

ANNUAL REPORT AND FINANCIAL STATEMENTS 2007

ANNUAL REPORT 2007

Economic development

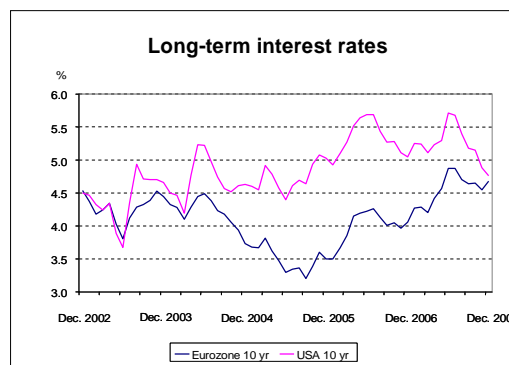
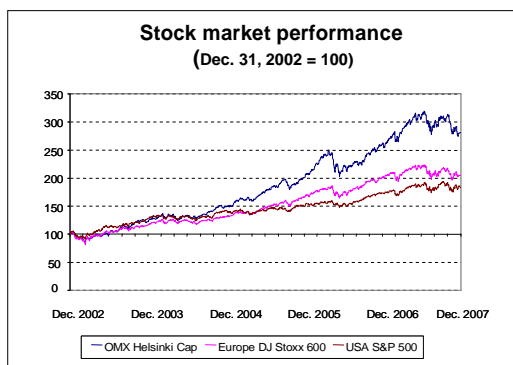
The positive development of the world economy and Finland's national economy, which has lasted for several years, continued well into 2007. During the final part of the year, economic growth slowed down, particularly in the U.S., where the mortgage credit crisis started to be reflected in the general economic environment. The growth of the world economy also slowed down, and ended up at about 4.5 per cent.

Employment continued to improve rapidly in Finland. During 2007 the number of unemployed people was at all times about 30,000 smaller than during the corresponding period of previous year. The number of employed persons increased in all sectors except for agriculture and forest, and the average unemployment rate for the year decreased by about half a percentage point from the previous year, to six per cent. The employment rate for 60–64 year-olds, which is important with respect to the earnings-related pension scheme, has increased from less than 25 per cent to 40 per cent over a period of a few years.

Inflation remained steady at the international level, but the increase in prices accelerated toward the end of the year, due among other things to the increase in the prices of raw materials and food. Global inflation settled at about 3.5 per cent, and in Finland and elsewhere in Europe inflation increased close to 3 per cent. Due to the more subdued development of inflation during the early part of the year, the rate of increase in consumer prices in Finland settled at an annual rate of 2.5 per cent. Both long-term and short-term interest rates increased, and the year turned out to be difficult for fixed-income investors, particularly due to the increase in credit risk premiums.

Fluctuations in the investment markets increased in the second half of the year as the view of the economy started to change. In the final part of the year, the stock markets were characterised by sharp falls followed by periods of recovery. The sharp fluctuations signalled a transition to a new, period of uncertainty. Finally, equity market returns for the full year turned out to be moderate, but there were great differences in return between different stock markets. The performance of the Finnish equity market was good.

The mortgage credit crisis in the U.S. did not have any direct effects on the returns of Finnish employee pension investments, but the indirect effects may turn out to be significant if there is a permanent increase in general uncertainty and economic growth in Finland slows down.



Development of the earnings-related pension scheme

The forecasts of the future development of the employment pension contribution have moved in a positive direction. The positive development of employment and the average retirement age signify the easing of upward pressure on both pension expenditure and the employment pension contribution, and thus further strengthen the financial soundness of the earnings-related pension scheme. According to the latest forecasts released by the Finnish Centre for Pensions in the autumn of 2007, the level of the employment pension contribution is predicted to increase from its present level by about four percentage points over the next twenty years, to settle finally at about 25 per cent. This level is about two percentage points lower than earlier forecasts. The change is a result of the latest predictions of the development of the population and employment and the higher assumed level of average yield from employee pension investments over the long-term.

The changes made in the assumptions upon which the forecast is based were affected by pension reform, one of the objectives of which was to encourage people to remain in working life longer instead of retiring early, and the reform of the regulation for investing pension assets that entered into force at the beginning of 2007 which means that employee pension investors can seek higher yields in making their investments. Equity risk was partially transferred to be covered by the earnings-related pension scheme by tying the change in technical provisions partly to the average yield from investments in shares. At the same time, the legislation governing the assets covering technical provisions of authorised pension institutions and the calculation of the solvency border were reformed. As of the beginning of 2007, the classification of assets is made based on the actual risk when this differs from the risk estimated on the basis of the legal form of the investment.

The changes on benefits, included in pension reform for the most part entered into force at the start of 2005. The most important matter currently being implemented is the employee pension record. As of the beginning of 2008, information on gainful employment registered in the earnings-related pension scheme will be sent annually to all individuals in the private sector who are covered by statutory earnings-related pension insurance. The main purpose of the pension record is to facilitate the checking of the register data, but at the same time it also makes it easier to get an idea of the level of pension that has already accrued and which will accrue from gainful employment in the future.

The Employees' Pensions Act (TyEL), which entered into force at the beginning of 2007, replaced three previous employee pension laws. With its entry into force, the customers covered at the present time by TyEL and the Self-Employed Person's Pension Act (YEL) constitute a single joint

competitive market for pension institutions which in the past operated pursuant to separate laws. The residual pressures resulting from the separation of the laws were unwound during the first transfer round of 2007.

There were also amendments in 2007 to the legislation governing the administrative bodies of authorised pension insurance companies. The competence requirements for members of the Supervisory Board and Board of Directors as well as the Chief Executive Officer were made more precise. Committees handling nominations, remuneration and audits became mandatory as well as a special Election Committee established to prepare for the selection of members of administrative bodies, in which organisations representing employers and employees have equal representation.

On 11 January 2007, the Ministry of Social Affairs and Health published a report on the competitive conditions of the earnings-related pension scheme. This will eventually lead to the enactment of legislation, the content of which cannot be foreseen in all respects at the present time. One of the proposals in the report is a modest reduction in the regulation of technical bases. Authorised pension insurance companies evaluated themselves in terms of competition law with respect to this subject in 2007. The finding of this evaluation was that the operation of the earnings-related pension scheme requires the maintenance of mainly joint technical bases but in some respects changes toward company-specific technical bases would be possible and justified. The most suitable aspects to be made company-specific are the determination of the part of the employment pension contribution that is collected for business expenses and the division of bonuses and rebates between customers. The change is relatively large and for this reason it is likely that the earliest year that company-specific technical bases would be applied is 2010.

The principle for calculating the refund transfer based on investment activities was changed in association with investment reform so that the maximum amount of transfer only depends on the company's absolute solvency and no longer on solvency in relation to the risks of the company's investment portfolio. The change was justified in terms of seeking higher yields on investments because according to the earlier rules, an increase in investment risk with other factors remaining unchanged led to the deterioration of competitiveness on bonuses and rebates over the short term. Starting in 2007, cost-effectiveness also has an impact on bonuses and rebates.

Ilmarinen's result and solvency

The year 2007 was very positive for Ilmarinen in terms of the increase in its customer base. The development of investment operations and solvency also continued until the middle of the year in the favourable direction established over the last few years, as the company benefited from the choices it made in its investment strategy as share prices rose. The investment climate started to change during the second half of the year and investment yields fell, but despite this the company's solvency only fell slightly and remained at a high level.

The net yield of Ilmarinen's investments, calculated at fair value, was 5.7 per cent (8.5 per cent in 2006). The solvency capital, i.e. the difference between the company's assets and liabilities measured at fair value, increased to EUR 6,068.8 million from EUR 5,828.0 million in the previous year. At the end of 2007, the solvency capital was 32.5 (33.7) per cent of the technical provisions used in the calculation of solvency and 50 (60) per cent of its maximum amount.

The solvency capital is intended to cover the risks inherent in investments. The control limits of the solvency capital of authorised pension companies are determined by the level of risk inherent in the

company's investments which is estimated by dividing the investments into classes according their risk and by calculating the so-called solvency limit based on the classification. From the beginning of 2007, the classification has been made on the basis of the actual risk of the investment when this is clearly different than the risk of the investment based on its legal nature. The change lowered Ilmarinen's solvency border from 14.1 per cent by 0.3 percentage points at the start of the accounting period, but changes in the investment portfolio during the accounting period increased it to 16.3 per cent. At the end of 2007, Ilmarinen's solvency margin was 2.0 times the solvency limit, while in 2006 it was 2.4 times the limit.

The data on the result and solvency presented below are based on key figures and analyses presented in the notes to the financial statements which are calculated mainly at fair value.

Ilmarinen's overall result in 2007 was EUR 344.6 (850.3) million. The result of the underwriting business under the company's own responsibility was EUR 9.0 (19.9) million and its loading profit was EUR 14.0 (22.9) million. The technical underwriting result is the difference between premium components intended to cover risks and claims incurred. The loading profit shows how much the expense loading components and other similar income exceed the operating expenses to be covered by them. Net yields from investments activities calculated at fair value were EUR 1,325.0 (1,803.0) million. They exceeded the total of the EUR 996.6 (995.5) million in interest refunded on technical provisions and the EUR 6.8 million growth in technical provisions tied to the yield from shares by EUR 321.6 (807.6) million.

The result of the underwriting business under the company's own responsibility will be transferred to the equalisation provision in line with the principles affirmed by the Ministry of Social Affairs and Health, except for EUR 1.0 million, the amount by which the equalisation provision of supplementary pension insurance pursuant to TEL (Employees' Pensions Act) would otherwise have exceeded its upper limit.

The amount allocated for discounts on TyEL contributions, i.e. bonuses and rebates, is determined in 2007 mainly based on the company's solvency capital, but partly also based on the result of administrative costs. EUR 74.0 (81.0) million will be allocated for bonuses and rebates. The transfer is 0.60 (0.70) per cent of the insured payroll and EUR 177 (209) per employee insured at Ilmarinen.

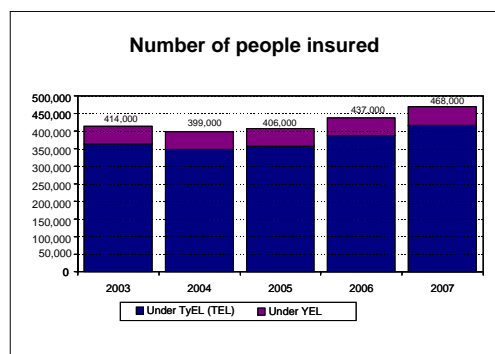
The rest of the overall result will be retained to strengthen the company's solvency capital, except for interest paid on guarantee capital after the approval of the financial statements.

Insurance portfolio and premiums written

Changes in employee pension legislation as of the beginning of 2007 altered concepts in some respects when comparing figures with the amounts in 2006. When the earlier Employees' Pensions Act (TEL) was in force each employer that had insured its employees at Ilmarinen concluded an insurance contract with the company. While TyEL is in force, most employers act in this fashion, but those using temporary employees can pay their employer contributions to authorised pension insurance companies without signing an actual insurance contract. Below, "policyholder" refers to a client that has concluded an insurance contract with Ilmarinen and "TyEL employee" refers to an employee who has been employed by such an employer.

The development of Ilmarinen's TyEL insurance portfolio was very good in 2007. At the end of 2007, there were 34,113 (31,551) TyEL insurances, so the number of insurances increased by 8.1

per cent during the year. In addition, 1,458 temporary employers paid TyEL contributions to Ilmarinen. At the end of the year, there were 417,000 (387,000) insured persons covered by TyEL insurances, which was 7.8 per cent more than the number of TEL-insured individuals at the end of the previous year. The average size of a TyEL insurance was about 12 persons in 2007 or the same as the average size of a TEL insurance in 2006.

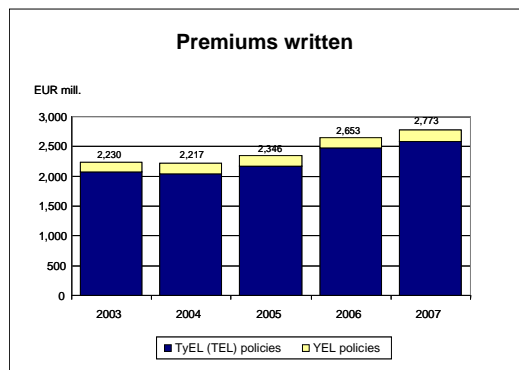


The amount of TyEL payrolls insured at Ilmarinen was EUR 12,425.5 (11,505.6) million. This was 8.0 per cent more than TEL payrolls in the previous year. Market share, calculated on the basis of the amount of insured TyEL payrolls, is estimated to have increased clearly in 2007 from the corresponding figure in 2006, which was 30.2 per cent. When calculating this corresponding figure, all authorised pension insurance companies which provide insurance pursuant to TyEL from 2007 are included.

Ilmarinen had 51,289 (49,898) YEL (Self-Employed Persons' Pension Act) insurances at the end of the year. Ilmarinen is clearly the largest insurer of self-employed persons, and its market share has been in the range 30-32 per cent in recent years, measured on the basis of premiums written. The average annual reported income for YEL insurances was EUR 19,285 (18,510). It increased by about 4.2 per cent from the previous year, which is more than the wage coefficient to which YEL-reported income is tied and which increased by 2.18 per cent. YEL-reported income is on average significantly lower than the average earnings of TyEL employees.

In 2007, Ilmarinen's premiums written stood at EUR 2,772.5 (2,652.6) million.

EUR 2,578.7 (2,471.2) million in TyEL contributions were received, i.e. TyEL premiums written increased by 4.4 per cent compared to TEL premiums written in 2006. Discounts given to TyEL contributions in 2007, i.e. bonuses and rebates, totalled EUR 79.9 million, compared with EUR 77.9 million in the previous year. The most important factor affecting the change in TyEL premiums written was the growth in the insured payroll. Nevertheless, the growth in premiums written fell short of the increase in the insured payroll due to adjustment contributions for previous years included in 2006 premiums written.



Premiums written from YEL insurances stood at EUR 193.9 (181.4) million, an increase of 6.9 per cent.

Credit losses on unpaid TEL contributions were EUR 6.0 (4.3) million. Credit losses on unpaid YEL contributions were EUR 3.2 (3.5) million. Ilmarinen will not, however, incur losses from credit losses on YEL contributions because in the YEL system, the State's share compensates for insurance premiums not received from policyholders.

The overall result from sales was at a record level during the accounting year and the number of clients increased clearly. At the end of the year, Ilmarinen managed the employee pension insurance of 34,114 companies and 51,289 self-employed persons, and as a result provided employee pension insurance for a total of about 468,000 individuals in working life. Sales of new insurances was more active throughout the whole year than in previous years, and in terms of the number of insurances growth was 20 per cent compared with 2006.

The transfers of TyEL insurances between Ilmarinen and other authorised pension companies had a better net positive result for Ilmarinen than ever before. Measured in terms of premiums written, it increased to about EUR 82 million. The whole employment pension market was affected by the combination of employee pension laws and the dismantling of the earlier monopoly. The change gave Ilmarinen's clients the opportunity to concentrate their employment pensions at Ilmarinen. This decision was made by 2,300 clients. Ilmarinen posted a clearly positive transfer result in relation to most of its competitors. There was an increase in the customer base with respect to small, medium-sized and large companies.

A total of 5,540 new YEL insurances were sold. This will boost YEL premiums written by EUR 17.5 million and clearly exceeds the sales result during previous years. The transfer result on YEL insurances was also positive by 900 insurances.

Ilmarinen's partners OP-Pohjola and Pohjantähti played key roles in the sales of both self-employed person's pension and employee pension for SMEs. Obtaining employee pension insurance through Ilmarinen's Internet service has also become more popular, and during the accounting year total direct sales were significant, at over EUR 9 million. In addition, the effectiveness of sales and customer service has been improved through Ilmarinen's own national network of account managers.

Nokia Corporation decided in December 2007 to transfer the pension insurances of all of its about 15,000 employees from the company pension fund to Ilmarinen from 1 March 2008.

Contribution rate

The confirmed average TyEL contribution for 2007 was 21.6 per cent or the same as last year's TEL contribution. The contribution of employees under the age of 53 was 4.3 per cent and the contribution of over 53-year-olds was 5.4 per cent. The average employer contribution was 17.0 percentage points. The level of the employer contribution varies depending on the insurance and also depends on the authorised pension company's bonuses and rebates. Ilmarinen's bonuses and rebates were on average 4.0 (4.0) per cent of the employer's contribution. Small and medium-sized employers were also granted a maximum discount of 0.6 percentage points to reduce the equalisation provision relating to disability pensions.

The confirmed TyEL contribution for 2008 is on average 21.8 per cent of the earnings, i.e. 0.2 percentage points higher than in 2007. The employment pension contribution percentages of employees by age class will fall by 0.2 percentage points, so that the contribution of under 53-year-olds is 4.1 per cent, and the contribution of those 53 years or older is 5.2 per cent. The average employer contribution is 17.5 percent. In 2008, small and medium-sized employers will again be granted a temporary discount to reduce the equalisation provision relating to disability pensions. The amount of the discount depends on the size of the employer and is a maximum of 1.0 percentage points.

The YEL contribution for 2007 was 20.8 per cent of confirmed earnings. The YEL contribution of self-employed persons who turned 53 before the start of the accounting year was 21.9 per cent. In 2008, the YEL contribution is 0.2 percentage points lower than in 2007, i.e. 21.7 per cent for self-employed persons who turned 53 before the start of the accounting year and 20.6 per cent for others.

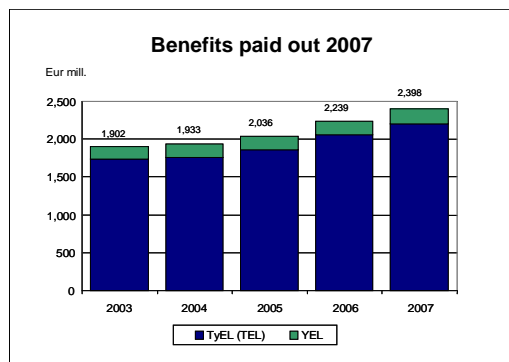
Pensions and maintaining working capacity

In 2007, Ilmarinen paid a total of EUR 2,398.4 (2,239.1) million in pensions.

Pension expenditure by type of pension in 2007, EUR millions

	TyEL	YEL	Total	% of total pension expenditure
Retirement pensions	1,310.1	117.4	1,427.5	59.5
Early retirement pensions	151.8	16.4	168.2	7.0
Part-time pensions	27.1	7.7	34.8	1.5
Disability pensions	363.4	28.9	392.3	16.4
Individual early retirement pensions	11.6	0.7	12.3	0.5
Unemployment pensions	141.4	2.5	143.9	6.0
Survivors' pensions	196.4	23.0	219.4	9.1
Total	2,201.8	196.6	2,398.4	100.0

The figures in the table contain both items paid directly to pension recipients and items paid through a pay-as-you-go pool.



Number of pension recipients on 31 December 2007

Type of pension	TyEL	YEL	Total
Retirement pensions	132,205	17,094	149,299
Early retirement pensions	13,127	2,960	16,087
Part-time pensions	3,723	1,159	4,882
Disability pensions	36,549	4,514	41,063
Individual early retirement pensions	671	59	730
Unemployment pensions	10,950	253	11,203
Survivors' pensions	33,282	6,425	39,707
Total	230,507	32,464	262,971

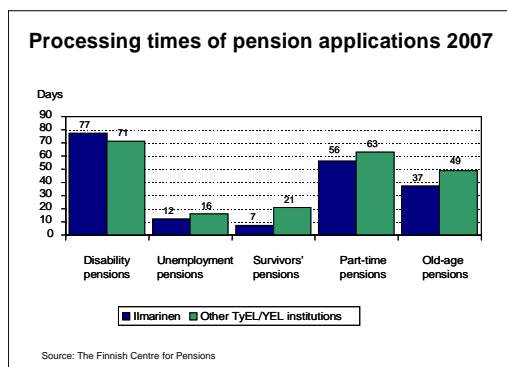
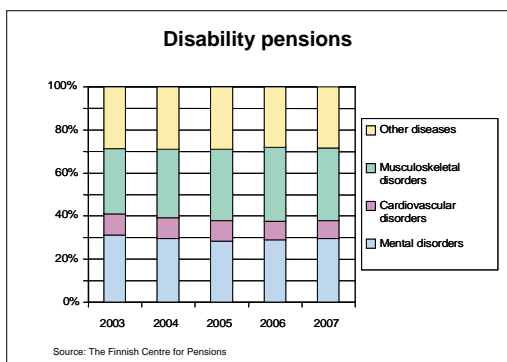
At the end of the year, there were 262,971 pension recipients, i.e. 2.0 per cent more than a year earlier, when there were 257,884. At the end of the year, 230,507 (226,006) pension recipients received TyEL pension, and 32,464 (31,878) received YEL pension.

A total of 63 per cent of pension recipients received retirement pension and 16 per cent received disability pension. Recipients of individual early retirement pension made up less than half a per cent of all pension recipients. Just as last year, the share of unemployment pension recipients was about 4 per cent, the share of part-time pension recipients was slightly under 2 per cent and the share of survivors' pension recipients was 15 per cent of all pension recipients.

Pension decisions in 2007

	2007	2006	Change %
Retirement pensions	5,328	5,142	3.6
Early retirement pensions	455	371	22.6
Part-time pensions	1,240	904	37.2
Disability pensions	5,979	6,112	-2.2
Individual early retirement pensions	0	7	-100.0
Unemployment pensions	2,913	2,678	8.8
Survivors' pensions	2,749	2,597	5.9
Total new pension decisions	18,664	17,811	4.8
Total pension decisions	31,354	31,659	-1.0

During 2007, Ilmarinen made a total of 31,354 pension decisions, or about one per cent less than during the previous year. The number of new pension decisions increased by 4.8 per cent and stood at a total of 18,664. Slightly more retirement pensions were awarded than in the previous year. Individual early retirement pensions were eliminated entirely due to pension reform, and none were granted in 2007. The number of disability pensions granted fell and the number of unemployment pensions increased. Slightly more survivors' pensions were granted than in the previous year. The largest proportional increase was in the number of part-time pension decisions.



Ilmarinen measures the efficiency of the processing of pension claims using the average processing time for each type of pension and the quality of pension decisions according to stability of the decisions vis-à-vis the degree of seeking a change. The company has traditionally performed better than the benchmark group using both indicators. This was also the case in 2007 with the exception of the processing period of disability pension decisions. The share of negative decisions among disability pension decisions was 21.1 (22.1) per cent. Of those Ilmarinen decisions that were sent to appeal bodies, 4.5 (6.3) per cent of the decisions sent to the Pension Appeal Court (Työeläkeasioiden muutoksenhakulautakunta TELK) were amended against Ilmarinen's position, and 19.1 (13.3) per cent of the decisions sent to the Insurance Court were amended against Ilmarinen's position.

Ilmarinen remains the only authorised pension company that offers its customers who have received a negative disability pension decision a guidance service on issues such as securing a

livelihood and continuing in working life. The service is provided by rehabilitation research institutes and work clinics throughout Finland that have concluded cooperation agreements. Feedback received from customers, employers and service providers has been positive.

A total of 22,120 (22,020) individual pension insurance analyses were carried out in response to customer queries.

In 2007, Ilmarinen held a total of 16 seminars on well-being at work throughout Finland for individuals responsible for the operations, staff and development of its customer companies. In addition to these events, numerous training sessions were held for customer companies.

Ilmarinen continued to support the occupational rehabilitation of the personnel of its customer companies by offering training in occupational rehabilitation and, during the rehabilitation planning stage, guidance and expert support for both employees seeking rehabilitation and the staff of the customer companies. During the actual rehabilitation period, the company pays benefits pursuant to employee pension legislation, which support the individual's livelihood during the rehabilitation and compensates for the costs of the training. In 2007, Ilmarinen paid a rehabilitation allowance or a rehabilitation increment tied to a pension during occupational rehabilitation in 1,268 (1,106) cases. The number of these payments increased by 15 per cent from the previous year.

Underwriting business, technical provisions, portfolio transfer and fund transfer

At the end of 2007, technical provisions stood at a total of EUR 22,661.1 (20,917.2) million. Provision for future bonuses increased by net EUR 348.8 million and stood at EUR 3,937.1 (3,588.3) million at the end of the year. The increase in the other parts of technical provisions was 8.1 per cent.

The result of the underwriting business under the company's own responsibility was EUR 9.0 (19.9) million. The equalisation provision increased by EUR 8.0 million to EUR 917.9 million. The transfer into the equalisation provision was EUR 1.0 million less than the result of the underwriting business since the equalisation provision of TEL supplementary pension insurance was near its maximum.

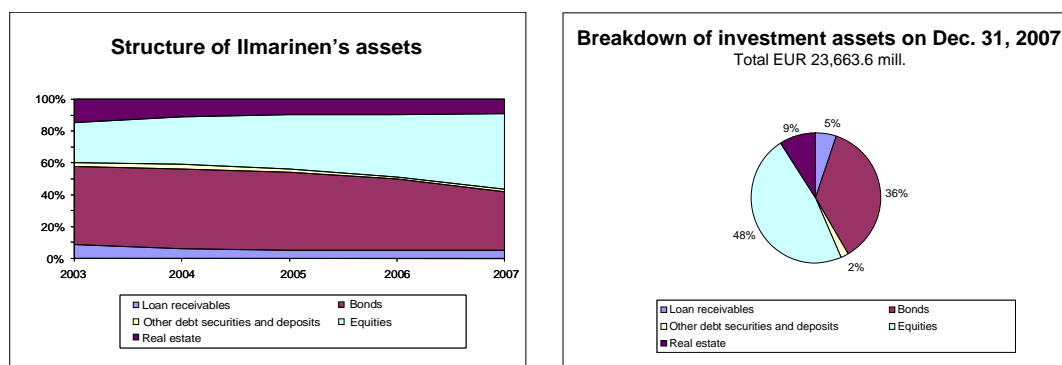
A share of the investment income corresponding to the technical bases is credited to technical provisions. According to the amendment in legislation that entered into force from the beginning of 2007, part of the required return on the technical provisions of pension institutions is determined on the basis of their average solvency, which corresponds to the technical rate of interest used earlier, and the rest is tied to the average yield on the listed shares owned by the pension institutions. The amendment enters into force with a five-year transition period so that in 2007 the weight of the part based on the solvency of pension institutions was 98 per cent, from which it declines by two percentage points per year and is 90 per cent as from 2011. In practice, this part of the required return is calculated by adding the supplementary multiplier of the pension liability, given in the technical bases, to the three per cent discount rate. In 2007, the supplementary factor of pension liabilities was 2.46 per cent until the middle of the year, and 2.96 per cent after that. The average yield on the listed shares owned by the pension institutions was 2.77 per cent. The total required rate of return on technical provisions was 5.6 per cent in 2007. The technical rate of interest use to calculate insurance premiums was 5.5 per cent in the first half of the year and 6.0 per cent in the second half.

Assets that cover technical provisions stood at EUR 23,748.6 (21,927.6) million.

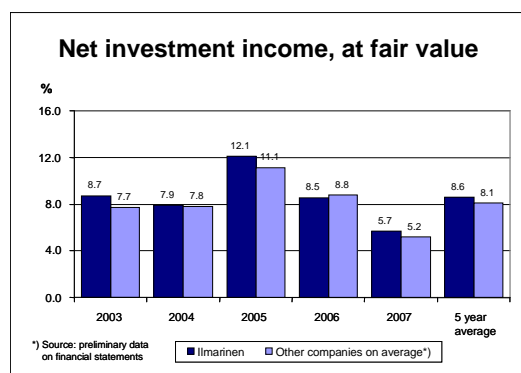
In 2007, two TyEL pension funds transferred all or part of their liability to Ilmarinen and a fund transfer from Ilmarinen to one pension fund was carried out. The transferred liability was net EUR 51.4 million, of which provision for future bonuses made up EUR 9.8 million.

Investment

The objective of Ilmarinen's investment activities is to achieve the highest possible return within the framework of the level of risk set by the Board of Directors. The starting point for the evaluation of the level of risk is the company's average solvency across business cycles.



At the end of 2007, Ilmarinen's total investments calculated at fair value were EUR 23,663.6 (22,994.9) million. Return on investments calculated at fair value was 5.7 per cent, which corresponds to real return of 3.0 per cent. In the previous year, return on investment for the whole investment portfolio was 8.5 per cent. Calculated at fair value, average annual return over the last five years has been 8.6 per cent, which corresponds to average annual real return of 7.2 per cent.

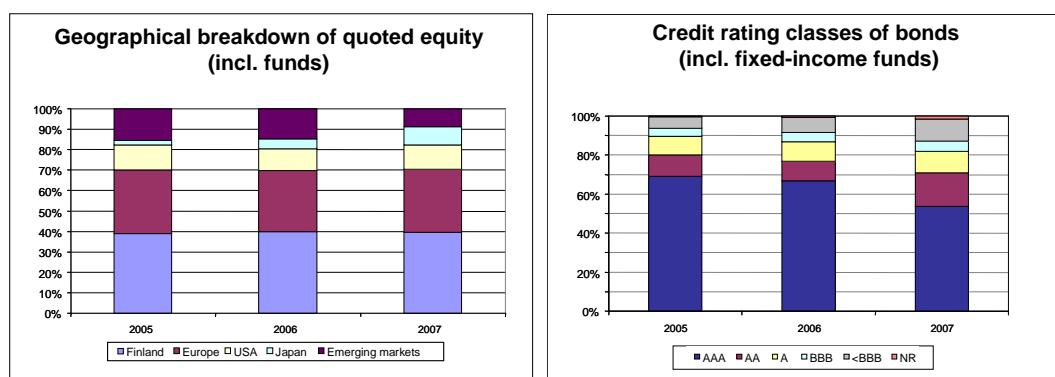


Bonds, fixed-income funds and money market instruments made up 38 (46) per cent of the value of Ilmarinen's investment assets. Their total market value was EUR 9,058.3 (10,543.1) million and return at fair value was 2.1 (1.2) per cent. A total of EUR 2,715.3 (5,733.0) or 30.0 (54.4) per cent was invested in government loans. The share of money market instruments was EUR 447.2 (155.9) million or about 4.9 (1.5) per cent and the yield was 4.0 (3.8) per cent. The remaining 65.1 per cent were corporate loans, emerging market loans and investments in fixed-income funds. Most of the

corporate loans had a high credit rating. At the end of the year, the average time-to-maturity of the bond portfolio was 4.3 (4.2) years.

Equity investments excluding bond and real estate funds, which are included in this category in the balance sheet, made up 47 (39) per cent of investments. As a result of share prices and share purchases, their value in 2007 rose to EUR 11,200.7 (9,053.1) million. Investments in domestic shares made up about 36 (38) per cent of this, or EUR 4,000.7 (3,424.5) million. Domestic shares made up 39 (40) per cent of the value of investments in listed shares. The development of stock markets was variable during the year, and the yield from investments in shares, calculated at fair value, settled at 9.1 (20.3) per cent.

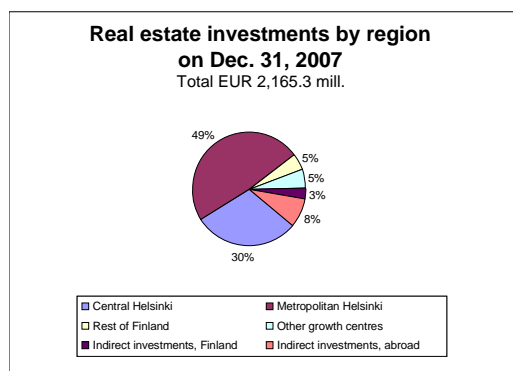
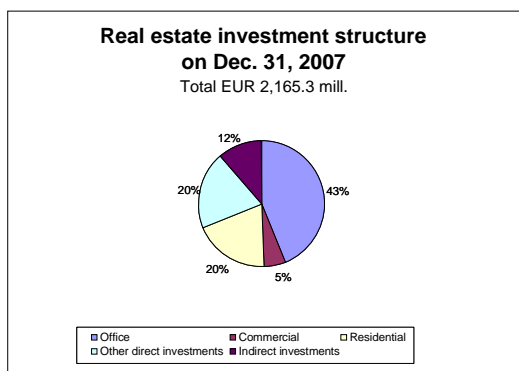
These figures include the value of derivatives calculated at fair value. Equity, currency and interest derivatives are used both for hedging and to shape the distribution of investments.



Equities include investments in private equity funds and hedge funds as well as investments in commodities, all of which Ilmarinen has increased over the past few years. At the end of the year, they made up about 5.8 (3.1) per cent of the market value of investment assets. Of this, private equity funds made up EUR 520.0 million, hedge funds made up EUR 801.2 million, and investments in commodities made up EUR 2.8 million. The risk-weighted value of commodity investments, which are in the form of derivatives, was significantly higher than this, EUR 238.6 million. The total distribution of investments according to risk is presented in its entirety in the Risk Management in the financial statements. Hedge funds had an average yield of 18.6 per cent and private equity funds an average yield of 42.5 per cent on invested capital.

In line with Ilmarinen's principles for socially responsible investment, investments in a total of five companies have been removed from the company's investment portfolio in 2003, 2004 and 2007, and furthermore Ilmarinen refrained from investing in several securities. Seven processes aiming at influencing on companies were under way during the previous year, one of which was concluded. Discussions are continuing in the case of the other processes, with the aim that the companies would stop activities that violate against Ilmarinen's principles of responsible investment.

At the end of 2007, the market value of Ilmarinen's real estate investments stood at EUR 2,165.3 (2,259.5) million. Change from the previous year was -4.2 per cent. The share of real estate investments accounted for 9 (10) per cent, of which indirect investments made up one percentage point. The value of directly-owned properties was EUR 1,916.0 million.



In January 2007, Ilmarinen sold a real estate portfolio with a value of nearly EUR 300 million to Aberdeen Real Estate Fund Finland; Ilmarinen took a one-third ownership in this fund.

Investments in real estate funds continued both in Finland and abroad. At the end of the year, a total of EUR 435 million in investment commitments had been made. At the end of the year, indirect investments and investment commitments made up about 19 per cent of real estate investments.

The capacity utilisation rate of properties directly owned by Ilmarinen was boosted among other things by the improvement in the conditions of the office property market. The capacity utilisation rate of real estate stood at 94.1 (91.2) per cent at the end of the year.

The total return of the company's real estate investments was 9.5 (7.3) per cent. Return from directly-owned properties was 9.0 (7.2) per cent. The return on indirect real estate investments was 14.5 (11.2) per cent.

The portfolio of loans granted by Ilmarinen to its customers increased by 8.8 per cent. At the end of the year, loan receivables made up 5 (5) per cent of investment assets. During 2007, there were EUR 351.3 (317.1) million in new loans while EUR 250.5 (253.1) million in loans were repaid. At the end of the year, the total loan portfolio was EUR 1,239.3 (1,139.1) million including accrued interest. The return on loan receivables was 4.5 (4.4) per cent.

Table: Portfolio of customer loans, EUR millions

	1997	2002	2007	Percentage return
Premium loans	1,559.1	1,089.4	284.8	4.4
Other than premium loans	220.0	470.3	954.5	4.6
Total (inc. interest accrued)	1,779.1	1,559.7	1,239.3	4.5
Share of total portfolio, %	19	11	5	

As of the start of 2007, a number of changes were made to the regulations on the investment activities of authorised pension insurance companies, the purpose of which is to further improve the investment return on employee pension funds, in particular by increasing investments in equities. The last amendments aimed at the same objective were made in 1997, and in the following ten-year period the average overall return at fair value of Ilmarinen's investments was 7.6 per cent per year.

This corresponded to an annual real return of 6.0 per cent. This was the best return of all authorised pension companies.

Risk management

The objective of Ilmarinen's risk management is to prevent the realisation of risks threatening the company, to minimise the financial and other damage caused by realised risks, and to ensure the continuity of operations. On the other hand, the objective is that the company can utilise the opportunities offered by managed risk taken in business operations, especially in investment activities. It is important above all that the rights of the insured, pensioners and policyholders are ensured in all situations.

The quantitative and qualitative requirements on the assets covering technical provisions, imposed through legislation as of the start of 2007, were amended to become simpler. The admissible assets are calculated at fair value and the main objective of the regulations is to avoid concentrations of risk. Ilmarinen carries the investment risk connected to the covering of its technical provisions and return requirement. By 2011, however, there will be a gradual shift to a system in which a part of the risk of share investments corresponding to 10 per cent of all investments will be carried at the level of the whole earnings-related pension scheme. The joint solvency regulations of pension institutions continue to function as the framework for risk management of investment activities, but the number of monitoring limits at various levels connected to it has decreased. As of the start of 2007, the classification of investments has been carried out, both in the regulations governing assets held to cover technical provisions and when calculating solvency requirements, on the basis of the same principles and based on the (actual risk of the investments.

Ilmarinen has a risk management plan that covers the entire operations of the company and is approved annually by the Board of Directors. There is a risk management committee for the company-level coordination and development of risk management that is made up of representatives of business units and support units. The risk management committee updates the survey and evaluation of the risks facing the company with respect to its operations every six months. This risk analysis was discussed by the Audit Committee and by the Board of Directors in January 2008.

The risk monitoring and reporting to the Board of Directors of investment activities will be transferred to the company's actuarial unit as of 1 April 2008. The objective of this organisational change is to further improve the independence of the reporting of investment activities and risk management from the operations taking risk.

Risk management is described in more detail in the notes to the financial statements.

Personnel

In 2007, the average number of employees in the Ilmarinen Group was 668, compared with 673 a year earlier. The average number of employees in the Ilmarinen parent company was 525 (525). This figure includes 57 (48) part-time employees, whose work contribution has been adjusted to correspond to the working hours of full-time employees when calculating the averages. An average of 24 (27) persons were on family leave or other unpaid leave during the year. At the end of the year, the parent company Ilmarinen employed 580 (563) persons, of whom 545 (543) were under permanent employment.

A management training package was started in the autumn of 2007 for all supervisors at Ilmarinen, and its central themes are strategy, one's own enthusiasm, the customer, and processes, as well as change and reform. The training will continue until the following autumn. The preparation of a joint operating model started at the middle of the year for the evaluation of the difficulty of tasks in all of the company's operations. The procedure will be utilised to support personal development, will form the basis of salary development and will support salary discussions included in the new collective bargaining agreement.

Information technology

During 2007, Ilmarinen, along with other pension insurance companies, gradually adopted the use of a joint earnings data system in several different stages as planned. During the phase of the amendment of employee pension laws, the new data system handles the registration of the employment data required by TEL and the earnings data pursuant to TyEL. The development, maintenance and production of the system is handled by Arek Oy, a service company owned by authorised pension providers and the Finnish Centre for Pensions, together with Arek's suppliers. With the entry into force of the new legislation, the production of the statutory employee pension record, delivered to the insured for the first time in 2008, was planned, and the technical implementation of the production of the records started in the latter part of the year.

Cooperation with OP-Pohjola Group continued for the provision of IT business services in the future, and a tender process was carried out in the latter part of the year. The alternatives available to Ilmarinen and the opportunities for further cooperation will become clear in 2008. As before, the development and maintenance of the company's own data systems will be handled by Ilmarinen's and TietoEnator's joint venture TietoIlmarinen. The procedure for the comprehensive and uniform information system authorization and access management of authority to use IT system was finalised and the implementation of centralised technology for authority to use was started.

Operating expenses

Ilmarinen's total operating expenses were EUR 103.5 (98.6) million, up 5.0 per cent from the previous year.

Total operating expenses contained EUR 5.3 million in statutory fees, which will be financed through a separate part of the insurance premium allocated to statutory fees. In 2007, the sum includes the share of the costs of the Finnish Centre for Pensions, the supervision fee of the Insurance Supervisory Authority and the fee of the Pension Appeal Court (EUR 13.9 million in 2006). Of these items, the share of the costs of the Finnish Centre for Pensions was presented in the past as a separate statutory fee item in the income statement.

Total operating expenses, excluding statutory fees, were EUR 98.2 million in 2007, up 16.0 per cent from 2006 when they were EUR 84.7 million. The increase was due to, for example, the increases in service compensations to partners resulting from Ilmarinen's exceptionally good sales result and costs resulting from the start-up of the operations of the joint earnings data register of pension institutions.

Operating expenses of investment activities were EUR 9.8 (9.2) million, or 0.4 per mil of the total amount of investments. They are financed from the income from investment activities. The costs of maintaining work capacity, which are financed from the administration part of the disability risk

premium contained in the insurance premium, were EUR 2.8 (4.2) million. Other operating expenses are financed from the expense loadings contained in the insurance premium and other similar income, the total amount of which they fell short of by EUR 14.0 (22.9) million or 14.1 (24.2) per cent.

Management

After Marja Usvasalo resigned from Ilmarinen's Board of Directors as of 8 March 2007 the Supervisory Board, at its meeting on 8 March 2007, elected Leena Niemistö as a member of the Board of Directors for the remainder of the term of office; i.e., until the end of 2009.

After Seppo Junttila resigned from the Board of Directors from 1 July 2007 the Supervisory Board elected Leila Kostiainen as a member of the Board of Directors for the remainder of the term of office; i.e., until the end of 2009.

After Risto Piekka resigned from Ilmarinen's Board of Directors as of 1 December 2007 the Supervisory Board, at its meeting on 29 November 2007, elected Matti Viljanen as a member of the Board of Directors for the remainder of the term of office.

After Eino Halonen resigned from Ilmarinen's Board of Directors as of 1 January 2008 the Supervisory Board elected Markku Vesterinen as a member of the Board of Directors for the remainder of the term of office; i.e., until the end of 2009.

Eero Ylä-Soininmäki, resigned as deputy member of the Board of Directors at the turn of the year.

At its meeting on 21 January 2008, the Board of Directors re-elected Hannu Syrjänen as its Chairman and Lauri Ihalainen and Leif Fagernäs as Vice-Chairmen. The Chairman and Vice-Chairmen also function as the Nomination Committee and Compensation Committee of the Board of Directors.

The members of the Audit Committee are George Berner as Chairman, Leila Kostiainen and Hannu Rautiainen.

At its meeting on 29 November 2007, Ilmarinen's Supervisory Board established an Election Committee at Ilmarinen as required by legislation governing authorised pension insurance companies. Its task is to prepare a proposal for the Annual General Meeting on the members of the Supervisory Board and their remuneration. The Election Committee also prepares a proposal for the Supervisory Board on the members of the Board of Directors and their remuneration.

The members of the company's first Election Committee are Jorma Eloranta as Chairman, Esa Vilkkuna as Vice-Chairman, Leila Kostiainen, Hannu Leinonen Hannu Syrjänen and Matti Viljanen.

Of the six members of the Election Committee, half are individuals nominated by representatives of policyholders on the Supervisory Board, and the other half are individuals nominated by representatives of the insured on the Supervisory Board.

Group

In addition to the Ilmarinen parent company, the Ilmarinen Group includes mainly real estate companies. Based on voting rights, TietoIlmarinen belongs to Ilmarinen Group as Ilmarinen's ownership of TietoIlmarinen's shares gives it control of 70 per cent of the votes, although Ilmarinen only owns 30 per cent of the share capital. On 31 December 2007, there were a total of 124 subsidiaries. Garantia Insurance Company Ltd is associate of Ilmarinen.

Suomi Mutual Life Assurance Company and Pohjantähti Mutual Insurance Company are participating interests of Ilmarinen.

Guarantee capital

Ilmarinen has guarantee capital of EUR 22,994,653.31, which is divided into 13,672 guarantee shares. On 31 December 2007, the owners of the guarantee capital and their shares of the guarantee capital were as follows:

	Guarantee shares	% share
Suomi Mutual Life Assurance Company	13,412	98.1
Pohjantähti Mutual Insurance Company	260	1.9
	13,672	100.0

Outlook

Increased factors of uncertainty connected to economic development led to an exceptionally sharp decline in share prices during the first weeks of 2008. At the present time it is too soon to judge whether this indicates that a significant economic downturn will occur in 2008, or that economic growth will slow down moderately. Key risk factors continue to be the uncertainty in the financial markets as well as the price of oil and its sharp volatility.

Due to the poor performance of the stock markets, Ilmarinen's solvency has been slightly lower during the early part of the year than at the turn of the year. The 2008 result will be determined to a great extent by the development of the investment markets.

Already within the framework of the previous solvency regulations for authorised pension insurance companies, Ilmarinen has carried out investment activities aiming at a good return over the long term. In the future, a significant part of investments will continue to be targeted at domestic and foreign shares, while at the same time investments are diversified into other investment categories with high expected returns. This will not, however, significantly increase the effects of fluctuations in the stock markets on the annual result because following the amendments made at the start of 2007, authorised pension providers jointly carry part of the risk of shares. On the other hand, even greater volatility than in the past can be expected in the annual returns on investments.

Amendments concerning the boundary conditions of investment activities are reflected in the investment strategies of Ilmarinen and its competitors. Various authorised pension insurance companies have altered their investment strategies quickly in the direction pioneered by Ilmarinen,

and also now seek higher returns. Ilmarinen believes that its relative position in the competition on bonuses and rebates between authorised pension companies will remain good over the long term. This judgement is supported by the determination of the transfer of bonuses and rebates based on the long-term result, directly on the basis of solvency, and the company's improving cost efficiency which as of 2007 has a more immediate effect on bonuses and rebates.

Ilmarinen offers services to policyholders both on its own and in cooperation with its partners. One of the company's best competitive advantages is its partnership with OP-Pohjola Group which has a nationwide service network

Proposal of the Board of Directors for the use of the profit

According to the Articles of Association, the rate of interest on the guarantee capital is the technical rate of interest plus one per cent. For 2007, the yield percentage calculated in this fashion is 6.75 and the interest on the guarantee capital is EUR 1,552,139.00.

Ilmarinen Group's distributable free equity in the financial statements dated 31 December 2007 is 35.5 EUR million. The parent company's distributable free equity is EUR 69,144,766.64, of which the profit for the period is EUR 5,928,750.32.

The Board of Directors proposes that EUR 1,552,139.00 is distributed as interest on the guarantee capital for 2007, EUR 50,000.00 is reserved for use by the Board of Directors as donations for the public good and the rest of the profit, EUR 4,326,611.32, is transferred into the contingency fund.

Helsinki, 20 February 2008

Hannu Syrjänen

Leif Fagernäs

Lauri Ihalainen

Jukka Alho

George Berner

Jukka Hienonen

Arto Hiltunen

Reijo Karhinen

Leila Kostainen

Leena Niemistö

Markku Vesterinen

Matti Viljanen

Harri Sailas
Chief Executive Officer