronger basis. A corporate customer is now offered a comprehensive solution, which covers banking, life assurance, earnings-related pensions, and non-life insurance.

Customers value reliability

In early 2007, Varma commissioned a customer-satisfaction survey by Corporate Image Oy.

Varma's customers gave the company an overall score of 8.5, which can be considered an excellent achievement. The company received the highest score (more than 9) for reliability and customers also gave high marks for Varma's level of expertise, willingness to cooperate and its personal service approach.

SERVICES PROVIDED BY VARMA

The earnings-related pension insurance services provided by Varma include

- insurance and pension services
- vocational rehabilitation
- advisory, training and consulting services aimed at improving workplace well-being
- social security advice for employees working abroad
- a service group with specialised knowledge of a client's line of business



A sensitive-skinned customer wearing a soothing facial mask at Terhi Nyman's beauty salon at Kalevankatu in Helsinki. Nyman, a beautician, has been in the business for four years and has her YEL insurance at Varma.

THE CONSULTATIVE COMMITTEE OF SELF-EMPLOYED PERSONS AND EMPLOYERS

The consultative committee of self-employed persons and employers is a joint consultative body that brings Varma together with employers and entrepreneurs, and whose objective is to further co-operation and communication between Varma and its policyholders. The members of the committee are appointed by Varma's Board of Directors.

Members of the Committee, 31 Dec. 2007

Harri Broman, Managing Director, Broman Group Oy

Henry Fagerström, Chairman of the Board,
Oy Schenker East Ab

Markku Haavisto, Managing Director, Veolia Transport
Finland Oy

Jukka Hyryläinen, Managing Director, Katko Oy

Antero Ikäheimo

Kristiina Illi, Managing Director, Tiimari Oyj

Ari Jokelainen, Sponsor Capital Oy, partner

Pekka Kauranen, Administrative Director,
Finnish National Opera

Mika Kiljunen, Managing Director, Kaleva Travel Invest Oy

Jari Kokkonen, President, University Pharmacy Ltd

Timo U. Korhonen, Managing Director, NCC Rakennus Oy

Martti Lappalainen

Matti Lappalainen, Managing Director,
Vaasan & Vaasan Oy

Timo Miettinen, Chairman of the Board, EM Group Oy

Jari Ollila, Chairman of the Board, Purso Oy

Jukka Ottela, Managing Director, Esan Kirjapaino Oy

Ahti Paananen, Managing Director, Panvest Oy

Simo Parhankangas, Managing Director, Kyrel Oy

Antti Reenpää, Managing Director, Otava Publishing
Company Ltd

Tuomo Räsänen, Managing Director, Carel Capital Oy

Tuomo Rönkkö, Managing Director, Eitel Networks Oy

Mauri Saarelainen, Chairman of the Board,
Honkarakenne Oyj

Risto Salo, Chairman of the Board, Hollming Oy

Ralf Sandström, Managing Director, Restel Oy

Juha Silvanto, Chairman of the Board, Sylva Group Oy

Saara Sinivuori, Managing Director, Aleksin Ravintolat Oy

Harri Suutari, Chairman of the Board, PKC Group Oyj

Heikki Takamäki, Managing Director, Heikki Takamäki
Oy/Rauta-Otra Nekala

Petteri Walldén

Kaija Ward, Chairman of the Board, Eurokangas Oy

Einari Vidgrén, Chairman of the Board, Ponsse Oyj

Jorma Wiitakorpi, Managing Director, Patria Plc

Heikki Väänänen, Chairman of the Board,

Karelia Yhtymä Oyj

Pertti Yliniemi, Chairman of the Board,

Lapland Hotels Group

*"Varma will focus on
strengthening its
position in the
small-enterprise sector."*

CONSULTATIVE COMMITTEE OF SELF-EMPLOYED PERSONS

Varma is the first earnings-related pension insurer with a consultative committee of self-employed persons. The committee will start operations in 2008 and will, in addition to entrepreneurs, also have representatives from the most important organisations supervising their interests. With the new committee, Varma is in a bet-

ter position to listen to entrepreneurs' concerns and to develop services tailored to their needs.

In addition to the consultative committee of self-employed persons, Varma also has a similar committee for employers, representing larger companies.

The survey showed that there is still some room for improvement in contacts, which according to the respondents should be on a more active and focused basis. The feedback has helped Varma to improve such areas as client communications.

Both premiums written and the number of new insurance policies up

Varma's TyEL premiums written for 2007 totalled €3.0 (2.9) billion, which was 5% more than in the previous year. YEL premiums written increased by 3%, to €129 million.

Insurance policies numbered 63,700, of which 37,300 were YEL policies.

Sales of new TyEL and YEL policies were at record levels in 2007. New policies numbered 9,488, a rise of 19.2%.

New premiums written totalled €58.3 million, which was in keeping with the euro-denominated target set by the company. At the same time, however, the rise in the number of new premiums written was only 20.6%,

meaning that the numerical target of a 24% increase was not met.

Excellent results in account transfers

Companies can transfer their TyEL and YEL insurances from one insurance company to another on a quarterly basis.

Measured in terms of premiums written, the net result in transfers was €45 (15) million. The excellent result helped Varma to increase its 34 per cent market share by about 0.5%.

The result helped Varma to strengthen its position as an insurance provider for large companies. Measured in numerical terms, Varma won 789 TyEL policies from other companies, but at the same time it lost 1,038 YEL policies to other insurers.

It was agreed in December 2007 that the Nokia Pension Fund would transfer its insurance operations covering Nokia Siemens Networks to Varma as of 1 March 2008. The funds involved correspond to about 1.5% of the earnings-related pension insurance market and will increase the

pension assets managed by Varma by almost €300 million in 2008.

Client bonuses

In 2007, Varma reserved a total of €92 (78) million, or 3.9% of the employers' TyEL contributions, for client bonuses. The client bonuses provided by the company are at extremely competitive levels.

Aiming for the small-enterprise market

The sectoral changes in the Finnish corporate sector, outsourcing and corporate mergers are also reflected in Varma's operations.

Varma is determined to strengthen its position as an earnings-related pension insurer in such rapidly growing sectors as business services, the retail and service sector, and care and health care services. Varma also wants to gain a stronger insurance foothold in the small-enterprise sector, which would, however, require closer cooperation with partners distributing Varma's products.

DETERMINING CLIENT BONUSES

A client bonus is a rebate on an employer's contribution granted by an earnings-related pension insurer.

The size of the client bonus depends on two factors: the results of the insurance company's investment operations and its loading profit (savings in operating costs). Customers benefit when an earnings-related pension insurer manages its investments both successfully and efficiently.

Successful investments accrue both the assets used to cover pension liabilities and the solvency capital, which provides a buffer against fluctuations in investment returns. In the future, 1.1% of the solvency capital will be transferred directly to client bonuses.

The pension contributions paid by companies always include an expense loading, which is intended to cover

the operating costs of an earnings-related pension insurer. The loading profit shows how large a proportion of the expense loading remains unused after the operating costs of the insurance company have been covered (=how efficiently the earnings-related pension insurance company operates).

The bonus mechanism was changed in 2007, which means that half the loading profit is now automatically transferred to client bonuses.

Earnings-related pension insurers have five years to introduce the system described above. During the transitional period they can, instead of applying the new mechanism, transfer 1.2% of the solvency capital and 25% of the loading profit to client bonuses.

A decade of experience in providing support for occupational well-being

The year 2007 marked the tenth anniversary of Varma's 'Evita' well-being services. During the past decade, the service has expanded considerably and became well-established. It has provided thousands of Varma customers with help in their occupational well-being projects.

Despite the anniversary year, Varma did not rest on its laurels. Cooperation projects carried out during 2007 involved more than 400 client businesses, and in consultations with individual companies the emphasis was on supervisor training, age management, change management and disability prevention.

A total of 13 seminars and training sessions were organised for the customers. The events, which were open to all those interested, attracted more than 700 participants.

Two major projects were completed early in the year: the occupational

well-being project for the wholesale and retail sectors and a project covering supervisory work and changes at the workplace. The skills learned by the participants will also benefit client companies in the future.

The impact of sector-specific characters on occupational well-being was examined in the wholesale and retail-sector project. A tool for assessing well-being at work was developed as part of the project helping individual employees to determine quickly their own well-being. There was also a seminar on the challenges in the sectors, which attracted 60 professionals

from the wholesale, retail and service branches.

A project on changes involved in supervisory work was completed in spring 2007. Varma published a report on the project entitled 'Esimiestyön kipukohdat ja valopilkut muutostilanteessa' (Dealing with the positive and negative aspects of changes as part of supervisory work).

The age-management project, launched in 2006, continued in 2007. This project also involves training, and the extensive material on age management produced by Varma was well received.

Customer satisfaction through successful rehabilitation

The number of Varma's customers taking part in vocational rehabilitation continued to increase. The percentage of rejected rehabilitation applications at Varma (14.8%) was lower than the

Jorma Vehviläinen at work as a supervisor of a group installing prefabricated concrete slabs at the construction company Palmberg.



sectoral average (18.1%). An increase in the number of rehabilitation applications and the low proportion of rejections show that Varma's long-term approach to customer cooperation has been successful.

On average, the rehabilitation applications are also handled much faster at Varma than elsewhere in the sector. A return to work or to the labour market by about 70% of the participants is an indication of the effectiveness of rehabilitation provided by Varma.

During the year under review, Varma has also been assessing the rehabilitation services provided for its individual clients. The assessment is considered important because Varma uses more outsourced services in helping the participants to draw up reha-

bilitation programme and to plan for a return to work than other earnings-related pension insurers. Varma has also been highly active in the development of vocational rehabilitation service products in Finland.

When necessary, Varma provides the participants with local help and assists them in the preparation and implementation of return-to-work plans if they are unable to return to their former work. A survey was carried out in spring 2007 examining the participants' satisfaction with the rehabilitation services purchased by Varma and with their own situation. The results show that 75% of the participants are very satisfied or fairly satisfied with the services purchased by Varma.

Making occupational well-being a success factor

Occupational well-being is becoming an increasingly important success factor for companies. This is because the workforce is aging, global competition is becoming tougher and operating environments are becoming more networked.

By investing in occupational well-being, companies can secure the supply of a skilled workforce in the future. It also helps to boost the employees' working capacity and keep them motivated in a constantly changing operating environment.

"Occupational well-being will become increasingly important as a corporate success factor in the future."

NORDEA PROVIDES INCENTIVES FOR EXPERIENCED STAFF MEMBERS

Nordea is launching a new type of senior programme which has been drawn up in cooperation with Varma. The programme makes use of Varma's Good Age tools.

The aim of the programme is to help Nordea to achieve its business targets by improving the well-being of its staff members and to keep them in working life longer. The focus is on the supervisors' age management skills, appreciation of experience, and the securing of skills and working capacity. The programme will make use of the Good Age tools as part of the process of supervisor training, appraisal interviews and shaping attitudes.

According to **Liisa Fågel** from Nordea, the bank wants to do its share in the efforts to keep pension costs under

control and to ensure well-being for an aging population.

Nordea has been prompted to take action by the fact that its workforce is aging. Some 40% of the staff may retire by the end of the year 2017.

"We have a wide range of tools for dealing with the challenge. We want to keep expert staff on our payroll and increase the average retirement age. We do this by providing incentives to aging employees and provide them with additional holidays as an alternative to part-time pensions, part-time work as an alternative to old-age pensions, and mentoring," says Liisa Fågel.

According to Fågel, the purpose of Nordea's senior programme is to increase understanding on the strengths and challenges brought by aging and experience.

700,000 Finns to receive pension record from Varma

Varma's individual clients are increasingly turning to online services when doing business with the company. Varma is in the process of developing new electronic services and in the future customers will also be able to check their earnings-related pension records online. The first records will be sent to the clients' home addresses during 2008.

Varma's individual clients are employees and entrepreneurs insured by the company, and pensioners.

In 2007, Varma made preparations for sending pension records to its customers for the first time. Starting in 2008, all private-sector employees and entrepreneurs living in Finland will receive a pension record each year detailing their private-sector earnings and pension accrued by the end of the previous year. Varma will be sending some 700,000 records to its present and former clients.

A number of system and online service projects have helped Varma to prepare for the new era. The first pension records will be sent to the recipients' home addresses but in the future clients will also be able to check their pension situation online. The construction of an electronic pension record service is in progress.

Online services becoming more popular

In 2007, employees and entrepreneurs insured at Varma made a total of 52,100 online pension estimates. This was 2.2 times more than the number of pension estimates carried out at the request of the client by Varma's own pension experts (23,500).

Using Varma's online service, individual clients can estimate their own pension at various ages. Those over 53 can also calculate their part-time pension.

Varma also has an electronic service for applying for old-age pensions.

Services meeting client needs

Varma's Advisory Services received about 26,600 calls during the year, while some 2,400 clients sought personal advice at the company's customer-service point at Annankatu in Helsinki.

Varma Advisory Services organised 100 information sessions for employees and entrepreneurs and more than 3,000 clients took part in the events. Most of the sessions provided basic facts about pensions.

In 2007, some 10,600 people were provided with information about their supplementary pension cover and 9,800 of this number also received an estimate of their total pension. Together with the pension estimates, the clients also received information about how Varma invests its pension assets. According to customer surveys, clients consider such information necessary.

Pensioners are satisfied customers

Varma made some 23,200 new pension decisions in 2007, which was 5.9% more than in the previous year. There was growth in all pension types, as the age-groups reaching the lower age limits of different pension categories were larger than before.

In disability pensions, the growth remained below average. This is partially a result of successful vocational rehabilitation efforts.

Varma handles pension decisions quickly. Almost 79% of all pensions were paid in the month during which the right to receive the pension commenced. Some 86% of all old age pensions were paid in accordance with the target schedule.

In 2007, Varma Pension Services carried out a customer-satisfaction survey among those who had received a pension decision. More than 500 pensioners responded and gave the company's customer service an overall score of 9.3, which is an excellent result. Personal service was highly rated.

"In the future customers will also be able to check their pension record online."

The **Consultative Committee of the Insured** is a consultative body that acts as an intermediary between Varma and the insured (TyEL). Its objective is to further co-operation and communication between the company and employees insured by the company. The members are appointed by the Board of Directors, based on the proposals of major central employee organisations.

Members of the Committee, 31 Dec. 2007

Representatives of the Central Organisation of Finnish Trade Unions, SAK

Ellen Helo, Tradeka Oy
Teuvo Kalso, Ovako Bar Oy Ab
Keijo Kekäläinen, Savon Sanomat Oy
Jukka Mahlamäki, Meira Oy
Hannu Paronen, Versowood Oy
Eero Pennanen, Abloy Oy
Antero Raanoja, Stora Enso Oyj
Jouni Suomalainen, Sokotel Oy
Simo Virolainen, Honkarakenne Oyj
Kari Virtanen, Koiviston Auto Oy
Timo Virtanen, Metsä Tissue Oyj
Kari Ylikauppi, Fortum Corporation

Representatives of the Finnish Confederation of Salaried Employees, STTK

Timo Jaakkola, NCC Rakennus Oy
Matti Kangas, TietoEnator Corporation

Pauli Karhu, Wärtsilä Corporation
Kimmo Koskivaara, TS-Yhtymä Oy
Irma Kronlöf, Mehiläinen Oy
Seppo Lampinen, Ovako Bar Oy Ab
Jorma Malinen, Aker Yards Oy
Jukka Nyberg, UPM-Kymmene Corporation
Kaija Roukala-Hyvärinen, Nordea Bank Finland Plc
Marika Siren, If P&C Insurance

Representatives of the Confederation of Unions for Academic Professionals in Finland, Akava
Kimmo Heinonen, Sunila Oy
Jani Huhtamella, Elektrobit Wireless Communications Ltd
Marko Klapuri, Etteplan Oyj
Ari Liesola, Aker Yards Oy
Matti Ollila, Elisa Corporation

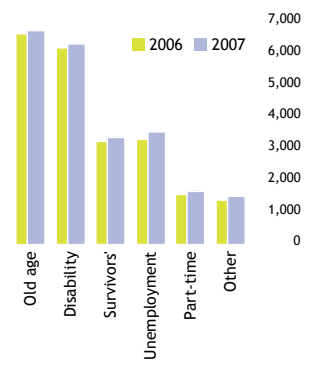
The **Consultative Committee for Pension Affairs** is a body established for co-operation between Varma and labour market organisations. Its function is to make recommendations to the company regarding disability pensions and individual early retirement pensions. The members of the Consultative Committee are appointed by the Board of Directors.

Members of the Committee, 31 Dec. 2007

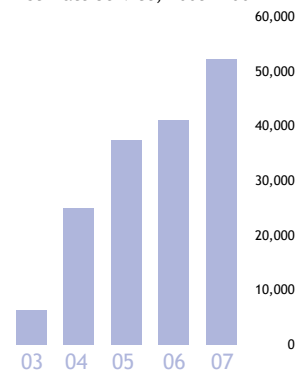
Chairman **Markku Hyvärinen**, Executive Vice-president, Varma
Vice Chairman **Sakari Tola**, Senior Physician, Varma
Lasse Laatonen, Director, Confederation of Finnish Industries EK
Sinikka Näätasaari, Programme Manager, Central Organisation of Finnish Trade Unions SAK
Mervi Flinkman, Social and Health Policy Officer, Finnish Confederation of Salaried Employees, STTK
Anja Uljas, Head of R&D, Finnish Association of Graduates in Economics and Business Administration
Petri Vanhala, Secretary General, Finnish Paperworkers' Union
Riitta Wärn, Senior Advisor, Confederation of Finnish Industries EK

In the meetings of the Consultative Committee has also participated the following people from Varma: **Jyrki Rasi**, Pension Director, **Marja Korpilahti**, Head of Department and **Kari Ahtiainen**, Adjudication Manager.

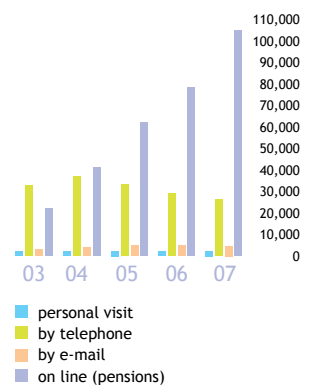
Pension decisions according to pension benefit 2006–2007



Calculations made at the Pension Estimate Service, 2003–2007



Contacts by individual clients, in 2003–2007



A difficult year – reasonable returns

Varma's investments rose to €28.4 billion in 2007 and the return on invested capital was 6.0%. The situation on the markets was difficult, but Varma can be satisfied with the result even though there was no repeat of the high returns generated during the previous years.

Varma's financial performance in 2007 was characterised by rising equity prices and good results during the first half of the year, while during the last months of 2007, prices fell as the equity markets were affected by uncertainties on the US mortgage and debt markets. The difficult market situation at the end of the year was balanced out considerably by the company policy of diversifying its investments outside the traditional equity and fixed-income sectors.

In 2007, Varma diversified its investments still further and put them on a broader basis.

Varma's investments are divided as follows: fixed-income, equities, real estate and other investments (hedge funds). The classification is in accordance with the risks involved and the assets have also been diversified by line of business, by geographical location and according to company size.

Return on investment at 6.0%

Varma's investment income for 2007 amounted to €1,632 million, which meant a return of 6.0%. Adjusted for inflation, the return was about 4%. Considering the fact that Varma was operating on a difficult market, the results can be considered reasonable. The company's solvency stood at 31.5%.

Equities accounted for €846 million, hedge funds for €362 million, real estate for €283 million and fixed-income for €269 million of the total returns.

Investment allocation

The market value of Varma's investments at the end of 2007 stood at €28.4 billion (2006: 26.9).

Guidelines for earnings-related pension investments were changed in

2007. As a result, insurance companies are now able to increase their equity investments and diversify their assets much better between different asset classes. The changes are significant and Varma has made extensive use of the opportunities they have created for diversifying its balance sheet structure.

Varma manages its investment portfolio actively within each asset class. The company also uses derivatives for investment risk management though they are mainly utilised for hedging and controlling the portfolio risk level.

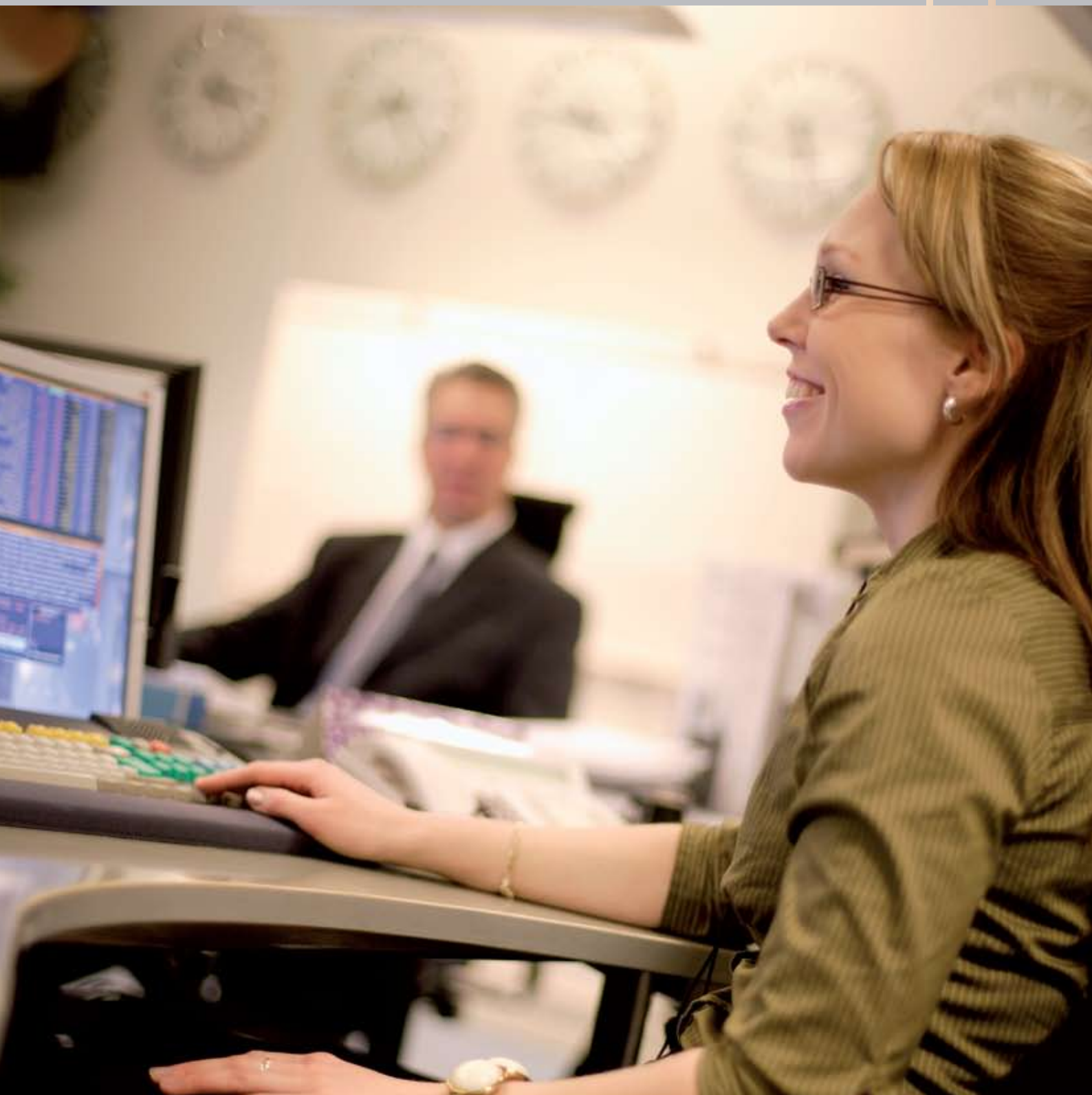
Fixed-income portfolio

At the end of the year, fixed-income investments accounted for 36% (2006: 42%) of Varma's investment portfolio. It is mainly in the form of investments in government-issued bonds though one third of the portfolio are corporate loans.

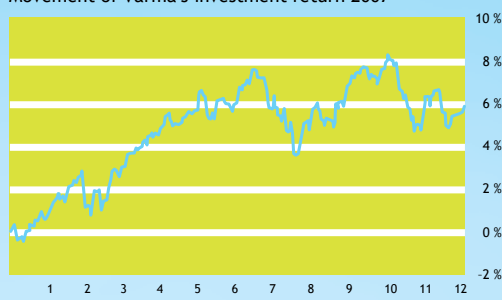
The European Central Bank raised its key interest rate twice during the spring of 2007, which resulted in higher market rates. Because of growing uncertainties, the US Federal Reserve started lowering interest rates in early autumn, which also led to falls in Eu-

RESPONSIBLE LONG-TERM INVESTOR

- Varma's mission is to accumulate and augment assets received as pension contributions in order to pay present and future pensions. The invested assets are used exclusively to secure pensions.
- Varma is the largest private investor in Finland. At the end of 2007 the market value of the company's investments stood at €28.4 billion, the large portfolio making for efficient investment administration.
- Varma encourages those companies whose shares it owns to develop good governance practice. Varma's principles of ownership policy are aimed at increasing the value of its assets in the long term.
- Varma's principles of social-responsibility as applied to investment operations define the objectives of responsible investment. Social responsibility also serves as a tool in seeking higher returns.



Movement of Varma's investment return 2007



Portfolio manager Hanna Tyystjärvi and senior portfolio manager Jukka Huisman are among those responsible for Varma's equity investments. Equity investments accounted for 39% of the company's investment portfolio at the end of 2007.

ropean rates. During the last months of the year, risk premiums of corporate loans increased significantly.

In absolute terms, fixed-income investment generated only modest returns (1.5%) though during the latter half of the year, they increased significantly. Overall, the return was at the market level.

Varma has also made investments outside the Euro zone in different asset classes. During the year the company has, in accordance with its investment policy, hedged all currency risks. The hedging against the dollar proved particularly useful as the US currency weakened vis-à-vis the euro.

Customer loans are included in fixed-income assets. Demand for them

was low, though there was marked increase in financing of different types of corporate restructuring.

Equity portfolio

Equities accounted for 39% (2006: 39%) of Varma's investment assets. They comprised listed equities (35%), private equities (3.2%) and unlisted equities (1.6%).

The return on listed equities stood at 5.0%. Dividends were an important contributory factor as, after increasing rapidly for many years, values rose only modestly in 2007. Equity prices rose until June, after which uncertainties set in, causing prices to drop substantially during the last months of the

year. The performance and financial position of companies still remained strong.

Suomen Terveystalo Oyj and SRV Yhtiöt Oyj, two companies in which Varma holds shares, were listed on the Helsinki Stock Exchange. Some

"Most of the funds in Varma's hedge fund portfolio are low-risk funds generating a steady return."

HEDGE FUNDS WERE IN THE NEWS AND GENERATED GOOD RETURNS

Hedge funds hit the headlines when the subprime crisis originating from the US mortgage market came to a head in later summer 2007.

"It was widely believed that a large number of hedge funds would collapse as a result of the crisis. In reality, however, only a small number of funds went under because of investments in subprime loans. In fact, the biggest problems were in the balance sheets of American banks," says **Jarkko Matilainen** who is responsible for Varma's hedge fund investments.

Matilainen stresses that there are major differences between hedge funds. Actually hedge fund is a general term for a wide variety of investments funds, in which the aim is to have positive returns in all circumstances. Some funds seek higher risks, while in others the aim is to have a steady return.

This means that investors must know what they want from the fund.

"Most of the funds in Varma's hedge fund portfolio are low-risk funds generating steady returns. In some cases funds with higher returns have been added," says Matilainen.

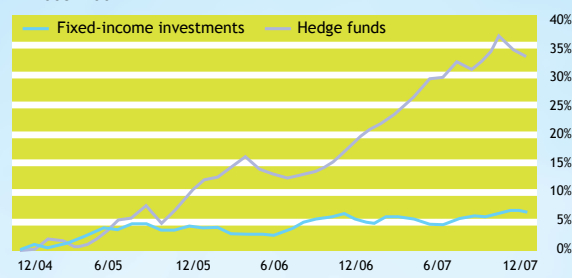
Since 2005, when the prospects for fixed-income investments started looking bleak, Varma has sharply

increased its hedge investments. At the moment, hedge funds account for 13% of Varma's investments (€3.7 billion).

"The return-to-risk ratio has been good. In 2007, the return was 11.4%, which was even better than expected," says Matilainen.

Hedge funds have been criticized in public for a lack of transparency. However, according to Matilainen, the funds are prepared to give big institutional investors like Varma detailed information about their operations. Varma has a team specializing in monitoring the funds.

Cumulative fixed-income and hedge funds returns, in 2005-2007



Investments classified according to risk 31 December 2007

| | Current value € million | % | Actual risk position € million | % | Return on invested capital | Risk volatility | Modified duration |
|---------------------------------|----------------------------|--------------|-----------------------------------|--------------|----------------------------|-----------------|-------------------|
| Fixed-income investments | 10,307 | 36.3 | 10,299.7 | 36.2 | 1.5 | | |
| Loans | 1,059 | 3.7 | 1,059.4 | 3.7 | 6.2 | | |
| Bonds | 8,292 | 29.2 | 7,979.3 | 28.1 | 0.9 | 2.3 | 4.9 |
| Other money market instruments | 955 | 3.4 | 1,261.0 | 4.4 | 2.6 | | |
| Equities and shares | 11,181 | 39.3 | 11,188.0 | 39.4 | 8.2 | | |
| Listed equities and shares | 9,842 | 34.6 | 9,849.1 | 34.7 | 5.0 | 11.6 | |
| Private equity investments | 896 | 3.2 | 896.3 | 3.2 | 35.2 | | |
| Unlisted equities and shares | 443 | 1.6 | 442.6 | 1.6 | 41.9 | | |
| Real estate investments | 3,255 | 11.5 | 3,255.1 | 11.5 | 10.2 | | |
| Direct real estate investments | 2,911 | 10.2 | 2,911.1 | 10.2 | 10.1 | | |
| Investment funds | 344 | 1.2 | 343.9 | 1.2 | 11.5 | | |
| Other | 3,675 | 12.9 | 3,675.5 | 12.9 | 11.4 | | |
| Hedge fund investments | 3,675 | 12.9 | 3,675.5 | 12.9 | 11.4 | 4.4 | |
| Investments total | 28,418 | 100.0 | 28,418.2 | 100.0 | 6.0 | 3.8 | |

37% of the shares held by Varma are listed on the Helsinki Stock Exchange, about 31% on other European stock exchanges and the remaining 32% in the United States, Japan and the emerging markets. The shares on the emerging markets generated the highest returns (38.7%).

Private equity investments generated excellent returns (35%). Varma

15 largest equity investments

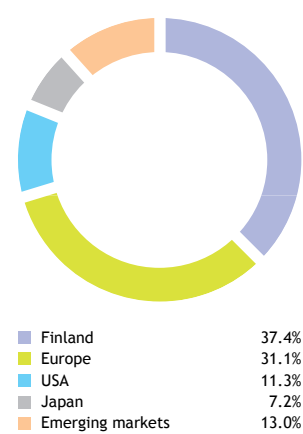
| | holding € mill. | % of Varma's listed shares |
|-------------------------------|--------------------|-------------------------------|
| Sampo Plc | 892.7 | 9.1% |
| Nokia Corporation | 298.6 | 3.1% |
| Wärtsilä Corporation | 246.3 | 2.5% |
| UPM Kymmene Corporation | 191.4 | 2.0% |
| Fortum Corporation | 180.2 | 1.8% |
| Kemira Oyj | 174.9 | 1.8% |
| Metso Corporation | 168.6 | 1.7% |
| Stora Enso Oyj | 159.8 | 1.6% |
| Nordea Bank AB | 144.9 | 1.5% |
| Nokian Renkaat Plc | 125.6 | 1.3% |
| Uponor Corporation | 84.4 | 0.9% |
| Alma Media Corporation | 84.0 | 0.9% |
| Neste Oil Corporation | 77.1 | 0.8% |
| Talvivaara Mining Company Ltd | 76.9 | 0.8% |
| Rautaruukki Corporation | 74.5 | 0.8% |
| Total | 2,980.0 | 30.3% |

has a widely diversified portfolio with investments in both international and Finnish private equity funds and they made a number of profitable realisations during the year. Varma also made a number of new commitments in private equity funds, and co-investments directly in companies in which the funds invested.

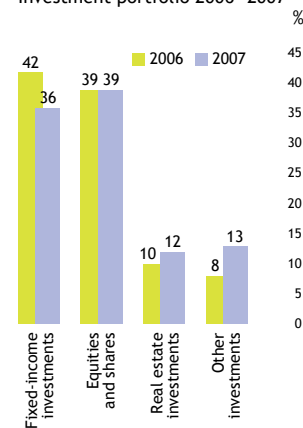
Unlisted equities also generated excellent returns (42%). The most important single factor contributing to the impressive performance was Talvivaara Mining Company Ltd, whose share value was boosted by a successful listing on the London Stock Exchange. Varma owns 8.6% of the company.

Private equity and unlisted equities are a long-term asset class with good return potential. This is also in accordance with the long-term nature of pension liabilities.

Geographic distribution of listed shares



Investment portfolio 2006–2007*



*Classified according to risk

Investment returns 2003–2007 %



Real estate portfolio

A large number of real estate transactions were made in Finland during 2007 and their value totalled about €6 billion.

Volatility on international money markets also had an impact on Finnish real estate markets. It meant higher lending margins and less frequent use of debt leverage.

Investors have become more critical and assess real estate risks more carefully. Prices are no longer rising but market liquidity remains good. International investors are now active as both sellers and buyers.

Occupancy rates have improved

and the rents of the best premises have increased. Construction of business premises remains brisk but the number of new project starts has already peaked.

The market value of Varma's real estate portfolio in 2007 totalled about €2.9 billion, of which €127 million was real estate used by the company for its own purposes. The return on capital employed in direct real-estate investments was 10.1%. The increase of about €80 million in the market value resulting from real-estate assessments helped to increase the total return on Varma's real estate investments. The vacancy rate of business premises at the end of the year stood at 4.5%.

In 2007, the focus of Varma's real estate business was on construction and real-estate development. A number of major new buildings will be completed during 2008: Varma's new head office in the district of Salmisaari in Helsinki, a shopping centre in Tornio and the Flamingo entertainment centre in Vantaa.

"Varma supports work done in Finland. In addition to holding listed equities, Varma is an active private-equity investor on the Finnish market."

MOST OF THE PORTFOLIO'S MARKET RISK COMES FROM EQUITY INVESTMENTS

Most of the 6.0% return generated by Varma's investment portfolio in 2007 came from equity investments. They contributed 52% of the total.

While producing high returns, equity investments also account for most of the market risk in Varma's investment portfolio. They were responsible for 96% of the market risk, even though their average share weight was well under 40%. The investment portfolio market risk means the volatility of actual returns, and for Varma the figure was 5.1% for 2007.

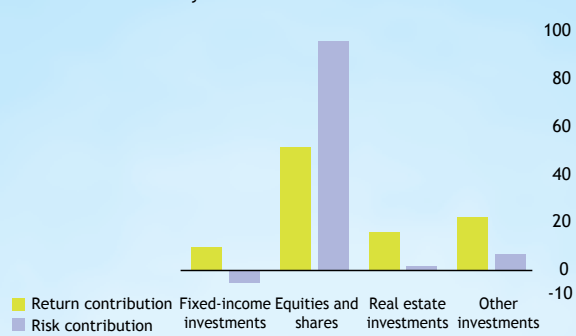
Fixed-income investments contributed 10% of Varma's total portfolio returns. In addition to generating good returns, they have also helped to lower the market risk of the company's investment portfolio. Returns on fixed-income investments have been highest when equity markets have been in their steepest decline. Fixed-income investments have provided Varma with some protection against the volatility on the equity markets, though they have not been very effective in this respect.

Real estate investments generated a relatively steady cash flow throughout the year, and changes in values were moderate. Real estate investments contributed 16%

of Varma's total portfolio returns, and their volatility (market risk) was fairly low.

Other investments are mostly hedge funds, which contributed 22% of Varma's overall investment portfolio returns. Their risk contribution was relatively low, amounting to 7% of the investment portfolio's market risk.

Varma's investment returns and market risks by asset class



Other investments

Varma's other investments are in the form of hedge funds, which accounted for 13% of the company's investments during 2007 (2006: 8%). The return was a very good 11.4%.

Because of weak return prospects for fixed-income investments, Varma continued to transfer assets from fixed-income investments to hedge funds during 2007. The return on hedge funds exceeded that of fixed-income investments and equities. Risks remained at moderate levels because the volatility or standard deviation of the returns was substantially lower than in equity investments.

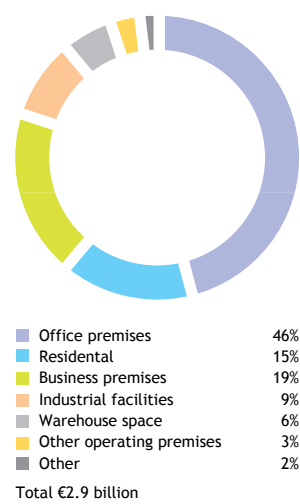
About one fifth of Varma's hedge fund investments are in funds of funds,

while most are in 57 individual hedge funds. The company has diversified its fund portfolio into investments strategies of very different types, and the focus is on low-risk and market-neutral multi-strategies comprising a broad range of investments.

Investment policy

Varma is a long-term investor. The aim of its investment operations is to secure the payment of pensions, which means that every effort is made to obtain the best possible return without endangering the company's operations. For this reason, the emphasis is on the broad diversification of assets and a cautious approach to risk taking.

Real estate portfolio 2007



ACTIVE PRIVATE-EQUITY INVESTOR IN FINLAND

In line with its ownership policy, Varma supports work done in Finland. In addition to holding listed equities, Varma is an active private-equity investor on the Finnish market. It knows Finnish companies well and is a preferred partner. Preference is given to investments in Finland if Varma's return expectations and quality criteria are met.

As in previous years, there were a number of projects in progress during 2007. Varma made new investment commitments in private-equity funds and a number of direct investments in companies in the form of share capital, mezzanine financing and traditional corporate funding.

Private-equity funds

During the last two years, Varma has made new investment commitments totalling some €200 million in Finnish private-equity funds. The company is a partner

in corporate acquisition funds investing in traditional sectors and in venture-capital funds involved in earlier stages of business development.

Mezzanine financing and investment in unlisted equities

Varma is an active direct investor in unlisted Finnish firms, such as growth companies. It also makes investments in connection with corporate restructurings and other corporate changes. Investments have been in the form of share capital and mezzanine instruments such as mezzanine loans.

Corporate funding

In addition to traditional client lending, Varma is also actively involved in the financing of different types of corporate restructuring.

Top-quality service through expertise

Changes in society and in customer needs are key considerations when Varma develops its operating approaches, services and staff competence. Customer satisfaction and the functioning of Finland's earnings-related pension system can only be secured through efficient and successful operations.

The aim of Varma is to offer the best service. In 2007, the focus in competence development was on expertise, project skills, customer-service, and the sharing of experiential knowledge.

Varma's development work has also produced results: in the 2007 customer satisfaction survey the company received particularly high marks for its personal customer service, level of expertise, a cooperative approach and reliability.

Varma's staff members also value

the competence-development work. In an internal corporate image survey carried out by Corporate Image Oy in September 2007, the employees were particularly satisfied with the induction and the adequacy of the training opportunities provided by the employer.

Training for changes

Changes can affect occupational well-being in many ways. In autumn 2008,

Varma will move to a new head office in Salmisaari and a number of working groups have been preparing the process. To make the move and the changes it involves smoother, the company has also set up an occupational well-being team.

The new approach is also evident in Varma's new strategy, which was completed in autumn 2007. While Varma will remain committed to its core task, the securing of pensions, it will also continue to develop its operating approaches in accordance with the company strategy.

"By combining and sharing expertise, Varma can provide the best service in the sector."

TyEL insurance expert Arja Lehtikoinen (left) and network service expert Meri Savola are pleased with the broad range of topics covered during expert training.



Overall personnel satisfaction at good level

The views of staff members about Varma's organisation and occupational well-being were examined in autumn 2007 as part of a company-internal image survey. Some 75 per cent of the personnel submitted responses.

Even though personnel satisfaction fell short of the top levels registered in the past few years, staff at Varma consider themselves more satisfied than Finnish white-collar employees in general. In Varma, the overall satisfaction index stood at 63.5, compared with the Finnish white-collar average of 61.1. * It should be noted that the survey was carried out at a time when Varma's staff had to deal with a multitude of changes and challenges.

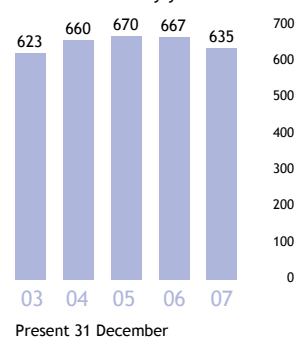
Varma's staff members were particularly satisfied with their supervisors, the level of personal responsibility and working conditions. The most important area in which further efforts are required is the flood of information.

Varma personnel figures 31 December 2007

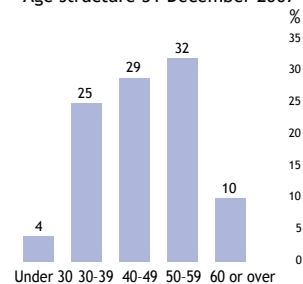
- Varma employed an average of 646 people in 2007 (2006: 671).
- Of the staff members, 77% were women and 23% men (2006: women 76%, men 24%).
- The average age of a Varma employee was 46 years 7 months (2006: 46 years 1 month).
- The average service period of a Varma employee was 13 years 8 months (2006: 13 years 2 months).

* The Finnish white-collar average is the average of similar surveys carried out in more than 40 companies in which majority of the staff-members are white-collar employees.

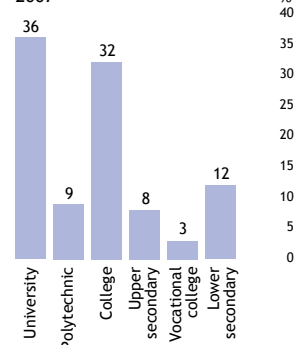
Numer of staff by year



Age structure 31 December 2007



Level of education 31 December 2007



Overall satisfaction index of personnel in internal corporate image surveys by year



TRAINING HELPS TO IMPROVE THE SKILLS OF VARMA'S EXPERTS

In 2007 Varma organised training for its experts in which the focus was on the sharing of expertise, networking, anticipation of the need to change, and the continuous development of skills.

The training helps Varma to achieve its aim of providing customers with top expertise and the best earnings-related pension services.

Among the Varma staff members taking part were **Arja Lehtikoinen**, a TyEL insurance expert, and **Meri Savola**, a network service expert. They praise the training for being interesting and covering a broad range of topics.

According to Lehtikoinen and Savola, the expert presentations covering different fields gave the participants a broader picture of the operating environment in the earnings-related pension sector. In their opinion, it is especially important for Varma to know how the client companies operate when it develops new customer-service approaches.

The training was a cooperative effort between Varma and Finva, an expert in financial and insurance training, and it will continue in 2008.

Corporate governance

Corporate governance is an owner value for Varma. A key objective is to ensure the transparency of the company's operations and administration, which in turn will contribute to strengthening public confidence in the earnings-related pension scheme.

Varma's governance is based on the Finnish Employee Pension Insurance Companies Act, secondary provisions, and the provisions of the Insurance Companies Act and the Companies Act specifically mentioned in the Employee Pension Insurance Act. Varma also complies with the applicable provisions of the Corporate Governance Recommendation for Listed Companies.

The point of departure for Varma's corporate governance is the company's core task, that of securing pensions. The statutory earnings-related pension scheme was created by an agreement concluded between the government and labour market organisations, and the tripartite model still plays a key role in the development of the system. Labour market organisations also participate in the administration of earnings-related pension companies.

Varma's central executive organs are the Annual General Meeting, the Supervisory Board, the Board of Directors and the Managing Director.

Annual General Meeting

Policyholders and the personnel employed by them (the insured) are Varma's customers. Varma is a mutual company. This means that the policyholders and the insured have a right based on a client relationship to participate in decision making in the Annual General Meeting; there is no client relationship without the right to participate.

In 2007, the Annual General Meeting was held on 22 March.

Supervisory Board

As prescribed in the Finnish Employee Pension Insurance Companies Act, Varma has a Supervisory Board that is responsible for supervising the company's administration by the Board of Directors and Managing Director.

The Supervisory Board has 28 members of which seven members are elected from among the candidates put forward by major employer organisations; correspondingly, seven members are representatives of major employee organisations. In 2007 the Supervisory Board convened three times. Average attendance was 65.5%. The members of the Supervisory Board are presented on page 31.

Remunerations to the Supervisory Board are decided by the Annual General Meeting. In 2007, an annual remuneration of €5,000 was paid to the Chairman of the Supervisory Board, €3,800 to the Deputy Chairmen and €2,500 to the members. The meeting fee was €300 per meeting.

Board of Directors

The job of the Board of Directors is to manage Varma with professional know-how and according to sound business principles. The Board of Directors shall take care of Varma's administration and operational or-

ganisation in an appropriate manner, providing the Managing Director with the necessary instructions.

Varma's Board of Directors comprises 12 members and three deputy members. Board members, deputy members, the Chairman and the Deputy Chairmen are elected by the Supervisory Board. Three Board members and one deputy member are elected from among the candidates put forward by major employer organisations; correspondingly, three members and one deputy member are representatives of major employee organisations. The rest, that is, half of the members and one deputy member, can be freely elected. The members of the Board of Directors are presented on pages 32–35.

The Board of Directors convened 12 times in 2007. Average attendance was 88.6 %, including deputy members.

Committees

The presiding officers and the Managing Director convene when necessary to prepare matters to be presented to the Board of Directors. The presiding officers are the Chairman and Deputy Chairmen of the Board of Directors.

The Audit Committee supervises, among other things, the company's financial and other reporting, and the status of internal control. The company's Supervisory Auditor is invited to a Committee meeting at least once a year. The director responsible for the internal audit acts as the secretary of the Committee. The Audit Committee reports on its actions and observations to the Board of Directors.

The Audit Committee met twice in 2007 and discussed such matters as internal control and risk management at Varma, and plans and reports compiled by the company auditors and internal auditing.

The Compensation and Appointment Committee prepares both the company's incentive systems and the general principles of reward for the management for the Board of Directors. The proposals of the Committee are submitted for decision to the Board of Directors. The Committee convened twice in 2007.

In its meeting held on 18 January 2007, the Board of Directors elected Jyrki Juusela, Mikko Mäenpää, Birgitta Kantola and Markku Pohjola as members of the Audit Committee; and Jyrki Juusela, Mikko Mäenpää and Ole Johansson as members of the Compensation and Appointment Committee.

Remunerations

Remunerations to the Board of Directors are decided by the Supervisory Board. In 2007, an annual fee of €22,000 was paid to the Chairman of the Board, €16,500 to the Deputy Chairman, €11,000 to the members and €8,000 to the deputy members.

The meeting fee was €450 per meeting to the Chairman, €400 to the Deputy Chairmen, and €300 to members and deputy members. Meeting fees for the members of the Committees were the same as those paid to the Board members.

There are no members of the Executive Group on the Varma Board of Directors. Neither have any of the members of the Board of Directors had an employment relationship with or held a position in Varma in 2007 or during the two years prior to that; nor do any of them receive compensation from Varma for services rendered or other advice not connected with the duties of the Board.

Managing Director and other management

The Managing Director is in charge of Varma's current administration as advised by the Board of Directors and is responsible for the daily management of the company.

Varma's Managing Director is Matti Vuoria. The Deputy Managing Director is Markku Hyvärinen, Executive Vice-President. The Managing Director and deputy to the Managing Director are appointed by the Board of Directors.

The Managing Director is assisted in his task of managing the company by the Executive Group, which comprises the Managing Director and eight management representatives and two employee representatives. The mission of the Executive Group is to steer and develop Varma's operations in order to reach the strategic goals approved by the Board of Directors. Varma's Executive Group is presented on pages 36–37.

"By having transparent administrative and operational practices, Varma helps to strengthen trust in the pension system."

THE ELECTION COMMITTEE

Under the legislative reforms introduced in 2007, earnings-related pension companies must have an Election Committee, a new body, whose role is, in cooperation with the Supervisory Board, to draw up proposals for Supervisory Board and Board of Directors members. The Election Committee submits a proposal to the Annual General Meeting on the election of new Supervisory Board members as successors for those with expiring terms, and their remunerations and a similar proposal to

the Supervisory Board concerning members of the Board of Directors.

Varma's six-member Election Committee is chaired by Pekka Paasikivi, chairman of the Supervisory Board. Of the Committee members Martti Alakoski (deputy chairman), Mikko Mäenpää and Veli-Matti Töyrylä represent the insured, while Ole Johansson and Tapio Kuula represent the policyholders.

Investment Committee

The Investment Committee deals with major investment issues that are submitted for decision to the Managing Director. The Committee prepares investment proposals for the Board of Directors and makes decisions on matters in which it has the power of decision (granted in the annually confirmed investment plan) and that have not been delegated to a lower level in the organisation. In addition, the Committee monitors investment risks.

The Investment Committee comprises the Managing Director and the executives responsible for investment operations.

Remunerations and pension plans

In 2007 the remunerations and fringe benefits received by Managing Director Matti Vuoria totalled €638,554. He is set to retire at the age of 60 and his pension will amount to 60% of the calculated pensionable salary. The Managing Director's period of notice is six months, in addition to which he is entitled to a compensation amounting to six months' salary. The remunerations and fringe benefits of Executive Vice-President Markku Hyvärinen totalled €346,949 and his retirement age is 60 years.

The Board of Directors decides on the salaries and benefits of the Managing Director, Deputy Managing Director, and executives appointed by the Board of Directors.

The total remuneration to the management consists of salary plus fringe benefits, and a payment-by-results incentive set annually.

Internal control, risk management and internal auditing

Internal control means the procedures that the company uses to ensure economical, efficient and reliable operations. Risk management is a central part of Varma's internal control.

Overall responsibility for organising internal control lies with Varma's Board of Directors, which lays down the internal control principles and assesses the state of internal control each year. The Audit Committee assists the Board of Directors in matters related to internal control. The company management is responsible for carrying out internal control. Internal auditing assists the Board of Directors, the Audit Committee and the company management by producing assessments and development proposals on internal control procedures.

Varma's risk management and control systems are described in greater detail in the financial statements on pages 41–46.

Auditing

The Annual General Meeting on 22 March 2007 elected Raija-Leena Hankonen, Authorised Public Accountant, and Jaakko Nyman, Authorised Public Accountant, as Varma's auditors, and KPMG Oy Ab and Paula Pasanen, Authorised Public Accountant, as deputy auditors. The Supervisory Auditor is Raija-Leena Hankonen and the Deputy Supervisory Auditor is Jaakko Nyman. In 2007, auditors' remunerations amounted to €216,000. In addition, the auditing companies were paid €29,000 in consultation fees.

Supervisory Board

31 December 2007

Chairman

Pekka Paasikivi, born 1944
Chairman of the Board,
Oras Invest Ltd
Term expires 2010

Deputy Chairman

Jukka Härmälä, born 1946
Senior advisor
Capman Capital Management Ltd
Term expires 2010

Deputy Chairman

Sakari Tamminen, born 1953
President & CEO,
Rautaruukki Corporation
Term ended 31 December 2007

Riku Aalto

born 1965
Director of Finances,
Finnish Metalworkers' Union
Term expires 2008

Martti Alakoski

born 1953
Chairman, Finnish Electrical
Workers' Union
Term expires 2010

Berndt Brunow

born 1950
Member of the Board,
Oy Karl Fazer Ab
Term expires 2010

Erkki Etola

born 1945
Managing Director, Etra Oy, Etra
Trading Oy and Tiiviste-Group Oy
Term expires 2008

Stig Gustavson

born 1945
Chairman of the Board,
Konecranes Plc
Term expires 2010

Matti Halmesmäki

born 1952
President and CEO,
Kesko Corporation
Term expires 2008

Tapio Huttula

born 1963
President, Federation of Special
Service and Clerical Employees
ERTO
Term expires 2009

Matti Huutola

born 1959
Deputy Chairman of the Board,
Central Organisation of Finnish
Trade Unions
Term expires 2009

Erkki Isokangas

born 1946
Term expires 2009

Kari Jordan

born 1956
President & CEO, Metsäliitto Group
Term expires 2009

Seppo Koskinen

born 1946
Chief shop steward, Paroc Oy Ab
Term expires 2009

Tapio Kuula

born 1957
Senior Vice President,
Fortum Corporation
Term expires 2009

Liisa Leino

born 1960
Chairman of the Board,
Leinovalu Oy
Term expires 2010

Hannu Penttilä

born 1953
CEO, Stockmann plc
Term expires 2008

Antti Piippo

born 1947
Principal Shareholder,
Chairman of the Board, Elcoteq SE
Term expires 2010

Matti Pulkki

born 1947
Senior advisor, Sokotel Oy
Term expires 2009

Juha Rantanen

born 1952
President & CEO, Outokumpu Oyj
Term expires 2008

Helena Rissanen

born 1949
Director, Union of Salaried
Employees TU
Term expires 2008

Jyrki Salo

born 1960
Executive Vice President and CFO,

UPM-Kymmene Corporation

Term expires 2008

Jorma Takanen

born 1946
Group CEO, Chairman of the
Board, Scanfil plc
Term expires 2009

Pekka Tefke

born 1950
Managing Director,
Volvo Auto Oy Ab
Term expires 2009

Kai Telanne

born 1964
President and CEO, Alma Media
Corporation
Term expires 2008

Veli-Matti Töyrylä

born 1953
Chairman, SEFE - The Finnish
Association of Business School
Graduates
Term expires 2010

Markku Uitto

born 1964
Term expires 2009

Göran Åberg

born 1956
Managing Director,
Oy Schenker East Ab
Term expires 2010

Memberships that expired in 2007:

Markku von Hertzen

born 1948
Term ended 22 March 2007

Antti Norrlin

born 1963
Term ended 22 March 2007

Antti Remes

born 1947
Term ended 31 January 2007

Board of Directors

31 December 2007

Jyrki Juusela*Ole Johansson**Markku Jokinen**Erkki Kangasniemi**Mikko Mäenpää**Jouko Ahonen**Birgitta Kantola**Lasse Laatuinen*

Chairman**Jyrki Juusela**, born 1943

Member as of 2004
Term expires 2008

Deputy Chairman**Ole Johansson**, born 1951

President & CEO,
Wärtsilä Corporation
Member as of 2005
Term expires 2010

Chairman of the Board of Technology Industries of Finland, Vice Chairman of the Boards of Outokumpu Oyj and the Confederation of Finnish Industries EK

Elected on the proposal of the Confederation of Finnish Industries EK

Deputy Chairman**Mikko Mäenpää**, born 1954

President, Finnish Confederation of Salaried Employees STTK
Member as of 2000
Term expires 2009

Member of the Representatives of the Finnish Centre for Pensions, member of the Economic Council, member of the Boards of Nordic Trade Unions and the European Trade Union Confederation ETUC

Elected on the proposal of the Finnish Confederation of Salaried Employees STTK

Jouko Ahonen, born 1954

Chairman, Finnish Paperworkers' Union
Member as of 2003
Term expires 2008

Member of the Representatives of the Finnish Centre for Pensions, member of the Board of the Central Organisation of Finnish Trade Unions SAK

Elected on the proposal of the Central Organisation of Finnish Trade Unions SAK

Markku Jokinen, born 1949

Managing Director, Sievin Jalkine Oy, Sievi Marketing Oy, Sievi Tools Oy and JJJ Capital Oy
Member as of 1998
Term expired 31 December 2007

Member of the Confederation of Finnish Industries EK in SMI delegation

Erkki Kangasniemi, born 1945

President, The Trade Union of Education in Finland, OAJ
Member as of 1998
Term expires 2010

President of the Public Sector Negotiating Commission JUKO, 1st Vice-President of the Confederation of Unions for Academic Professionals, Vice Chairman of the Supervisory Board of Kaleva Mutual Insurance Company, member of the Supervisory Board of Helsinki Op Bank Plc

Elected on the proposal of the Confederation of Unions for Academic Professionals AKAVA

Birgitta Kantola, born 1948

Member as of 2004
Term expires 2009

Member of the Boards of Nordea Bank AB, Fortum Corporation, Stora Enso Oyj, Åbo Akademi, Vasakronan AB and OMX AB.

Lasse Laatonen, born 1950

Director, Confederation of Finnish Industries EK
Member as of 1998
Term expires 2009

Member of the Boards of the Finnish Centre for Pensions, the Federation of Accident Insurance Institutions and the Social Insurance Institution

Elected on the proposal of the Confederation of Finnish Industries EK

Arto Ojala*Markku Pohjola**Kari O. Sohlberg**Björn Wahroos*

Deputy members

Mikko Ketonen*Sinikka Näätäsaari**Timo Poranen*

Arto Ojala, born 1944

Member as of 1999
Term expires 2008

Elected on the proposal of the
Confederation of Finnish
Industries EK

Markku Pohjola, born 1948

Deputy Group CEO,
Nordea Bank AB
Member as of 2004
Term expires 2009

Member of the Board of OMX AB

Kari O. Sohlberg, born 1940

Member as of 1998
Term expires 2008

*Member of the Board of Oy G.W.
Sohlberg Ab*

Björn Wahlroos, born 1952

President and Group CEO,
Sampo Plc
Member as of 2001
Term expired 31 December 2007

Member of the Board of Sampo plc

Deputy members**Mikko Ketonen**, born 1945

Chairman of the Board,
TS-Yhtymä Oy
Member as of 1998
Term expires 2010

*Chairman of the Board of Priimus
Group Oy*

Sinikka Näätäsaari, born 1961

Programme Manager, Central
Organisation of Finnish
Trade Unions SAK
Member as of 2007
Term expires 2010

*Member of the Board of the Social
Insurance Institution, member of
Sosiaaliturvan uudistamiskomitea,
member of the Board of The Federa-
tion of Accident Insurance Institu-
tions, deputy member of the Board of
the Finnish Centre for
Pensions*

Elected on the proposal of the trade
union confederations

Timo Poranen, born 1943

Member as of 1998
Term expired 31 December 2007

*Member of the Board of
Konecranes Plc*

Elected on the proposal of the
Confederation of Finnish
Industries EK

Arto Kuusiola, born 1952

Director, Central Organisation
of Finnish Trade Unions SAK
Term expired 1 May 2007

**The following new members
are elected as of 1 January 2008
(decision of the Supervisory
Board 4 December 2007) :**

Ordinary members:

Kari Stadigh, born 1955
Group Deputy CEO, Sampo Plc
Term expires 2008

Sakari Tamminen, born 1953
President & CEO,
Rautaruukki Corporation
Term expires 2010

Deputy member:

Anne Brunila, born 1957
President and CEO, Finnish Forest
Industries Federation
Term expires 2010

*More detailed information
about the work experience
of and positions of trust held
by the members of the Board
of Directors can be found at
www.varma.fi.*

Executive Group

31 December 2007

Matti Vuoria

President & CEO

Born 1951

Work experience includes:

Full-time Chairman of the

Board of Directors,

Fortum Corporation 1998–2003

Secretary General, Ministry of Trade and Industry 1992–1998

Vice Chairman of the Board of Sampo plc, member of the Boards of Danisco A/S, Stora Enso Oyj and Wärtsilä Oyj Abp, Chairman of the Board of the Securities Market Association and the Finnish Pension Alliance TELA and member of the Board of the Federation of Finnish Financial Services.

Member of the Executive Group since 2004

Markku Hyvärinen

Executive Vice-President

Born 1948

Work experience includes:

Managing Director,

Sampo Pension 1996–1998

General Secretary, The Finnish Social Democratic Party 1991–1996

Member of the Boards of If P&C Insurance Holding Ltd and Finnair Plc, Vice Chairman of the Board of Kaleva Mutual Insurance Company

Member of the Executive Group since 1998

Eija Kaipainen-Perttula

Senior Vice-President, Development and Insurance Services

Born 1958

Work experience includes:

Director of Insurance and Major

Client Contacts, Varma 2006–2007

Insurance Director,

Varma 2002–2006

Member of the Executive Group since 2007

Member of the Boards of the Finnish Centre for Pensions, Foundation for the Advancement of Insurance Skills and Finnish Financial and Insurance Publishing Ltd FINVA

Timo Kaisanlahti

Senior Vice-President,

Administration, Chief Legal Counsel

Born 1962

Work experience includes:

Ministerial Adviser,

Ministry of Finance 2004–2005

Ministerial Adviser, Ministry of

Transport and Communications

2003–2004

Legal Counsel, KLegal Oy 2003

Legal Counsel, Varma-Sampo

2001–2002

Ministerial Adviser, Ministry of

Trade and Industry 1996–2000

Member of the Executive Group since 2007

Risto Murto

Senior Vice-President,

Chief Investment Officer

Born 1963

Work experience includes:

Managing Director,

Opstock Ltd 2000–2005

Director, Opstock Ltd 1997–2000

Member of the Boards of VVO-yhtymä Oyj and NV Kiinteistösihtous Oy

Member of the Executive Group since 2006

Pasi Mustonen

Senior Vice-President, Chief Actuary

Born 1964

Work experience includes:

Actuary, Varma 1998–2001

Actuary, Sampo Pension 1996–1998

Member of the Representatives of the Finnish Centre for Pensions, Chairman of the Board of the Actuarial Society of Finland

Member of the Executive Group since 2004

Jouko Oksanen

Senior Vice-President,

Chief Financial Officer

Born 1951

Work experience includes:

Senior Vice-President,

Pension-Varma 1990–1998

Member of the Boards of Tamfelt Corporation and Ahlström Capital Oy, Vice Chairman of the Board of Arek Oy

Member of the Executive Group since 1998

Irmeli Otava-Keskinen

Senior Vice-President, Information Management

Born 1950

Work experience includes:

IT Director, Pension-Varma 1996–1998

Chairman of the Board of TietoEnator Esy Ltd

Member of the Executive Group since 2007

Jyrki Rasi

Senior Vice-President,

Pension Services

Born 1966

Work experience includes:

Department Manager,

Varma 1999–2006

Legal Counsel, Sampo Pension 1998

Member of the Executive Group since 2007

Hannu Tarvonen

Senior Vice-President, Client Services

Born 1952

Work experience includes:

Senior Vice-President, Marketing,

Sampo Pension 1996–1998

Member of the Boards of Kaleva Mutual Insurance Company and Fundservice RP Ltd

Member of the Executive Group since 1998

Merja Haikonen

Employee representative

Born 1950

Work experience includes:

Legal Counsel, Varma 2003–

Employee representative in the Executive Group 2002–2003, employee representative in the Extended Executive Group 2004–2005, employee representative in the Executive Group from 2006

Sari Kauppinen

Employee representative,

Pensions Specialist

Born 1970

Work experience includes:

Pensions Handler and Pensions Specialist, Varma 2000–

Employee representative in the Executive Group from 2007

Matti Vuoria*Markku Hyvärinen**Eija Kaipainen-Perttula**Timo Kaisanlahti**Risto Murto**Pasi Mustonen**Jouko Oksanen**Irmeli Otava-Keskinen**Jyrki Rasi**Hannu Tarvonen**Merja Haikonen**Sari Kauppinen*

Other management

Sakari Aaltonen, Administration
Carina Geber-Teir, Communications
Ralf Joutsenlahti, Corporate Clients
Asko Kinnunen, Development of Client Services
Mikko Koivusalo, Capital Markets
Jorma Kuokkanen, Real Estate & Corporate Finance
Mika Pitkälä, Distribution Channels
Jukka Ruuth, Internal Auditing
Sakari Tola, Medical Affairs

Employee representatives

Asta Häkkinen-Tolvanen, deputy for the employee representative
Tuula Vailama, deputy for the employee representative as
from November 2007
Eija Åman, deputy for the employee representative as
from November 2007

Consultant physicians

Mari Antti-Poika, born 1946
Per-Henrik Groop, born 1956
Tuula Kieseppä, born 1963
Matti Klockars, born 1940
Heikki Nikkilä, born 1955
Pekka Palin, born 1950
Ritva-Liisa Peltomäki, born 1953
Henrik Riska, born 1945



Key terminology

Account transfer

Policyholders may transfer their earnings-related pension insurance from one company to another. The account must be terminated at the latest on the last day of March, June, September or December, and it is then transferred to the new company in three months. The contract may only be transferred again after it has been held by the new company for a minimum of one year.

Derivative

A financial investment instrument, the value of which is based on the future value of another underlying security, index, currency, commodity or entitlement.

Duration

The weighted maturity of a bond, based on the present values for all cash flows. Duration makes it possible to measure the bond's interest rate risk in cases where the change in interest rate is fairly small.

Employees Pensions Act TyEL

The single private-sector earnings-related pension act entered into force in 2007. The new act replaced the Employees Pensions Act TEL, the Temporary Employees' Pensions Act LEL and the Pension Act for Performing Artists and Certain Groups of Employees TaEL.

Equalisation provision

The amount of the provision for claims outstanding accumulated from the risk business result used to equalise any fluctuations in the technical underwriting result or, for example, for years when the number of new pensions granted is higher than estimated at the time when the contributions were determined. The equalisation provision is divided into the following sub-sections: old age, disability and unemployment pensions, and unpaid contributions.

Equity-linked provision for current and future bonuses

A buffer jointly maintained by earnings-related pension companies bearing some of the risks resulting from fluctuations in equity income. The proportion covered by the buffer may gradually increase in 2007–2011. It can be greatly affected by changes in equity values. When at its lowest, it may reduce technical provisions by 10%, while at its highest, it may cause technical provisions to increase by 5%. If it accounts for more than 5% of the technical provisions, the funding of old-age pensions will be increased by the amount exceeding the upper limit.

Investment surplus

Investment income at fair value can be calculated by deducting the return credited on technical provisions, which is based on the technical interest rate, from the net investment return and change in valuation differences.

KTI total return

The sum of the annual net return percentage and value adjustment percentage of real estate calculated according to the portfolio index of the Institute for Real Estate Economics (KTI).

Life expectancy factor

The life expectancy factor will be used for the first time in 2009 in order to adjust the amount of old age pension in line with rising life expectancy. A pension will be multiplied by the life expectancy factor determined separately for each age group at the age of 62, based on the last five years' mortality statistics. While the application of the life expectancy factor will reduce pensions, this can be compensated for by staying at work longer.

Liquidity

For example, the ability of the securi-

ties market to handle large deals.

Loading income

The expense loading included in the contribution plus the part of the disability-pension contribution component reserved for pension-decision expenses. Loading income covers the total operating expenses of an earnings-related pension company except for the costs resulting from maintaining working capacity, managing investments, and statutory charges.

Loading profit

Loading profit shows the amount of the expense loading not used for the company's operating expenses. The ratio of operating expenses to the expense loading reflects the company's efficiency. The lower the usage rate, the higher the efficiency of operations.

Market risk

The impact of the general price trend on the price of a single share.

Pension record

A summary of an individual's employment history detailing the earnings accumulated in the private-sector and when self-employed, social benefits affecting the individual's pension, and information about the earnings-related pension accrued by the end of the previous year. The pension record will be sent annually and individual customers of earnings-related pension companies will receive it for the first time in 2008. Recipients should check the figures on the document as any omissions or errors may affect their future pensions.

Provision for current bonuses

Part of the provision for unearned premiums. Certain portions of the investment surplus and loading profit have

been transferred to the provision for current bonuses on the basis of the company's solvency status. Reserved for the payment of client bonuses.

Provision for future bonuses

Part of the provision for unearned premiums that is included in the company's solvency capital. The remaining investment surplus and loading profit (see Provision for current bonuses) are transferred to the provision for current bonuses, which is used as a measure to prepare for investment value fluctuations.

Solvency capital

Net insurance company assets that are used as a measure to prepare for fluctuations in investment values. Solvency capital is the excess of assets at fair value over liabilities. It comprises capital and reserves, accumulated appropriations, the valuation difference and the provision for future bonuses.

Solvency requirements

Solvency requirements, or the minimum solvency capital, are calculated on the risks inherent in the investments that make up the technical provisions margin. The minimum level and maximum level of the solvency capital are determined on the basis of the solvency limit. The minimum level of the solvency capital is two-thirds of the solvency limit and the maximum level is four times the solvency limit.

Statutory charges

The operating expenses covering the costs of the Finnish Centre for Pensions, the Insurance Supervisory Authority and the Pension Appeal Court.

Technical interest rate

The technical interest rate is used to determine the interest rate on a number of items such as insurance

contributions. The rate is determined biannually on the basis of the average solvency of earnings-related pension companies. For the first half of 2007 it stood at 5.5% and during the latter half of the year at 6.0%. As of 1 January 2008, it has been 6.25%.

Technical provisions

An estimate entered into the financial statements on the company's future pension expenditure for the part that is funded. Technical provisions comprise provision for unearned premiums and provision for claims outstanding.

The provision for unearned premiums relates to the liabilities of the company for future contingencies for pensions that have accumulated by the end of the financial year. The provision for claims outstanding is the capital value of the funded components of future pensions in respect of contingencies that have already occurred.

Technical provisions to be covered

Technical provisions plus liabilities in respect of pooled pension expenditure and policyholders, less the premium reserve for self-employed persons' pension insurance.

Technical underwriting result

For old age, disability and unemployment pension business and unpaid contributions, the difference between the insurance contribution and claims expenditure. A positive balance on technical account adds to the equalisation provision and a negative result reduces the provision.

Turnover

Premiums written before the deduction of credit losses and the reinsurers' share, plus the investment surplus, other returns and realised valuation gains entered into the income statement.

TyEL (earnings-related pension) premium loan

The policyholder is entitled to borrow part of the technical provisions (loan fund), provided that the requirements of the insurance terms are met. The interest on the loan is quoted daily for different periods.

Return requirement on technical provisions

Since 2007 the return requirement on technical provisions has been determined on the basis of the fund rate used to calculate pension liabilities, a pension liability supplementary factor approved by the Ministry of Social Affairs and Health and a return-on-equity component determined retroactively. The fund rate stands at 3%. During the first half of 2007 the supplementary factor was 2.46% and during the second half 2.96%. As of 1 January 2008, the supplementary factor has been 3.03%. In 2007, the return-on-equity component was approximately 0.05%.

Valuation difference

The difference between fair and book values of investments included in the solvency capital of an earnings-related pension company. Changes in valuation differences are added to the company's investment surplus.

Value-at-Risk

The figure indicates the value of investment loss risk at a selected probability and period of time.

Contact information

Varma Mutual Pension Insurance Company

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Fax +350 10 514 4752

info@varma.fi

www.varma.fi

Postal address

PO Box 1, FI-00098 VARMA

Visiting address and domicile

Annankatu 18, Helsinki

(From 1 September 2008: Salmisaarenranta 11,
00180 Helsinki)

Business ID 0533297-9

Personal e-mail addresses are of the format

firstname.lastname@varma.fi

Communications +358 10 514 5033

info@varma.fi

International Services +358 10 514 7002

international@varma.fi

Capital Market Investments

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Equities +358 10 514 6956

Fixed Income +358 10 514 6987

Private Equity +358 10 514 3230

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**Report of the Board
of Directors and
Financial Statements 2007**

VARMA

Varma Report of the Board of Directors and financial statements 2007

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Financial statements

The financial statements and consolidated financial statements for 2007 are available at the company headquarters at Annankatu 18, Helsinki, Finland.

Report of the Board of Directors

- The total result amounted to €495 (1,121) million
- The return on investment was 6.0 (9.4) per cent, and the market value of the investments stood at €28.4 (26.9) billion
- Solvency remained high, at €7,033 (6,666) million, or 31.5 (32.1) per cent
- Operating cost efficiency remained good and the loading profit stood at €27 (29) million
- Premiums written increased by 5 per cent, to €3,147 million. The number of insured employees and entrepreneurs grew by 21,000, to 484,000.
- Pensions totalling €3,065 million were paid out to 302,000 persons. The sum was 6 per cent higher than in the previous year

Economic operating environment

Growth in the world economy remained strong in 2007. At the same time, however, there was increasing uncertainty about the sustainability and direction of growth during the year. Worries were caused by conflicting reports about the state of the US economy, and the depth and impact of the subprime crisis in the housing finance sector. The slowdown in the growth of private consumption, problems on the housing market, the subprime crisis, rising oil prices and the prospect of rising unemployment weakened consumer confidence. An active monetary policy has helped to support the US economy for many years, while at the same time countries on the emerging markets have been financing widening US current account deficit. Emerging markets remain the engines of world economic growth, though in Asia and South America there is now more focus on domestic markets which may lessen their interest in dollar investments.

Growth in Europe was brisk even though it has now peaked. In most euro zone countries, domestic demand remained steady and there was also further growth in employment. Increasing exports to emerging economies helped to boost growth and partially compensated for the strengthening of the euro against the dollar. At the same time, inflationary pressures increased.

The subprime crisis affected confidence in the banking system. This led to strained liquidity and a sharp increase in the differences in returns on government-issued bonds and those issued by banks. Returns on bonds were only modest during 2007 and there was also a large amount of volatility on the equity markets during the last months of the year.

Increasing risks in the world economy also added to uncertainty in Finland. Overall demand continued to increase, though the growth rate probably slowed down towards the end of 2007. There was a slight drop in economic confidence among both businesses and households, even though overall optimism remained high. Increasing employment supported private consumption, while at the same time high pay increases added to inflationary pressures. All this underlined the role of higher labour productivity as a competitive factor. A large number of new jobs have been generated, particularly in the service and construction sectors. It is also estimated that industrial jobs increased during 2007. Some companies are already reporting that problems in acquiring labour are affecting their growth prospects.

Earnings-related pension system

The new Employees Pensions Act (TyEL) came into effect at the start of 2007. It replaced the former Employees Pensions Act (TEL), the Temporary Employees Pensions Act (LEL), and the Pension Act for Performing Artists and Certain Other Employee Groups (TaEL). Employers can now insure all their private-sector employees at one earnings-related pension insurance company under one act.

A major information system project, creating a common earnings register that contains all earnings information used as a basis for earnings-related pensions was put into effect in Arek Oy, a company jointly owned by the players in the sector (Varma's ownership, 18 per cent). The register was introduced in two stages during 2007. As of 1 January 2008, Arek also took over the management of the information systems of the Finnish Centre for Pensions that directly serve pension institutions. One aim is to improve efficiency.

Amendments to the Act on earnings-related pension companies, and changes to the provisions governing the solvency capital and technical provisions of pension institutions and the calculation of the solvency limit and the covering of technical provisions came into effect at the start of the year. The aim of the new provisions is to change the funding principles and the solvency mechanism so that pension institutions can increase the proportion of equities in their investments and, consequently, seek higher returns. Another aim is to dampen the pressures for increasing contributions in the long term. When the solvency limit is calculated and when considered as coverage for technical provisions, investments are classified in accordance with their actual risks. At the same time, the concept of target zone was abolished. A new buffer providing earnings-related pension insurance companies with more protection against investment risks resulting from fluctuations in share prices and thus strengthening their load-bearing capacity was also introduced.

The concept of a technical interest rate was replaced with new provisions on supplementing old-age pension funds. The value of the pension fund supplement factor at the start of the year stood at 2.46 per cent, and increased to 2.96 per cent as of 1 July 2007. The supplement factor is determined every six months on the basis of the average solvency of pension institutions. During a five-year rolling transitional period, ten per cent of the return requirement on technical provisions (equity-linked component) will be tied to the average annual actual return on equity investments by the pension institutions. The figures for 2007 will be known in early 2008. The return requirement on technical provisions thus has three components: the fund rate (3 per cent), the supplement factor, and an equity return factor. A technical interest rate is used to determine the interest on the oldest premium loans, insurance contributions and a number of other items. Until 30 June 2007, the rate stood at 5.5 per cent, and was 6.0 per cent for the last six months of the year.

According to the Finnish Government Programme, the basis and goals of a sustainable pension policy consist of economic growth, general confidence in the stability

of the system, just division of resources between generations, and longer working careers. Issues related to earnings-related pensions will be prepared in consultation with the major labour market organisations. Competition in the field of earnings-related insurance will be promoted based on the report prepared on the earnings-related pension scheme. The possibilities of transferring insurance portfolios and related solvency margins between all employee pension institutions will be investigated. Insurance and financial supervision duties will be assumed by a single agency that will start its work at the beginning of 2009. Occupational well-being programmes will also continue, the purpose being to encourage people to extend their working careers.

According to a report on the competition in the earnings-related pension sector submitted in January 2007, provisions obliging pension institutions to cooperate should be reassessed and efficiency measured at both institution and pension-scheme level. The objectives of decentralised implementation and competition should be coordinated so that competition would bring more benefits to policyholders. At the same time, there should be legislation encouraging greater operating efficiency in pension institutions. The working group appointed by earnings-related pension insurers also examined whether technical bases should be more company-specific, which would help to make the sector more efficient. A proposal drawn up by the earnings-related pension insurance companies and submitted to the Ministry of Social Affairs and Health on 11 January 2008 states that managing the core function of the earnings-related pension insurance scheme does not require uniformity in the expense loading of the insurance contribution, so that in that area, company-specific technical bases could be adopted. The same applies to technical bases to the extent that they regulate the partitioning of the amounts transferred as client bonuses for the client companies.

The chance of flexible retirement at the age of 63–68 offered by the 2005 pension reform has not caused a retirement boom. So far, most of the objectives of the earnings-related pension reform have been met, although rapid economic growth and rehabilitation have also helped. The average retirement age has increased by about six months and employment rates among the aged have improved considerably. One of the objectives of the pension reform was to increase the average retirement age by three years over the long term. In fact, according to a survey on earnings-related pension attitudes, people want to continue in working life longer than before and some employees say that they might still be working when they are on an old-age pension.

For employees who, on 1 January 2005, were in an employment relationship that will continue until retirement and the retirement will be no later than in 2012, the pensions are calculated using a protective regulation. If the pension calculated in this manner is higher than the pension calculated using the provisions in effect in 2005, the difference will be added to the pension. Between 1 January 2005 and 31 October 2007 Varma made a total of 47,000 decisions on pension categories to which the protective regulation applied. Calculations concerning the protective regulation were made in about

one fifth of the cases. The protective regulation affected the pension in 485 cases and the average impact was 11.65 euros. Even though the regulation has only had a minor impact, the required calculations have become very expensive, as they have forced Varma to introduce new IT applications.

The average TyEL contribution rate was 21.6 (21.6) per cent of salaries. Employees below the age of 53 contributed 4.3 (4.3) per cent of their pay, while the figure for employees older than 53 was 5.4 (5.4) per cent. At the same time, the average contributions were temporarily lowered by 0.6 (0.6) percentage points so that the surplus generated by previous years' disability pension contributions could be eliminated. Half the reduction applies to employee contributions, while the other half applies to employers' contributions that are wholly or in part tariff-based. The YEL-contribution was 20.8 (20.8) per cent of the confirmed earnings for those below 53, and 21.9 (21.9) per cent for those over 53.

As of 1 January 2007, 25–50 per cent of the loading profit has been transferred to clients as bonuses immediately in the following year, in other words more rapidly than before. At the same time, the loading income contained in insurance contributions was changed so that in each customer segment the proportion between operating costs and the loading profit would on average be more balanced. The aim is to ensure that all earnings-related pension insurance companies would show a loading profit.

The income-calculation working group of the Finnish Pension Alliance TELA has issued a recommendation on the classification of investments according to risk. The aim is to put the information provision of earnings-related pension insurance companies on a more open and transparent basis. Players in the sector have acted in accordance with the recommendation.

Varma's financial trends

Varma's balance sheet and income statement are calculated at book value. The profit/loss for the financial year for earnings-related pension insurance companies must be approved in advance by the Ministry of Social Affairs and Health. The notes give more detailed information on how the results are structured, present Varma's balance sheet and income statement at fair value and list the investments and their returns grouped in accordance with risk distribution.

Though lower than in 2006, Varma's result for 2007 was reasonable. After five years of growth, international equity markets experienced a downturn during the final months of the year. However, Varma's solvency capital continued to increase and the company had a high degree of solvency at the end of the year.

Varma's total result according to the balance sheet and income statement shown in the notes at fair value came to €495 (1,121) million. For the most part, the presentation is in accordance with IFRS standards. The lower total result, compared with the previous year, was mainly caused by lower investments returns. The notes give a breakdown of the total result by comparing the investment returns at fair value with the return require-

ment on technical provisions ('investment surplus'), operating costs with the loading income contained in the insurance contributions ('loading profit') and the claims paid with the corresponding premiums written ('technical underwriting result').

The company's investment returns totalled €1,632 (2,330) million at fair value, which was 6.0 (9.4) per cent. The investment returns exceeded the interest credited on technical provisions by €435 (1,124) million. Varma's investment returns in 2003–2007 averaged 8.5 per cent, corresponding to a real return of 7.3 per cent. Efficiency kept operating costs 26 (28) per cent lower than the expense loading contained in insurance contributions, while the loading profit was €27 (29) million. A temporary reduction in the level of contributions caused the claims paid to exceed the corresponding premiums written and thus the technical underwriting result was estimated at €34 (-32) million.

As a result of its good performance, Varma was able to improve its solvency by €367 (1,067) million. At the end of the year, solvency capital stood at €7,033 (6,666) million, or 31.5 (32.1) per cent of the technical provisions, which meant that on 31 December 2007, the solvency capital was 1.9 (2.1) times higher than the solvency limit. The solvency capital requirement is in accordance with the risk level of the company's investments. The equalisation provision covering the risks of net claims increased by €28 (-37) million and totalled €938 (910) million.

Because of its good performance, Varma transferred €92 (78) million to the provision for current bonuses, to be used as client bonuses. The transfer was about 0.64 (0.58) per cent of the estimated payroll of the insured.

Insurance business

Varma is Finland's biggest private-sector earnings-related pension insurer. The TyEL payroll of those insured at the company in 2007 totalled about €14.4 (13.4) billion and is estimated to have grown by 7 per cent on the actual 2006 figure. Premiums written totalled €3,147 (2,984) million, of which TyEL accounted for €3,007 (2,846) million and YEL insurance for €129 (125) million. At the end of the year, some 484,280 (463,450) individuals were insured at Varma, which was 20,830 more than a year earlier. At the end of the year, the number of insurances totalled 63,650, covering 37,310 entrepreneurs and 446,970 employees.

As of 1 January 2007, private-sector employers have been able to insure their entire staff at one earnings-related pension insurance company. The total market for earnings-related pension insurances grew strongly as short-time employment relationships fell within the sphere of TyEL and Etera lost its monopoly in the sector. During the year, a total of 4,434 (2,944) new TyEL insurances and 5,416 (5,311) new YEL insurances came into force at Varma. At the same time, the number of TyEL and YEL insurances terminated was 2,676 (2,787) and 3,506 (3,288), respectively. A total of 2,827 (2,734) decisions were made on changes that entrepreneurs wanted made to their earnings. Employment notifications received during the year totalled 937,000 (869,000), of which 81.1 (80.7) per cent were received electronically. As

of 1 January 2007, customers have also been able to manage matters concerning short-time employment relationships online using the 'Pesti' temporary-employment service and the monthly notification service intended for contract customers. A total of about 131,000 (136,600) telephone calls were received by the Insurance Services.

Varma did well in account transfers. The net profit in TyEL insurances, measured in terms of premiums written, totalled €45 million, which helped Varma to increase its 34%-market share by about 0.5 percentage points. Varma was able to strengthen its position as an insurer of large companies and in the next few years, the aim is to gain a stronger foothold in the small-enterprise sector, too. In large companies, cases of disability have an impact on the final contributions and Varma can, in cooperation with its clients, have an effect on disability cases in areas such as occupational well-being and vocational rehabilitation. Varma provides policyholders with services through its own service channels and through the service networks of If P & C Insurance Ltd and the Nordea Group.

A total of €31 million in liabilities was transferred from four pension funds to Varma, while €51 million were transferred from Varma to one pension fund. Nokia Siemens Networks transferred its employees' pension liabilities (about 9,300 insured) from the Nokia Pension Fund to Varma as of 1 March 2008, which increased the pension assets managed by Varma by almost €300 million.

Occupational well-being and age management are important in a situation where many sectors are already suffering from a shortage of labour. With the exit of baby-boomers from working life, the situation is expected to become even worse. The growth in the number of disability pensions was lower than expected, which was a result of improvements to health, economic growth and more extensive vocational rehabilitation. About two-thirds of all those participating in rehabilitation returned to working life in 2005–2006. For many years, Varma has been a pioneer in vocational rehabilitation, and this is also evident in the results. The number of approved rehabilitation decisions at Varma is already more than one thousand each year.

In 2007, a total of €2,771 (2,578) million was paid out in claims. At the end of the year, Varma was paying TyEL and YEL pensions to some 302,000 (296,000) persons. The processing of pension claims at Varma was faster than average. A total of 23,185 (21,902) new pension decisions were made during the year, which was six per cent more than in 2006. There was growth in all pension types, particularly in part-time pensions (13 per cent) and unemployment pensions (12 per cent). The growth in unemployment pensions can be put down to the fact that the age groups entitled to them have become larger. In 2007, the number of pension decisions increased by four per cent on the previous year and totalled 45,164. Continuation decisions totalled 5,100 (4,943), while the number of other decisions was 14,195 (13,986). The rejection rate for a disability pension was about 23 per cent, which was at the same level as in 2006.

In the Pension Estimate online service, the insured can obtain an estimate of their old-age and part-time pen-

| | 31 Dec. 2007 | 31 Dec. 2006 | Change |
|-------------------------------------------------------------|----------------|----------------|---------------|
| Number of insured | | | |
| TyEL ¹⁾ | 446,970 | 426,090 | 20,880 |
| YEL | 37,310 | 37,360 | -50 |
| Total | 484,280 | 463,450 | 20,830 |
| ¹⁾ TEL supplementary pension insurance | 9,700 | 11,940 | -2,240 |
| Number of insurance policies | | | |
| TyEL | 26,340 | 25,200 | 1,140 |
| Number of pensioners²⁾ | | | |
| Old age pension | 175,563 | 171,390 | 4,173 |
| Survivors' pension | 50,073 | 49,810 | 263 |
| Disability pension | 44,962 | 43,371 | 1,591 |
| Unemployment pension | 11,875 | 11,513 | 362 |
| Early old age pension | 13,755 | 13,639 | 116 |
| Individual early retirement pension | 717 | 1,339 | -622 |
| Part-time pension | 5,151 | 5,322 | -171 |
| Total | 302,096 | 296,384 | 5,712 |
| ²⁾ Those receiving YEL pension | 28,506 | 28,303 | 203 |
| ²⁾ Those receiving TEL/YEL supplementary pension | 38,364 | 37,374 | 990 |

sions at various ages. Varma continued the process of transferring the provision of preliminary estimates online. In 2007, customers made a total of 52,000 (41,000) online pension estimates, while at the same time 23,000 estimates were made at Varma Advisory Services. The Pension Estimate service also gives customers an estimate of how the new life expectancy factor will affect their future pensions. The life expectancy factor is calculated for each age class at the age of 62 and it will reduce the pension as the life expectancy increases. The life expectancy factor will not affect new pensions before 2010 and initially it will only have a minor impact

Technical provisions

Technical provisions increased by 7.6 (8.9) per cent during the year, to €25,571 (23,774) million. They contain a provision of €92 (77) million for current bonuses reserved for client bonuses, a provision of €3,259 (3,008) million for future bonuses contained in the solvency capital, and €8 (-) million in an equity-linked provision for current and future bonuses, which acts as a buffer for the investment returns of earnings-related pension insurance companies. The equalisation provision amounted to €938 (910) million. A total of €31 million in pension liabilities was transferred from pension foundations to Varma, while €51 million was transferred from Varma to a pension fund. At the end of the year, assets covering the technical provisions was 115 (111) per cent of the technical provisions.

Investments

At the end of 2007, the value of Varma's investments to-

talled €28,418 (26,858) million and the return at fair value was €1,632 (2,330) million or 6.0 (9.4) per cent. The notes show the breakdown of the investments and their returns by investment category, in accordance with the appropriate provisions and in accordance with the recommendations issued by the income calculation working group of the Finnish Pension Alliance TELA, which are used by earnings-related pension insurance companies. The purpose of TELA's classification is to put the information provision of earnings-related pension insurers on a more open and transparent basis. The notes present the matching between the two breakdown approaches. In the Report of the Board of Directors, the information on investments is grouped in accordance with the recommendations of TELA.

Fixed-income investments totalled €10,307 (11,337) million and they were distributed as follows: loan receivables €1,059 (782), bonds €8,292 (10,531) and other money-market instruments €955 (25) million. Equity investments totalled €11,181 (10,547) million. Of this total, listed equities accounted for €9,842 (9,661), private equity investments €896 (778), and unlisted equities €443 (108) million. Real estate investments amounted to €3,255 (2,737) million. Of this total, direct real estate investments accounted for €2,911 (2,567) and real estate investment funds €344 (170) million. Other investments, totalling €3,675 (2,237) million, were investments in hedge funds.

The return on fixed-income investments stood at 1.5

(1.1) per cent and was divided as follows: loan receivables 6.2 (4.3), bonds 0.9 (0.7) and other money-market instruments 2.6 (3.1) per cent. The return on equities was 8.2 (23.8) per cent and was divided as follows: listed equities 5.0 (23.6), private equity 35.2 (25.4) and unlisted equities 41.9 (31.5) per cent. The return on real estate investments was 10.2 (8.0) per cent and was divided as follows: direct real estate investments 10.1 (7.9) and real estate investment funds 11.5 (10.3) per cent. The return on other investments (hedge funds) stood at 11.4 (8.0) per cent.

The new regulations on solvency and technical provisions and a strong solvency position enabled Varma to increase the risk level of its investment portfolio. At the same time, this also meant stricter requirements for managing the investment risk. Investment solvency classification is based on the actual investment risk level. Decisions on the solvency classification criteria are made by Varma's Board of Directors, which also monitors adherence to them and their impact on company solvency. The real investment risk level is carefully determined by using both quantitative and qualitative methods, and prudence is also a consideration in the process. Classification of investments according to actual risk at the end of the year decreased the solvency limit by €975 million or 4.4 percentage points, compared with standard classification. Classification differences are mainly caused by investments in hedge funds, in which the aim is to achieve positive returns in all market conditions.

Varma continued to lower the weight of fixed-income investments, while at the same time, the weight of equities and hedge funds was increased. Diversifying investments outside traditional equity and fixed-income markets proved a success. The situation on the markets was difficult but Varma can nevertheless be satisfied with its performance even though there was no repeat of the high returns generated during the past few years.

Varma's fixed-income investments are mainly in government-issued bonds. The European Central Bank raised its key interest rate twice during the spring 2007, which led to higher market rates. Because of growing uncertainty, the US Federal Reserve started lowering interest rates in early autumn, which also led to lower rates in Europe. During the last few months of the year, the risk premiums on corporate loans increased substantially. Though fixed-income investments generated only low returns, at Varma they were above the benchmark. The average risk-weighted credit rating for the bond portfolio was A, or the same as at the end of the previous year. At the end of the year, the average bond maturity was 4.9 (5.5) years.

Demand for customer loans remained low though there was a marked increase in financing of different types of corporate restructuring. A total €364 (142) million in new loans was raised during the year.

Equity prices rose during the first half of 2007 but during the last months of the year, prices plummeted as the equity markets were affected by uncertainty on the US mortgage and debt markets. Equity returns were reasonable and in accordance with long-term averages. Varma had domestic listed equities worth €3,868 (3,180) mil-

lion in its portfolio. Dividends were an important contributory factor because, after increasing rapidly for a number of years, values rose only modestly in 2007. The performance and financial position of companies remained strong. In the light of developments on the market, Europe and the emerging countries performed well, while stock markets in Finland, the United States and Japan generated only modest returns. The market value of Varma-owned Sampo shares was €893 million and the return was -5.2 per cent.

Private equity investments and unlisted equities have a good return potential. Their long-term nature is also in keeping with the long-term nature of pension liabilities. Private equity investments generated excellent returns in 2007. Varma has a widely diversified portfolio with investments in both international and Finnish private equity funds and it made a number of profitable realisations. Varma made a large number of new private equity investments during the year, and its commitments to subscribe for holdings in private equity and real estate investment funds total €1,054 (710) million. Varma also has a large number of direct co-investments in the companies in which the funds invested. Unlisted equities also generated good returns. In particular, the share value of the Talvivaara Mining Company Ltd was boosted by a successful listing on the London Stock Exchange.

The turmoil generated by the US mortgage crisis on international money markets also had an impact on the Finnish real estate market. Lending margins rose and less use was made of the debt leverage. Real estate investors became more critical when assessing investment risks. Prices were no longer rising but market liquidity remained good. The occupancy rates of business premises improved, and in the best premises rents also increased. The construction of business premises remained brisk though the number of new project-starts is about to peak.

Rises in real estate value helped to boost Varma's real estate returns. Varma had a number of large building projects in progress: office buildings at Salmisaari in Helsinki and at Leppävaara in Espoo (Panorama Tower), the entertainment centre Flamingo in Vantaa and the shopping centre 'Rajalla' in Tornio. Of the 40,000 m² floor area at Salmisaari, about 20,000 m² will be taken over by Varma as its head office in summer 2008. The present head office in Annankatu in Helsinki has been leased to the European Chemicals Agency, which will move into the premises in stages.

During the year, Varma made direct real estate investments worth €375 (198) million, and sold real estate worth €61 (314) million. Investments in domestic real estate funds totalled €18 (16) million, while €158 (117) million were invested in foreign funds. The company has also made commitments to subscribe for holdings in real estate funds worth €559 (517) million. Varma's ownership in the housing investment and development company SATO rose to 39.5 per cent in May.

At the end of 2007, the lettable surface area of the real estate owned by the Varma Group totalled about 1.9 (1.9) million square metres. The vacancy rate for operating premises was 4.5 (5.2) per cent. Split up according to

invested capital, office and business premises accounted for 63 (61) per cent, housing for 16 (19) per cent, industrial and warehouse facilities for 17 (18) per cent and other facilities for 2 (2) per cent of the total.

Because of the poor prospects for returns on fixed-income investments, Varma continued to transfer assets from fixed-income investments to hedge funds during 2007. The return on hedge funds exceeded the return on fixed-income and equity investments. Varma has most of its hedge investments in individual funds, while about one fifth has been invested in funds of funds. The fund portfolio has been widely diversified. The subprime crisis at the end of the year did not have any significant impact on hedge-fund returns. Varma has made subscription commitments in hedge funds worth €706 million.

Varma hedged all foreign currency risks during the year. The hedging against the dollar proved particularly beneficial as the US dollar weakened vis-à-vis the euro.

The increase in equity investments, in particular, has increased the portfolio risk level. Equity investments are by far the most significant source of risks in Varma's investment portfolio. The cautious approach to risk-taking has proved the right choice in the long run. Varma has invested heavily in the management of the portfolio risk and its methods. The VaR (Value-At-Risk) figure, which measures the total risk of Varma's investments, grew by €209 million during the year and stood at €956 (747) million at the end of 2007. VaR is the maximum fall in the market value of the company's investment portfolio in normal market conditions occurring over a period of one month with a probability of 97.5 per cent.

For the third year in a row, Varma took part in an independent international investment performance survey. According to the results, the profitability and cost-efficiency of Varma's investment operations are highly competitive internationally.

The central components in Varma's ownership policy are high-quality governance in the companies it owns, transparency of operations, active engagement, and incentive schemes for key personnel. During spring 2007, Varma's representatives took part in the annual general meetings of all the domestic companies in which it owned shares and in the annual general meetings of 141 foreign companies.

Operating expenses

Varma used 74 (72) per cent of the expense loading it received to cover operating expenses. As a result of changes in technical bases, the loading profit decreased. The percentage indicating Varma's cost-efficiency is competitive throughout the entire earnings-related pension sector. Cost-efficiency brings direct benefits to Varma's customers.

Human resources and information technology account for almost 80 per cent of Varma's operating expenses. Overall operating expenses dropped by 4 (+7) per cent on the previous year, totalling €100 (104) million. The comparable rise, excluding non-recurring items and items resulting from regulation-based regroupings, came to six per cent. The rise in expenses during the year

was mainly a result of information system projects. Arek Oy started charging for the introduction of the earnings register system in 2007 and the building costs of the system will be amortized within 10 years of its completion. The large information-processing project covering the upgrading of the pension-application processings ('Veli' project), which should become operational in 2011, will be dealt with in the same manner. Varma is also working on projects involving e-transactions and customer service systems. The most important outsourcing partners in the area of information processing services are TietoEnator Pension Insurance Oy, TietoEnator Esy Ltd and Arek Oy. The large number of different pension acts and reconciling the needs of different players affect cost administration in the employment pension sector.

The average number of personnel in the Varma Group and the salaries paid during the financial year are shown in the table below. Because of the figures for TietoEnator Esy Ltd, figures for the group are different from those for the parent company.

| | | | |
|------------------------------|------|------|------|
| Average number of personnel | 2007 | 2006 | 2005 |
| Group | 816 | 850 | 852 |
| Parent Company | 646 | 671 | 671 |
| Salaries and fees, € million | | | |
| Group | 33.6 | 32.2 | 31.3 |
| Parent Company | 33.6 | 32.2 | 31.3 |

Varma has a performance-based reward scheme applying to all staff members and it has a company-specific and a personal component. The company-specific part is influenced by Varma's investment performance, client acquisition, operating-cost efficiency and the achievement of pension-handling and insurance-handling targets.

Efficiency proposals made in connection with a survey carried out at the company were incorporated into a number of operating processes during the year. Varma must carry out its executive function efficiently and manage the assets of present and future pensioners as successfully as possible. The aim is to continue reductions in the parent company staff (32 people in 2007) primarily by internal reorganisation. Varma will be moving to a new head office at Salmisaari in Helsinki in summer 2008, after which the company will have purpose-built premises enabling it to make its operations more efficient and achieve cost savings.

In its marketing communications, Varma continued the successful 'Hyvää työtä' ('Good work') campaign. The aim is to make the good, efficient work done by Varma better known and to provide more information about the customer benefits the company offers, such as client bonuses.

According to the updated company strategy, Varma will safeguard the funding for earnings-related pensions and the adequacy of benefits, and it will become the market leader in its operations.

Group companies and associates

At the end of 2007 the Varma Group comprised 182 (189)

subsidiaries and 37 (39) associates, most of which are real estate companies. The most important subsidiaries and associates that are not real estate companies are TietoEnator Esy Ltd (50.1%), Silta Oy (39.1%) Garantia Insurance Company Ltd (30.5%), Sato Corporation (39.5%) and NV Kiinteistösiijoitus Oy (45%). The Varma Group also owns 50 per cent of the guarantee capital of the Kaleva Mutual Insurance Company.

Governance

At Varma's Annual General Meeting, policyholders have about 78 per cent, the insured about 20 per cent, and the Sampo Group (the owner of the guarantee capital) about two per cent of the votes.

The Annual General Meeting on 22 March 2007 re-elected Martti Alakoski, Berndt Brunow, Stig Gustavson, Jukka Härmälä, Pekka Paasikivi, Antti Piippo and Sakari Tamminen to Varma's Supervisory Board. Markku von Hertzen was replaced by Veli-Matti Töyrylä, Antti Norrlin by Liisa Leino, Mika Seitovirta by Göran Åberg, Matti Kyytsönen by Kai Telanne and Antti Remes by Markku Uitto. The Supervisory Board elected Pekka Paasikivi as its chairman and Jukka Härmälä and Sakari Tamminen as deputy chairmen. The Annual General Meeting elected Authorised Public Accountants Raija-Leena Hankonen (supervisory auditor) ja Jaakko Nyman as company auditors and KPMG Oy Ab and Authorised Public Accountant Paula Pasanen as deputy auditors.

At its meeting on 4 December 2007, the Supervisory Board re-elected to the Board of Directors Erkki Kangasniemi, Ole Johansson and Jyrki Juusela whose terms were expiring. Björn Wahlroos was replaced by Kari Stadigh, Markku Jokinen by Sakari Tamminen, and Timo Poranen (as deputy member) by Anne Brunila. The Board of Directors was chaired by Jyrki Juusela, with Ole Johansson and Mikko Mäenpää acting as deputy chairmen. The Board of Directors elected Jyrki Juusela, Mikko Mäenpää, Birgitta Kantola and Markku Pohjola as members of the Audit Committee, and Jyrki Juusela, Mikko Mäenpää ja Ole Johansson as members of the Compensation and Appointment Committee.

The Election Committee is chaired by Pekka Paasikivi, chairman of the Supervisory Board, Of the Committee members, Martti Alakoski (deputy chairman), Mikko Mäenpää and Veli-Matti Töyrylä represent the insured, while Ole Johansson and Tapio Kuula represent the policyholders.

For a more detailed presentation of Varma's corporate governance and risk management, see the notes to the financial statements.

Outlook

At the start of 2007, after a period of steady economic growth and several years of successful investments, the solvency of Finland's earnings-related pension scheme was stronger than ever. The crucial issue for the long-term sustainability of the pension scheme is the rate of growth in investment returns. The prospects for growth in the world economy are weakening, while at the same time there is much more uncertainty about global risks. The crisis affecting the financial markets has proved more serious than expected, which has led to sharp falls

in stock market prices during the first months of 2008. At the same time, there is concern about the state of the US financial markets and the impacts the crisis might have elsewhere. In a situation like this, solvency buffers of earnings-related pension insurance companies have proved useful. Furthermore, geopolitical tensions and a lack of balance in the world economy can also threaten economic prospects as a crisis might cause investors to panic. A slowdown in the United States has been compensated by strong growth in the emerging countries. In Finland, too, prospects look fairly good even though growth has already peaked. At the same time, an increase in employment is expected to continue though there will be fewer new jobs than before.

The fact that Finns are retiring at an older age than before and employment rates among those approaching retirement have increased show that the pension reform is working. Rehabilitation targets have also been achieved. As Finland's earnings-related pension insurance scheme is largely financed with pension insurance contributions paid on the basis of employment relationships, ensuring growth in Finnish-based economic output is crucial. Productivity growth, keeping Finland internationally competitive after generous wage agreements and dealing with labour shortages are key issues.

Changes in the operating environment mean that Varma must make its information systems more efficient and provide its staff with more skills. Annual growth in the number of pension applications will keep work volumes high during the next few years. In May-November 2008, Varma will send about 700,000 pension records to those insured at the company. The pension record, which will be sent annually, is a summary of an individual's employment history detailing their earnings in the private sector and as an entrepreneur and the social benefits affecting the pension. Producing the records, providing information about them, and the necessary customer service arrangements mean both extra costs and challenges. This is because the record does not give any details about such matters as public sector employment relationships and pensions. The pension records will help in making individuals more aware of their pension cover, increase confidence in the earnings-related pension scheme and put the registered information on a more accurate basis. With changes in society, more attention must be paid to rising costs by the earnings-related pension sector.

Varma is an earnings-related pension company characterised by a high degree of solvency. As market leader, it focuses on improvements in customer service and operational efficiency. The competitive edge this creates will mean higher client bonuses. The move to a new head office is a challenge, but it will also enable Varma to put its operations on a more efficient basis. Varma is determined to maintain its position as the long-term leader in investment returns in the earnings-related pension sector.

Income statement

| 1 Jan.–31 Dec. € million | PARENT COMPANY | | GROUP | |
|--------------------------------------------------------|-----------------|----------|-----------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Technical account | | | | |
| Premiums written | 3,146.8 | 2,983.3 | 3,146.8 | 2,983.3 |
| Investment income | 3,634.4 | 2,732.0 | 3,606.7 | 2,711.1 |
| Claims incurred | | | | |
| Claims paid | -2,770.7 | -2,578.0 | -2,770.7 | -2,578.0 |
| Total change in provision for claims outstanding | -1,121.8 | -911.9 | -1,121.8 | -911.9 |
| Portfolio transfer | -17.7 | | -17.7 | |
| Portfolio transfer | 9.2 | 1.2 | 9.2 | 1.2 |
| | -3,900.9 | -3,488.7 | -3,900.9 | -3,488.7 |
| Change in provision for unearned premiums | | | | |
| Total change | -675.0 | -1,038.3 | -675.0 | -1,038.3 |
| Portfolio transfer | -32.9 | | -32.9 | |
| Portfolio transfer | 21.9 | -2.5 | 21.9 | -2.5 |
| | -686.0 | -1,040.8 | -686.0 | -1,040.8 |
| Operating expenses | -63.9 | -70.4 | -63.9 | -70.4 |
| Investment charges | -2,119.4 | -1,100.9 | -2,105.2 | -1,088.1 |
| Balance on technical account | 11.1 | 14.6 | -2.5 | 6.5 |
| Non-technical account | | | | |
| Balance on technical account | 11.1 | 14.6 | -2.5 | 6.5 |
| Share of associated companies' profit | | | 11.6 | 4.2 |
| Income taxes on ordinary activities | | | | |
| Taxes for the financial year | -6.8 | -4.0 | -6.8 | -4.2 |
| Profit on ordinary activities after taxes | 4.3 | 10.6 | 2.3 | 6.5 |
| Appropriations | | | | |
| Change in depreciation difference | 0.2 | 0.2 | | |
| Income taxes | | | | |
| Taxes for the financial year | -0.0 | -0.0 | | |
| Minority interest in the result for the financial year | | | 0.1 | 0.1 |
| Profit for the financial year | 4.4 | 10.7 | 2.3 | 6.6 |

Balance sheet

| 31 Dec., € million | PARENT COMPANY | | GROUP | |
|----------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Assets | | | | |
| Intangible assets | | | | |
| Other expenses with long-term effects | 4.8 | 0.5 | 4.8 | 0.5 |
| Investments | | | | |
| Real estate | | | | |
| Real estate and real estate shares | 1,556.5 | 1,504.2 | 2,315.4 | 2,066.1 |
| Loans to Group companies | 831.5 | 630.1 | | |
| | 2,387.9 | 2,134.3 | 2,315.4 | 2,066.1 |
| Investments in Group companies | | | | |
| Shares and participations in Group companies | 4.3 | 4.3 | 0.6 | 0.7 |
| Loans to Group companies | 0.4 | 0.5 | 0.4 | 0.5 |
| Shares and participations in associates | 106.2 | 57.9 | 113.2 | 61.8 |
| | 110.8 | 62.7 | 114.1 | 63.0 |
| Other investments | | | | |
| Shares and participations | 11,891.1 | 9,684.0 | 11,907.2 | 9,699.9 |
| Money-market instruments | 9,064.6 | 9,920.8 | 9,064.6 | 9,920.8 |
| Loans guaranteed by mortgages | 156.5 | 163.7 | 156.5 | 163.7 |
| Other loan receivables | 851.3 | 754.3 | 851.3 | 754.3 |
| Deposits | 91.5 | 329.5 | 91.5 | 329.5 |
| | 22,054.9 | 20,852.3 | 22,071.0 | 20,868.2 |
| | 24,553.6 | 23,049.2 | 24,500.5 | 22,997.3 |
| Receivables | | | | |
| Direct insurance operations | | | | |
| Policyholders | 163.6 | 117.0 | 163.6 | 117.0 |
| Other receivables | | | | |
| Other receivables | 683.5 | 306.0 | 690.9 | 313.0 |
| | 847.1 | 423.0 | 854.5 | 430.1 |
| Other assets | | | | |
| Tangible assets | | | | |
| Furniture and fixtures | 2.5 | 3.9 | 2.5 | 3.9 |
| Other tangible assets | 0.7 | 0.6 | 0.7 | 0.6 |
| | 3.2 | 4.5 | 3.2 | 4.5 |
| Cash at bank and in hand | 241.3 | 243.8 | 242.0 | 244.7 |
| | 244.5 | 248.2 | 245.2 | 249.1 |
| Prepayments and accrued income | | | | |
| Accrued interest and rent | 206.4 | 264.6 | 206.7 | 265.1 |
| Other prepayments and accrued income | 6.6 | 22.0 | 6.7 | 23.0 |
| | 213.0 | 286.6 | 213.4 | 288.1 |
| TOTAL ASSETS | 25,863.1 | 24,007.5 | 25,818.4 | 23,965.0 |

| 31 Dec., € million | PARENT COMPANY | | GROUP | |
|-------------------------------------|-----------------|----------|-----------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Liabilities | | | | |
| Capital and reserves | | | | |
| Guarantee capital | 11.9 | 11.9 | 11.9 | 11.9 |
| Other reserves | 63.4 | 53.6 | 63.4 | 53.6 |
| Profit/loss brought forward | 0.1 | 0.1 | -48.0 | -43.9 |
| Profit for the financial year | 4.4 | 10.7 | 2.3 | 6.6 |
| | 79.8 | 76.4 | 29.6 | 28.2 |
| Accumulated appropriations | | | | |
| Depreciation difference | 0.1 | 0.3 | | |
| Minority interest | | | | |
| | | | 15.5 | 16.7 |
| Technical provisions | | | | |
| Provision for unearned premiums | 16,661.6 | 15,986.6 | 16,661.6 | 15,986.6 |
| Provision for claims outstanding | 8,909.5 | 7,787.7 | 8,909.5 | 7,787.7 |
| | 25,571.1 | 23,774.3 | 25,571.1 | 23,774.3 |
| Liabilities | | | | |
| Direct insurance operations | 8.5 | 7.6 | 8.5 | 7.6 |
| Other liabilities | 191.1 | 128.2 | 181.1 | 117.1 |
| | 199.6 | 135.7 | 189.6 | 124.7 |
| Accruals and deferred income | | | | |
| | 12.5 | 20.8 | 12.7 | 21.2 |
| TOTAL LIABILITIES | 25,863.1 | 24,007.5 | 25,818.4 | 23,965.0 |

Statement of source and application of funds

| 1 Jan.–31 Dec. € million | PARENT COMPANY | | GROUP | |
|------------------------------------------------------------------|-----------------|----------------|-----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash flow from operations | | | | |
| Gain/loss on ordinary activities | 11.1 | 14.6 | -2.5 | 6.5 |
| Adjustments | | | | |
| Changes in technical provisions | 1,796.8 | 1,950.2 | 1,796.8 | 1,950.2 |
| Impairments and revaluations on investments | 519.4 | 40.3 | 517.3 | 40.3 |
| Depreciation according to plan | 19.9 | 20.3 | 64.7 | 67.5 |
| Capital gain and loss | -896.6 | -786.3 | -897.8 | -790.6 |
| Cash flow before change in working capital | 1,450.5 | 1,239.2 | 1,478.5 | 1,274.0 |
| Change in working capital: | | | | |
| Increase (-) / decrease (+) | | | | |
| in non-interest-bearing short-term receivables | -350.6 | -104.2 | -349.7 | -110.5 |
| Increase (-) / decrease (+) | | | | |
| in non-interest-bearing short-term debts | 55.6 | -63.2 | 56.4 | -66.2 |
| Cash flow from operations before taxes | 1,155.5 | 1,071.7 | 1,185.2 | 1,097.2 |
| Direct taxes paid | -6.8 | -4.1 | -6.8 | -4.2 |
| Cash flow from operations | 1,148.7 | 1,067.7 | 1,178.4 | 1,093.1 |
| Cash flow from investments | | | | |
| Net investments and proceeds from asset sales | -1,145.2 | -857.4 | -1,175.1 | -883.1 |
| Investments and gains on intangible, tangible and other assets | -5.0 | -1.0 | -5.0 | -1.0 |
| Cash flow from investments | -1,150.2 | -858.4 | -1,180.1 | -884.2 |
| Cash flow from financing | | | | |
| Interest paid on guarantee capital and other profit distribution | -0.9 | -0.8 | -0.9 | -0.8 |
| Cash flow from financing | -0.9 | -0.8 | -0.9 | -0.8 |
| Change in financial resources | -2.5 | 208.5 | -2.7 | 208.1 |
| Financial resources, 1 Jan. | 243.8 | 35.3 | 244.7 | 36.5 |
| Financial resources, 31 Dec. | 241.3 | 243.8 | 242.0 | 244.7 |

Notes to the financial statements

Accounting principles

The financial statements are prepared in accordance with the Finnish Accounting Act, Companies Act (previous), Insurance Companies Act, Employee Pension Insurance Companies Act and the Act on lowering the solvency limit and covering technical provisions in pension institutions. In addition, the decree of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements of insurance companies, as well as the calculation bases confirmed by the Ministry of Social Affairs and Health and the regulations and guidelines of the Insurance Supervision Authority have been complied with.

Consolidated financial statements

In addition to the parent company, those companies in which the Group holds more than 50% of the votes either directly or indirectly have been consolidated in the consolidated financial statements as subsidiaries.

The parent company has 180 (187) real estate companies and 2 (2) other companies as subsidiaries. The companies belonging to the Group are listed in the notes to the financial statements.

The consolidated financial statements have been compiled as combinations of the income statement and balance sheets of the parent company and its subsidiaries, from which intra-group income and charges, profit distribution, amounts due to or from Group companies and cross-shareholdings have been eliminated. However, TietoEnator Esy Ltd has been consolidated using the equity method. Subsidiaries acquired during the year have been consolidated from the moment of acquisition. The minority interest in the result and the capital and reserves are shown under their own separate heading.

Intra-group cross-shareholdings have been eliminated using the acquisition method. The resulting consolidation difference is allocated to subsidiaries' asset items within the limits permitted by their fair values, and depreciated in accordance with the depreciation plans of these asset items. Revaluations on Group shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

Associated companies intended for long-term holding in which the Group holds 20–50% of votes are included in the consolidated financial statements using the equity method. Housing and real estate companies have not, however, been treated as associated companies. Since the expenses arising from these companies are covered by the maintenance charges collected from their owners, their non-inclusion has a minimal effect on Group profit and non-restricted capital and reserves.

Share of associated companies' profit or loss is included in the consolidated income statement. The Group's share of the associated companies' profit or loss produced after the day of acquisition is added in the consolidated balance sheet to the acquisition cost of the associated company in question.

Investments in associates are listed in the notes to the balance sheet.

Copies of the complete set of consolidated financial statements are available at the parent company's headquarters, at Annankatu 18, FI-00120 Helsinki, Finland.

Valuation and deferral of investments and their fair values

Investments in real estate are entered at the lower of acquisition cost less depreciation, plus revaluation or

fair value. The fair values of real estate and real estate shares have been measured item by item as provided in the regulations of the Insurance Supervision Authority and on the basis of the opinions of the company's own and external experts. The fair value of investments in real estate is estimated annually. No real estate revaluations have been entered for the year 2007.

Shares and participations are entered in the balance sheet at the lower of acquisition cost or fair value. Previous value adjustments on securities are entered in the income statement as value readjustments in respect of the value appreciation. The last available buying rates or, if these are not available, closing prices at the balance sheet date are used as fair values for listed securities. The fair value of other equities is the purchase price or the net realisable value or the net asset value. Investments in private equity funds are entered in the balance sheet at fair value estimated by the management company or, if this is not available, at acquisition cost. Investments in mutual funds are entered at the last available value of the share calculated by the management company.

Money-market instruments are entered in the balance sheet at the lower of acquisition cost or fair value. Changes in value due to interest rate fluctuations are not entered. The difference between the nominal value and acquisition cost of the money market instruments is allocated to interest income and its reduction over the maturity of the instrument. The counterpart entry for the allocations entered as an increase or decrease in the acquisition cost is shown in the notes to the balance sheet. The acquisition cost is the average price calculated for each instrument.

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value has been entered in the income statement for the hedged balance sheet item, no entry has been recorded in the income statement for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract. If a value readjustment has been entered for the hedged item, the value change of the derivative used is entered in its entirety as an expense. Resulting income and expenses are entered as adjustments in value adjustments and re-adjustments.

Negative value adjustments of derivative financial instruments other than those created for purposes of hedging have been entered through profit and loss. The profits and losses resulting from the termination or expiration of contracts are entered as income or expenses for the financial year. Income and expenses from interest rate derivatives are entered under interest income.

Currency derivatives treated in the financial statements as hedging instruments are treated in a corresponding manner in contribution margin accounting for solvency and technical provisions.

Loaned securities are included in the balance sheet. They are presented in the notes to the balance sheet. The borrower is the clearing company that has provided collateral for the loan.

Foreign currency denominated investments are entered at the lower of rate on the date of transaction or rate at the balance sheet date. Currency conversion differences are entered as adjustments to income and expenses. Currency conversion differences for cash at bank and in hand and deposits and items that cannot be entered as adjustments to income and expenses, are entered under investment income and charges. When calculating fair

values, the European Central Bank average rate quoted on 31 December is used.

Premium receivables and other receivables are valued at the lower of nominal value or probable value.

Depreciation according to plan

The acquisition cost of buildings, including components in buildings, movable property and other expenses with long-term effects, are depreciated according to plan over their useful lives. Revaluation of buildings entered as income is also depreciated according to plan. The straight-line depreciation method is applied using the following economic useful lives:

| | |
|---------------------------------------------------|-----------|
| Residential, office and business premises, hotels | 40–60 yrs |
| Industrial premises and warehouses | 25–50 yrs |
| Technical equipment in buildings | 10 yrs |
| Computer hardware | 3 yrs |
| Computer software | 5 yrs |
| Motor vehicles | 5 yrs |
| Furniture and fixtures | 10 yrs |
| Office machines | 7 yrs |
| Other expenses with long-term effects | 5–10 yrs |

Profit for the year, and capital and reserves

In an earnings-related pension insurance company, the parent company's profit after taxes in the income statement is determined by calculation bases confirmed by the Finnish Ministry of Social Affairs and Health. The division of the parent company's capital and reserves between the insurance portfolio and the owners of the guarantee capital is presented in the notes to the financial statements.

Solvency capital

Solvency capital is calculated as the difference between the assets and debts valued at fair value. It comprises capital and reserves, accumulated appropriations, the valuation difference and the provision for future bonuses. A calculated maximum loss has been deducted from the solvency capital for derivative financial instruments other than those used to reduce risk.

The solvency capital and solvency border are presented in the notes to the financial statements.

Taxes

Tax complying with the tax calculation of the tax form is entered as tax for the financial year on an accrual basis.

Deferred tax liabilities or assets have not been calculated for the accrual of closing account transfers or other temporary differences between book value and taxable value, because the company's net result is determined by calculation bases confirmed by the Finnish Ministry of Social Affairs and Health. Neither has the deferred tax liability or receivable been calculated in the mutual real estate companies owned by the Group, because they are not significant for the company in question or the Group. Closing account transfers and valuation differences shown in the notes to the financial statements will be entered as income only against expense entries.

Operating expenses and depreciation by function

In the income statement, the operating expenses from operations related to compensations and operations for the maintenance of working capacity are included in claims paid, and expenses related to investment manage-

ment are included in investment charges. The expenses of insurance operations and administration are presented as net operating expenses.

Pension plans

The pension coverage for the personnel is arranged through TyEL insurance and supplementary pension insurance. The pension plans of the President and CEO and his deputy are explained in the notes to the financial statements.

Balance sheet and income statement at fair values

In addition to the information required by the regulations, the parent company's income statement and balance sheet at fair values are presented in the notes to the financial statement. The purpose of this is to improve the transparency of the annual account information of an earnings-related pension insurance company.

The main components of the solvency capital shown separately and measuring solvency in the balance sheet are the capital and reserves, provision for future bonuses, depreciation difference and valuation differences of investments. The provision for current bonuses reserved for the payment of client bonuses, the equity-linked provision for current/future bonuses and the equalisation provision are shown on their own lines. Investments and their net return are shown at fair value. The interest credited on technical provisions is included under change in technical provision. The company's operating expenses have been combined into one line in the income statement.

Key figures and analyses

The key figures and analyses describing financial development are calculated and presented in accordance with the stipulations of the Insurance Supervision Authority concerning notes to the financial statements.

Key figures for investment operations and solvency are presented at fair values.

Net investment income at fair values over invested capital has been calculated by type of investment and for the total amount of investments with reference to daily or monthly time-weighted cash or output flow.

The return for the period has been calculated using a modified Dietz formula (time and money weighted formula) so that invested capital has been calculated by adding to the opening market value the cash flow for the period (cash flow/output flow = purchases – sales – income + expenses) weighted by the relative share of the length of the period that is left from the date of the event to the end of the period.

The total return on real estate in accordance with the Institute for Real Estate Economics (KTI) consists of the net return (income – maintenance expenses) adjusted by the change in market value. The total return is calculated on the average invested capital, which is calculated by adjusting the market value at the beginning of the year by half of the investments made during the year, which are assumed to be made at even intervals during the year. The total return percentage consists of the net return percentage adjusted by the capital return percentage (capital return percentage = change in value during the year as a percentage of average invested capital).

Notes to the financial statements

Group companies

The following companies are included as new subsidiaries in Varma's consolidated financial statements:

Kiinteistö Oy Hiihtäjätie 1
 Kiinteistö Oy Lappeenrannan Kodinkeskus
 Kiinteistö Oy Liike- ja Autokulma
 Kiinteistö Oy Rajalla
 Kiinteistö Oy Tavastkulla
 Asunto Oy Helsingin Kadetintie 4

In addition, the Group comprises the following 176 subsidiaries:

Asunto Oy Espoon Emännäntie 1
 Asunto Oy Espoon Emännäntie 2
 Asunto Oy Espoon Emännäntie 3
 Asunto Oy Espoon Keijumäki
 Asunto Oy Espoon Kilonlemmikki
 Asunto Oy Espoon Kiskottajankuja 4
 Asunto Oy Espoon Kyyhkysmäki 14
 Asunto Oy Espoon Lintuvaarantie 37-39
 Asunto Oy Espoon Pyölinpuisto
 Asunto Oy Espoon Rautiaisentie 21
 Asunto Oy Haukikoto
 Asunto Oy Helsingin Kaustisenpolku 1
 Asunto Oy Helsingin Kimmontie 3
 Asunto Oy Helsingin Kivihaanrinne
 Asunto Oy Helsingin Klaneettitie
 Asunto Oy Helsingin Näyttelijätie 22
 Asunto Oy Helsingin Päijänteentie 4-6
 Asunto Oy Helsingin Roihuvuorentie 20
 Asunto Oy Helsingin Roihuvuorentie 30
 Asunto Oy Jyväskylän Kiramo 4
 Asunto Oy Katajaharjuntie 22
 Asunto Oy Kokkovouri
 Asunto Oy Korkeavuorenkatu 2 a
 Asunto Oy Kuokkalan Tahkonkartano
 Asunto Oy Lahden Kulmakatu 10
 Asunto Oy Lahden Kulmakatu 12
 Asunto Oy Lahden Lahdenkatu 39
 Asunto Oy Lahden Massinhovi
 Asunto Oy Lahden Massinpoiju
 Asunto Oy Linnantie 3
 Asunto Oy Merihauki
 Asunto Oy Neilikkatie
 Asunto Oy Niittymaanpuisto
 Asunto Oy Näkinkuja 4
 Asunto Oy Oulun Lehmuskuja
 Asunto Oy Paatsamatie 3
 Asunto Oy Paratiisintie
 Asunto Oy Raision Tasontorni
 Asunto Oy Rovaniemen Väliarakka
 Asunto Oy Siltavoudintie 1
 Asunto Oy Taivalpolku
 Asunto Oy Tampereen Jankansampo
 Asunto Oy Tampereen Kultaköynnös
 Asunto Oy Tampereen Näsijärvenkatu 3
 Asunto Oy Tampereen Palatsinraitti 1
 Asunto Oy Tampereen Puuvillatehtaankatu 6
 Asunto Oy Tampereen Satakunnankatu 22
 Asunto Oy Tampereen Vihilahdenkontu
 Asunto Oy Tervahovinkatu 12
 Asunto Oy Turun Itäinen Rantakatu 64
 Asunto Oy Turun Itäinen Rantakatu 70
 Asunto Oy Turun Laivurinkatu 2
 Asunto Oy Turun Metallikatu
 Asunto Oy Vantaan Kaivoslähde
 Asunto Oy Vantaan Kärjäkuja 1
 Asunto Oy Vantaan Vernissakatu 5
 Asunto Oy Väinämöisenkatu 7
 Hakunilan Kiinteistöt Oy
 Helsingin Kiinteistösi joitus Oy
 Kiinteistöosakeyhtiö Varma
 Kiinteistö Oy Ahertajantie 3
 Kiinteistö Oy Arabian Parkki
 Kiinteistö Oy Aspius
 Kiinteistö Oy Atomitalo
 Kiinteistö Oy Avia Prima
 Kiinteistö Oy Eerikinkatu 24
 Kiinteistö Oy Elocinkulma 3
 Kiinteistö Oy Espoon Kamreerintie 2
 Kiinteistö Oy Espoon Kiltakallionrinne
 Kiinteistö Oy Espoon Komentajan-Varma
 Kiinteistö Oy Espoon Niittyhaka
 Kiinteistö Oy Espoon Ruukimestarintie 2
 Kiinteistö Oy Fredrikinkatu 42
 Kiinteistö Oy Friisikeskus
 Kiinteistö Oy Gigahermia
 Kiinteistö Oy Haunistenniitty
 Kiinteistö Oy Heinolan Lampikatu 16
 Kiinteistö Oy Helsingin Hiilipiha
 Kiinteistö Oy Helsingin Hiiliranta
 Kiinteistö Oy Helsingin Itämerenkatu 11-13
 Kiinteistö Oy Helsingin Lemuntie 7
 Kiinteistö Oy Helsingin Lönnrotinkatu 18
 Kiinteistö Oy Helsingin Malminkatu 28
 Kiinteistö Oy Helsingin Putkitie 3
 Kiinteistö Oy Helsingin Ratavartijankatu 5
 Kiinteistö Oy Helsingin Ristipellontie 16
 Kiinteistö Oy Helsingin Tapulikaupungintie 13
 Kiinteistö Oy Helsingin Valimopolku 4
 Kiinteistö Oy Helsingin Valimotie 9-11
 Kiinteistö Oy Helsingin Valimotie 16
 Kiinteistö Oy Helsinki Niittylänpolku 10
 Kiinteistö Oy Hotelli Torini
 Kiinteistö Oy Hämeenkatu 23
 Kiinteistö Oy Hämeentie 135
 Kiinteistö Oy Itäinen Rantakatu 60
 Kiinteistö Oy Itälahdenkatu 15-17
 Kiinteistö Oy Itälahdenkatu 22 A
 Kiinteistö Oy John Stenberginranta 2
 Kiinteistö Oy Juhana Herttua 3
 Kiinteistö Oy Jyväskylän maalaisk. Kotikeskus
 Kiinteistö Oy Jyväskylän Mattilanniemi
 Kiinteistö Oy Kaarenhanka
 Kiinteistö Oy Kaikukatu 7
 Kiinteistö Oy Kangasalan Vihervarpu
 Kiinteistö Oy Keskustahotelli
 Kiinteistö Oy Koirasaarentie 1
 Kiinteistö Oy Kolmisopentie 3
 Kiinteistö Oy Koroppa
 Kiinteistö Oy Koskikastanja
 Kiinteistö Oy Kouvolan Lehtikaari 3
 Kiinteistö Oy Kuperitie 2
 Kiinteistö Oy Kuutosseppä
 Kiinteistö Oy Lahden Jussilankatu 6
 Kiinteistö Oy Lahden Tupalankatu 3
 Kiinteistö Oy Lahden Virastotalo
 Kiinteistö Oy Lammin Työkeskus

Kiinteistö Oy Lappeenrannan Patria
 Kiinteistö Oy Lassilanlinna
 Kiinteistö Oy Lohjan Sampotalo
 Kiinteistö Oy Loimaanportti
 Kiinteistö Oy Lönnrotinkatu 12
 Kiinteistö Oy Lönnrotinkatu 12 A
 Kiinteistö Oy Menotie 1
 Kiinteistö Oy Metsäpojanukuja 1
 Kiinteistö Oy Myyrkumpu
 Kiinteistö Oy Mälkkäläläntalo
 Kiinteistö Oy Nummenvaara
 Kiinteistö Oy Nurmijärven Liiketalo
 Kiinteistö Oy Olarinluoma 9
 Kiinteistö Oy Oulun Kallisensuora 5
 Kiinteistö Oy Oulunkyläntori 1
 Kiinteistö Oy Oulun Tulliväylä 3
 Kiinteistö Oy Oulun Tyrnäväntie 6
 Kiinteistö Oy Palokanvarma
 Kiinteistö Oy Partolan Kauppajätti
 Kiinteistö Oy Pharma City
 Kiinteistö Oy Porel
 Kiinteistö Oy Porin Eteläväylä 2
 Kiinteistö Oy Porvoon Kuninkaantie 1
 Kiinteistö Oy Rajasampaanranta 2
 Kiinteistö Oy Rastilan Liikekeskus
 Kiinteistö Oy Savonkatu 21
 Kiinteistö Oy Scanaine
 Kiinteistö Oy Sinihelmi
 Kiinteistö Oy Sompasaaren Tukoeka
 Kiinteistö Oy Spektrin Trio
 Kiinteistö Oy Suometsänkaari 2
 Kiinteistö Oy Tampereen Kalevanpaasi
 Kiinteistö Oy Tarhaajantie 2
 Kiinteistö Oy Teerivuorenkatu 28
 Kiinteistö Oy Teerivuorenpuisto
 Kiinteistö Oy Tekniikkatie 4
 Kiinteistö Oy Teräslautelanrinne
 Kiinteistö Oy Tietotalo
 Kiinteistö Oy Tilkan Paletti
 Kiinteistö Oy Turun Aninkaistenkatu 13
 Kiinteistö Oy Turun Asemakeskus
 Kiinteistö Oy Vaasan Monopol Fastighets Ab
 Kiinteistö Oy Vaasan Sampotalo
 Kiinteistö Oy Vantaan Martintalo
 Kiinteistö Oy Vantaan Rasti
 Kiinteistö Oy Vantaan Sarkatie 1
 Kiinteistö Oy Vantaan Tasetie 8
 Kiinteistö Oy Varmantalo
 Kiinteistö Oy Vuorenvarma
 Kiinteistö Oy Vääksyntie 4
 Old Mill Oy
 Osakevarma Oy
 Oy Ässäkeskus Ab
 Pitäjänmäen Kiinteistöt Oy
 Talo-osakeyhtiö Kuopion Tulliportinkatu 25
 Tampereen Kiinteistö Invest Oy
 TietoEnator Esy Ltd
 Upper Limit Oy
 Vaasa Hitec Park Oy
 Vaasa Tekno Park Oy

The following 12 subsidiaries exited the Group during the year under review:

Kiinteistö Oy Arinatie 6
 Kiinteistö Oy Jämsän Torinkulma
 Kiinteistö Oy Kempeleen Kurikkatie 12
 Kiinteistö Oy Koivuhaanportti 10
 Lepinpellonkatu Oy
 Kiinteistö Oy Kotkan Suursaarenkatu 1
 Kiinteistö Oy Miekkonien Kauppakeskus
 Kiinteistö Oy Pappilänrinteen Liiketalo
 Kiinteistö Oy Äänekosken Ostoskeskus
 Satakunnan Teollisuustalo Oy
 Teräsportti Oy
 Valuraudankuja Oy

In addition, the Group comprises the following 37 associates:

Asunto Oy Harjavallankatu 6
 Asunto Oy Helsingin Haapaniemenkatu 11
 Asunto Oy Kusiiniementie 12
 Asunto Oy Lahden Ritaripiha
 Haagan III Liikekeskus
 Kamreerintien Pysäköintitalo Oy
 Kemin Asemakatu 4
 Kiinteistö Oy Alavuden Rantakeskus
 Kiinteistö Oy Elocinkulma 1
 Kiinteistö Oy Friitalan Liiketalo
 Kiinteistö Oy Karkkilan Sähkökiinteistö
 Kiinteistö Oy Kevätkummun Palvelukeskus
 Kiinteistö Oy Liikejalava
 Kiinteistö Oy Puijonlaakson Palvelukeskus
 Kiinteistö Oy Salpausseläntie
 Kiinteistö Oy Sammontori
 Kiinteistö Oy Selloparkki
 Kiinteistö Oy Suursuon Ostoskeskus
 Kiinteistö Oy Turun Autopiha
 Kiinteistö Oy Zeppelinin Markkinapaikka
 Koivulan Liikekeskus Oy
 Kulosaaren Ostoskeskus Oy
 Lansantien Liikekiinteistö Oy
 Martinparkki Oy
 NV Kiinteistösijoitus Oy
 Näkin Pihapuistikko II Oy
 Oulun Lehmusparkki Oy
 Poha-Pysäköinti Oy
 P-Turku Oy
 Ruohoparkki Oy
 Sato Oyj
 Sibylla Oy
 Silta Oy
 Spektri Business Oy
 Spektri-Park Oy
 Vakuutusosakeyhtiö Garantia
 Vaasan Toripysäköinti Oy

The following 3 associates exited the Group during the year under review:

Ovenia Oy
 Porin Talo Oy
 Asunto Oy Saarnilaakso

Notes to the financial statements

Notes to the income statement

| 1 Jan.–31 Dec. € million | PARENT COMPANY | | GROUP | |
|-----------------------------------------------------------------------------------------------------------------------------|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Premiums written | | | | |
| Direct business | | | | |
| Basic insurance under TyEL | | | | |
| Employer | 2,365.4 | 2,240.5 | 2,365.4 | 2,240.5 |
| Employee | 642.0 | 605.5 | 642.0 | 605.5 |
| | 3,007.4 | 2,846.0 | 3,007.4 | 2,846.0 |
| Supplementary pension insurance under TEL | 10.5 | 13.0 | 10.5 | 13.0 |
| Insurance under minimum YEL cover | 129.0 | 125.0 | 129.0 | 125.0 |
| Supplementary pension insurance under YEL | 0.0 | 0.0 | 0.0 | 0.0 |
| Transition charge payable to the State Pension Fund | | 0.2 | | 0.2 |
| | 3,147.0 | 2,984.2 | 3,147.0 | 2,984.2 |
| Reinsurance | | | | |
| Premiums written before reinsurance | 3,147.1 | 2,984.2 | 3,147.1 | 2,984.2 |
| Reinsurance share | -0.2 | -0.9 | -0.2 | -0.9 |
| Premiums written ¹⁾ | 3,146.8 | 2,983.3 | 3,146.8 | 2,983.3 |
| Credit loss on premium receivables | | | | |
| TyEL | 6.6 | 7.2 | 6.6 | 7.2 |
| YEL | 2.0 | 2.3 | 2.0 | 2.3 |
| | 8.6 | 9.5 | 8.6 | 9.5 |
| ¹⁾ less credit loss | | | | |
| Claims paid | | | | |
| Direct business | | | | |
| Paid to pensioners | | | | |
| Basic insurance under TyEL | 2,791.2 | 2,620.1 | 2,791.2 | 2,620.1 |
| Supplementary pension under TEL | 95.2 | 94.3 | 95.2 | 94.3 |
| Insurance under minimum YEL cover | 178.0 | 171.5 | 178.0 | 171.5 |
| Supplementary pension under YEL | 0.5 | 0.4 | 0.5 | 0.4 |
| | 3,064.8 | 2,886.4 | 3,064.8 | 2,886.4 |
| Clearing of PAYG pensions received | | | | |
| TyEL pensions | -173.9 | -191.1 | -173.9 | -191.1 |
| YEL pensions | -37.8 | -31.9 | -37.8 | -31.9 |
| Share of the Unemployment Insurance Fund contribution and cost distribution of pension components accrued on no-pay periods | | | | |
| YEL state share | -7.6 | -10.6 | -7.6 | -10.6 |
| VEKL state compensation | 0.0 | | 0.0 | |
| | -315.1 | -329.5 | -315.1 | -329.5 |
| Reinsurance | | | | |
| | 0.0 | -0.1 | 0.0 | -0.1 |
| | 2,749.8 | 2,556.8 | 2,749.8 | 2,556.8 |
| Claims handling expenses | | | | |
| Maintenance of work capacity expenses | 17.3 | 18.4 | 17.3 | 18.4 |
| Claims paid before reinsurance | 3.8 | 3.2 | 3.8 | 3.2 |
| Reinsurance share | 2,770.9 | 2,578.4 | 2,770.9 | 2,578.4 |
| | -0.2 | -0.5 | -0.2 | -0.5 |
| Total claims paid | 2,770.7 | 2,578.0 | 2,770.7 | 2,578.0 |

Notes to the financial statements

Notes to the income statement

| 1 Jan.–31 Dec. € million | PARENT COMPANY | | GROUP | |
|------------------------------------------------------|----------------|----------------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Breakdown of net investment return | | | | |
| Investment returns | | | | |
| Returns on investments in Group companies | | | | |
| Dividend | 0.4 | 0.3 | | |
| Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| | 0.4 | 0.3 | 0.0 | 0.0 |
| Returns on investments in associates | | | | |
| Dividend | 8.1 | 1.9 | | |
| | 8.1 | 1.9 | 0.0 | 0.0 |
| Returns on investments in real estate | | | | |
| Interest | | | | |
| Group companies | 29.6 | 33.8 | | |
| Other | | 0.8 | 0.6 | 1.2 |
| Other returns | 203.1 | 215.7 | 211.5 | 226.0 |
| | 232.8 | 250.3 | 212.1 | 227.2 |
| Returns on other investments | | | | |
| Dividend | 492.5 | 344.6 | 492.6 | 344.8 |
| Interest | 393.2 | 424.1 | 393.2 | 424.1 |
| Other returns | 1,005.5 | 509.4 | 1,005.5 | 509.4 |
| | 1,891.1 | 1,278.0 | 1,891.3 | 1,278.2 |
| | 2,132.4 | 1,530.6 | 2,103.5 | 1,505.5 |
| Reversed impairment | 26.7 | 50.0 | 26.7 | 50.0 |
| Sales proceeds | 1,475.4 | 1,151.3 | 1,476.6 | 1,155.5 |
| Total | 3,634.4 | 2,731.9 | 3,606.7 | 2,711.0 |
| Investment expenses | | | | |
| On real estate | -104.0 | -105.3 | -47.1 | -45.4 |
| On other investments | -871.7 | -520.3 | -871.7 | -521.3 |
| Interest | -0.9 | -1.0 | -0.9 | -1.0 |
| | -976.6 | -626.5 | -919.7 | -566.6 |
| Impairment and depreciation | | | | |
| Impairment | -546.1 | -90.4 | -543.9 | -90.4 |
| Planned depreciation on buildings | -17.9 | -19.0 | -62.8 | -66.1 |
| | -564.0 | -109.3 | -606.7 | -156.5 |
| Sales losses | -578.8 | -365.0 | -578.8 | -365.0 |
| Total | -2,119.4 | -1,100.9 | -2,105.2 | -1,088.1 |
| Net investment return in the income statement | 1,515.0 | 1,631.1 | 1,501.5 | 1,622.9 |

| 1 Jan.-31 Dec. € million | PARENT COMPANY | | GROUP | |
|---------------------------------------------------|----------------|------|-------|------|
| | 2007 | 2006 | 2007 | 2006 |
| Operating expenses in the income statement | | | | |
| Insurance policy acquisition costs | | | | |
| Direct business commissions | 1.9 | 1.5 | 1.9 | 1.5 |
| Other insurance policy acquisition costs | 3.4 | 3.0 | 3.4 | 3.0 |
| | 5.3 | 4.5 | 5.3 | 4.5 |
| Portfolio administration expenses | 41.0 | 36.8 | 41.0 | 36.8 |
| Administrative expenses | | | | |
| Statutory charges | | | | |
| Finnish Centre for Pensions share | 12.2 | 14.5 | 12.2 | 14.5 |
| Judicial administration fee | 1.0 | 0.7 | 1.0 | 0.7 |
| Insurance Supervisory Authority supervision fee | 0.5 | 0.5 | 0.5 | 0.5 |
| Other items | -8.0 | | -8.0 | |
| | 5.6 | 15.7 | 5.6 | 15.7 |
| Other administrative expenses | 11.9 | 13.4 | 11.9 | 13.4 |
| | 63.9 | 70.4 | 63.9 | 70.4 |

Overall operating expenses by function

| | | | | |
|----------------------------------------|------|-------|------|-------|
| Claims paid | | | | |
| Claims handling expenses | 17.3 | 18.4 | 17.3 | 18.4 |
| Maintenance of work capacity expenses | 3.8 | 3.2 | 3.8 | 3.2 |
| | 21.2 | 21.6 | 21.2 | 21.6 |
| Operating expenses | 63.9 | 70.4 | 63.9 | 70.4 |
| Investment management charges | | | | |
| Expenses on investments in real estate | 4.2 | 3.6 | 4.2 | 3.6 |
| Expenses on other investments | 10.4 | 8.7 | 10.4 | 8.7 |
| | 14.7 | 12.3 | 14.7 | 12.3 |
| Total operating expenses | 99.7 | 104.3 | 99.7 | 104.3 |

Personnel and members of company bodies

Personnel expenses

| | | | | |
|----------------------------------|------|------|------|------|
| Salaries and remunerations | 33.6 | 32.2 | 33.6 | 32.2 |
| Pension expenses | 5.6 | 5.4 | 5.6 | 5.4 |
| Other personnel-related expenses | 4.7 | 4.7 | 4.7 | 4.7 |
| Total | 43.9 | 42.3 | 43.9 | 42.3 |

Management salaries and remunerations

| | | | | |
|------------------------------------------------------|-----|-----|-----|-----|
| President and CEO and his deputy | 1.0 | 0.9 | 1.0 | 0.9 |
| Members and deputy members of the Board of Directors | 0.2 | 0.2 | 0.2 | 0.2 |
| Members and deputy members of the Supervisory Board | 0.1 | 0.1 | 0.1 | 0.1 |
| Total | 1.3 | 1.2 | 1.3 | 1.2 |

| | | | | |
|-------------------------------------------------------|-----|-----|-----|-----|
| Average number of personnel during the financial year | 646 | 671 | 816 | 850 |
|-------------------------------------------------------|-----|-----|-----|-----|

President and CEO Matti Vuoria was paid €639,000 in salary and fringe benefits. His retirement age is 60 years and his pension will be 60 per cent of the calculated pensionable salary. Markku Hyvärinen, his deputy, was paid €347,000 in salary and fringe benefits. His retirement age is 60 years and his pension will be 60 per cent of the calculated pensionable salary.

Income taxes

Deferred tax liabilities or assets based on accumulated appropriations or other temporary differences between book value and taxable values have not been entered in the balance sheet, because such deferred tax liabilities or assets are unlikely to be realised in the financial statements of a company engaged in the statutory pension insurance business or of its Group.

Notes to the financial statements

Notes to the balance sheet

Investments at fair value and valuation differences, Parent Company

| | Remaining acquisition cost | Book value | Fair value | Remaining acquisition cost | Book value | Fair value |
|---------------------------------------------------------------------------------------------------------------|----------------------------------|-----------------|-----------------|----------------------------------|---------------|----------------|
| 31 Dec., € million | 2007 | 2007 | 2007 | 2006 | 2006 | 2006 |
| Investments in real estate | | | | | | |
| Real estate | 552.4 | 569.0 | 713.6 | 487.6 | 504.2 | 611.2 |
| Shares in Group companies | 936.9 | 936.9 | 1,321.8 | 953.4 | 953.4 | 1,230.2 |
| Other real estate shares | 52.3 | 52.3 | 56.3 | 46.6 | 46.6 | 49.4 |
| Loans to Group companies | 520.3 | 520.3 | 520.3 | 517.0 | 517.0 | 517.0 |
| Loans to real estate companies | 309.4 | 309.4 | 309.4 | 113.1 | 113.1 | 113.1 |
| Investments in Group companies | | | | | | |
| Shares and participations | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Loan receivables | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |
| Investment in associates | | | | | | |
| Shares and participations | 106.2 | 106.2 | 137.7 | 57.9 | 57.9 | 59.9 |
| Other investments | | | | | | |
| Shares and participations | 11,867.2 | 11,867.2 | 15,270.2 | 9,674.8 | 9,674.8 | 12,844.5 |
| Money-market instruments | 9,041.2 | 9,041.2 | 8,793.1 | 9,894.5 | 9,894.5 | 9,938.4 |
| Loans guaranteed by mortgages | 156.5 | 156.5 | 156.5 | 163.7 | 163.7 | 163.7 |
| Other loan receivables | 851.2 | 851.2 | 852.6 | 754.3 | 754.3 | 755.8 |
| Deposits | 91.5 | 91.5 | 91.5 | 329.5 | 329.5 | 329.5 |
| | 24,489.7 | 24,506.3 | 28,227.6 | 22,997.1 | 23,013.7 | 26,617.4 |
| The remaining acquisition cost of money-market instruments includes: | | | | | | |
| - the difference between the nominal value and acquisition cost, released or charged to interest income | | | | -88.0 | | -91.3 |
| - income from index-bound loans | | | | | | 18.2 |
| | | | | -88.0 | | -73.2 |
| Book value includes | | | | | | |
| Revaluations entered as income | | | | | 16.6 | 16.6 |
| Valuation difference (difference between fair value and book value) | | | | | | 3,721.3 |
| | | | | | | 3,603.7 |

Investments at fair value and valuation differences, Group

| | Remaining acquisition cost | Book value | Fair value | Remaining acquisition cost | Book value | Fair value |
|---------------------------------------------------------------------------------------------------------------|----------------------------------|-----------------|-----------------|----------------------------------|---------------|----------------|
| 31 Dec., € million | 2007 | 2007 | 2007 | 2006 | 2006 | 2006 |
| Investments in real estate | | | | | | |
| Real estate | 2,244.7 | 2,261.3 | 2,854.3 | 2,002.9 | 2,019.5 | 2,462.1 |
| Other real estate shares | 52.3 | 52.3 | 56.3 | 46.6 | 46.6 | 49.4 |
| Loans to real estate companies | 1.8 | 1.8 | 1.8 | 0.0 | 0.0 | 0.0 |
| Investments in Group companies | | | | | | |
| Shares and participations | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 |
| Loan receivables | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |
| Investments in associates | | | | | | |
| Shares and participations | 113.2 | 113.2 | 137.7 | 61.8 | 61.8 | 61.6 |
| Other investments | | | | | | |
| Shares and participations | 11,883.3 | 11,883.3 | 15,286.3 | 9,690.7 | 9,690.7 | 12,860.4 |
| Money-market instruments | 9,041.2 | 9,041.2 | 8,793.1 | 9,894.5 | 9,894.5 | 9,938.4 |
| Loans guaranteed by mortgages | 156.5 | 156.5 | 156.5 | 163.7 | 163.7 | 163.7 |
| Other loan receivables | 851.2 | 851.2 | 852.6 | 754.3 | 754.3 | 755.8 |
| Deposits | 91.5 | 91.5 | 91.5 | 329.5 | 329.5 | 329.5 |
| | 24,436.6 | 24,453.2 | 28,231.1 | 22,945.2 | 22,961.7 | 26,622.3 |
| The remaining acquisition cost of money-market instruments includes: | | | | | | |
| - the difference between the nominal value and acquisition cost, released or charged to interest income | | | | -88.0 | | -91.3 |
| - income from index-bound loans | | | | | | 18.2 |
| | | | | -88.0 | | -73.2 |
| Book value includes | | | | | | |
| Revaluations entered as income | | | | | 16.6 | 16.6 |
| Valuation difference (difference between fair value and book value) | | | | | | 3,777.9 |
| | | | | | | 3,660.5 |

Notes to the financial statements

Notes to the balance sheet

Investments in Group companies and associates, Parent Company

31 Dec. 2007, € million

Shares and participations in Group companies

| | |
|---------------------------|-----|
| Acquisition cost, 1 Jan. | 4.3 |
| Acquisition cost, 31 Dec. | 4.3 |

Loans to Group companies

| | |
|---------------------------|------|
| Acquisition cost, 1 Jan. | 0.5 |
| Decrease | -0.1 |
| Acquisition cost, 31 Dec. | 0.4 |

Shares and participations in associates

| | |
|---------------------------|-------|
| Acquisition cost, 1 Jan. | 57.9 |
| Increase | 48.3 |
| Decrease | -0.1 |
| Acquisition cost, 31 Dec. | 106.2 |

Shares and participations in Group companies

| 31 Dec. 2007 | Domicile | Shares, % | Votes, % | Book value € million |
|---------------------|----------|-----------|----------|-------------------------|
| TietoEnator Esy Ltd | Helsinki | 14.4 % | 50.1 % | 0.9 |
| Osakevarma Oy | Helsinki | 100.0 % | 100.0 % | 3.3 |
| | | | | 4.3 |

Housing associations and real estate companies **935.2**

Shares and participations in associates

| 31 Dec. 2007 | Domicile | Shares, % | Votes, % | Book value € million |
|--------------------------------|----------|-----------|----------|-------------------------|
| NV Kiinteistösi joitus Oy | Helsinki | 45.0 % | 45.0 % | 0.0 |
| Sato Corporation | Helsinki | 39.5 % | 39.5 % | 90.5 |
| Silta Oy | Helsinki | 39.1 % | 39.1 % | 1.3 |
| Garantia Insurance Company Ltd | Helsinki | 30.5 % | 30.5 % | 14.4 |
| | | | | 106.2 |

Housing associations and real estate companies **25.4**

Investments in Group companies and associates, Group

31 Dec. 2007, € million

Shares and participations in Group companies

| | |
|---------------------------|------|
| Acquisition cost, 1 Jan. | 0.7 |
| Decrease | -0.1 |
| Acquisition cost, 31 Dec. | 0.6 |

Loans to Group companies

| | |
|---------------------------|------|
| Acquisition cost, 1 Jan. | 0.5 |
| Decrease | -0.1 |
| Acquisition cost, 31 Dec. | 0.4 |

Shares and participations in associates

| | |
|---------------------------|-------|
| Acquisition cost, 1 Jan. | 61.8 |
| Increase | 52.2 |
| Decrease | -0.8 |
| Acquisition cost, 31 Dec. | 113.2 |

Shares and participations in Group companies

| 31 Dec. 2007 | Domicile | Shares, % | Votes, % | Book value € million |
|---------------------|----------|-----------|----------|-------------------------|
| TietoEnator Esy Ltd | Helsinki | 14.4 % | 50.1 % | 0.6 |
| | | | | 0.6 |

Shares and participations in associates

| 31 Dec. 2007 | Domicile | Shares, % | Votes, % | Book value € million |
|--------------------------------|----------|-----------|----------|-------------------------|
| NV Kiinteistösi joitus Oy | Helsinki | 45.0 % | 45.0 % | 0.0 |
| Sato Corporation | Helsinki | 39.5 % | 39.5 % | 95.8 |
| Silta Oy | Helsinki | 39.1 % | 39.1 % | 3.4 |
| Garantia Insurance Company Ltd | Helsinki | 30.5 % | 30.5 % | 13.9 |
| | | | | 113.2 |

Housing associations and real estate companies

36.2

Notes to the financial statements

Notes to the balance sheet

Changes in investments in real estate

| 31 Dec. 2007, € million | PARENT COMPANY | | GROUP | |
|------------------------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|
| | Real estate and real estate shares | Loans to Group companies | Real estate and real estate shares | Loans to Group companies |
| Acquisition cost, 1 Jan. | 1,780.2 | 630.1 | 2,764.0 | 0.0 |
| Increase | 150.6 | 245.2 | 376.6 | 1.8 |
| Decrease | -126.7 | -43.8 | -117.8 | |
| Acquisition cost, 31 Dec. | 1,804.2 | 831.5 | 3,022.8 | 1.8 |
| Accumulated depreciation, 1 Jan. | -107.2 | | -568.1 | |
| Accumulated depreciation from items sold | 2.4 | | 13.3 | |
| Depreciation for the financial year | -17.9 | | -62.8 | |
| Accumulated depreciation, 31 Dec. | -122.7 | | -617.7 | |
| Impairments, 1 Jan. | -129.2 | | -93.4 | |
| Impairments for the financial year | -18.4 | | -16.2 | |
| Impairments on items sold | 6.0 | | 1.8 | |
| Impairments, 31 Dec. | -141.6 | | -107.8 | |
| Revaluations, 1 Jan. | 16.6 | | 16.6 | |
| Revaluations, 31 Dec. | 16.6 | | 16.6 | |
| Book value, 31 Dec. | 1,556.5 | 831.5 | 2,313.9 | 1.8 |

Real estate in own use

| 31 Dec. 2007, € million | PARENT COMPANY | GROUP |
|----------------------------|----------------|-------|
| Remaining acquisition cost | 51.5 | 46.0 |
| Book value | 51.5 | 46.0 |
| Fair value | 65.5 | 53.6 |

Parent Company's other investments, shares and participations

| 31 Dec. 2007 | Shares % | Book value € million | Market value € million | Shares % | Book value € million | Market value € million |
|-----------------------------------------------|-------------|----------------------------|------------------------------|-------------|----------------------------|------------------------------|
| LISTED SHARES | | | | | | |
| Finland | | | | | | |
| Affecto Plcj | 1.44 | 1.3 | 1.3 | | | |
| Ahlstrom Corporation | 3.28 | 22.1 | 25.1 | | | |
| Alma Media Corporation | 9.65 | 31.1 | 84.0 | | | |
| Amer Sports Corporation | 1.31 | 8.1 | 17.4 | | | |
| Aspo Plc | 1.87 | 0.7 | 3.1 | | | |
| Atria Group Plc | 0.55 | 2.7 | 2.7 | | | |
| Beltton-Group Plc | 6.91 | 1.5 | 1.5 | | | |
| CapMan Plc | 2.14 | 5.6 | 5.6 | | | |
| Cargotec Corporation | 2.05 | 35.0 | 41.6 | | | |
| Cencorp Oyj | 10.46 | 1.1 | 1.1 | | | |
| Comptel Corporation | 4.81 | 7.2 | 7.2 | | | |
| Cramo Plc | 3.26 | 17.3 | 17.3 | | | |
| Efore Plc | 3.55 | 1.6 | 1.6 | | | |
| Elisa Corporation | 1.80 | 58.8 | 62.9 | | | |
| Etteplan Oyj | 3.01 | 2.1 | 2.8 | | | |
| Exel Oyj | 3.06 | 1.2 | 4.2 | | | |
| Finnair Plc | 0.47 | 4.8 | 4.8 | | | |
| Finnlines Plc | 0.12 | 0.7 | 0.8 | | | |
| Fiskars Corporation | 3.89 | 29.5 | 40.5 | | | |
| Fortum Corporation | 0.66 | 73.8 | 180.2 | | | |
| HKScan Oyj | 1.18 | 4.3 | 6.5 | | | |
| Huhtamäki Oyj | 2.23 | 19.1 | 19.1 | | | |
| Kemira Oyj | 9.72 | 160.6 | 174.9 | | | |
| Kesko Corporation | 1.08 | 13.2 | 40.0 | | | |
| Kesla Oyj | 4.43 | 1.4 | 1.7 | | | |
| Konecranes Plc | 2.32 | 8.0 | 33.4 | | | |
| Kone Corporation | 0.68 | 21.7 | 41.8 | | | |
| Lassila & Tikanoja Oyj | 5.81 | 25.2 | 50.2 | | | |
| Lemminkäinen Corporation | 2.98 | 5.4 | 16.0 | | | |
| Marimekko Corporation | 1.34 | 0.9 | 1.9 | | | |
| Metsa Corporation | 3.19 | 146.0 | 168.6 | | | |
| M-real Corporation | 3.42 | 36.4 | 36.4 | | | |
| Neste Oil Corporation | 1.25 | 69.6 | 77.1 | | | |
| Nokian Tyres plc | 4.22 | 57.5 | 125.6 | | | |
| Nokia Corporation | 0.29 | 189.8 | 298.6 | | | |
| Nordic Aluminium Oyj | 5.17 | 2.1 | 7.2 | | | |
| Okmetic Oyj | 2.83 | 1.4 | 1.4 | | | |
| OKO Bank plc | 0.19 | 1.6 | 5.1 | | | |
| Oriola-KD Oyj | 2.27 | 5.4 | 9.5 | | | |
| Orion Corporation | 1.99 | 29.5 | 44.9 | | | |
| Outokumpu Oyj | 1.92 | 73.8 | 73.8 | | | |
| Outotec Oyj | 2.39 | 12.5 | 37.7 | | | |
| Ponsse Oyj | 3.11 | 2.3 | 12.2 | | | |
| Powerflute Oyj | 4.81 | 4.2 | 4.2 | | | |
| Pöyry Plc | 4.25 | 16.8 | 43.2 | | | |
| Raisio Plc vaihto | 0.50 | 1.2 | 1.2 | | | |
| Ramirent Plc | 5.69 | 69.5 | 69.5 | | | |
| Rautaruukki Corporation | 1.79 | 74.5 | 74.5 | | | |
| Raute Plc | 1.30 | 0.6 | 0.7 | | | |
| Sampo Plc | 8.54 | 394.2 | 892.7 | | | |
| SanomaWSOY Corporation | 1.50 | 45.1 | 48.5 | | | |
| Scanfil Plc | 0.96 | 1.1 | 1.1 | | | |
| Sponda Oyj | 0.90 | 7.8 | 8.1 | | | |
| SRV Yhtiöt Oyj | 0.90 | 1.7 | 1.7 | | | |
| Stockmann Plc | 1.81 | 27.0 | 30.1 | | | |
| Stora Enso Oyj | 1.99 | 159.8 | 159.8 | | | |
| Suomen Terveystalo Oyj | 8.48 | 11.1 | 11.1 | | | |
| Suominen Yhtymä Oyj | 4.22 | 2.1 | 2.1 | | | |
| Syspöngia Plc | 3.68 | 2.3 | 2.3 | | | |
| Talentum Oyj | 0.85 | 1.0 | 1.0 | | | |
| Talvivaara Mining Company Ltd | 8.57 | 23.2 | 76.9 | | | |
| Tamfelt Oyj Abp | 5.90 | 14.9 | 18.7 | | | |
| Technopolis Oyj | 1.70 | 2.6 | 4.3 | | | |
| Tecnomen Oyj | 1.91 | 1.4 | 1.4 | | | |
| Teleste Corporation | 2.95 | 3.5 | 3.5 | | | |
| Tietoenator Corporation | 1.27 | 14.4 | 14.4 | | | |
| Tiimari Plc | 3.64 | 1.8 | 1.8 | | | |
| Trainers House Plc | 2.59 | 1.9 | 2.3 | | | |
| UPM-Kymmene Corporation | 2.70 | 191.4 | 191.4 | | | |
| Uponor Oyj | 6.69 | 45.2 | 84.4 | | | |
| Vaahjo Group Plc Oyj | 4.04 | 1.3 | 1.3 | | | |
| Vatsala Oyj A | 1.95 | 6.6 | 12.3 | | | |
| Wärtsilä Corporation | 4.94 | 144.7 | 246.3 | | | |
| YIT Corporation | 3.58 | 19.9 | 68.3 | | | |
| Austria | | | | | | |
| Andritz AG | 0.40 | 4.8 | 8.4 | | | |
| C.A.T. Oil AG | 0.46 | 3.3 | 3.3 | | | |
| Erste Bank der österreichischen Sparkassen AG | 0.04 | 4.8 | 5.7 | | | |
| OMV AG | 0.04 | 3.4 | 5.9 | | | |
| Raiffeisen International Bank-Holding AG | 0.03 | 2.2 | 4.2 | | | |
| Wienerberger AG | 0.34 | 10.7 | 10.7 | | | |
| Wiener Städtische Versicherung AG Vienna | 0.29 | 15.3 | 17.4 | | | |
| Insurance Company | | | | | | |
| Voestalpine AG | 0.02 | 1.3 | 1.4 | | | |
| Österreichische Elektrizitätswirtschafts-AG | 0.18 | 6.3 | 13.0 | | | |
| Bahamas | | | | | | |
| Arch Capital Group Ltd | 0.07 | 2.3 | 2.3 | | | |
| Belgium | | | | | | |
| Belgaacom SA | 0.10 | 9.7 | 11.4 | | | |
| InBew | 0.05 | 7.8 | 18.1 | | | |
| KBC Group SA | 0.03 | 8.2 | 9.3 | | | |
| UCB SA | 0.14 | 7.8 | 7.8 | | | |
| Brazil | | | | | | |
| Petroleo Brasileiro S.A. | 0.03 | 7.1 | 20.3 | | | |
| Canada | | | | | | |
| Questerre Energy Corporation | 4.33 | 2.5 | 2.5 | | | |
| Cayman Islands | | | | | | |
| EOS Russia | 4.40 | 12.4 | 12.4 | | | |
| Cyprus | | | | | | |
| AFI Development Plc | 0.38 | 12.9 | 12.9 | | | |
| Czech Republic | | | | | | |
| CEZ AS | 0.07 | 5.1 | 20.4 | | | |
| Denmark | | | | | | |
| Danske Bank A/S | 0.05 | 8.6 | 8.6 | | | |
| DSV A/S | 0.21 | 5.7 | 6.3 | | | |
| Exicon A/S | 0.61 | 0.7 | 0.7 | | | |
| FLSmith & Co A/S | 0.13 | 4.6 | 4.9 | | | |
| LifeCycle Pharma A/S | 1.39 | 2.1 | 2.1 | | | |
| Novo Nordisk A/S B | 0.01 | 1.0 | 2.1 | | | |
| TopoTarget A/S | 1.98 | 2.8 | 2.8 | | | |
| Trygvesta A/S | 0.14 | 3.7 | 5.1 | | | |
| Vestas Wind Systems A/S | 0.02 | 2.7 | 3.0 | | | |
| France | | | | | | |
| Accor SA | 0.06 | 4.7 | 8.1 | | | |
| Air Liquide SA | 0.02 | 3.8 | 5.1 | | | |
| Alcatel SA | 0.03 | 3.0 | 3.0 | | | |
| Alstom | 0.05 | 7.1 | 10.9 | | | |
| AXA SA | 0.05 | 23.2 | 29.9 | | | |
| BNP Paribas SA | 0.03 | 18.4 | 18.6 | | | |
| Bouygues SA | 0.06 | 10.9 | 10.9 | | | |
| Bureau Veritas SA | 0.08 | 3.8 | 4.0 | | | |
| Carrefour SA | 0.07 | 26.9 | 26.9 | | | |
| Compagnie de Saint-Gobain SA | 0.09 | 18.9 | 21.5 | | | |
| Compagnie Generale de Geophysique SA | 0.12 | 4.0 | 6.5 | | | |
| EDF Energies Nouvelles SA | 0.01 | 8.2 | 11.1 | | | |
| Electricite de France SA | 0.02 | 22.5 | 32.6 | | | |
| Galp Energia, SGPS, SA | 0.16 | 7.4 | 18.3 | | | |
| Groupe Danone | 0.09 | 16.5 | 28.3 | | | |
| Lafarge SA | 0.11 | 21.0 | 24.2 | | | |
| L'oreal SA | 0.03 | 10.2 | 15.7 | | | |
| Louis Vuitton Moët Hennessy SA | 0.02 | 7.6 | 8.0 | | | |
| Michelin B | 0.10 | 11.0 | 11.0 | | | |
| Nexans SA | 0.23 | 5.1 | 5.1 | | | |
| Pernod-Ricard SA | 0.16 | 13.1 | 27.8 | | | |
| Pinault-Printemps-Redoute SA | 0.08 | 9.6 | 11.2 | | | |
| Publicis Groupe SA | 0.14 | 7.7 | 7.8 | | | |
| Renault SA | 0.09 | 24.3 | 24.3 | | | |
| Rhodia SA | 0.70 | 18.5 | 18.5 | | | |
| Sanofi-Aventis SA | 0.03 | 20.0 | 29.4 | | | |
| Schneider Electric SA | 0.02 | 4.4 | 4.4 | | | |
| Suez Lyonnais Des Eaux SA | 0.06 | 18.4 | 35.2 | | | |
| Technip-Coflexip SA | 0.08 | 2.5 | 4.7 | | | |
| Teleperformance | 0.17 | 2.5 | 2.5 | | | |
| Thomson Multimedia SA | 0.09 | 2.4 | 2.4 | | | |
| Total SA | 0.04 | 42.0 | 56.7 | | | |
| Vallourec SA | 0.15 | 14.8 | 15.0 | | | |
| Vinci SA | 0.09 | 12.6 | 21.6 | | | |
| Vivendi SA | 0.05 | 15.3 | 16.9 | | | |
| Germany | | | | | | |
| Adidas-Salomon AG | 0.16 | 13.8 | 16.8 | | | |
| Allianz SE | 0.02 | 12.3 | 14.0 | | | |
| Basf SE | 0.02 | 7.5 | 10.1 | | | |
| Bayer AG | 0.04 | 12.6 | 18.7 | | | |
| Bayerische Motoren Werke AG | 0.04 | 10.7 | 10.7 | | | |
| Beiersdorf AG | 0.06 | 7.3 | 7.9 | | | |
| Bilfinger Berger AG | 0.08 | 1.6 | 1.6 | | | |
| Commerzbank AG | 0.03 | 6.0 | 6.0 | | | |
| Continental AG | 0.03 | 4.4 | 4.4 | | | |
| DaimlerChrysler AG | 0.09 | 57.3 | 59.4 | | | |
| Deutsche Postbank AG | 0.08 | 7.9 | 7.9 | | | |
| Deutsche Telekom AG | 0.04 | 26.0 | 27.8 | | | |
| Deutsche Wohnen AG | 1.19 | 6.4 | 6.4 | | | |
| E.ON AG | 0.06 | 40.7 | 56.2 | | | |
| Epcos AG | 0.32 | 2.4 | 2.5 | | | |
| Fresenius Medical Care AG & Co | 0.04 | 3.6 | 3.8 | | | |
| Hamburger Hafen und Logistik AG | 0.04 | 1.3 | 1.5 | | | |
| Hochtief AG | 0.14 | 3.7 | 9.1 | | | |
| Hypo Real Estate Holding AG | 0.08 | 5.7 | 5.8 | | | |
| Infineon Technologies AG | 0.05 | 3.2 | 3.2 | | | |
| Linde AG | 0.04 | 4.7 | 6.4 | | | |
| MTU Aero Engines Holding AG | 0.12 | 2.5 | 2.6 | | | |
| MunichRe | 0.03 | 7.6 | 8.6 | | | |
| Porsche Automobil Holding SE | 0.06 | 5.6 | 6.9 | | | |
| ProSiebenSat1 Media AG | 0.24 | 3.8 | 4.4 | | | |

Notes to the financial statements

Notes to the balance sheet

| 31 Dec. 2007 | Shares % | Book value € million | Market value € million | | Shares % | Book value € million | Market value € million |
|--------------------------------------------------|-------------|----------------------------|------------------------------|--------------------------------------------|--------------|----------------------------|------------------------------|
| Rhoen-Klinikum AG | 0.07 | 1.0 | 1.6 | Industria de Diseno Textil S.A. | 0.03 | 4.2 | 8.1 |
| SAP AG | 0.01 | 5.3 | 5.3 | Telefonica S.A. | 0.03 | 19.0 | 31.1 |
| Siemens AG | 0.04 | 26.2 | 34.8 | Sweden | | | |
| Symrise AG | 0.33 | 7.4 | 7.4 | Alfa Laval AB | 0.19 | 8.0 | 8.0 |
| Thyssenkrupp AG | 0.02 | 3.1 | 4.5 | Atlas Copco AB | 0.04 | 3.6 | 4.7 |
| Tognum AG | 0.04 | 1.0 | 1.0 | Boliden AB | 0.02 | 0.6 | 0.6 |
| Volkswagen AG | 0.03 | 13.8 | 15.9 | Elekta AB B | 0.23 | 2.4 | 2.4 |
| Greece | | | | Hennes & Mauritz AB | 0.08 | 17.9 | 23.1 |
| Alpha Bank A.E. | 0.05 | 4.7 | 5.6 | Intrum Justitia AB | 0.38 | 1.3 | 3.6 |
| Cosmote Mobile Telecommunications S.A. | 0.09 | 4.2 | 7.8 | Modern Times Group MTG AB | 0.16 | 2.0 | 5.2 |
| EFG Eurobank | 0.05 | 5.5 | 6.0 | Nordea Bank AB | 0.47 | 131.0 | 144.9 |
| Hellenic Telecommunications Organization S.A. | 0.01 | 0.6 | 0.8 | PA Resources AB | 0.41 | 3.3 | 3.3 |
| National Bank of Greece S.A. | 0.09 | 14.2 | 19.8 | Rezidor Hotel Group AB | 1.16 | 7.0 | 7.0 |
| Piraeus Bank S.A. | 0.03 | 2.3 | 3.1 | Sandvik AB | 0.06 | 7.8 | 8.2 |
| Hungary | | | | Skandinaviska Enskilda Banken AB SKF AB | 0.06 0.07 | 7.0 3.5 | 7.0 3.5 |
| MOL Magyar Olaj-és Gazipari Rt. | 0.05 | 3.0 | 5.4 | Swedbank AB | 0.05 | 4.5 | 4.5 |
| Ireland | | | | Svenskt Staal AB | 0.02 | 0.9 | 0.9 |
| CRH Plc | 0.07 | 9.6 | 9.6 | Telefonaktiebolaget LM Ericsson | 0.03 | 6.1 | 6.1 |
| Grafton Group Plc | 0.26 | 3.3 | 3.3 | TeliaSonera AB | 0.04 | 10.2 | 12.8 |
| Irish Life & Permanent Plc | 0.12 | 3.8 | 3.8 | Volvo AB | 0.03 | 5.3 | 8.3 |
| McInerney Holdings Plc | 0.82 | 2.3 | 2.3 | Switzerland | | | |
| Italy | | | | ABB Ltd CHF | 0.03 | 9.5 | 15.6 |
| Assicurazioni Generali S.p.A. | 0.03 | 11.9 | 13.8 | Adecco SA | 0.21 | 14.8 | 14.8 |
| Eni S.p.A. | 0.02 | 21.3 | 22.5 | Ciba Specialty Chemicals AG | 0.03 | 0.6 | 0.6 |
| Fiat S.p.A. | 0.02 | 4.4 | 4.4 | Credit Suisse Group | 0.01 | 6.6 | 6.6 |
| Saipem S.p.A. | 0.05 | 1.6 | 5.5 | Geberit AG | 0.05 | 1.0 | 1.9 |
| Telecom Italia S.p.A. | 0.04 | 11.1 | 11.1 | Holcim Ltd | 0.02 | 2.2 | 3.8 |
| Unicredito Italiano S.p.A. | 0.03 | 20.2 | 20.2 | Nestle SA | 0.06 | 49.4 | 72.2 |
| Japan | | | | Nobel Biocare Holding AG | 0.12 | 5.6 | 5.6 |
| Toyota Motor Corporation | 0.00 | 4.8 | 4.8 | Novartis AG | 0.04 | 43.9 | 45.6 |
| Jersey | | | | Roche Holding AG | 0.05 | 27.2 | 41.4 |
| Black Earth Farming Ltd | 1.42 | 9.0 | 9.0 | Santhera Pharmaceuticals Rec | 1.45 | 2.3 | 2.3 |
| Kazakhstan | | | | Swiss Life Holding | 0.13 | 7.3 | 7.8 |
| Eurasian Natural Resources Corporation | 0.05 | 5.2 | 6.1 | Swiss Reinsurance | 0.04 | 6.6 | 6.6 |
| JSC Bank TuranAlem | 0.21 | 5.5 | 5.5 | Syngenta AG | 0.08 | 11.1 | 13.9 |
| KazMunaiGas Exploration GDR | 0.08 | 4.5 | 7.0 | UBS AG | 0.01 | 7.2 | 7.2 |
| Luxembourg | | | | Zurich Financial Services AG | 0.05 | 11.5 | 13.3 |
| Orco Property Group | 0.55 | 4.9 | 4.9 | Taiwan | | | |
| Tenaris S.A. | 0.01 | 1.8 | 1.8 | AU Optronics Corp. | 0.04 | 2.7 | 3.9 |
| Netherlands | | | | Ukraine | | | |
| ABN-Amro Holdings N.V. | 0.03 | 11.1 | 18.8 | KDD Group NV | 1.50 | 6.6 | 6.6 |
| Aegon N.V. | 0.02 | 3.8 | 3.8 | United Arab Emirates | | | |
| Akzo Nobel N.V. | 0.03 | 5.2 | 5.5 | DP World Ltd | 0.01 | 1.4 | 1.5 |
| Amtel Vredestein N.V. (GDR) | 3.38 | 3.7 | 3.7 | Lamprell Plc | 0.28 | 2.9 | 3.4 |
| Arcelor Mittal | 0.01 | 10.1 | 10.8 | United Kingdom | | | |
| Boussard & Gavaudan Holding | 11.36 | 47.9 | 47.9 | Aceryg SA | 0.34 | 10.2 | 10.2 |
| Crucell N.V. | 0.45 | 3.3 | 3.3 | Anglo American Plc | 0.03 | 13.6 | 14.3 |
| Koninklijke BAM Groep N.V. | 0.68 | 9.7 | 13.9 | Antofagasta Plc | 0.01 | 0.9 | 0.9 |
| Koninklijke DSM N.V. | 0.08 | 4.8 | 4.8 | Astra Zeneca Plc | 0.02 | 6.8 | 6.8 |
| Koninklijke Philips Electronics N.V. | 0.02 | 5.7 | 8.2 | Aviva Plc | 0.06 | 14.4 | 14.4 |
| Qiagen N.V. | 0.25 | 5.4 | 7.2 | BG Group Plc | 0.05 | 6.4 | 25.9 |
| Reed Elsevier N.V. | 0.11 | 9.4 | 9.5 | BHP Billiton Plc | 0.03 | 12.3 | 12.5 |
| Royal Dutch Shell Plc | 0.03 | 24.6 | 29.0 | BP Amoco Plc | 0.04 | 49.9 | 56.2 |
| Unilever N.V. CVA | 0.10 | 32.5 | 44.8 | Bradford & Bingley Plc | 0.45 | 9.8 | 10.0 |
| USG People N.V. | 0.34 | 4.0 | 4.0 | British Sky Broadcasting Plc | 0.02 | 2.8 | 3.4 |
| Wavin N.V. | 1.26 | 9.1 | 9.1 | Carnival Plc | 0.15 | 7.2 | 7.2 |
| Vedior N.V. | 0.44 | 12.2 | 13.1 | Compass Group Plc | 0.06 | 4.6 | 4.8 |
| Norway | | | | Dana Petroleum Plc | 0.41 | 5.4 | 6.7 |
| Aker Kvaerner ASA | 0.09 | 3.3 | 4.4 | Diageo Plc | 0.07 | 17.7 | 26.2 |
| Aker Yards AS | 0.31 | 2.7 | 2.7 | Expro International Group Plc | 0.27 | 3.6 | 4.2 |
| Det Norske Oljeselskap ASA | 0.81 | 3.6 | 4.8 | Glaxosmithkline Plc | 0.03 | 29.6 | 29.6 |
| EDB Business Partner ASA | 1.09 | 4.9 | 5.1 | Hammerson Plc | 0.12 | 4.9 | 5.0 |
| Electromagnetic GeoServices AS | 0.26 | 1.1 | 1.2 | HSBC Holdings Plc | 0.01 | 7.0 | 7.0 |
| Flex LNG Ltd | 2.18 | 4.4 | 8.8 | International Power Plc | 0.11 | 3.5 | 9.9 |
| Kongsberg Automotive ASA | 3.38 | 6.6 | 7.5 | ITV Plc | 0.06 | 2.9 | 2.9 |
| Norsk Hydro ASA | 0.04 | 4.5 | 4.9 | Kazakhmys Plc | 0.01 | 0.9 | 1.1 |
| Norwegian Energy Co ASA | 1.88 | 7.9 | 7.9 | Kesa Electricals Plc | 0.32 | 5.3 | 5.3 |
| Orkla | 0.05 | 6.1 | 6.6 | Ladbrokers Plc | 0.18 | 4.9 | 4.9 |
| Pronova Biopharma AS | 0.25 | 2.0 | 2.0 | Lonmin Plc | 0.02 | 1.0 | 1.0 |
| Protector Forsikring ASA | 0.56 | 0.6 | 0.6 | Michael Page International Plc | 0.15 | 2.0 | 2.0 |
| Renewable Energy Corp AS | 0.03 | 2.4 | 4.9 | Next Plc | 0.15 | 6.6 | 6.6 |
| Reservoir Exploration Technology ASA | 2.71 | 4.9 | 5.2 | Prudential Plc | 0.08 | 15.0 | 19.9 |
| SeaDrill Ltd | 0.09 | 2.8 | 6.0 | Punch Taverns Plc | 0.36 | 10.0 | 10.0 |
| Statolithydro ASA | 0.02 | 11.1 | 15.9 | Reckitt Benckiser Plc | 0.08 | 10.1 | 22.1 |
| Telenor ASA | 0.06 | 6.2 | 16.2 | Rio Tinto Plc | 0.03 | 21.1 | 21.8 |
| Wavefield Inseis ASA | 0.78 | 5.0 | 5.2 | Royal & Sun Alliance Insurance Group Plc | 0.12 | 6.6 | 7.6 |
| Wilh. Wilhelmsen ASA B | 0.65 | 2.0 | 2.0 | Scottish & Southern Energy Plc | 0.06 | 7.6 | 10.7 |
| Yara International ASA | 0.21 | 14.6 | 18.9 | Smiths Group Plc | 0.05 | 2.8 | 2.8 |
| Russia | | | | Standard Life Plc | 0.11 | 8.5 | 8.5 |
| Integra Group Holdings GDR | 0.21 | 3.7 | 3.7 | Tesco Plc | 0.04 | 11.6 | 22.2 |
| Kirovenergo-CLS | 3.53 | 3.0 | 3.0 | Vedanta Resources Plc | 0.02 | 1.4 | 1.4 |
| M Video-CLS | 0.60 | 5.1 | 5.1 | Wellstream Holdings Plc | 0.40 | 5.3 | 5.9 |
| OAO-TMK GDR | 0.23 | 9.0 | 14.9 | William Hill Plc | 0.27 | 6.8 | 6.8 |
| OGK-5-CLS | 0.17 | 5.4 | 7.1 | Vodafone Airtouch Plc | 0.05 | 52.9 | 70.6 |
| Pharmstandard-CLS | 0.05 | 0.8 | 1.0 | Volga Gas Plc | 4.34 | 9.5 | 11.1 |
| Pskovenergo CLS | 9.88 | 8.4 | 9.8 | Wolseley Plc | 0.06 | 4.1 | 4.1 |
| Rosinter Restaurants-CLS | 0.60 | 1.3 | 2.4 | WPP Group Plc | 0.08 | 8.8 | 8.8 |
| Sberbank | 0.02 | 9.3 | 10.9 | Xstrata Plc | 0.02 | 10.7 | 11.7 |
| VTB Bank OJSC-GDR | 0.04 | 8.6 | 8.6 | USA | | | |
| Spain | | | | CVS/Caremark Corporation | 0.03 | 9.7 | 13.5 |
| Acerinox S.A. | 0.01 | 0.6 | 0.6 | Intel Corporation | 0.01 | 8.2 | 10.8 |
| Banco Bilbao Vizcaya Argentaria S.A. | 0.02 | 12.4 | 14.4 | Synthes Inc | 0.02 | 2.1 | 2.1 |
| Banco Santander Central Hispano S.A. | 0.02 | 14.5 | 14.8 | TransDigm Group, Inc. | 0.15 | 2.1 | 2.1 |
| Gamesa Corporacion Tecnologica S.A. | 0.15 | 8.1 | 11.4 | Other | | 3.1 | 4.9 |
| | | | | | | 4,872.0 | 6,829.0 |

| | Shares % | Book value € million | Fair value € million | | Shares % | Book value € million | Fair value € million |
|---------------------------------------------------------------|-------------|----------------------------|----------------------------|-------------------------------------------------------|-------------|----------------------------|----------------------------|
| 31 Dec. 2007 | | | | | | | |
| UNLISTED SHARES | | | | | | | |
| Finland | | | | | | | |
| Ahlström Capital Oy | 6.51 | 8.4 | 15.8 | | | | |
| Arek Oy | 18.00 | 2.5 | 2.5 | | | | |
| Fingrid Oyj | 12.18 | 13.6 | 13.6 | | | | |
| Havator Holding Oy | 12.69 | 5.0 | 5.0 | | | | |
| IPSAAT Therapies Oy A | 3.13 | 1.1 | 1.1 | | | | |
| Ipsat Therapies Oy B | 5.75 | 1.0 | 1.0 | | | | |
| Kaleva Mutual Insurance Company (guarantee capital) | 30.00 | 2.6 | 2.6 | | | | |
| Kiitosimeon Oy | 15.32 | 2.5 | 2.5 | | | | |
| Kytäjä Golf Oy | 3.75 | 1.2 | 1.2 | | | | |
| LTM Company Oy | 17.65 | 3.0 | 3.0 | | | | |
| Lujapalvelut Oy | 12.01 | 0.7 | 1.4 | | | | |
| Mediverkko Yhtymä Oy | 10.05 | 1.5 | 1.5 | | | | |
| Metsä Tissue Corporation | 8.38 | 15.5 | 15.5 | | | | |
| Realia Holding Oy | 12.93 | 1.5 | 1.5 | | | | |
| Tornator Oy | 13.13 | 10.5 | 47.1 | | | | |
| Vivoxid Oy | 16.64 | 2.0 | 2.0 | | | | |
| VVO-yhtymä Oy | 12.47 | 17.6 | 34.5 | | | | |
| Australia | | | | | | | |
| SMG (Seven Media Group) | 4.71 | 2.8 | 2.8 | | | | |
| Cayman Islands | | | | | | | |
| Fir Tree Special Opportunities SPC Ltd | 0.00 | 13.6 | 13.6 | | | | |
| Russia | | | | | | | |
| Bank St. Petersburg | 0.51 | 4.2 | 4.2 | | | | |
| Sweden | | | | | | | |
| Attendo Holding A AB | 3.76 | 0.8 | 0.8 | | | | |
| United Kingdom | | | | | | | |
| Nordben Life and Pension Insurance Co. Ltd | 10.00 | 1.0 | 1.0 | | | | |
| USA | | | | | | | |
| Advanstar Communications Inc | 0.00 | 17.0 | 17.0 | | | | |
| Moelis Holdings Feeder LP | 1.35 | 5.1 | 5.1 | | | | |
| Scitor Corporation Junior Preferred Stock | 0.06 | 0.5 | 0.5 | | | | |
| Scitor Corporation Junior Senior Stock | 0.06 | 0.5 | 0.5 | | | | |
| SunGard Capital Corporation Class A-8 | 0.25 | 4.3 | 5.2 | | | | |
| SunGard Capital Corporation II | 0.28 | 1.9 | 2.2 | | | | |
| Tourneau Acquisition Holdings, Inc. Junior Preferred Stock | 2.31 | 0.7 | 0.7 | | | | |
| Tourneau Acquisition Holdings, Inc. Senior Preferred Stock | 2.31 | 0.7 | 0.7 | | | | |
| Other | | 3.8 | 4.7 | | | | |
| | | 147.1 | 210.8 | | | | |
| FIXED INCOME FUNDS | | | | | | | |
| Mandatum Euro Yrityslaina K | | 25.2 | 25.2 | | | | |
| Nordea Korkosalkku Plus kasvu | | 146.8 | 146.8 | | | | |
| Sampo Yhteisökorko Tuotto | | 45.7 | 47.0 | | | | |
| | | 217.8 | 219.1 | | | | |
| EQUITY FUNDS | | | | | | | |
| ABN Amro Latin America Equity Fund I | 38.5 | 98.8 | | JF Malaysia Fund | | 13.7 | 20.5 |
| ACM Bernstein American Value Portfolio S1 | 77.5 | 88.4 | | JPMorgan US Dynamic I Fund | | 34.0 | 36.0 |
| APS China A Share Fund | 15.2 | 83.5 | | Loomis Sayles US Large Cap Growth I Fund | | 86.4 | 96.2 |
| Avaron Balkan Fund B | 10.0 | 10.1 | | Magna Africa Fund C | | 10.0 | 10.4 |
| Avaron Emerging Europe Small Cap Fund A | 9.0 | 9.0 | | Mandatum Emerging Asia Kasvu | | 32.7 | 50.6 |
| Babylon Fund A Corporation | 6.1 | 7.6 | | Mandatum Latin America Kasvu | | 52.8 | 102.8 |
| Blakeney Investors Fund | 14.0 | 43.2 | | Mandatum Poland Kasvu | | 5.6 | 10.3 |
| Blakeney Investors 0807 Fund | 6.8 | 8.1 | | Mandatum US Small Cap Value Kasvu | | 42.8 | 53.2 |
| CAAM Funds Thailand Institutional Class VII | 23.8 | 33.9 | | Martin Currie GF-Japan Mid-Cap Fund | | 85.3 | 104.6 |
| Caam Japan Value I 8 class Fund | 165.9 | 168.5 | | Martin Currie Japan Alpha Fund B | | 76.7 | 76.7 |
| Caam SIF-Vietnam Select Fund Capitalisation | 16.9 | 16.9 | | MC Taiwan Opportunities Fund | | 22.8 | 26.2 |
| Carnegie Global Healthcare | 30.1 | 53.7 | | Merrill Lynch IIF US Flexible Equity A2 | | 82.3 | 93.7 |
| CDC Hong Kong Renaissance class C | 6.8 | 16.4 | | Nordea Far Eastern Value Fund | | 22.0 | 30.3 |
| Danske Capital Trans Balkan K | 9.6 | 9.6 | | Ocean Equities Japan Target II BC | | 18.4 | 18.4 |
| DB x-trackers DJ Stoxx 600 Technology ETF | 19.2 | 19.2 | | Osiris Degroof Eq US | | | |
| East Capital Balkan Fund | 4.8 | 15.9 | | Behavioral Value Fund | | 20.0 | 20.1 |
| East Capital Bering Balkan Fund | 3.4 | 6.2 | | PXP Vietnam Fund Ltd | | 4.2 | 6.1 |
| East Capital Bering Central Asia Fund | 6.8 | 7.6 | | Renaissance Institutional Equities Fund | | | |
| East Capital Bering Russia Fund Series Master | 6.8 | 27.8 | | SICAV P.L.C. Master Sub-Class B | | 130.2 | 130.2 |
| East Capital Bering Ukraine Fund | 6.8 | 14.9 | | Renshares Utilities Ltd | | 17.1 | 20.8 |
| East Capital Explorer | | | | SEB Japan Fund IC | | 163.0 | 163.0 |
| Financial Institutions Investors AB | 28.7 | 31.5 | | The Dog Fund | | 24.0 | 24.0 |
| East Capital Russian Fund | 7.5 | 33.7 | | The Lyxor ETF DJ Stoxx 600 Banks | | 98.7 | 98.7 |
| Eaton Vance Emerald US Value Fund M-class | 98.3 | 99.4 | | The Lyxor ETF DJ Stoxx 600 Financial Services | | 49.4 | 49.4 |
| EFG-Hermes Middle East and Developing Africa Fund Limited | 54.3 | 57.0 | | The Lyxor ETF DJ Stoxx 600 Personal & Household Goods | | 20.6 | 20.6 |
| eQ Monityyli Eurooppa A | 23.1 | 27.5 | | Trigon Active Alpha Fund | | 10.0 | 10.0 |
| eQ Monityyli USA A Kasvu | 26.2 | 26.2 | | T. Rowe Price US Large Cap Growth I Fund | | 86.1 | 96.2 |
| Flexifund Equity Small Caps China A | | | | Vanguard U.S. Futures Fund | | 87.9 | 94.2 |
| Institutionelle | 6.8 | 12.8 | | Vietnam Enterprise Inv Ltd | | 4.8 | 5.3 |
| Frank Russell Pacific Basin Eq Fund Fric A | 63.4 | 104.8 | | | | 2,372.0 | 2,991.7 |
| Hansa Central Asia Equity Fund | 20.1 | 20.1 | | PRIVATE EQUITY FUNDS | | | |
| Hansa Russian Equity Fund | 20.1 | 21.0 | | 1903 Equity Fund L.P. | 3.3 | 3.3 | |
| HSBC GIF Indian Equity I Cap | 6.8 | 45.2 | | Abingworth Bioventures III B L.P. | 5.5 | 6.0 | |
| HSBC Korean Equity | 16.3 | 27.4 | | Access Capital Fund L.P. II A | 3.4 | 9.4 | |
| Hermes European Focus Fund I | 20.0 | 54.8 | | Access Capital Fund L.P. II B | 7.4 | 8.4 | |
| Indochina Capital Vietnam Holdings limited | 2.5 | 2.5 | | Access Capital Fund L.P. II C | 15.2 | 25.1 | |
| Investec Africa Fund I ACC | 19.9 | 19.9 | | Access Capital L.P. | 1.2 | 3.1 | |
| IXIS AMA Greater China Renaissance Class IC Shares | 13.6 | 32.7 | | Alpha Private Equity Fund 4 - Elara CI L.P. | 11.8 | 11.8 | |
| Japan Equity Blend Fund | | | | Alpha Private Equity Fund 5 - JABBAH CI L.P. | 11.6 | 14.4 | |
| AllianceBernstein | 165.1 | 167.3 | | Altor Fund II (No. 1) Limited Partnership | 7.0 | 7.3 | |
| | | | | Behrman Capital III L.P. | 15.5 | 16.7 | |
| | | | | Bio Fund Ventures II Jatkosjoitusrahasto Ky | 1.9 | 1.9 | |
| | | | | Bio Fund Ventures II Ky | 1.1 | 1.1 | |
| | | | | Bio Fund Ventures I Jatkosjoitusrahasto Ky | 1.0 | 1.9 | |
| | | | | Bio Fund Ventures I Ky | 0.5 | 0.5 | |
| | | | | Blackstone Capital Partners IV L.P. | 21.3 | 29.7 | |
| | | | | Blackstone Capital Partners V L.P. | 51.2 | 51.3 | |
| | | | | Blackstone Health Comm Partnrs A LP | 1.4 | 1.4 | |
| | | | | Blackstone Mezzanine Partners II L.P. | 9.2 | 9.2 | |
| | | | | BlueRun Ventures. L.P. | 7.1 | 11.2 | |
| | | | | CapMan Buyout VIII Fund A L.P. | 10.5 | 10.5 | |
| | | | | CapMan Equity VII B L.P. | 3.9 | 5.3 | |
| | | | | CapMan Life Science IV Fund L.P. | 3.8 | 3.8 | |
| | | | | CapMan Technology Fund 2007 L.P. | 2.2 | 2.2 | |
| | | | | CapVest Equity Partners II L.P. | 6.9 | 6.9 | |
| | | | | Cognetas Fund B II L.P. | 8.0 | 8.0 | |
| | | | | Crown Co-Investor L.P. | 17.0 | 17.0 | |
| | | | | CVC European Equity Partners IV L.P. | 11.3 | 12.7 | |
| | | | | Dutch Cable L.P. | 14.6 | 14.6 | |
| | | | | EQT III ISS Limited Partnership | 10.0 | 14.7 | |
| | | | | EQT III UK No. 1 Limited Partnership | 18.6 | 18.6 | |
| | | | | EQT IV (No. 1) Limited Partnership | 33.0 | 41.7 | |
| | | | | EQT IV Sanitec Co-investment Limited Partnership | 6.8 | 6.8 | |
| | | | | EQT SSP Co-investment L.P. | 13.6 | 13.6 | |
| | | | | EQT V (No. 1) Limited Partnership | 15.5 | 15.5 | |
| | | | | Eqvitec Technology Fund III K/S | 5.0 | 5.0 | |
| | | | | Eqvitec Teknologia Rahasto II Ky | 5.5 | 5.5 | |
| | | | | Fenno Rahasto Ky | 0.4 | 0.9 | |
| | | | | Finnventure rahasto III Ky | 0.0 | 0.1 | |
| | | | | Finnventure rahasto V Ky | 0.3 | 2.8 | |
| | | | | Gilde Buy-Out Fund II C.V. | 0.0 | 11.2 | |
| | | | | Green Equity Investors IV L.P. | 11.8 | 12.1 | |
| | | | | Green Equity Investors V L.P. | 4.6 | 4.6 | |
| | | | | Hamilton Lane Co-Investment Fund L.P. | 48.1 | 52.7 | |
| | | | | Helmet SME Ventures II G Ky | 1.4 | 1.4 | |
| | | | | Helmet SME Ventures Ky | 0.5 | 0.5 | |
| | | | | Industrial Devel. & Inv. Equity KB | 0.0 | 0.3 | |
| | | | | Industri Kapital 1994 LPI-IV | 0.0 | 0.0 | |
| | | | | Industri Kapital 1997 | | | |
| | | | | Limited Partnership I,IV | 6.8 | 10.1 | |
| | | | | Industri Kapital 2000 | | | |
| | | | | Limited Partnership I, II, IV | 9.2 | 15.1 | |
| | | | | Industri Kapital 2004 | | | |
| | | | | Limited Partnership I | 20.3 | 20.3 | |
| | | | | Industri Kapital 2007 | | | |
| | | | | Limited Partnership III | 6.5 | 6.5 | |
| | | | | Kelso Investment Associates VIII, L.P. | 1.1 | 1.2 | |
| | | | | Kelso Investment Associates VII, L.P. | 20.9 | 29.1 | |
| | | | | MB Equity Fund III Ky | 4.3 | 5.7 | |
| | | | | MB Equity Fund II Ky | 0.2 | 3.3 | |
| | | | | MB Equity Fund IV Ky | 1.4 | 1.4 | |
| | | | | MBK Partners. L.P. | 15.1 | 15.1 | |

Notes to the financial statements

Notes to the balance sheet

| 31 Dec. 2007 | Book value € million | Fair value € million | | Book value € million | Fair value € million |
|---------------------------------------------------------------------------------------|-------------------------|-------------------------|------------------------------------------------------------------------|-------------------------|-------------------------|
| MB Mezzanine Fund II Ky | 0.0 | 0.1 | Oak Hill Credit Alpha Fund Ltd Class A | 54.3 | 58.6 |
| Merlin Biosciences Fund L.P. | 2.3 | 2.3 | OZ Asia Oveaseas Fund Ltd | 30.6 | 39.1 |
| Mezzanine Management Fund IV A L.P. | 7.8 | 7.8 | OZ Europe Oveaseas Fund II Ltd | 67.9 | 74.9 |
| Moelis Capital Partners Opportunity Fund I L.P. | 1.5 | 1.5 | OZ Oveaseas Fund Ltd | 30.6 | 43.4 |
| Nokia Venture Partners II L.P. | 6.4 | 6.4 | Reservoir Capital Overseas Partners II L.P. | 12.2 | 12.4 |
| Nordic Mezzanine Fund II Limited Partnership | 0.7 | 3.4 | Scout Capital Concentrated Fund, Ltd | 47.0 | 47.2 |
| Onex Partners II L.P. | 24.2 | 24.2 | Scout Capital Fund Ltd | 21.6 | 28.5 |
| Permira Europe III L.P.2 | 20.7 | 30.0 | Seneca Capital International, Ltd Class 2 Ser. E | 34.0 | 47.6 |
| Permira Europe II L.P. 2 | 2.6 | 3.4 | Spinnaker Global Emerging Markets Fund Ltd Class I | 45.5 | 47.3 |
| Permira Europe IV L.P. 2 | 15.1 | 15.1 | Spinnaker Global Opportunity Fund Ltd Class I | 45.5 | 47.7 |
| Platinum Equity Capital Partners II, L.P. | 11.2 | 11.2 | Spinnaker Global Strategic Fund Ltd Class I | 45.5 | 47.7 |
| Platinum Equity Capital Partners, L.P. | 3.9 | 7.7 | SRM Global Fund Limited | 66.1 | 66.1 |
| Power Fund I Ky | 2.0 | 2.8 | Tequesta Enhanced Convexity Ltd Class A | 24.9 | 24.9 |
| Profita Fund III Ky | 1.3 | 1.3 | Tequesta Mortgage Fund SPV | 25.9 | 25.9 |
| Promotion Capital I Ky | 0.1 | 0.1 | The Canoy Special Opportunities Fund Ltd | 134.5 | 134.5 |
| Quadriga Capital Investment Holding (Luca/2D) L.P. | 15.0 | 15.0 | The Canoy Value Realization Fund Ltd | 88.3 | 93.5 |
| Quadriga Capital Private Equity Fund III L.P. | 15.3 | 15.3 | York Investment Limited Class A/1 | 38.0 | 56.8 |
| Saw Mill Capital Partners, L.P. | 3.1 | 3.1 | Zais Opportunity Fund Ltd B Series | 26.7 | 26.7 |
| Sponsor Fund II Ky | 0.9 | 13.8 | ZAIS Scepticus Fund III, Ltd | 4.0 | 39.4 |
| TCW/Crescent Mezzanine Partners IV B L.P. | 24.3 | 24.3 | ZAIS Zephyr Offshore Feeder Fund I-A Ltd | 22.0 | 22.0 |
| The Fourth Cinvn Fund (No. 4) Limited Partnership | 16.9 | 16.9 | | 3,108.9 | 3,603.8 |
| Warburg Pincus Private Equity IX, L.P. | 57.5 | 66.6 | REAL ESTATE FUNDS | | |
| Warburg Pincus Private Equity VIII, L.P. | 27.8 | 61.6 | Alinda Infrastructure Parallel Fund I L.P. | 30.4 | 30.4 |
| Warburg Pincus Private Equity X, L.P. | 11.2 | 11.2 | Apollo European Real Estate Fund II L.P. | 11.4 | 12.4 |
| WD Power Investment Ky | 0.3 | 0.3 | Babcock & Brown European Infrastructure Fund L.P. | 3.5 | 3.5 |
| VSS-Cambium Holdings, LLC | 10.2 | 10.2 | Blackstone Real Estate Partners International II L.P. | 21.5 | 22.3 |
| VSS Communications Parallel Partners IV, L.P. | 21.4 | 21.4 | CapMan Real Estate I Ky | 3.2 | 3.2 |
| | 819.9 | 987.5 | Captiva Capital Partners II S.C.A. | 24.3 | 27.9 |
| | | | Cerberus Institutional Real Estate Partners, L.P. | 6.3 | 11.2 |
| HEDGE FUNDS | | | Colony Investors VII, L.P. | 23.8 | 29.4 |
| 1903 Offshore Debt Fund Ltd | 34.0 | 34.9 | Colony Parallel Investors VIII, L.P. | 16.5 | 16.5 |
| AQR Absolute Return Offshore Fund Ltd | 74.1 | 74.1 | EPI Russia I Ky | 21.9 | 21.9 |
| Atticus European, Ltd | 38.7 | 86.1 | European Real Estate Opportunity Fund II Limited Partnership | 4.1 | 4.1 |
| Bayview Opportunity Offshore LP | 25.2 | 25.2 | Fairfield Aerium International S.C.A. Class B Non-Dividend | 14.6 | 23.8 |
| Black River Commodity Multi-Strategy Fund Ltd | 37.4 | 41.4 | ICECAPITAL Housing Fund I Ky | 8.2 | 8.2 |
| Blackstone Distressed Securities Offshore Fund Ltd | 17.0 | 18.0 | ICECAPITAL Saint Petersburg Residential Fund I Ky | 8.5 | 8.5 |
| Blackstone Fifth Avenue Offshore Fund Ltd Class A | 37.7 | 51.3 | Macquarie European Infrastructure Fund II | 56.5 | 59.6 |
| Blackstone Global Park Avenue Fund Ltd | 153.7 | 211.7 | MGP Asia Fund III L.P. | 4.3 | 4.3 |
| Blackstone Kailix Offshore Fund Ltd | 34.0 | 35.2 | Moorfield Real Estate Fund B L.P. | 16.7 | 17.9 |
| Blackstone Market Opportunities Offshore Fund SPC | 81.5 | 108.9 | NV Kiinteistörahasto I Ky | 19.7 | 20.1 |
| Blackstone Select Opportunities Offshore Fund Ltd CI | 129.1 | 141.5 | The CIT Real Estate Limited Partnership | 14.1 | 17.8 |
| Blackstone Strategic Equity Offshore Fund Ltd Class A1 | 46.7 | 55.1 | | 309.6 | 343.1 |
| Blackstone Value Recovery Offshore Fund Ltd | 21.5 | 21.5 | OTHER EQUITY INVESTMENTS | | |
| BlueCrest Capital International Limited Class F | 0.6 | 0.8 | Mena warrant 191208 | 30.2 | 32.6 |
| Boussard & Gavaudan Channel Bridge A Spec. Situation Fund Ltd | 43.4 | 43.4 | MSCI Daily TR Net EM India USD index 061108 | 13.6 | 4.6 |
| Boussard & Gavaudan Sark Fund Ltd A | 45.4 | 45.4 | | 43.8 | 47.2 |
| Capula Global Relative Value Fund Ltd E CarVal (CVI) Global Value Fund B L.P. Class P | 100.0 | 105.5 | Parent Company Total | 11,891.1 | 15,232.2 |
| Cerberus Institutional Overseas IV, Ltd | 115.5 | 124.2 | | | |
| Copper River Institutional, Ltd | 14.4 | 14.4 | The Groups shareholding deviates from the Parent Company's as follows: | | |
| Cycladic Catalyst Fund EUR Class A | 34.0 | 34.3 | Kaleva Mutual Insurance Company (guarantee capital) | 3.3 | 3.3 |
| D.E.Shaw Composite International Fund | 6.6 | 6.6 | Martinparkki Oy | 2.4 | 2.4 |
| Dialectic Antithesis Offshore, Ltd | 10.5 | 17.6 | Poha-Pysäköinti Oy | 1.4 | 1.4 |
| Element Capital Fund Ltd | 67.9 | 70.9 | Ruohoparkki Oy | 3.3 | 3.3 |
| Elliot International Limited | 67.9 | 68.7 | Vaasan Toripysäköinti Oy | 2.9 | 2.9 |
| Endeavour Fund III Ltd | 34.0 | 41.4 | Other | 2.8 | 2.8 |
| Fir Tree International Value Fund II Ltd | 60.0 | 65.1 | | | |
| Fir Tree International Value Fund Ltd | 17.0 | 18.9 | Group total | 11,907.2 | 15,248.3 |
| Five Mile Capital Partners II LP | 29.2 | 41.0 | | | |
| Five Mile Capital Partners LLC | 1.1 | 1.1 | | | |
| Glenview Capital Partners Ltd | 12.3 | 12.3 | | | |
| Golden Tree Credit Opportunities B, Ltd | 57.7 | 76.7 | | | |
| Golden Tree MultiStrategy, Ltd | 67.9 | 70.0 | | | |
| Golden Tree Offshore Fund Ltd | 47.6 | 55.1 | | | |
| GSO Special Situations Overseas Fund Ltd | 105.3 | 116.5 | | | |
| H/2 Credit Partners Ltd | 27.2 | 32.3 | | | |
| Harbinger Capital Partners Offshore Fund I, Ltd | 66.9 | 66.9 | | | |
| Harbinger Capital Partners Special Situations Offshore Fund L.P. | 32.9 | 74.2 | | | |
| HBK Offshore Fund Ltd | 23.8 | 61.1 | | | |
| King Street Capital, Ltd | 203.8 | 216.7 | | | |
| Mariner Credit Risk Advisors | 101.9 | 107.5 | | | |
| Relative Value Offshore Fund Ltd | 54.3 | 57.7 | | | |
| Newport Global Opportunities Fund L.P. | 23.8 | 25.1 | | | |
| New Star Accelerator Hedge Fund Limited | 6.6 | 6.6 | | | |
| NWI Explorer Global Fund, Ltd | 34.0 | 36.6 | | | |

Changes in tangible and intangible assets, Parent Company

| 31 Dec. 2007, € million | Other expenses with long-term effects | Future and fixtures | Other tangible assets | Total |
|---------------------------------------------|---------------------------------------------|------------------------|-----------------------------|-------------|
| Acquisition cost, 1 Jan. | 1.1 | 9.0 | 0.6 | 10.6 |
| Completely depreciated in the previous year | -0.1 | -1.0 | | -1.1 |
| Increase | 4.7 | 0.5 | 0.1 | 5.4 |
| Decrease | | -0.4 | 0.0 | -0.4 |
| Acquisition cost, 31 Dec. | 5.7 | 8.1 | 0.7 | 14.5 |
| Accumulated depreciation, 1 Jan. | -0.6 | -5.1 | | -5.7 |
| Completely depreciated in the previous year | 0.1 | 1.0 | | 1.1 |
| Depreciation for the financial year | -0.4 | -1.5 | | -1.9 |
| Accumulated depreciation, 31 Dec. | -1.0 | -5.6 | | -6.6 |
| Book value, 31 Dec. | 4.8 | 2.5 | 0.7 | 8.0 |

Group figures are the same as those of the Parent Company.

Loan receivables itemised by guarantee

| 31 Dec., € million | PARENT COMPANY | | GROUP | |
|-----------------------------------|----------------|-------|--------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| Bank guarantee | 106.2 | 228.9 | 106.2 | 228.9 |
| Guarantee insurance | 162.5 | 220.4 | 162.5 | 220.4 |
| Other guarantee | 582.6 | 304.2 | 582.6 | 304.2 |
| Remaining acquisition cost, total | 851.3 | 753.5 | 851.3 | 753.5 |

Total pension loan receivables itemised by balance sheet item

| | | | | |
|-----------------------------------|--------------|-------|--------------|-------|
| Loans to Group companies | 0.4 | 0.5 | 0.4 | 0.5 |
| Loans guaranteed by mortgages | 46.7 | 58.3 | 46.7 | 58.3 |
| Other loan receivables | 169.6 | 344.6 | 169.6 | 344.6 |
| Remaining acquisition cost, total | 216.7 | 403.4 | 216.7 | 403.4 |

Loans to Group companies

| | | | | |
|-------------------|------------|-----|------------|-----|
| Other receivables | 0.1 | 0.2 | 0.1 | 0.2 |
|-------------------|------------|-----|------------|-----|

Derivatives

| | | | | |
|---------------------------------------|-------------|------|-------------|------|
| Other receivables | | | | |
| Advance payments for option contracts | 28.8 | 23.2 | 28.8 | 23.2 |
| Other liabilities | | | | |
| Advance payments for option contracts | 6.7 | 4.4 | 6.7 | 4.4 |
| Value adjustments of derivatives | 47.3 | 35.5 | 47.3 | 35.5 |
| Accruals and deferred income | | | | |
| Interest liabilities | 0.3 | 7.7 | 0.3 | 7.7 |

Notes to the financial statements

Notes to the balance sheet

| 31 Dec., € million | PARENT COMPANY | | GROUP | |
|--------------------|----------------|------|-------|------|
| | 2007 | 2006 | 2007 | 2006 |

Liabilities to Group companies

| | | | | |
|-------------------|-----|-----|-----|-----|
| Other liabilities | 1.4 | 0.9 | 0.4 | 1.3 |
|-------------------|-----|-----|-----|-----|

Technical provisions

| | | | | |
|----------------------------------------------------|----------|----------|----------|----------|
| Provision for unearned premiums | | | | |
| Future pensions | 13,302.8 | 12,900.9 | 13,302.8 | 12,900.9 |
| Provision for future bonuses | 3,258.6 | 3,008.4 | 3,258.6 | 3,008.4 |
| Provision for current bonuses | 92.0 | 77.3 | 92.0 | 77.3 |
| Equity-linked provision for current/future bonuses | 8.2 | | 8.2 | |
| Total provision for unearned premiums | 16,661.6 | 15,986.6 | 16,661.6 | 15,986.6 |
| Provision for claims outstanding | | | | |
| Current pensions | 7,971.2 | 6,877.3 | 7,971.2 | 6,877.3 |
| Equalisation provision | 938.3 | 910.4 | 938.3 | 910.4 |
| Total provision for claims outstanding | 8,909.5 | 7,787.7 | 8,909.5 | 7,787.7 |
| Total technical provisions | 25,571.1 | 23,774.3 | 25,571.1 | 23,774.3 |

| 31 Dec., € million | PARENT COMPANY | |
|--------------------------------------------------------------------------------------------------------|----------------|---------|
| | 2007 | 2006 |
| Solvency capital | | |
| Capital and reserves | 79.8 | 76.4 |
| Interest on guarantee capital proposed for distribution | -0.8 | -0.9 |
| Accumulated appropriations | 0.1 | 0.3 |
| Valuation difference between fair values on assets and book values of balance sheet items | 3,721.3 | 3,603.7 |
| Provision for future bonuses | 3,258.6 | 3,008.4 |
| Intangible assets | -4.8 | -0.5 |
| Other items | -21.6 | -21.7 |
| | 7,032.7 | 6,665.7 |
| Minimum solvency capital required under the Employee Pension Companies Act, Section 17 | 2,442.2 | 2,088.7 |
| The equalisation provision for years with heavy losses is included in the balance on technical account | 983.3 | 910.4 |

Notes to the financial statements

Notes to the balance sheet

Capital and reserves, Parent Company

31 Dec. 2007, € million

| | Guarantee capital | Contingency fund | Profit brought forward | Total |
|-----------------------------------------------------|-------------------|------------------|------------------------|-------------|
| 31 Dec. 2006 | 11.9 | 53.6 | 10.9 | 76.4 |
| Transfer to contingency fund | | 9.8 | -9.8 | 0.0 |
| Distributed interest on guarantee capital | | | -0.9 | -0.9 |
| Transfer to the Board of Directors' expense account | | | -0.1 | -0.1 |
| Profit for the financial year | | | 4.4 | 4.4 |
| 31 Dec.2007 | 11.9 | 63.4 | 4.5 | 79.8 |

Guarantee capital

31 Dec. 2007, € million

| | Number | Nominal value | Book value |
|--------------------------------------|-----------|---------------|------------|
| Sampo Life Insurance Company Limited | 14 | 2.4 | 2.4 |
| Sampo Plc | 57 | 9.6 | 9.6 |

Capital and reserves after proposed profit distribution

| | | |
|-------------------------------------------------------|-------------|--|
| Holders of guarantee capital Guarantee capital | 11.9 | |
| Proposed distribution to holders of guarantee capital | 0.8 | |
| Policyholders | 67.1 | |
| Total | 79.8 | |

Distributable profits

| | | |
|-------------------------------|-------------|-------------|
| Profit for the financial year | | 4.4 |
| Other capital and reserves | | |
| Other reserves | 63.4 | |
| Profit brought forward | 0.1 | 63.5 |
| Total distributable profits | | 67.9 |

Capital and reserves, Group

31 Dec. 2007, € million

| | Guarantee capital | Contingency fund | Profit brought forward | Total |
|-----------------------------------------------------|-------------------|------------------|------------------------|-------------|
| 31 Dec. 2006 | 11.9 | 53.6 | -37.3 | 28.2 |
| Transfer to contingency fund | | 9.8 | -9.8 | 0.0 |
| Distributed interest on guarantee capital | | | -0.9 | -0.9 |
| Transfer to the Board of Directors' expense account | | | 0.1 | -0.1 |
| Profit for the financial year | | | 2.3 | 2.3 |
| 31 Dec. 2007 | 11.9 | 63.4 | -45.7 | 29.6 |

Guarantee capital

31 Dec. 2007, € million

| | Number | Nominal value | Book value |
|--------------------------------------|-----------|---------------|------------|
| Sampo Life Insurance Company Limited | 14 | 2.4 | 2.4 |
| Sampo Plc | 57 | 9.6 | 9.6 |

Distributable profits

| | | |
|-------------------------------|--------------|-------------|
| Profit for the financial year | | 2.3 |
| Other capital and reserves | | |
| Other reserves | 63.4 | |
| Loss brought forward | -48.0 | 15.3 |
| Accumulated appropriations | | -1.9 |
| Total distributable profits | | 15.7 |

Notes to the financial statements

Notes to the balance sheet

Parent Company's liabilities

| 31 Dec., € million | | 2007 | 2006 |
|----------------------------------|--------------------------------------|-----------------|----------|
| Derivatives | | | |
| Interest rate derivatives | | | |
| Forward and futures contracts | Underlying instrument, nominal value | 15,800.0 | 3,389.1 |
| | Fair value | -19.8 | -4.2 |
| Option contracts | | | |
| Excercised | Underlying instrument | 13,601.0 | 15.0 |
| | Fair value | -1.7 | 0.0 |
| Interest rate swap contracts | Underlying instrument, nominal value | 1,187.6 | 1,853.2 |
| | Fair value | 17.0 | -10.3 |
| Currency derivatives | | | |
| Forward contracts | Underlying instrument | 410.2 | 943.4 |
| | Fair value | 3.3 | 11.9 |
| Option contracts | | | |
| Excercised | Underlying instrument | 542.3 | 720.6 |
| | Fair value | 2.8 | 1.7 |
| Taken out | Underlying instrument | 1,084.6 | 1,137.4 |
| | Fair value | 0.3 | -1.4 |
| Currency swap contracts | Underlying instrument | 7,223.4 | 4,736.8 |
| | Fair value | 46.8 | 50.8 |
| Equity derivatives | | | |
| Forward and futures contracts | Underlying instrument | 775.3 | 287.9 |
| | Fair value | -0.9 | 1.6 |
| Option contracts | | | |
| Excercised | Underlying instrument | 638.2 | 17.9 |
| | Fair value | -11.2 | -0.1 |
| Taken out | Underlying instrument | 21.7 | |
| | Fair value | 0.2 | |
| Total | Underlying instrument | 41,284.4 | 13,101.2 |
| | Fair value | 36.7 | 50.0 |

Currency derivatives are used for hedging.

Interest rate and equity options and futures contracts have been used to reduce both interest rate and equity risk and for other purposes. Their fair values are based on market prices.

The fair values of other derivative financial instruments are based on generally known measurement models.

Parent Company's liabilities

| 31 Dec., € million | 2007 | 2006 |
|--------------------------------------------------------------------------------------|-------------|------------|
| Investment commitments | | |
| Open investment commitments | 2,320.4 | 1,441.7 |
| Pension liabilities | | |
| Pension commitments | 1.0 | 1.0 |
| Guarantees given on own behalf | | |
| Assets pledged as security for derivatives | 61.7 | 27.2 |
| Other liabilities | | |
| Obligation to refund of VAT allowances | | |
| Deduction from new buildings and renovation of real estate in 2003–2007/2002–2006 | 7.8 | 11.2 |
| Total amount associated with collective registration for value added taxation | | |
| Group companies | -1.8 | -0.2 |
| Other companies | 1.3 | 0.9 |
| | -0.6 | 0.7 |
| Leasing and renting liabilities | | |
| No essential liabilities | | |

Loaned securities

| | | |
|----------------------------|------------|------------|
| Equities | | |
| Number | 51,823,126 | 24,230,915 |
| Remaining acquisition cost | 501.8 | 348.7 |
| Fair value | 673.5 | 444.8 |
| Bonds | | |
| Nominal value | 2,019.7 | 2,928.5 |
| Remaining acquisition cost | 2,052.7 | 3,032.7 |
| Fair value | 2,034.5 | 3,131.7 |

Loaned securities are mainly foreign items.

All loans can be cancelled at any time and they have been secured by a guarantee.

Group figures are the same as those of the Parent Company.

Notes to the financial statements

Varma's balance sheet and income statement at fair value

The financial statements of an earnings-related pension insurance company are regulated by the Employee Pension Insurance Companies Act, the Insurance Companies Act, the Accounting Act and the Companies Act, the statute of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements of insurance companies, the Act on calculating the solvency limit of pension institutions and the covering of their technical provisions and furthermore by the calculation bases confirmed by the Ministry of Social Affairs and Health, and the stipulations of the Insurance Supervision Authority. The IFRS-standards do not concern earnings-related pension companies.

The statutory earnings-related pension scheme is a partially funded system. This means, for example, that the technical provisions shown in the balance sheet of an earnings-related pension insurance company are around a quarter of the capital value of the pensions accumulated by the date of the closing of accounts. Furthermore, statutory pension insurance has a guarantee scheme, according to which the earnings-related pension scheme is jointly responsible for securing the benefits of the insured, should a pension institute become insolvent.

The income statement and balance sheet of an earnings-related pension insurance company, which are based on book values, do not reveal the company's financial result or financial status. The net result in the income statement of the parent company at €4 (11) million is determined according to the calculation bases confirmed in advance by the Ministry of Social Affairs and Health. The notes to the financial statements give an idea of the parent company's financial situation. The key figures presented in the notes to the financial statements are calculated on the basis of the parent company, and not, as in an international accounting system, according to the consolidated financial statements.

Technical provisions also include a substantial provision for future bonuses, which provides a buffer against fluctuations in results and strengthens company solvency, a provision for current bonuses which is reserved for the payment of client bonuses, an equity-linked provision for current and future bonuses, which provides protection against fluctuations in the value of pension companies' shares, and an equalisation provision for years with heavy losses provisions of which are contained in the Insurance Companies Act. The main components of the solvency capital, which measures the solvency, are capital and reserves, provision for future bonuses and valuation differences of investments.

The operating expenses of the company are spread under a number of entries in the income statement and key figures. The effect of fair values on the company's investments and their results are presented in the notes to the financial statements. An earnings-related pension insurance company need not calculate deferred tax at least for as long as the calculation bases set by the Ministry of Social Affairs and Health that confirm the net result are in force. Because of the calculation bases, an earnings-related pension insurance company cannot make full use of the tax-free component of the dividend income or earlier tax credits connected with dividends. In an earnings-related pension insurance company, the significance of the consolidated financial statements consists mainly in limiting the interest paid on the guarantee capital.

In the notes to the financial statements, returns on investment at fair values is compared to the interest credited on technical provisions, operating expenses (excluding costs transferred to claims expenditure and expenses of investment operations) to the loading income included in insurance contributions, and claims expenditure (at Varma about a quarter of the total) to the corresponding premiums written. The combined result from investment operations, loading profit and insurance business calculated as above, or the total result, corresponds approximately to the profit in the income statement at fair values.

In order to improve the transparency of the financial statements information, Varma's parent company's balance sheet and income statement at fair values are presented here, at the same time grouping the essential items. If technical provisions are handled according to the current regulations, the balance sheet and income statement on the next page would in outline comply with the IFRS standards, however, in such a way that they have not been calculated for the Group. Thus calculated Varma's result for 2007 stood at €495 (1,121) million and the balance sheet total was €29,526 (27,557) million.

Balance sheet at fair value, Parent Company

| 31 Dec., € million | 2007 | 2006 | 2005 |
|---------------------------------------------------------------------|---------------|---------------|---------------|
| Assets | | | |
| Investments | 28,418 | 26,859 | 24,621 |
| Receivables | 1,100 | 693 | 366 |
| Furniture and fixtures | 8 | 5 | 5 |
| | 29,526 | 27,557 | 24,992 |
| Liabilities | | | |
| Capital and reserves | 80 | 76 | 66 |
| Valuation differences | 3,721 | 3,604 | 2,903 |
| Provision for future bonuses | 3,259 | 3,008 | 2,640 |
| Items included in solvency capital | 7,060 | 6,688 | 5,610 |
| Provision for current bonuses (for client bonuses) | 92 | 77 | 85 |
| Equity-linked provision for current/future bonuses | 8 | 0 | 0 |
| Equalisation provision | 938 | 910 | 947 |
| Technical provision | 21,274 | 19,778 | 18,152 |
| Technical provisions excluding provision for current/future bonuses | 22,220 | 20,688 | 19,099 |
| Other liabilities | 154 | 102 | 198 |
| | 29,526 | 27,557 | 24,992 |

Income statement at fair value, Parent Company

| 1 Jan.–31 Dec., € million | 2007 | 2006 | 2005 |
|--------------------------------|------------|--------------|--------------|
| Premiums written | 3,147 | 2,983 | 2,764 |
| Claims paid | -2,750 | -2,556 | -2,401 |
| Change in technical provisions | -1,443 | -1,542 | -1,096 |
| Net investment income | 1,647 | 2,344 | 2,514 |
| Total operating expenses | -100 | -104 | -96 |
| Taxes | -7 | -4 | -3 |
| Total result* | 495 | 1,121 | 1,681 |

*Result at fair value before change in provision for current and future bonuses and equalisation provision, used mainly to strengthen solvency.

Notes to the financial statements

Investments classified according to risk, 31 Dec. 2007

| | Market value € million | Risk distribution | | Return on invested capital | | Volatility % | Modified duration |
|---------------------------------|---------------------------|-------------------|---------------|----------------------------|-------------|-----------------|-------------------|
| | | % | € million | % | % | | |
| Fixed-income investments | 10,307 | 36.3 | 10,300 | 36.2 | 1.5 | | |
| Loan receivables | 1,059 | 3.7 | 1,059 | 3.7 | 6.2 | | |
| Bonds | 8,292 | 29.2 | 7,979 | 28.1 | 0.9 | 2.3 | 4.9 |
| Other money-market instruments | 955 | 3.4 | 1,261 | 4.4 | 2.6 | | |
| Equity investments | 11,181 | 39.3 | 11,188 | 39.4 | 8.2 | | |
| Listed shares | 9,842 | 34.6 | 9,849 | 34.7 | 5.0 | 11.6 | |
| Private equity | 896 | 3.2 | 896 | 3.2 | 35.2 | | |
| Unlisted shares | 443 | 1.6 | 443 | 1.6 | 41.9 | | |
| Real estate investments | 3,255 | 11.5 | 3,255 | 11.5 | 10.2 | | |
| Direct real estate investments | 2,911 | 10.2 | 2,911 | 10.2 | 10.1 | | |
| Investment funds | 344 | 1.2 | 344 | 1.2 | 11.5 | | |
| Other investments | 3,675 | 12.9 | 3,675 | 12.9 | 11.4 | | |
| Hedge fund investments | 3,675 | 12.9 | 3,675 | 12.9 | 11.4 | 4.4 | |
| Commodity investments | 0 | 0.0 | 0 | 0.0 | | | |
| Other investments | 0 | 0.0 | 0 | 0.0 | | | |
| Total investments | 28,418 | 100.0 | 28,418 | 100.0 | 6.0 | 3.8 | |

Classification of investments is in accordance with the recommendations issued by the Finnish Pension Alliance TELA's working group for return calculation.

Investments classified according to regulations versus risk, 31 Dec. 2007

| Investments classified according to regulations | € mill. | Change | Investments classified according to risk *) | € mill. |
|-------------------------------------------------|---------------|------------------------------------------|---------------------------------------------|--------------------------|
| Loans | 1,021 | | 1,021 | |
| Money-market instruments | 9,074 | | 9,074 | |
| | | Credit related to hedge fund investments | -8 | |
| | | Fixed-income funds | 219 | Fixed-income investments |
| | | | | 10,307 |
| Equities | 15,412 | | 15,412 | |
| | | Hedge fund investments | -3,668 | |
| | | Real estate investment funds | -344 | |
| | | Fixed-income funds | -219 | Equity investments |
| | | | | 11,181 |
| Real estate | 2,911 | | 2,911 | |
| | | Real estate investment funds | 344 | Real estate investments |
| | | | | 3,255 |
| | | Hedge fund investments | 3,668 | |
| | | Credit related to hedge fund investments | 8 | Other investments |
| | | | | 3,675 |
| Total | 28,418 | | | 28,418 |

*) Classified in accordance with the recommendations issued by the Finnish Pension Alliance TELA's working group for return calculation.

The fair values of investments include items for €143 million classified as Prepayments and accrued income, Accruals and deferred income and Other liabilities in the balance sheet as well as difference between fair value and book value to an amount of €3,721 million.

Risk management

Risk management as an element of internal control

Internal control is a process that aims to ensure 1) the achievement of the goals and objectives set, 2) economical and efficient use of resources, 3) sufficient management of operational risks, 4) reliability and correctness of financial and other management information, 5) compliance with laws and regulations, and 6) compliance with the decisions of the company's administrative bodies, internal plans, regulations and practices. Risk management is an element of internal control and involves the identification, assessment, limitation and control of risks arising from and closely connected with the company's business operations. Internal control is a management tool helping the company to function efficiently, economically and reliably.

Varma is managed in a professional manner and in accordance with sound and cautious business principles. The company has established written procedures and quantitative and qualitative targets for its core functions. The Board of Directors follows a written working order, which defines its core tasks and operating principles. As part of the company's internal control function, the Board deals with such matters as the company strategy, budgets, operational plans, projects, and basic strategies connected with organisational development and management.

Risk management – organisation, responsibilities, supervision and reporting

The Board of Directors approves an annual risk management plan that covers all operations and assesses whether the company's internal control is appropriately arranged. The Board of Directors' Audit Committee supervises financial and other reporting and monitors the state of internal control by, for example, tracking the progress of internal and external auditing work and by reviewing audit reports. The President and CEO monitors the company's risks in accordance with the principles laid down in the risk management, investment and emergency plans approved by the Board of Directors.

The Executive Group monitors the company's internal control and risk management processes and maintains, develops and prepares guidelines for risk management and emergency planning.

Risks are reported to the Audit Committee Board of Directors at least every six months. The company's supervisory auditor and the person in charge of the internal audit take part in the meetings discussing the matter.

Managers are responsible for organising internal control, risk management, the legal compliance function and good governance in their areas. This ensures that internal control is fully integrated into company operations. Risk-taking limits and the indicators used are laid down separately for each function. Each function is responsible for implementing operational plans, budgets, operating efficiency and the supervision of outsourced operations.

The functions responsible for preparing and implementing investment decisions (Investment Operations)

and supervision and reporting (Financial Administration and Actuaries) are two separate entities. The decision-making powers and risk limits of the Investment Operations are laid down in the investment plan. The risk management function, which is independent of the Investment Operations, is responsible for the limit-type supervision of investment risks in accordance with the limits set by the Board of Directors, financial-theory and risk-theory based assessment of investment risks and the reporting of results as laid down in regulations. The Investment Operations also has its own risk-management function, which monitors the trends of the portfolio position vis-à-vis the risk limits defined in the investment plan and the basic allocation, and reports on them on a daily basis. The organisation of the handling of the investment portfolio and operative investment risk management is the responsibility of the investment management. The Investment Operations monitors the authorisations continuously, both before and after assignments. Observations made during the monitoring are immediately reported to the compliance officer, those who made the investment decision and the investment management. In the same connection, decisions are also made on further measures so that the consequences of a violation can be minimised, any further violations prevented and, if necessary, changes to authorisations and/or risk limits implemented. Sensitivity analyses are carried out by Investment Operations and the Financial Administration and Actuaries, and these are in accordance with the Board of Directors' working order.

The officer responsible for investment risk management in the Actuaries calculates the maximum risk level in accordance with the guidelines approved by the Board of Directors. The officer monitors the security targets laid down in the investment plan, investment liquidity targets and the principles governing the foreign currency business. The officer also gives an opinion about a non-standard classification proposal submitted by the portfolio-management organisation concerning solvency-limit calculations. Investment risks and the impacts their realisation would have on Varma's risk-bearing capacity are monitored in a monthly report. Items such as the trends in maximum risk levels, Value-at-Risk parameters by asset category, and their contributions to total risk are reported on a monthly basis. More detailed Value-at-Risk reporting gives items such as equity risk by sector and interest rate risk by duration category. It also examines credit risks and interest rate risks as separate entities, lists alternative investments by investment category and considers foreign currency risks separately. Derivatives are always included in the investment portfolio. Risk reports also give the current market risk levels, including the levels of the markets' most important volatility indices and the trends in the correlation between asset categories.

The Financial Administration coordinates the identification and management of operational risks in different departments. It also prepares a summary of the risk charts drawn up by the departments.

The Financial Administration produces calculations of the company's results and solvency several times

Notes to the financial statements

Risk management

each month, which enables the necessary matchings to be done regularly. The Board of Directors receives monthly reports on the investment allocations, investment returns and risks, solvency position and the impact of the actual investment risk on it, monitoring of results and targets, margin, risk-limit monitoring and the use of authorisations to the extent required in the Board of Directors' working order. The Financial Administration produces a monthly monitoring report on the adherence to the classification guidelines concerning investments connected with technical provisions and solvency approved by the Board of Directors, a report on non-standard classifications and their impact on the solvency limit, and a report on the monitoring of the use of derivative contracts in accordance with the principles approved by the Board of Directors. In addition to the above-mentioned reports, the Board of Directors receives, on a quarterly basis, the balance sheet and income statement at fair value, details of investments as classified according to risk, and a report on derivative and foreign currency positions and risk concentrations. The Board of Directors receives, also on a quarterly basis, more detailed asset-category based reports on investment trends and a review of the company's business operations. A more extensive report on internal control and risk management is submitted to the Board Directors and the Audit Committee at least twice a year.

The readiness group is responsible for preparing an emergency plan and other plans related to it (such as the recovery plan and the security and rescue plan), for drawing up the necessary instructions and the consideration of appropriate measures. The readiness group has the managers of core functions and departments as its members. In their capacity as function-specific contacts, the managers are responsible for emergency planning in their areas. Detailed memoranda have been prepared on action required in emergencies.

Objectives and general risk management principles

Risk management covers the essential areas in the right proportion to the risks inherent in the operations. Risks connected with the company's operations are identified, assessed, limited and monitored on a long-term basis. Risk management ensures that the realisation of investment, information, interruption, personnel or other risks will not cause significant financial losses, endanger Varma's customer service and other services, the continuity of other operations or the attainment of the company's business targets, or affect trust in the company. Varma applies efficient and reliable operating processes.

Both in its own organisation and when dealing with its partners, Varma applies appropriate procedures. In order to ensure efficient risk management, the company relies on careful preparation of decisions, use of experts, risk insurance, detailed job descriptions, approval routines, decentralisation of functions and tasks, physical control, data protection and security, personnel training, an efficient planning process, maintenance of different backup arrangements, and limiting access

to confidential information to those who need it.

Division of tasks, decision-making powers and responsibilities ensures that no single person is allowed to deal with a matter throughout the processing chain and prevents potentially dangerous work combinations. There are also independent supervision and approval mechanisms. Staff members are not allowed to participate in the preparation of matters or decisions concerning themselves, their families or friends. Business transactions are handled on time, correctly and with appropriate approvals. The planning process and its balanced indicators also contribute to sound risk management procedures at Varma.

The drawing up and documentation of routines ensuring the continuity of the company's operations and securing the assets and information managed by the company, and the possible testing of backup plans are carried out by each department, if necessary, in conjunction with other departments. The company organizes its operations so that a loss of a key employee's work input does not paralyse operations.

Varma's information provision is on a transparent basis. In the notes to the financial statements and the bi-annual interim reports, the company gives details on how the results of earnings-related pension insurance companies are structured and presents its balance sheet and income statement at fair value and the investments as classified according to risk. In most respects, the presentation is in accordance with the IFRS standards, if technical provisions are shown in accordance with current Finnish requirements. The Investment Operations also publish a quarterly performance report detailing the company's solvency situation.

Varma also observes good insurance principles and treats all policyholders in a fair manner. All business transactions with policyholders are on market terms. Particular attention is paid to transactions covering the financing of a policyholder's operations, real estate and other transactions, and leases. When dealing with its policyholders, Varma only makes use of arrangements that are connected with the company's operations.

Operational risks

The company's main operating sectors are pension services, insurance services, client services, and investment operations plus its support functions.

Essential risks involve investments and information technology. Varma's most important operational requirement is to manage all pension and insurance transactions correctly and on time. Financially the most important risks are those concerning investments. Insurance risks include the management of the complex information systems that maintain the production of services, risks related to the functioning of the centralised earnings register and possible errors in the processing and payment of pensions. Challenges to the information system include the implementation of legislative changes and the functioning of outsourced services. With online services expanding, malfunctions in company's internal systems and infrastructures in society at large will affect the production of services.

Other important risks are those connected with

management information, the company's physical operating environment, distribution channels, clientele trends, observance of provisions and regulations, efficient use of resources, contractual and counterparty matters, insurance business managed by the company, incorrect handling of confidential information, and the corporate image. The pension system may also be affected by risks connected with its structure and functioning, and the country's economy.

Varma has one head office, one operational area (Finland), a simple group structure, statutory products it shares with its competitors, a small number of staff relative to its turnover, and a low number of transactions relative to its investment volume. Varma analyses its risks from bottom to top and from top to bottom so that it can ensure that all company risks are comprehensively covered from different perspectives. Varma's risk management plan is mainly divided into investment and other risks. The company also observes good governance principles, conducts comprehensive self-assessments from different perspectives and applies a systematic planning process that includes scorecards. IFRS, Basel II and Solvency II provisions do not apply to earnings-related pension insurance companies.

Risks related to the earnings-related pension scheme, such as significant structural changes in the capacity of the national economy, in payroll trends and the pension scheme may, if realised, make it more difficult for Varma to carry out its tasks in accordance with its executive function and to adapt to changing circumstances. In order to control these risks, the company manages its executive function in a professional and efficient manner and contributes to the development of the earnings-related pension scheme throughout its expertise. Varma cooperates closely with its stakeholders and other players in the field. The company also develops its processes so that it can react to any changes in the earnings-related pension scheme flexibly and on time.

Varma's Board of Directors has drawn up an emergency plan, which is supplemented by detailed plans prepared by different functions. In exceptional circumstances, Varma will fulfil its statutory and contractual obligations as comprehensively and as long as possible. Priority will be given to securing services connected with the citizens' income security. The aim is at a minimum to keep basic care services operational, using the available resources and the information systems in production or solutions developed for emergencies. Every effort will be made to secure the payment and financing of pensions, receipt of payments, processing of new pensions and claims, accounting, technical accounts and communication. In exceptional circumstances, Varma will follow orders issued by authorities and make every effort to integrate its operations with the practices of other earnings-related pension insurance companies. Services may also be affected by the usability of the insurance and bank services networks, the Internet and other infrastructures.

Significant risks in exceptional circumstances include:

- 1) the payment of pensions is jeopardised
- 2) the financing of pension is more difficult
- 3) there is no period of heightened readiness between the normal situation and full readiness
- 4) bank systems (such as investment trading systems) or other infrastructures fail to work
- 5) there are problems with the telecommunications capacity and the availability of IT services (including backup systems)
- 6) the risk related to integrating the operations of major partners and risks connected with the management of outsourced operations.

Risks connected with insurance operations and technical provisions and covering them

The TyEL component of the earnings-related pension scheme is on a partially funded basis. Around one fifth of the pensions paid each year is previously funded, while the remaining part is what is called a pooled component, which is covered by an annually collected insurance contribution (pooled component of the contribution). The funded pension components are the responsibility of individual pension insurance institutions, while the pooled components are a joint responsibility of all pension insurance institutions. The equalisation provision contained in the technical provision acts as a buffer for jointly managed insurance business. The clearing system is built so that it eliminates the impacts of the differences in trends between individual insurance companies' active portfolios. Thus, contributing to the costs of the pooled components is risk-free for the individual pension insurance institutions involved. The basic pensions payable under the Self-Employed Persons' Pensions Act (YEL) are financed entirely using the insurance contributions collected annually as part of the pay-as-you-go system and a State contribution. Thus, contributing to the funding of these pensions is also risk-free for individual pension insurance institutions.

Earnings-related pensions are paid on a defined-benefit basis and are therefore, not directly dependent on the return on funded pension assets. A statutory joint and several liability for bankruptcy applying to all earnings-related pension insurance institutions guarantees earnings-related pension benefits to all insured and pension recipients. The costs of providing pensions are borne by employers and employees together. Each year, at the request of the earnings-related pension insurance companies, the Ministry of Social Affairs and Health lays down common technical bases, which all earnings-related pension insurance companies will use for calculating insurance contributions and technical provisions. The technical bases include the actuarial assumptions used in the calculation of technical provisions, such as mortality and disability incidence rates. Under the TyEL act, the technical bases must be secure and, should the base for technical provisions prove insufficient for all earnings-related pension insurance institutions, the technical provisions can be supplemented with a clearing system.

Notes to the financial statements

Risk management

Structure of Varma's technical provisions on 31 December 2006:

| Total technical provisions, 31 December 2006 | € million | % |
|----------------------------------------------------------------------|---------------|---------------|
| TEL basic insurance | | |
| Future old-age pension liabilities | 12,071 | 50.8% |
| Future disability pension liabilities | 405 | 1.7% |
| Current old-age pension liabilities | 3,138 | 13.2% |
| Current disability pension liabilities | 1,702 | 7.2% |
| Current unemployment pension liabilities | 438 | 1.8% |
| Equalisation provision | 870 | 3.7% |
| Provision for pooled claims | 1,423 | 6.0% |
| Provision for future bonuses | 3,008 | 12.7% |
| Provision for current bonuses | 77 | 0.3% |
| Total | 23,132 | 97.3% |
| TEL supplementary pension insurance, total | 610 | 2.6% |
| YEL basic pension insurance, total | 18 | 0.1% |
| YEL supplementary pension insurance, total | 3 | 0.0% |
| Total technical provisions | 23,763 | 100.0% |
| TyEL basic insurance equalisation provision, 31 December 2006 | | |
| Old-age pension component | 24 | 2.8% |
| Disability pension component | 544 | 62.5% |
| Unemployment pension component | 134 | 15.4% |
| Contribution loss component | 168 | 19.3% |
| Total | 870 | 100.0% |
| Lower limit | 149 | |
| Upper limit | 1,494 | |

The risks of Varma's insurance business are linked with the adequacy of the insurance contributions and the technical provisions accumulated from them in relation to the pensions managed by the company. As common technical bases can be changed each year and the clearing system acts as a buffer for the insurance risks of the earnings-related pension insurance institutions, individual institutions only carry the risk of deviating from the pension-scheme average. The equalisation provision, which contains a risk-theory-based lower and upper limit, helps the companies to prepare for fluctuations in their annual insurance business results. After employers have provided the necessary earnings data, the technical provisions are calculated per person and per insurance in the spring following the financial year, as part of an annual calculation. The Finnish Centre for Pensions carries out the annual clearing in the autumn following the financial year. Calculation of the technical provisions included in the financial statements is based on estimates.

The age structure of the employees insured at Varma or the sizes or lines of business of the employers are not significantly different from the average for earnings-related pension insurance companies. In fact, Varma's equalisation provision is slightly above average. Thus, Varma does not carry any risks connected with an atypical insurance portfolio.

The risk management of insurance business uses insurance technique analyses. Insurance risks are analysed using risk assumption analysis (mortality, disability intensity) and business result analysis (insurance technique, division of responsibility) and in connection with the compiling of statistics on contribution losses and disability expenditure. Particularly the estimate of the insured's payroll, in particular, may deviate from the final sum when the financial statements are prepared. This is reflected in the amount of premiums written and the technical provisions but has little impact on the company's total result.

Solvency capital gives the company protection against risks contained in the assets covering the technical provisions, which are mainly in the form of investment risks. The amount of solvency capital is monitored in relation to the technical provisions and the solvency limits calculated on the basis of investment allocation and other limits. Thus, solvency capital provides the company with a buffer for years in which the return on the assets covering the technical provisions is below the return requirement on technical provisions. On 31 December 2007, Varma's solvency capital stood at €7,033 million (31.5 per cent of the technical provisions), while the solvency limit was €3,663 million (16.4 per cent of the technical provisions). Thus, the ratio of the solvency capital to the solvency limit stood at 1.92.

Since 1 January 2007, pension institutions have been obliged to provide a higher proportion of the return requirement on technical provisions. The proportion, which is determined retroactively and with less delay than before, is based on the pension-insurance companies' real equity returns. The proportion, which in 2007 was two per cent, will increase by two percentage points each year until it reaches 10 per cent of the

technical provisions. An equity-linked provision for current and future bonuses, which is between –10 per cent and +5 per cent of the technical provisions, helps the insurance companies to carry the risks involved. If a pension institution's equity returns differ from the average, it must still employ its solvency capital to carry the risks that this involves. When the average equity return is calculated, the weight of the largest pension institutions is limited to 15 per cent.

Trends in investment risks are also monitored using different types of calculation models, a margin calculation system, maximum risk level measurement, solvency scenarios and VaR analyses. The aim is to ensure security, returns, liquidity and diversification of assets. On 31 December 2007, assets covering technical provisions amounted to 115 per cent of technical provisions.

Operational risks

Operational risks involve a danger of loss, a threat to the continuity of operations, or reduced confidence in the company caused by the company's internal processes or by unanticipated external events.

The company makes every effort to eliminate any defects in its supervision systems that would permit unintentional or intentional errors or misuse concerning such matters as insurance or claims handling, investments, reporting, monetary transactions, register details, data processing, division of work, partners' operations, or documentation.

Operational risks are charted on a regular basis and the potential impacts and likelihood of identified risks are assessed on a risk-specific basis. Identified risks are compiled into a risk chart in which risks are classified on the basis of an overall evaluation and in accordance of their potential to threaten Varma's success and the goals approved by the Board of Directors. A continuity plan is drawn up for functions that, according to the risk chart, may involve substantial risks. The preparation of the plan is at the discretion of the line management.

Investment risks

Market risks mean the fluctuation of the value of the investment objects. The greatest market risk is that involving equities. Other market risks are interest rate risk, foreign currency risk, and the risk of change in the value of real estate objects. The interest rate risk may be realised as a price risk, and early repayment of capital as reinvestment risk. Inflation risk involves the lowering of the actual value or return on assets. Credit risk means the danger of loss caused by the inability of the counterparty to honour its commitments. In liquidity risk the actual cash flow differs from what was expected. Investments that cannot be converted into cash or that can only be converted at a substantial loss can also constitute a risk. Model risk means risks involving risk measurements. When measurements are carried out it is necessary to make assumptions and simplifications about calculation methods and calculation material that may differ from reality.

Investment risk management makes use of technical bases and the regulations governing technical

provisions and solvency, which help in the monitoring and reporting of risks in accordance with actual risk positions. Management of investment risks involves the determination of acceptable risk levels within the framework approved by the Board of Directors, continuous risk measurement using selected methods, comparison with acceptable levels, and reporting. Risk management also involves continuous adaptation of the investment portfolio so that a correct risk-return ratio can be maintained. The nature of technical provisions and their return requirement are also taken into account when the time span and liquidity of investments are considered.

The investment plan approved by the Board of Directors lays down the general security goals for investments, investment diversification and liquidity goals, and the principles governing the company's foreign currency business. The Board of Directors assesses, at least once a year, the risks in Varma's investments involving changes in value, expected returns, security, and the foreign currency business, and the company's short-term and long-term risk-bearing capacity in the area of investments and the development of the company's solvency position. When calculating its solvency limit and covering the technical provisions, Varma takes into account actual investment risks. The Board of Directors monitors adherence to the investment classification criteria concerning technical provisions and solvency and the impact the use of non-standard classifications and derivatives have on the solvency limit.

The basic allocation of the investment portfolio laid down in the investment plan approved by the Board of Directors also lays down the basic level for the total portfolio risk. The investment portfolio may differ from the basic allocation within the allocation limits specifically defined in the investment plan. Every effort is made to maximise return expectations at the overall risk level selected so that the investments generate maximum returns within the company's risk-bearing capacity. Active risk targets have been laid down for different asset categories and items within which Varma is making active investment efforts to produce returns above the market index. The portfolio's realised market risks, active risks and returns generated by active investments are regularly monitored and reported in the Investment Operations.

The company also adheres to socially responsible investment allocation principles and share-ownership principles in which such considerations as high-quality governance and operational transparency of Finnish and foreign companies are used as important investment criteria.

The market risk of investments, which mainly involves equities, constitutes the greatest risk affecting the company's result and solvency. The VaR (Value-At-Risk) figure describing the total risk of Varma's investments, stood at €956 (747) million at the end of 2007. VaR is the maximum fall in the market value of the company's investment portfolio in normal market conditions occurring over a period of one month with a probability of 97.5 per cent.

Varma adjusts its total investment risk to its risk-

Notes to the financial statements

Risk management

Sensitivity analysis of the investment portfolio

| | Value 31 Dec. 2007 | Effect | | |
|------------------------------------|-----------------------|----------------------|---------------------------------|---------------------------|
| | | Share prices -30% | Interest rates +1 percentage | Real estate value -10% |
| Solvency capital | €7,033 mill. | €3,855 mill. | €6,482 mill. | €6,723 mill. |
| % of technical provisions | 31.5% | 17.3% | 29.1% | 30.2% |
| proportioned to the solvency limit | 1.9 times | 1.2 times | 1.8 times | 1.9 times |
| Return on investment, % | 6.0% | -5.6% | 4.0% | 4.8% |

bearing capacity so that the company's solvency is not endangered. The maximum risk level is determined so that even after a 30% decrease in value based on listed equity-type investments (25%, as of 1 January 2008), the solvency capital still exceeds the minimum solvency capital (2/3 of the solvency limit) by at least the amount of the VaR and is in any case always at least at the solvency limit.

The different maximum limits for investments are shown as separate risk limits in the investment plan. The diversification of the investment portfolio is on the basis of allocation that takes into account the return correlations of the asset categories. Investment risks can be eliminated by, for example, diversifying investments by asset category and item, by analysing the investment portfolio and items, by avoiding risk concentrations, by limiting the amount of unlisted securities, through a securing guarantee policy, through careful valuation practices, by integrating assets and liabilities, by using derivatives, by applying adequate and on-time supervision and monitoring arrangements and by minimising counterparty risks. The risk limits and authorisations laid down in the investment plan are monitored by the Investment Operations both before and after assignments. Varma also monitors such matters as investment duration, classification and liquidity. In real estate investments, attention is paid to such matters as technical and location risks.

New investment instruments with return and risk profiles that are significantly different from the instruments contained in Varma's present portfolio, are examined by the Investment Committee and are also presented to the Board of Directors before being applied. The realised risks of the investment instruments with return and risk profiles that differ from those normally used are examined regularly. Following the examination, the investment instruments are given a non-standard solvency classification that is accordance with the actual risk.

The table above shows how falls in equity prices and real estate values and increases in interest rates would affect return and solvency figures in the financial statements.

The investment diversification requirement is a cen-

tral part of the company's technical provisions and solvency regulations. When the solvency limit is calculated and the assets covering the technical provisions listed, investments must be grouped in solvency categories in accordance with their actual risks. Under the regulations, euro-denominated derivative authorisations and the permitted maximum loss must be determined, and derivative contracts must be classified in risk-lowering and other than risk-lowering contracts.

The Board of Directors determines the non-standard investment classification criteria and the basis for the use and classification of derivative contracts. Investment Operations decides on the non-standard risk classification in accordance with the classification criteria laid down by the Board of Directors, and an independent risk-management function will give an opinion on the proposals. Solvency classification of alternative investments that is in accordance with the actual risks is reviewed on a regular basis. The Board of Directors receives an independent monitoring report on the adherence to the classification criteria, a report on non-standard classifications and their impact on the solvency limit, and a report on the use of derivative contracts and its impact on the solvency limit.

Internal audit

The internal audit operates in accordance with the principles laid down in the professional internal auditing standards. The internal audit provides independent and objective assessment, security and consulting services, the purpose of which is to support the organisation to achieve its goals by producing assessments and development proposals on the state of risk management and other internal controls. The organisational status, tasks, responsibilities and powers are laid down in the instructions approved by the Board of Directors. The areas to be audited are defined in an annual audit plan which, after being considered by the Executive Group and the Audit Committee, are submitted to the Board of Directors for approval. Audit observations are reported to the company management, the Audit Committee and the Board of Directors. The internal audit comes under the President and CEO.

Corporate governance

Varma's governance is based on the Finnish Employee Pension Insurance Companies Act, secondary provisions, and the provisions of the Insurance Companies Act and the Companies Act mentioned in the Employee Pension Insurance Companies Act. Varma also complies with the applicable provisions of the Corporate Governance Recommendation for Listed Companies. Varma's central executive organs are the Annual General Meeting, the Supervisory Board, the Board of Directors and the President and CEO.

Policyholders and the personnel employed by them (the insured) are Varma's customers. The policyholders, the insured and the guarantee capital owners have a right to participate in decision-making at the **Annual General Meeting**.

The task of the **Supervisory Board** elected by the Annual General Meeting is to supervise the administration of the company by the Board of Directors and the President and CEO. The Supervisory Board has 28 members, seven of whom are elected on the recommendation of the Election Committee members representing major employer organisations, seven on the recommendation of the Election Committee members representing major employee organisations, and the remaining 14 on the joint recommendation of the Election Committee. In 2007, the Supervisory Board convened three times. The average attendance was 65.5%. In 2007, an annual remuneration of €5,000 was paid to the Chair of the Supervisory Board, €3,800 to the Deputy Chairs, and €2,500 to the members. The meeting fee was €300 per meeting.

The **Board of Directors** is to manage Varma with professional expertise and in accordance with sound business principles. The Board of Directors must take care of Varma's administration and operational organisation in an appropriate manner. Varma's Board of Directors comprises 12 members and three deputy members. The members of the Board of Directors are elected by the Supervisory Board on the recommendation of the Election Committee. Three of the members and one of the deputy members are elected on the recommendation of the Election Committee members representing major employer organisations and three members and one deputy member on the recommendation of the Election Committee members representing major employee organisations. Other members and one deputy member are elected on the joint recommendation of the Election Committee.

The Board of Directors convened 12 times in 2007. The average attendance was 88.6%, including attendance by deputy members. All members and deputy members of the Board of Directors have participated in self-assessment of Board work. During the year, the Board of Directors has worked on the investment plan and on investment in general, the organisation of intern control and risk management, technical bases, the strategy and the management and incentive systems of the company, the development of the company's core functions, and operating cost-effectiveness.

The Audit Committee supervises, among other things, the company's financial and other reporting, and the status of internal control. The Committee convened twice in 2007. The main issues discussed were risk management, investments and the Auditors' report and the report on the internal audit. The Compensation and Appointment Committee develops for the approval of the Board of Directors both the company's incentive system and the general principles of rewarding management. The Committee convened twice in 2007. The Election Committee draws up proposals for the members of the Board of Directors and the Supervisory Board and their remunerations. The Election Committee met twice during the year.

In 2007, an annual fee of €22,000 was paid to the Chair, €16,500 to the Deputy Chair, €11,000 to the members, and €8,000 to the deputy members. The meeting fee was €450 per meeting to the Chair, €400 to the Deputy Chairs, and €300 to the members and deputy members. Meeting fees for the members of the Committees were the same as those paid to the Board members. There are no members of the Executive Group on the Varma Board of Directors. None of the members of the Board have had an employment relationship with Varma in 2007 or in the two preceding years, nor does any member receive compensation from Varma for services unrelated to the Board's Functions.

The **President and CEO** is in charge of Varma's current administration as advised by the Board of Directors. The President and CEO is assisted in his task of managing the company by the **Executive Group**, which comprises the President and CEO and eight management representatives and two employee representatives. The Board of Directors decides on the salaries and benefits of the President and CEO, Executive Vice-President, and executives appointed by the Board of Directors. In 2007 the remunerations and fringe benefits received by the President and CEO totalled €638,554. He is set to retire at the age of 60 and his pension will amount to 60% of the calculated pensionable salary. The President and CEO's period of notice is six months, in addition to which he is entitled to a compensation amounting to six months' salary. The remunerations and fringe benefits of the Executive Vice-President totalled €346,949 and his retirement age is 60 years. The maximum management performance-based reward, approved each year, correspond to 2–6 months' salary. However, the maximum reward granted to the President and CEO corresponds to nine months' salary and the maximum reward granted to the Chief Investment Officer corresponds to 18 months' salary.

Auditors' remuneration

In 2007, the remuneration paid to auditors amounted to €216,000 (210,000). In addition, the auditing companies were paid €29,000 (43,000) in consultation fees, that is a total of €245,000 (253,000).

Notes to the financial statements

Key figures and analyses

Summary

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---------------------------------------------------------------------------------------|-----------------|----------|----------|----------|----------|
| Premiums written, € million | 3,146.8 | 2,983.3 | 2,763.9 | 2,614.8 | 2,454.7 |
| Pension and other payments made, € million ¹⁾ | 2,749.5 | 2,556.3 | 2,400.8 | 2,277.3 | 2,182.1 |
| Net investment income at fair value, € million | 1,632.1 | 2,329.8 | 2,507.0 | 1,575.9 | 1,460.0 |
| Return on invested capital, % | 6.0 | 9.4 | 11.6 | 8.0 | 8.1 |
| Turnover, € million | 4,670.6 | 4,624.8 | 3,834.5 | 3,604.5 | 3,749.3 |
| Total operating expenses, € million | 99.7 | 104.3 | 96.3 | 91.0 | 84.0 |
| of turnover, % | 2.1 | 2.3 | 2.5 | 2.5 | 2.2 |
| Operating expenses covered by the expense loading included in insurance contributions | 75.6 | 73.4 | 70.7 | 66.4 | 64.2 |
| of TyEL and YEL payroll, % | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 |
| Total result, € million | 495.2 | 1,120.7 | 1,681.0 | 877.9 | 909.8 |
| Technical provisions, € million | 25,571.1 | 23,774.3 | 21,824.1 | 20,028.5 | 18,811.9 |
| Solvency capital, € million | 7,032.7 | 6,665.7 | 5,599.3 | 3,986.3 | 3,193.4 |
| of technical provision, % ²⁾ | 31.5 | 32.1 | 29.2 | 22.8 | 19.4 |
| in relation to solvency limit | 1.9 | 2.1 | 2.4 | 2.4 | 2.1 |
| Equalisation provision, € million | 938.3 | 910.4 | 947.0 | 906.9 | 860.3 |
| Pension assets, € million ³⁾ | 29,292.3 | 27,378.0 | 24,727.6 | 21,491.0 | 19,670.6 |
| Transfer to client bonuses of TyEL payroll, % | 0.6 | 0.6 | 0.7 | 0.4 | 0.3 |
| TyEL payroll, € million | 14,388.7 | 13,402.2 | 12,275.4 | 11,784.2 | 11,045.7 |
| YEL payroll, € million | 669.1 | 648.3 | 620.0 | 597.7 | 579.0 |
| TyEL policies ⁴⁾ | 26,300 | 25,200 | 25,200 | 25,600 | 25,300 |
| TyEL insured persons | 447,000 | 426,100 | 408,600 | 406,400 | 393,000 |
| YEL policies | 37,300 | 37,400 | 36,700 | 36,300 | 36,000 |
| Pensioners | 302,100 | 296,400 | 293,000 | 285,600 | 284,000 |

¹⁾ Claims paid in income statement excluding costs for operations relating to compensations and working capacity maintenance

²⁾ Ratio calculated as a percentage of the technical provisions used in calculating the solvency limit

³⁾ Technical provisions + valuation differences

⁴⁾ Policies written by employers with insurance contracts

Performance analysis

| 31 Dec., € million | 2007 | 2006 | 2005 | 2004 | 2003 |
|--------------------------------------------------------|--------------|----------------|----------------|--------------|--------------|
| Sources of profit | | | | | |
| Technical underwriting result | 34.0 | -32.1 | 42.8 | 52.7 | 70.2 |
| Investment surplus at fair value | 434.6 | 1,124.2 | 1,614.6 | 802.6 | 820.4 |
| +Net investment income at fair value | 1,632.1 | 2,329.8 | 2,507.0 | 1,575.9 | 1,460.0 |
| -Return requirement on technical provisions | -1,197.5 | -1,205.6 | -892.4 | -773.3 | -639.6 |
| Loading profit | 26.6 | 28.5 | 23.5 | 22.5 | 19.1 |
| Total result | 495.2 | 1,120.7 | 1,681.0 | 877.9 | 909.8 |
| Distribution of profit | | | | | |
| To increase solvency | 403.2 | 1,042.7 | 1,597.0 | 826.9 | 874.8 |
| Equalisation provision (+/-) | 27.9 | -36.5 | 40.1 | 46.5 | 62.7 |
| Solvency capital (+/-) | 375.2 | 1,079.2 | 1,556.9 | 780.3 | 812.1 |
| Change in provision for future bonuses | 253.4 | 368.5 | 108.1 | 171.9 | 626.8 |
| Change in difference between fair value and book value | 117.6 | 700.2 | 1,441.0 | 603.9 | 180.4 |
| Change in accumulated appropriations | -0.2 | -0.2 | 0.0 | -2.6 | -0.5 |
| Profit for the financial year | 4.4 | 10.7 | 7.8 | 7.1 | 5.4 |
| Transfer to client bonuses | 92.0 | 78.0 | 84.0 | 51.0 | 35.0 |
| Total | 495.2 | 1,120.7 | 1,681.0 | 877.9 | 909.8 |

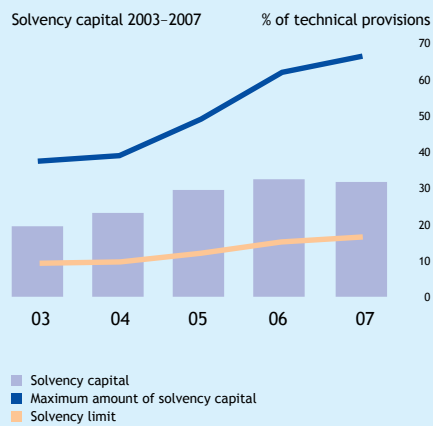
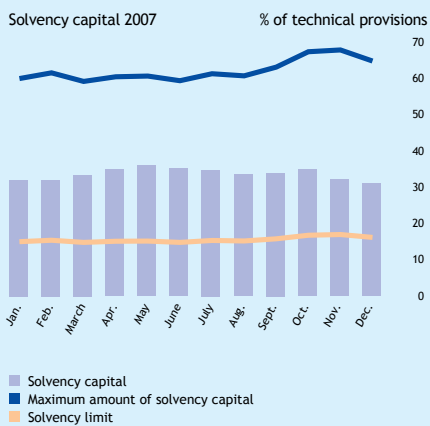
Solvency

Solvency capital and limits

(in relation to technical provisions used in calculating the solvency limit)

| | | | | | |
|--------------------------------------------------|------|------|------|------|------|
| Solvency limit | 16.4 | 15.1 | 12.0 | 9.5 | 9.2 |
| Maximum amount of solvency capital ¹⁾ | 65.7 | 60.4 | 48.0 | 38.1 | 36.8 |
| Solvency capital | 31.5 | 32.1 | 29.2 | 22.8 | 19.4 |

¹⁾ Before 2007 Upper limit of the target zone



Notes to the financial statements

Key figures and analyses

Investment allocation at fair value

| | 2007 | | 2006 | | 2005 | | 2004 | | 2003 | |
|-------------------------------------------------------------------------------------------------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| | € mill. | % | € mill. | % | € mill. | % | € mill. | % | € mill. | % |
| Loan receivables ¹⁾ | 1,021.4 | 3.6 | 930.6 | 3.5 | 953.7 | 3.9 | 1,089.5 | 5.1 | 1,222.1 | 6.3 |
| Bonds ^{1) 2)} | 8,337.3 | 29.3 | 10,373.5 | 38.6 | 11,569.9 | 47.0 | 11,240.9 | 52.9 | 10,891.0 | 56.0 |
| *includes fixed-income funds | 172.1 | | 245.9 | | 240.8 | | 140.6 | | | |
| Other money-market instruments and deposits ^{1) 2) 3)} | 955.4 | 3.4 | 389.2 | 1.4 | 619.9 | 2.5 | 838.3 | 3.9 | 142.5 | 0.7 |
| *includes fixed-income funds | 47.0 | | | | | | | | | |
| Shares and participations | 14,849.1 | 52.3 | 12,428.4 | 46.3 | 8,761.4 | 35.6 | 5,476.5 | 25.8 | 4,683.2 | 24.1 |
| Real estate ⁴⁾ | 3,255.1 | 11.5 | 2,736.7 | 10.2 | 2,715.9 | 11.0 | 2,587.2 | 12.2 | 2,520.1 | 13.0 |
| * includes investments trusts and undertakings for collective investment in transferable securities (UCITS) | 343.1 | | 227.0 | | 54.4 | | 14.7 | | | |
| Total investments | 28,418.2 | 100.0 | 26,858.4 | 100.0 | 24,620.8 | 100.0 | 21,232.6 | 100.0 | 19,459.0 | 100.0 |
| Modified duration of the bond portfolio | 4.90 | | | | | | | | | |

¹⁾ Accrued interest included

²⁾ Of fixed-income funds, long-term funds are included in bonds and short-term funds in other money-market instruments

³⁾ Includes deposits included in investments in balance sheet

⁴⁾ Includes shares in investment trusts and investments in comparable UCITS funds investing in real estate and real estate communities

Investment return specification and surplus

| € million | 2007 | 2006 | 2005 | 2004 | 2003 |
|----------------------------------------------------------------------------------|----------------|---------|---------|---------|---------|
| Direct net income | 1,007.2 | 899.6 | 885.8 | 948.0 | 795.0 |
| Loan receivables | 49.6 | 44.0 | 43.4 | 55.6 | 56.0 |
| Bonds | 362.1 | 431.5 | 479.8 | 476.7 | 505.3 |
| Other money-market instruments and deposits | 45.1 | 17.8 | 12.0 | 10.3 | 6.0 |
| Shares and participations | 438.4 | 277.6 | 208.3 | 294.3 | 119.9 |
| Real estate | 139.6 | 155.8 | 153.7 | 132.0 | 123.1 |
| Unallocated income, costs and operating expenses from investment activities | -27.6 | -27.1 | -11.3 | -20.8 | -15.2 |
| Changes in book value ¹⁾ | 507.3 | 730.0 | 172.1 | 13.7 | 485.4 |
| Shares and participations | 513.2 | 683.6 | 176.0 | 254.2 | 252.3 |
| Bonds | 10.0 | 37.8 | 22.8 | -203.4 | 253.8 |
| Real estate | -15.9 | 8.7 | -26.7 | -37.1 | -20.7 |
| Net investment income booked | 1,514.6 | 1,629.6 | 1,057.8 | 961.8 | 1,280.4 |
| Change in difference between fair value and book value ²⁾ | 117.6 | 700.2 | 1,441.0 | 603.9 | 180.4 |
| Shares and participations | 255.9 | 1,039.7 | 1,402.8 | 306.9 | 255.1 |
| Bonds | -297.6 | -384.5 | 10.0 | 263.9 | -103.5 |
| Real estate | 159.3 | 45.0 | 27.5 | 33.5 | 29.6 |
| Other investments | 0.0 | 0.1 | 0.7 | -0.3 | -0.8 |
| Net investment income at fair value | 1,632.1 | 2,329.8 | 2,498.8 | 1,565.7 | 1,460.8 |
| Return requirement on technical provision | 1,197.5 | 1,205.6 | 892.4 | 773.3 | 639.6 |
| Investment surplus, book value | 317.1 | 424.0 | 173.6 | 198.7 | 640.0 |
| Investment surplus at fair value | 434.6 | 1,124.2 | 1,614.6 | 802.6 | 820.4 |
| Share of net investment income accounted for by derivatives ³⁾ | 631.4 | 290.5 | -309.9 | -157.7 | 161.5 |

¹⁾ Capital gains and losses and other changes in book value

²⁾ Changes in book value not included in the balance sheet

³⁾ Includes currency hedges

Net investment income at fair value

| | Net investment income at fair value ¹⁾ € mill. | Invested capital ²⁾ € mill. | Return on invested capital % | Return on invested capital % | Return on invested capital % | Return on invested capital % | Return on invested capital % |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2007 | 2007 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Loan receivables | 49.0 | 873.6 | 5.6 | 4.7 | 4.5 | 4.8 | 4.4 |
| Bonds ³⁾ | 93.0 | 9,252.4 | 1.0 | 0.8 | 4.5 | 5.0 | 6.1 |
| * of which fixed-income funds account for | -2.5 | 162.2 | -1.5 | 3.3 | 2.1 | | |
| Other money-market instruments and deposits ³⁾ | 27.2 | 1,048.1 | 2.6 | 3.2 | 2.0 | 2.6 | 3.4 |
| * of which fixed-income funds account for | 3.6 | 90.0 | 4.0 | | | | |
| Shares and participations | 1,207.5 | 13,441.0 | 9.0 | 20.8 | 29.4 | 17.9 | 19.3 |
| Real estate ⁴⁾ | 283.0 | 2,771.1 | 10.2 | 7.9 | 6.0 | 5.1 | 5.4 |
| * of which investments trusts and undertakings for collective investment in transferable securities (UCITS) account for | 24.8 | 216.6 | 11.4 | 6.5 | 8.9 | | |
| Total investments | 1,659.7 | 27,386.2 | 6.1 | 9.5 | 11.6 | 8.1 | 8.2 |
| Unallocated income, costs and operating expenses from investment activities | -27.6 | | | | | | |
| Net investment income at fair value | 1,632.1 | 27,386.2 | 6.0 | 9.4 | 11.6 | 8.0 | 8.1 |

¹⁾ Net investment income at fair value = Change in the fair value at the end and beginning of the financial year – cash-flow during the financial year. Cash-flow is the difference between purchases/costs and sales/income

²⁾ Invested capital = Fair value at the beginning of the financial year + time-weighted cash-flows on a daily/monthly basis

³⁾ Includes income from fixed-income funds reported as the investments in question

⁴⁾ Includes income from investment trusts and UCITS funds reported as real estate investments

Loading profit

| € million | 2007 | 2006 | 2005 | 2004 | 2003 |
|------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Expense loading components included in contributions | 97.5 | 101.3 | 93.6 | 88.2 | 82.4 |
| Components available to cover operating expenses arising from compensation decisions | 4.3 | | | | |
| Other income | 0.3 | 0.6 | 0.6 | 0.7 | 0.9 |
| Total loading income | 102.1 | 101.9 | 94.2 | 88.9 | 83.3 |
| Operating expenses covered by loading income ¹⁾ of TyEL and YEL payroll, % | -75.6 0.5% | -73.4 0.5% | -70.7 0.5% | -66.4 0.5% | -64.2 0.6% |
| Loading profit | 26.6 | 28.5 | 23.5 | 22.5 | 19.1 |
| Operating expenses in relation to loading income, % | 74% | 72% | 75% | 75% | 77% |

¹⁾ Excluding operating expenses related to investments and maintenance of working capacity and statutory charges

Distribution of Profit

| | |
|--------------------------------------------------------------------------------------------------------------------|---------------|
| The Board of Directors proposes that the profit for the year shown in the balance sheet be distributed as follows: | €4,389,904.32 |
| to be transferred to the contingency fund (optional reserve) | €3,500,000.00 |
| to be paid as interest on guarantee capital | €806,286.01 |
| to be transferred to the Board of Directors' expense account | €60,000.00 |
| to be carried over on the Profit and Loss Account | €23,618.31 |

Helsinki, 14 February 2008

Jyrki Juusela

Ole Johansson

Mikko Mäenpää

Jouko Ahonen

Erkki Kangasniemi

Birgitta Kantola

Lasse Laatumen

Arto Ojala

Markku Pohjola

Kari O. Sohlberg

Kari Stadigh

Sakari Tamminen

Matti Vuoria
President and CEO

Auditors' Report

To the owners of
Varma Mutual Pension Insurance Company

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Varma Mutual Pension Insurance Company for the financial year from 1 January to 31 December 2007. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the financial statements, which include the consolidated and parent company's balance sheets, income statements, statements of source and application of funds, and notes to the financial statements. Based on our audit we express an opinion on these financial statements, as well as on the report of the Board of Directors and on the pension insurance company's administration.

A supervisory auditor's report dated 18 February 2008 has been issued on the supervisory audit carried out under the supervision of Raija-Leena Hankonen, Authorised Public Accountant.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance of whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the overall accounting principles used and significant estimates made by the management as well as evaluating the overall financial

statements presentation. The purpose of our audit of administration is to examine that the members of the Supervisory Board, Board of Directors and the Managing Director have legally complied with the rules of the Insurance Companies Act and the Employee Pension Insurance Companies Act.

In our opinion, the report of the Board of Directors and the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The report of the Board of Directors and the financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The report of the Board of Directors is consistent with the financial statements. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Director of the pension insurance company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors regarding the distribution of profit is in compliance with the Finnish Insurance Companies Act.

Helsinki, 28 February 2008

Raija-Leena Hankonen
Authorised
Public Accountant

Jaakko Nyman
Authorised
Public Accountant

Statement by the Supervisory Board

The Supervisory Board has today received the financial statements for Varma Mutual Pension Insurance Company for the financial year 2007, together with the consolidated financial statements and auditors' report concerning these

The Supervisory Board states to the Annual General Meeting that it has found no cause for criticism concerning the financial statements, consolidated financial statements, report of the Board of Directors or auditors' report.

The Supervisory Board recommends that the Board of Directors' proposal for the distribution of the profit for the financial year be accepted.

Helsinki, 6 March 2008

For the Supervisory Board

Jukka Härmälä
Vice chairman of the Supervisory Board

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