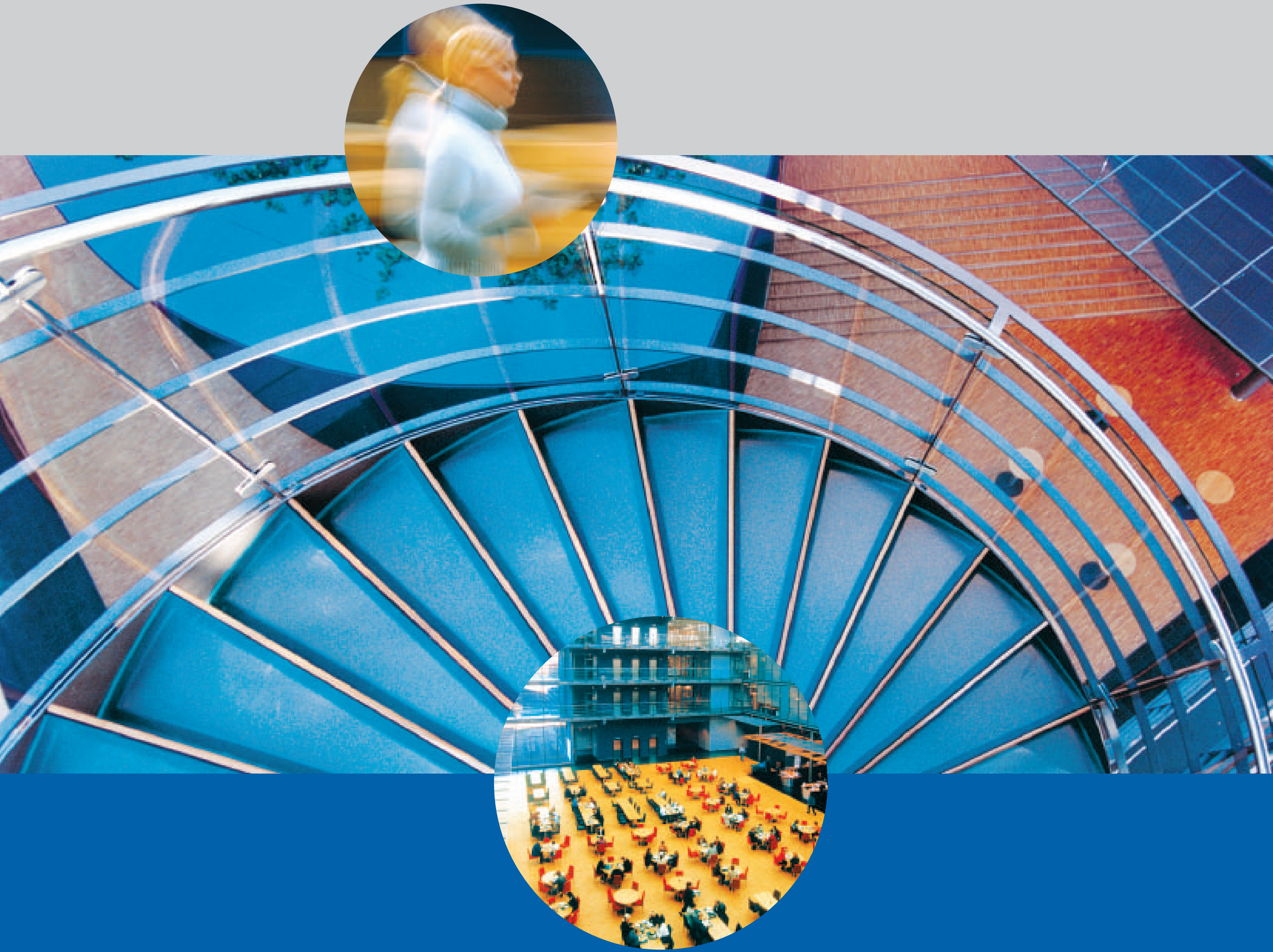
ANNUAL REPORT 2002



ILMARINEN

ANNUAL REPORT 2002

Ilmarinen

Mutual Pension Insurance Company

is an authorized pension company. Ilmarinen has been handling employees' statutory pension provision since 1961, which was also the year in which the Finnish earnings-related pension legislation came into existence. Self-employed persons became affiliated to the earnings-related pension scheme in 1970, from which date on Ilmarinen has been the largest provider of pension insurance for self-employed persons and entrepreneurs.

Contents

A leader in pension insurance

Our mission

As an authorized pension insurance company, Ilmarinen's mission is to safeguard the statutory pension provision of those employees and self-employed persons it insures and to manage the investment assets that cover future pensions.

Ilmarinen works closely with the employee and employer organizations and other relevant parties to improve the Finnish earnings-related pension insurance system and its long-term financing.

Ilmarinen is a mutual company owned by its policyholders, the persons insured and the owners of the guarantee capital.

Our values

Throughout its activities, Ilmarinen takes due account of the special responsibilities and related obligations associated with managing statutory earnings-related pension insurance.

The values that guide our activities are:

- **Responsibility for earnings-related pension provision.** We create employment pension security on a long-term and consistent basis and observe fair and honest business principles and practices.

- **Profitable operations.** Together we can achieve results to be proud of.

- **Satisfied clients.** We work together for the good of our clients. A satisfied client is both our employer and the best marketer of our services.

- **A constantly improving workplace community.** We base our operations on a good working environment and appreciation of each individual employee. We promote a high level of expertise and encourage our personnel to improve their potential and their job skills.

Our strategic goal and objectives

Ilmarinen's strategic goal is to retain its position as a front-runner in earnings-related pension insurance in Finland while at the same time pursuing profitable growth. To this end, the company has established the following primary objectives:

- to offer the best products and services in the sector
- to develop diverse and profitable methods of contact and communication with our clients
- to improve the efficiency of operations
- to remain a responsible investor with a long-term approach and with the most competitive client bonuses.

To achieve these objectives, Ilmarinen will concentrate its efforts especially on developing client services and the supporting information systems and on-line services. Introduction of the Finnish pension legislation reforms will also require considerable development resources over the next few years.

Services and partnerships

The main services provided by Ilmarinen are its pension services, employment pension insurance management and advisory services, vocational rehabilitation counselling, promotion of well-being at work, insuring employment abroad, managing company pension funds and provision of information on earnings-related pensions. Ilmarinen also offers clients various financing alternatives and engages in property management and leasing.

Ilmarinen has a nationwide service network. Its services are available through the offices of Pohjola, the Pohjola subsidiary A-Insurance Ltd, and Pohjantähti, as well as via brokers and Nordea Life Assurance Finland. Roughly a third of all premiums written by the authorized pension insurance companies are with Ilmarinen.

Ilmarinen 2000-2002

	2002	Change, %	2001	2000
Premiums written, EUR mill.	2,160.9	8.6	1,989.6	1,764.8
Pensions paid out, EUR mill. [1)]	1,855.3	13.0	1,642.2	1,481.7
Investment income at current value, %	-0.4		-1.2	2.9
Aggregate operating expenses, EUR mill.,	70.6	16.5	60.6	56.7
% of turnover	2.1		1.8	1.6
Total profit, EUR mill.	-591.2		-690.7	-54.1
Technical provisions, EUR mill.	13,863.5	2.5	13,519.6	12,954.5
Balance sheet total at current value, EUR mill.	14,933.6	1.3	14,737.5	14,685.4
Solvency capital, EUR mill.,	2,243.1	-23.7	2,940.8	3,749.3
% of technical provisions	18.1		25.5	35.4
relative to solvency border	1.9		2.3	3.4
Pension recipients	231,056	2.8	224,849	218,932
TEL policies	31,689	-0.9	31,982	32,351
Employees insured under TEL	359,000	2.3	351,000	335,000
YEL policies	49,322	-0.1	49,386	49,938

1) Includes the pay-as-you-go component.

Annual general meeting

Ilmarinen's Annual General Meeting will take place on April 10, 2003 at 9.30 a.m. at Ilmarinen, Porkkalankatu 1, Helsinki.

Interim report

Ilmarinen will publish an interim report in August 2003.

Additional information on the Internet

Ilmarinen publishes printed versions of its Annual Report both in Finnish and English. The Finnish and English language versions and a Swedish summary of the report are also available on the company's web-site, at *www.ilmarinen.fi.* You will also find Ilmarinen's earlier interim reports and reviews plus other financial information on the same site.

Events in 2002

April 25: Ilmarinen decides to take part in a feasibility study on establishing a joint IT service centre for the employment pension sector. The idea is to provide agreed registration and application services and to acquire joint production services.

May 28: Ilmarinen's property management and leasing subsidiary, Antilooppi, and its partner real estate management companies develop a BSC quality and efficiency measurement system for real estate services. The new system was introduced in May as a basis for the evaluation and rewarding of work performed.

June 12: Ilmarinen's insurance management service AINO is upgraded, improving the convenience, reliability and speed of handling annual notifications and other employment matters on-line.

August 29: Ilmarinen and Aberdeen Property Investors Nordic AB sign a preliminary agreement under which Ilmarinen will sell 60% of its shareholding in Antilooppi Oy, its property management and leasing subsidiary.

September 5: Main employee and employer organizations agree on the biggest changes in Finnish pension security since the employment pension laws took effect.

October 4: Ilmarinen did well in the policy transfer business between pension companies ending on September 30. The transfers boosted our TEL portfolio by 1,900 employees. Ilmarinen's market share is estimated to have grown significantly.

October 9: About 100 representatives of international companies attend Ilmarinen's seminar on social security and taxation of work abroad.

November 20: The 2002 Ilmarinen award is presented to Radiolinja for its training project 'Serving mobile people'. This award for Personnel Deed of the Year is part of Ilmarinen's efforts to promote well-being at work in cooperation with HENRY ry, the Finnish Association for Human Resource Management.

December 11: Services improve as employees and self-employed persons insured with Ilmarinen can now request an estimate of their pension on-line using the form available on Ilmarinen's website.

The illustrations in the 2002 Annual Report show Ilmarinen's new offices and the staff at work.

Review by the President and CEO

THE COMING CHANGES IN THE EARNINGS-RELATED PENSION SYSTEM ARE DESIGNED TO MEET THE NEEDS OF A CHANGING SOCIETY. ILMARINEN'S OWN DEVELOPMENT PROJECTS ARE AIMED AT IMPROVING SERVICES AND ENHANCING EFFICIENCY.

Reform of the occupational pension scheme

In autumn 2002, the social partners reached a consensus about certain aspects of the planned pension reforms that had been left undecided the previous year. The solution to these far-reaching social policy questions was reached in an orderly and harmonious fashion for which everybody concerned and at large should be congratulated.

As a result of the amendments to the pension legislation, Finns are likely to retire at a later age in the future, which accords well with the trend of increasing longevity. It was agreed to introduce a mechanism that would automatically adjust earnings-related pensions to reflect changes in average life expectancy.

Individual choices are part and parcel of our modern society. The reshaped occupational pension scheme empowers individuals in this way by offering flexible approach to retirement on an old-age pension. The accelerated pension accrual rate from age 63 should steer people's choices in a direction that favours the Finnish economy.

Ageing employees in a key position

The main aim of the pension reform is to promote later retirement, and the prospects for success seem good. For these efforts to succeed, however, there must be job opportunities available for the elderly, who have to be fit for work and willing to stay on in the labour market.

General improvements in health and the availability of vocational rehabilitation will help employees maintain their working capacity as they grow older. Within the next few years, we will be facing a situation where the number of people leaving the labour market is more than the number entering it. This, in turn, will increase the number of job vacancies available, which will clearly also improve the vacancy situation for ageing persons. As wealth increases in society, the attractiveness of work and the workplace will have a crucial effect on people's willingness to continue working. Both the employer and employee organizations are well aware of the targets and challenges, and there is every reason to be positive about the outcome.

Competition framework

The Finnish earnings-related pension system is a decentralized system. This arrangement has significant advantages and allows competition in many forms. The competition framework among the authorized pension providers in Finland has been studied closely for several years now. Two core areas for action have been defined: increasing investment income and improving services. Ilmarinen has already made significant progress in these two areas, and we welcome increased competition in the field, whether from other types of pension providers, new operators or 'old rivals'.

The competition framework has been investigated to such an extent that we can be confident that no major options for increasing and intensifying competition have escaped consideration. I believe it would be best if we now implement the changes already highlighted, always maintaining the essential differences between the various types of pension institutions, rather than pursue further studies. This will allow the pension insurers to concentrate on developing their operations in the new competitive environment.

Insurance business performed well, investment climate disappointing

The balance on transfer business for TEL insurance was favourable, adding some EUR 6 million to our premium income for 2002. In regard to YEL insurance, the portfolio did not change essentially. Both TEL and YEL insurance policies sold well in 2002.

In contrast, the 2002 investment result did not conform to expectations because of the sharp decline in share prices, which continued for the third year running. However, pension company investments are made on a long-term basis, and Ilmarinen's profits have been satisfactory in the long run. The average return on investment over the past five years has been somewhat over 6% annually, exceeding the inflation figure by four percentage points.

The downward slide in share prices in recent years has narrowed the differences in bonus transfers made by the various pension insurers. In proportion to company size, however, Ilmarinen's bonus transfers over the past five years have averaged almost double the amount distributed by our rivals.

Although the last three years have taxed Ilmarinen's financial strength, the company has come out of the testing times with credit. The Ilmarinen Board of Directors has approved a 2003 investment plan that continues the adopted return- and equity-oriented strategy within the limits of the company's solvency. This strategy inevitably involves computational losses in investments during bad times. These do not, however, affect the company's business operations or the position of its pensioners. To balance the impact of risks on our investment operations, we shall increase the use of various hedging products, enabling us to restrict any possible negative effect of our equity-oriented investment policy on our solvency capital.

Efficiency and competitiveness enhanced

Our plans for the future focus on seeking new ways of improving our competitive edge. One of the cornerstones of continued success will be to serve clients well and develop our services to meet the individual needs of different client groups.

In addition to upgrading our services, Ilmarinen's development projects are aimed at more effective company operations. The investment necessary to implement these projects and to introduce the mandatory amendments to our systems necessitated by the pension reforms will involve a temporary rise in both expenditure and staff numbers. However, the investment will bear fruit in the longer term in the form of better and more effective client services, improved working conditions for all Ilmarinen employees and, ultimately, cost savings for the company.

Outlook

Despite the fact that the short-term economic conditions seem precarious, we believe that constant concern for company solvency, efficient client service, and maintenance and promotion of staff competence and well-being are the prerequisites for lasting success. The agreed pension reforms will provide a sound footing for the future.

I would like to express my gratitude to all Ilmarinen employees for their valuable input on behalf of both the company and its clients during the past year. This has been a year characterized by major changes in our working environment and facilities, not least the move to our newly built offices in the Ruoholahti area of Helsinki. I also wish to thank our clients, cooperation partners and numerous stakeholders for the continued confidence they have shown in us.

Kari Puro

Our values

Throughout its activities, Ilmarinen takes due account of the special responsibilities and related obligations associated with managing statutory earnings-related pension insurance.

Reform of the earnings-related pension scheme will safeguard pensions for decades to come

Reforms coming into effect over the next few years address the future challenges faced by earnings-related pensions, especially the financial viability of the employment pension scheme.

Amendments to pension legislation signed

On February 18, 2003 Parliament adopted a number of important amendments to the legislation governing the pension security of private-sector wage-earners. Agreements reached by the principal labour market organizations in November 2001 and September 2002 are the background to the amendments.

The main goal is to safeguard the financial capacity of the earnings-related pensions system as average life-spans lengthen. Ageing employees will be given more incentive to go on working and the preconditions for earnings-related pension eligibility will be tightened to some extent. Hence, the reform will also increase labour supply, which will otherwise decrease rapidly as the 'baby-boom' generation retires. It will also correct certain minor drawbacks in the actuarial technicalities accumulated over the years in this otherwise efficient pension security system.

Age limits raised and pension types decreased

Individual early retirement pensions will be eliminated from the range available. Income security for the ageing long-term unemployed will be transferred as part of the unemployment security scheme, replacing the unemployment pensions now being phased out. The lower age limits for part-time pension and early old-age pension will rise, though the changes will not apply to the oldest age groups still employed.

Higher accrual will encourage people to stay at work

Flexible retirement between the ages of 62 and 68 will now become possible. As of the age of 63, it will be possible to retire on the pension earned to date without the currently applied early retirement penalty. From the same age, however, employment pension will begin to accumulate at a rate of 4.5 per cent annually. This 'incentive accrual' will yield significant improvements in pension benefits.

An end to linkage between pension accrual and length of employment

At the outset, employment pension security was designed and built up for people with regular, long-term employment. Since then, efforts have been made to extend coverage to shorter periods of employment. Now, the linkage between earnings-related pensions and the number of employment contracts will be eliminated. The amount of a disability pension has so far depended significantly on whether the time left until standard retirement age - in other words the 'post-contingency accrual' - is included in pensions. Now, the strict borderline between pensions computed on the basis of post-contingency accrual or of working years alone will disappear.

Simplified calculation rule and accrual emphasizing pay during the final years

The rule for pension calculation will be simplified. Accrual percentages and pensionable pay will no longer be calculated separately. Instead, pension will accumulate on the earnings for each year, in accordance with an accrual percentage related to age. This is a significant technical simplification that will make harmonization of pension legislation possible.

Pension accrual will begin at the age of 18. Contributions will be paid on the earnings from which pensions accumulate. The basic accrual percentage will be 1.5% per annum. Accrued pensions will retain their value better than before because annual earnings will be converted to the level in effect at retirement, using a special 'wage coefficient' in which the rise in earnings level is weighted at 80% and price increases at 20%. However, all pensions being paid out will be reviewed using the present index for persons over the age of 65, in which the above weightings are reversed.

The major question left open by the 2001 agreement was whether pensions should be based on career-long earnings or on earnings during the years immediately preceding retirement. The new calculation rule includes features of both. Pension accrual between the ages of 53 and 62 will be 1.9% per annum, with emphasis on the final years before retirement. The earnings-related pension contribution paid by employees will be proportionally higher after the age of 53. The status of those retiring from long-term employment with earnings-related pension coverage before 2012 will be secured by a separate protective rule.

Pensions also to accrue from years spent in child care or study

The State will now contribute to pension security for years when child care or study has prevented accumulation of pension security. This will take the form of a component paid with the employee pension, financed out of tax revenues and based on theoretical earnings.

Part of longer life-spans included in working years

In 2010, a life expectancy coefficient will take effect. This will be used to adjust pension benefits to account for continuous growth in the average life-span. If the average remaining life-span increases after 2009, the life expectancy coefficient will reduce the amount of new old-age pensions proportionally. Since accrual is rapid after the age of 63, the effect of the life expectancy coefficient can be eliminated with merely a few months of additional work.

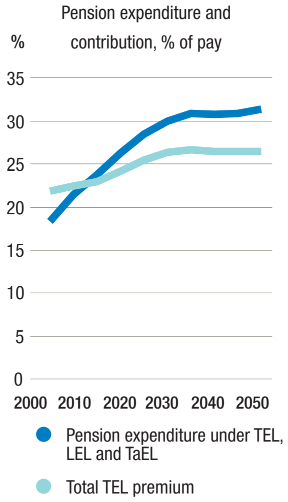
Harmonizing the pension legislation and actuarial practices

The amendment now approved will harmonize the employment pension benefits of private-sector wage-earners, with the exception of seamen's pensions. The changes will also apply to self-employed persons' pension (YEL), which will be given added flexibility with regard to the annual reported incomes. The public sector is negotiating similar amendments. During 2003, the legislation will be harmonized. The practical procedures for earnings-related pension insurance will also be revamped, and gainful employment now insured under a number of different acts will all be covered by the new legislation. This reform will take effect as soon as possible.

Financing on a sound foundation

The reforms are crucial for the future financing of employment pensions. The Finnish Centre for Pensions has estimated the trend in pension expenditure and pension contribution in relation to the wage bill insured. The reform will reduce both indicators by several percentage points over the long term. Contributions will increase by 5-6 percentage points by 2050, that is, to 26 or 27% of pay. The increase will be divided equally between employers and employees. Although forecasts regarding contributions always involve an element of unpredictability, it is significant that the new life expectancy coefficient will eliminate most of the uncertainty attached to longer life-spans.

Pension under the new act



Source: The Finnish Centre for Pensions

Comprehensive range of services

ILMARINEN AIMS TO PROVIDE ITS CLIENTS THE BEST PRODUCTS AND SERVICES IN THE FIELD. THIS MEANS CONTINUOUS DEVELOPMENT WORK TO ENSURE CLIENT NEEDS ARE MET.

Steady growth in premiums written and persons insured

The growth in premiums written and in the number of persons insured at Ilmarinen continued in 2002. Premiums written totalled EUR 2,160.9 million, representing an increase of 8.6% on the previous year. Measured in terms of total premiums written, Ilmarinen's share of the Finnish market is approximately one third.

The number of employees insured under TEL was up by 2.3% on the previous year, reaching 359,000. The number of self-employed persons insured under YEL remained almost unchanged. Ilmarinen is without doubt Finland's biggest pension insurer for self-employed persons.

As the number of TEL-insured persons has risen, so too has the average number of persons covered by each of Ilmarinen's TEL policies; in 2002, this figure reached 11 employees per TEL policy. The average annual income of YEL-insured self-employed persons in 2002 was EUR 16,000, which is still considerably lower than the average earnings of TEL employees.

Sales were good

Total sales are made up of sales of earnings-related pension insurance to new clients, business transferred from other pension companies, and any portfolio transfers from company pension funds. In sales to new clients, the target was exceeded, and in transferred business Ilmarinen attracted a net gain of 1,900 employees.

The first three-month transfer period under the new regulations was concluded at the end of the year, and clients did not make very extensive use of this opportunity. One reason was that the transfer of statutory accident insurance policies is still only possible at the end of the year. The aim of switching over to quarterly transfer periods is to increase competition among pension companies by making it easier for clients to change their insurer.

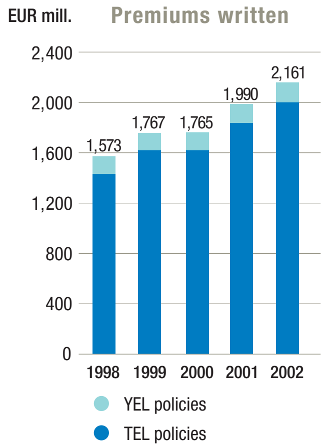
Best client bonuses

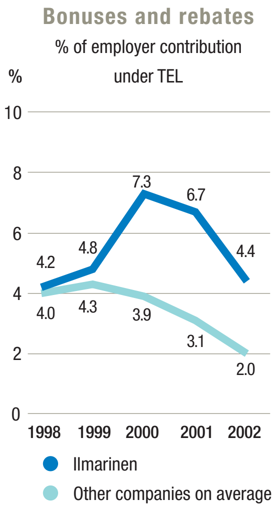
In 2002 the bonuses paid by Ilmarinen to its clients, i.e. TEL contribution discounts, remained higher than those paid by the company's main competitors. This was possible because of Ilmarinen's solvency position. The prolonged drop in share prices has nevertheless affected the solvency of pension companies, which has in turn led to a reduction in client bonuses and a narrowing of the differentials between the companies.

Client relations based on cooperation

In managing its client relationships and insurance sales, Ilmarinen has long worked with a number of trusted partners: Pohjola, A-Insurance and Pohjantähti. This gives Ilmarinen a regionally comprehensive service and sales network. After Pohjola acquired A-Insurance, the latter's business has continued in the form of a Pohjola subsidiary, A-Insurance Ltd. Its special expertise and services in professional transport insurance have consolidated Pohjola's and thereby Ilmarinen's competitive position.

Ilmarinen's sales network is complemented by its cooperation with Nordea Life Assurance Finland Ltd in employment pension insurance sales. The service network will also be boosted by the savings bank group, with which Ilmarinen signed an agreement on the sale of its insurance products in February 2003.





Ilmarinen's cooperation with broker firms has also progressed well. Eighteen per cent of its premiums were from clients managed by brokers. The broker firms share Ilmarinen's goal of guaranteeing common clients an expert and high-quality service in employment pension matters.

With its comprehensive service network, Ilmarinen is able to reach a wide range of clients and offer a diversity of employment pension insurance services. This applies to individual pension recipients, insured employees and self-employed persons as much as to corporate clients large and small, including Finland's biggest companies. Ilmarinen's services and practices have been developed in cooperation with its partners to ensure that the employment insurance services needed by different clients are available and that client relations are managed as well as possible.

To improve the employment pension expertise of its partners, Ilmarinen provides a regular and extensive 'training programme' covering all essential matters.

Client briefings well received

To meet client needs effectively, a wide range of products and services is needed, and these are often tailored to a high degree. Ilmarinen arranges a great many information briefings for clients throughout the country, at which information is provided on pension and insurance matters. The company also arranges separate meetings with clients, tailored to their specific needs.

More than 1,000 insurance officers from client companies attended the 2002 TEL briefings, where the range of topics discussed included the Finnish employment pension reforms. A seminar held in October at Ilmarinen's new offices on the subject of social security and tax when working abroad attracted about 100 international corporate client representatives.

Client feedback on Ilmarinen's briefings has continued to be laudable. By providing feedback, clients have also helped Ilmarinen to further improve these events.

Corporate image constantly monitored

In 2002 Ilmarinen analysed its corporate image and that of competitors by conducting its own research among clients and stakeholders and using research data produced by Taloustutkimus Oy.

According to a survey conducted among business decision-makers, Ilmarinen's product and service quality and its publicity profile are the best in the sector. Ilmarinen was placed joint top among the Finnish pension companies.

A questionnaire survey among opinion-formers revealed that Ilmarinen's strengths were considered to be its competitiveness, future outlook and reputation as an employer. Ilmarinen was ranked second among the eight insurance companies involved in the survey.

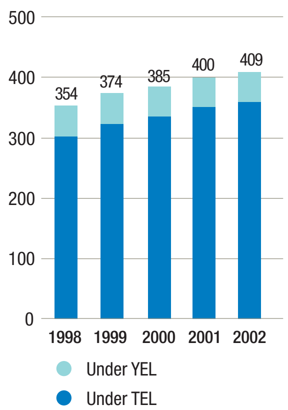
Increased use of on-line services

Every stage in the administration of earnings-related pensions involves processing information, which is why policies can be handled almost entirely on-line. The range of matters that can be dealt with on-line include the sending of employment and salary notifications and requests for calculations and certificates, monitoring payments and paying insurance contributions. The number of clients with on-line agreements has grown considerably in recent years, and numbered 5,400 in 2002.

The role of on-line services in Ilmarinen's operating environment is continually growing and such services also account for an increasing proportion of the business conducted by clients and partners. This places particular demands on the services provided by Ilmarinen. Over the next few years Ilmarinen will be focusing its attention particularly on improving the availability of services so that clients can access a wider range of services at any time of day.

Number of people insured

In thousands



Satisfied clients

We work together for the good of our clients. A satisfied client is both our employer and the best marketer of our services.

Promoting well-being at work is to everyone's benefit

Promoting well-being at work will increase job satisfaction and productivity. Ilmarinen's Motivo service is designed to provide expertise in this area to companies that wish to promote the motivation, skills and well-being of their personnel.

Our ageing population

Life expectancy in Finland has crept upwards almost unnoticed. Studies show that Finns are healthier and living longer. In no other EU country has life expectancy risen so much in the past 30 years as it has in Finland.

The increase in longevity has not curbed the enthusiasm for retirement to the same extent, however. The employment pension legislation reform coming into effect in 2005 will seek to reduce the extent of early retirement by deferring it for two or three years. The aim is that the labour market should also benefit to some extent from the increase in longevity. Deferring retirement will help to keep the costs of the pension system at a moderate level.

Continued participation in working life will bring with it new challenges. The importance of coordinating the increased demands and the employee's functional capacity become accentuated, as the employee advances in age. The quality of work, well-being at work and job satisfaction are all decisive factors in determining whether a person remains in work or chooses to leave once the opportunity arises. Particularly important too are the management culture, attitudes towards ageing, and taking account of the individual needs of people of different ages.

The right skills are important in a changing environment

Well-being at work is a challenge and a goal for both the employee and the employer. Improving well-being means, above all, targeted, long-term improvements in the work itself and the workplace community. Well-being supports business and will help a company achieve its targets: if the staff feel good, the company will do well.

Health is a key requirement for coping with one's work, but health is also a very complex matter. Incapacity for work can be due not only to illness but also to problems in the workplace or a lack of the necessary skills. Possessing the right skills has in fact become increasingly important in an environment of constant change.

Motivo supports well-being at work

Ilmarinen has developed its Motivo service in collaboration with clients and experts. The service provides expertise to client companies that wish to improve the motivation, skills and well-being of their staff. It is designed to facilitate planning and implementation of the necessary measures, assess personnel management, and help companies convert their personnel development plans into practical measures in the workplace.

The service requires information on the present operations and future plans of the company in question. Clients are provided with written material to aid in planning, and are given training and advice to support implementation of their programmes. Ilmarinen also offers clients a supporting Internet application.

In 2002 the service was expanded to include a series of regional Motivo events. A total of 12 seminars and training sessions were organized for small and medium-sized businesses around the country. The aim was to provide participants with new ideas and tools for supporting independent work. Almost 600 representatives from client companies attended these events, which were well received.

Growing importance of vocational rehabilitation

As laid down in the government programme, vocational rehabilitation is linked to the aims of pension reform agreed between the employee and employer organizations and the pension companies. The rehabilitation reform to be introduced in 2004 is aimed at early identification of those employees whose working capacity is at risk. This can only help improve the success of rehabilitation. Rehabilitation will also become a subjective right, which means that the applicant can appeal against a rehabilitation decision made by a pension insurance company.

Interest in vocational rehabilitation has grown and the number of applications risen year by year. In 2002 Ilmarinen paid rehabilitation allowance on the period of vocational rehabilitation or a pension-related rehabilitation increment to a total of 665 insured persons. The number of rehabilitees was up 17% on the previous year's figure.

Ilmarinen can help an employee or self-employed person to switch to another job or vocation if his or her working capacity is at risk due to sickness. Rehabilitation is worthy of support from the employer because it is always less costly than a disability pension.

Third Ilmarinen prize awarded

The 2002 Ilmarinen prize for Personnel Deed of the Year was awarded to the mobile operator Radiolinja. The award, given by HENRY ry, the Finnish Association for Human Resource Management, was for a Radiolinja project that successfully linked the promotion of staff well-being with business objectives. This was the third time the annual Ilmarinen prize has been awarded.

Ilmarinen has agreed on long-term cooperation with HENRY to promote first-rate personnel management and well-being in Finnish workplaces. By awarding these prizes, Ilmarinen aims to encourage workplaces to promote staff efficiency and draw attention to the systematic development of staff well-being and staff skills. Ilmarinen hopes that the company or organization awarded the prize will serve as a good example to other Finnish workplaces.

Responsibility for earnings-related pension provision

We create employment pension security on a long-term and consistent basis and observe fair and honest business principles and practices.

Fair and prompt pension decisions

Making fair, prompt and comprehensible pension decisions is a key principle of Ilmarinen's operations.

Increase in pension decisions

At the end of the year, the number of pension recipients totalled 231,056, which was about 3% more than the previous year. Old-age pensions accounted for 57% of this total. The biggest proportionate increase during the year was in part-time pensions.

The number of new pension decisions was up by almost 8%.

Regular survey of pension applicants' satisfaction

Making fair, prompt and comprehensible pension decisions is a key principle of Ilmarinen's operations, and the company regularly assesses the extent to which it has succeeded in this. The results demonstrate that Ilmarinen has in fact been very successful in adhering to this principle.

Appeal authorities have rarely overturned Ilmarinen's pension decisions. In 2002, the Pension Appeals Board amended 6.3% of the disability pension decisions made by Ilmarinen, which is less than the average percentage of amendments made by the Board. Ilmarinen has also traditionally handled applications for all types of pension more quickly than the other pension institutions, on average, and 2002 was no exception.

Advisory services for people about to retire are an integral part of Ilmarinen's services. Insured persons can ask for an advance estimate of their future pension. In addition to providing advice and information on pensions, the pension advisors can also provide advice on other social security matters to employees, self-employed persons and employers insured with Ilmarinen. In 2002, Ilmarinen sent almost 25,000 individual replies to people making enquiries about their pension provision.

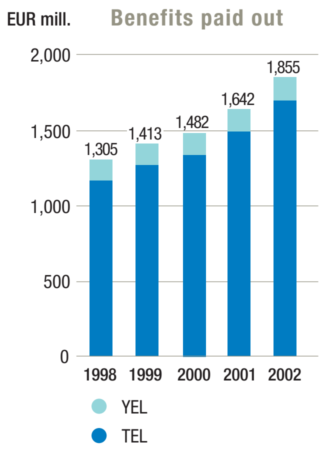
During the year, Ilmarinen examined the ways in which it could improve the availability of its services. The company's other short-term goals include further development of its on-line services. In the future, clients will be able to obtain on-line information on a wide range of matters, including details of the processing of their pension applications.

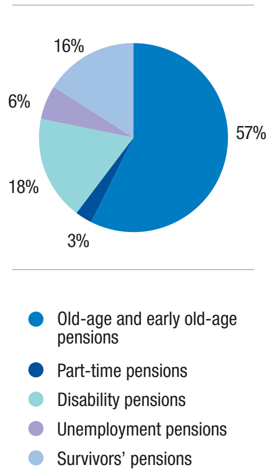
Part-time pensions grew in popularity

Ilmarinen paid out part-time pensions to 6,643 persons in 2002, of whom about one quarter were self-employed. The total was up by 44% on the previous year's figure, and the number of new part-time pensions increased by 77%.

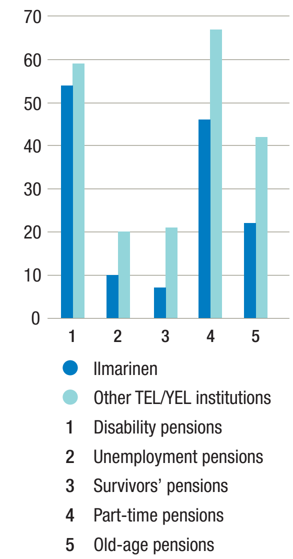
In an agreement signed in November 2001, the employee and employer organizations decided that persons born in 1946 or earlier will continue to be eligible for part-time pension once they reach the age of 56 and will otherwise be subject to the present provisions. For persons born in 1947 or later, the lower age limit was returned to 58. The raising of this limit did not therefore apply to anyone who became eligible to receive part-time pension before the end of 2002. Despite this, awareness of future changes was probably among the most important reasons for the increased popularity of part-time pensions.

The aim of the part-time pension system is to raise the average age at which people retire. It offers those who might otherwise retire on a disability pension the opportunity to continue working part-time.

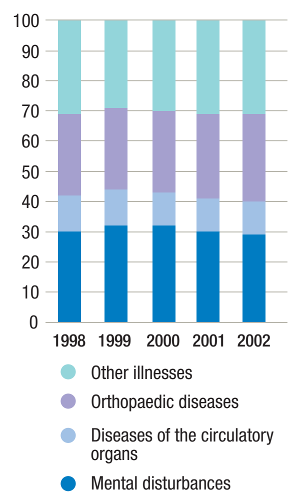




Processing times for pension applications



Disability pensions granted by Ilmarinen



The system has been criticized for encouraging people to do part-time work who have the capacity to work full time. However, an investigation conducted by the Finnish Centre for Pensions revealed that this pension option has mostly been utilized by those for whom it was originally intended.

Changes in working life reflected as a growth in disability pensions

Among the reasons for ending a working career at the age of 55-64, retirement on a disability pension has decreased proportionately since the early 1980s. However, the figures for recent years show an increase in both the number of pension applications and new disability pensions.

In 2002, mental health problems, heart diseases and musculoskeletal disorders were among the illnesses most commonly causing disability.

In addition to the rising age of the population, there are many other reasons for the upturn in the number of disability pension awards. Changes in working life, especially greater demands and a heavier workload, probably explain the growing number of disability pensions granted on the basis of depression, for example.

Continued decline in individual early retirement pensions

The proportion of individual early retirement pensions decreased again in 2002, to just below 3% of all new pensions granted.

In future, the individual early retirement pension will remain unchanged as regards those born in 1943 or earlier, but will no longer be granted to those born in 1944 or later. Moreover, it has also been agreed in the pension reforms that the evaluation of whether employees aged 60 qualify for a disability pension is to focus on the vocational character of the disability in cases where the working career is long.

New pension decisions, by type of pension	2002	2001	change, %
Old-age pensions	2,695	2,226	21.1
Early old-age pensions	1,430	1,451	-1.4
Part-time pensions	2,934	1,658	77.0
Disability pensions	5,954	5,356	11.2
Individual early retirement pensions	503	657	-23.4
Unemployment pensions	2,771	3,720	-25.5
Survivors' pensions	2,702	2,575	4.9
Total	18,989	17,643	7.6

Profitable operations

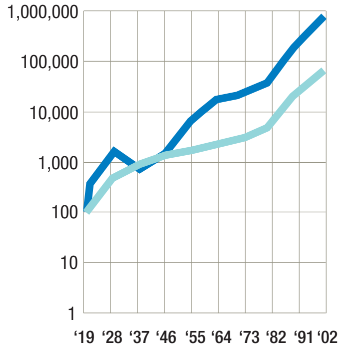
Together we can achieve results to be proud of.

Ilmarinen's investment principles

Ilmarinen seeks to gain the best possible long-term return on its investment portfolio, within the limits permitted by its solvency.

Equity vs. bond market in the USA, 1919–2002

Logarithmic scale



Average annual return on equities 8.3%

Average annual return on bonds 5.6%

By the end of 2002, a USD 1,000 investment in 1919 would have yielded
- USD 810,618 on the equity market
- USD 96,511 on the bond market

Return-oriented investment strategy focuses on equities

Pension assets are invested on a long-term basis for decades ahead, and so the employment pension system allows for longer-term yield expectations. According to finance theory, equities will provide the best return in the long run, which is also confirmed by the experience gained in investment markets. Ilmarinen's investment in equities is therefore significant, and in fact accounts for a higher proportion of the company's invested assets than in other Finnish earnings-related pension insurance companies, on average.

Risk management tools

Investment decisions at Ilmarinen are based on an investment plan and investment authorizations approved annually by the Board of Directors. The targeted investment distribution, i.e. the basic allocation, defines the limits for each asset type so that the expected overall yield expectation is as high as possible within the risk level set by the Board. Investment risks are also managed by means of the risk management plan approved by the Board. Spreading the risk over different types of asset is the most important tool in risk management. Ilmarinen has gradually increased the use of derivatives to improve its risk management and to optimize the return/risk profile of its portfolio. Derivatives are used in the management of equity risks and currency risks in particular.

Investment ethics

Ilmarinen's investments must not only be profitable but also ethically sustainable. The ethical practices approved by the Board focus on compliance with the law. The actions and the appropriateness of the companies' activities in which Ilmarinen chooses to invest are scrutinized in regard to their employees, human rights principles, the environment and the legislation in force in their operating environment. Ilmarinen's equity and bond portfolio is examined twice a year by an outside expert, and investment in any company can be discontinued on the basis of the results of this examination.

Ownership policy approved

The ownership policy approved by the Board of Directors defines Ilmarinen's position on the administrative structure, dividend distribution policy and incentive systems of companies in its ownership. Those involved in investment operations are subject to the company's insider rules.

Most investments managed in-house

In its own direct investment Ilmarinen focuses on asset types that can be handled effectively without major personnel resources. In general these are customer financing and investment in Finnish real estate and European equity and fixed-income markets. At the end of 2002, 5.4% of all Ilmarinen's investment assets were managed by outside asset managers. External asset management companies are typically used when investing outside Europe, or in developing economies, private equity funds and hedge funds.

Global crisis of confidence on investment markets

2002 WAS A YEAR OF SLOW ECONOMIC GROWTH IN ALL THE WORLD'S MAJOR ECONOMIES. CONSUMERS' AND COMPANIES' CONFIDENCE IN THE FUTURE WEAKENED DUE TO THE POOR ECONOMIC OUTLOOK, AND THE WORLD'S STOCK MARKETS FELL BY AN AVERAGE OF ABOUT ONE QUARTER.

Slow economic growth and weaker economic outlook

2002 was marked by a general lack of confidence. Consumers' confidence in their jobs and spending potential weakened. Similarly, companies lacked the courage to make new investments as growth in the world economy was affected by an exceptional degree of uncertainty, including a threat of war.

Investor confidence in companies' operating methods collapsed following the exposure of several accounting scandals and misdemeanours. In addition, as companies ended up posting substantial losses and the risk-bearing capacity of institutional investors weakened as capital diminished, 2002 was an even poorer year for stock markets than 2001.

Sluggish economic growth weakened the balance of public finances in all the major economies, and monetary policy was the most important single tool used for economic revival. Interest rates in the United States fell clearly below those in Europe, which weakened the dollar. The price of oil rose towards the end of the year, with the growing prospect of war in Iraq. Long-term interest rates fell by about one percentage point, as inflation remained moderate and investors moved their money out of equities. Economic growth did not meet the markets' expectations, and as the year proceeded businesses reduced their profit forecasts substantially, which was reflected in share prices.

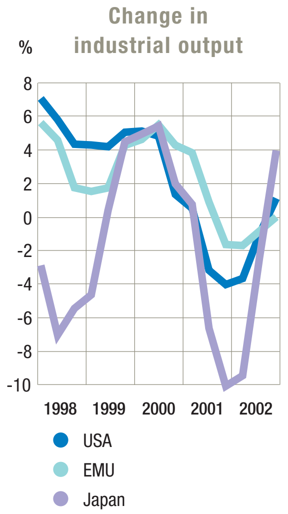
One manifestation of the weakening economic outlook in Finland was that real estate prices stopped rising and vacancy rates began to climb. For example, the office vacancy rate in the Helsinki metropolitan area tripled to over five per cent during 2002.

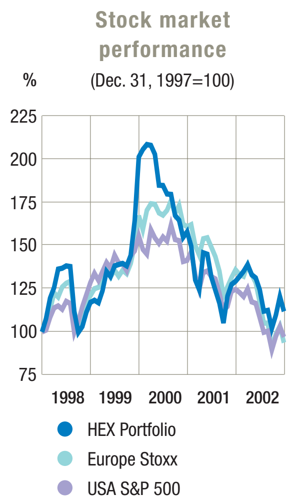
Stock market sluggish across the board

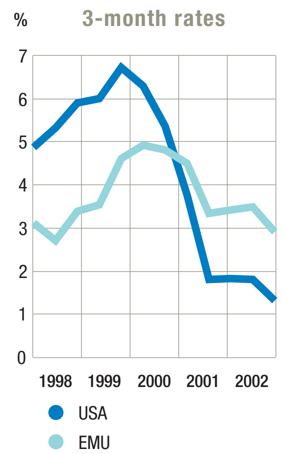
In 2002, share prices fell on average by about a quarter. European share prices were badly affected, plunging in virtually all business sectors; rising share prices were experienced by only 15% of companies. Only the emerging markets held their value overall. Growth stocks performed worst of all, although towards the end of the year there were some signs of recovery.

Fixed-income markets benefited from the weak economy

Slow economic growth and low inflation left room for cuts in interest rates. US interest rates fell to an exceptionally low level and the strengthening of the euro manifested itself in the sharp decline of interest rates in the euro zone at the end of the year. As a result, long-term fixed-income investments in particular generated capital gains. The yield difference between corporate bonds and government bonds remained high, due to the companies' weak performance, although the difference narrowed towards the end of the year.



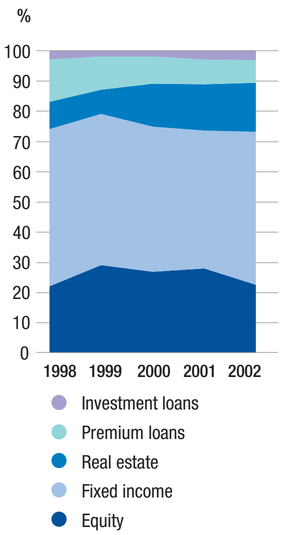




Fall in stock markets reflected in Ilmarinen's investment result

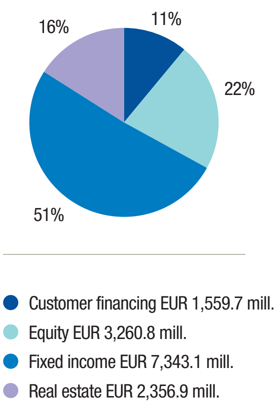
OWING TO FALLING SHARE PRICES, THE OVERALL RETURN ON ILMARINEN'S INVESTMENT PORTFOLIO SHOWED A SLIGHT LOSS. THE AVERAGE RETURN AT MARKET VALUES OVER THE PAST FIVE YEARS HAS BEEN 6.1% PER ANNUM, WHILE THE AVERAGE RETURN ON EQUITY INVESTMENTS HAS BEEN CLOSE TO 11%.

Structure of Ilmarinen's investment assets



Breakdown of investment assets on Dec. 31, 2002

Total EUR 14,520.6 mill.



Fixed-income investment compensated for weak equity return

At market values, Ilmarinen's investments at year-end totalled EUR 14,520.6 million. The majority of this was fixed-income investments. The targeted proportion of equity investment in the total for 2002 was set at 25%. Due to uncertainties in the investment environment the percentage was kept slightly below the planned percentage, at an average of well over 22%. The proportion of investment assets accounted for by equities was 20%. This is also slightly lower than the targeted percentage for 2003. The equity proportion in these figures excludes all the investments in private equity funds and hedge funds that are included under equity investments in the official investment classification.

Although the proportion of equity investment is small compared with the average allocation of European pension assets, the weakness of the stock markets resulted in a slightly negative return on Ilmarinen's aggregate investment portfolio. On the other hand, long-term fixed-income investment compensated for the weak return on equities.

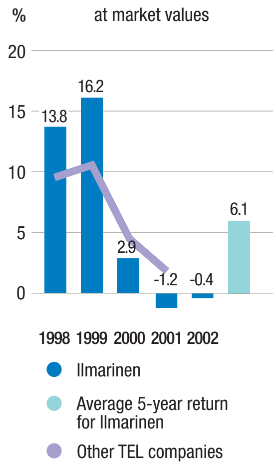
Currency and equity derivatives in particular were used to reduce the risk level of the portfolio. Currency derivatives were used to hedge on average about half the open exchange rate risks associated with the main currencies. The effect of currency hedging on the entire investment portfolio return was about +0.4 percentage points. Using equity derivatives, some of the equity risks were taken in the form of capital hedging.

The overall return on investment at market values was -0.4%, as opposed to -1.2% in 2001. The average annual return on Ilmarinen's investment portfolio at market values over the past five years has been 6.1%, corresponding to an average real return of 4.0%. The volatility of the returns on Ilmarinen's investment portfolio was 3.5% in 2002.

Fixed-income investments

The balance in central government finances meant an improvement in Finland's credit rating and a narrowing of the yield difference between Finnish and German government bonds. Ilmarinen gradually reduced the proportion of Finnish government bonds in its investment portfolio during the year and increased the proportion of corporate bonds.

Investment income at market values



At year-end, money-market investments accounted for 8.2% of the entire EUR 7,343.1 million fixed-income portfolio.

European long-term interest rates fell by almost one percentage point, raising the return of the fixed-income portfolio in the form of capital gains by about five percentage points. The overall return on bonds in 2002 rose to 9.5%, while the return on money-market investments was 3.6%. The total return on fixed-income investments at market values totalled 9.0%. At year-end, the average time-to-maturity of the fixed-income portfolio was 4.5 years, i.e. about 8 months longer than at the beginning of the year.

Equity investments

At the end of the year, foreign equity investments accounted for about 53% of Ilmarinen's total equity investments of EUR 3,260.8 million.

By the beginning of 2002 the target for geographical and sectoral diversification of the equity portfolio which Ilmarinen had started in 2000 had almost been reached. Whereas quoted domestic equities accounted for 75% at the end of 1999, the figure was only 47 by the end of 2002. The individual equity risk is also well diversified. Whereas the five biggest holdings accounted for about 50% of the total portfolio at the end of 1999, by the end of 2002 the figure was only 20%, that is about 4% of all investments.

The focus of asset management for 2002 was to optimize the adjustment of the equity risk in relation to the risk-bearing capacity. Equity acquisitions were concentrated in the autumn, when share prices had fallen to a level where the dividend income in a number of sectors had risen above the interest level in the bond market. Equity derivatives were used mainly to restrict the maximum loss from equity investments, but with the aim of retaining a sufficient return potential.

The stock market trend was negative across an exceptionally broad front, and the strengthening of the euro would have weakened the return on investments outside the euro zone without considerable hedging against exchange rate risks.

In 2002 the return on equity investments at market values was -21.5%. For the past five years, however, the average time- and money-weighted return at market values has been 10.9% annually.

The gradual increase in the use of private equity funds continued. By the end of 2002, investment commitments worth EUR 441.5 million had been made with private equity funds, of which EUR 179.1 million was invested by the funds.

Investments in hedge funds were also increased during the year. At year-end, these investments amounted to a total of EUR 76.5 million and their weighted return on capital employed in 2002 was 8.5%.

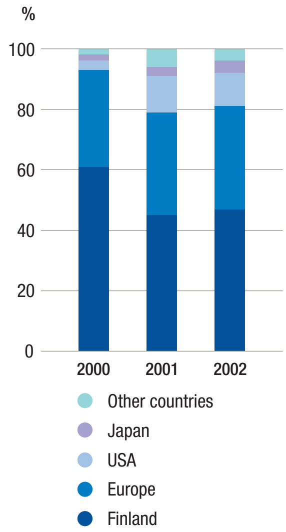
Real estate investments

The total amount of Ilmarinen's real estate investments grew by 7.7% during the year. Real estate investments also grew as a proportion of all investments, although this was primarily due to the fall in the market value of equity investments. The overall return on real estate investments at market values was 5.6%. The annual return was affected by the preparation and launch of several major renovation projects and by the increased number of vacant office premises.

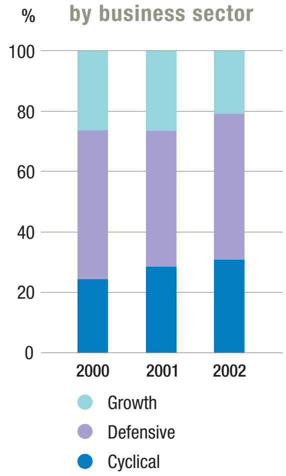
Real estate investments amounted to EUR 207.5 million in 2002. The most important of the investments was the acquisition of new offices for Ilmarinen in Ruoholahti, Helsinki. The previous offices thus became vacant for rental. In addition, several large renovation projects were started in Helsinki. Housing production concentrated on free-market rental housing on Ilmarinen's own plots. Five housing projects with a total of 298 dwellings were started during the year.

In autumn 2002, Ilmarinen signed a preliminary agreement with the Swedish

Geographical breakdown of listed shares



Breakdown of equity portfolio by business sector



Growth = business sectors in which growth in turnover is above average

Defensive = less sensitive business sectors

Cyclical = highly sensitive business sectors

Aberdeen Property Investors Nordic AB under which Ilmarinen would sell shares in its property management and leasing subsidiary Antilooppi. In the deal completed in January 2003, Ilmarinen sold 60% of its holding in Antilooppi and the buyer has the option of purchasing the remaining share capital at a later date. The sale of Antilooppi is in line with Ilmarinen's strategy of concentrating on real estate investments and the management of its real estate portfolio.

The sale provides Ilmarinen with a partner in the form of an important international company whose expertise will be useful in any effort to expand Ilmarinen's real estate business abroad.

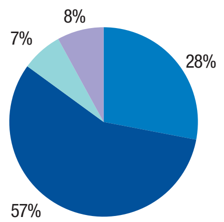
Customer financing

As of the beginning of March 2002, companies have been able to draw down TEL premium loans, i.e. their accrued fund share, without forfeiting their client bonuses. This change did not, however, boost the demand for TEL premium loans last year. EUR 217.2 million in new loans were drawn down and EUR 275.4 million amortized, which resulted in a smaller loan portfolio.

Loans under guarantees and loans to banks and financial institutions accounted for 80% of the total loan portfolio, while the remainder comprised loans against prime collateral. The average interest rate in TEL premium loans was 4.4% and that on investment loans 5.2%. The return on the loan portfolio was 4.7%.

Real estate by location on Dec. 31, 2002

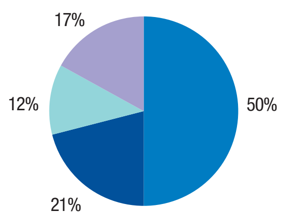
Total EUR 2,356.9 mill.



- Central Helsinki
- Metropolitan Helsinki
- Other growth centres
- Rest of Finland

Real estate by use on Dec. 31, 2002

Total EUR 2,356.9 mill.



- Office
- Commercial
- Other
- Residential

Total loans to clients, EUR mill.	1992	1997	2002	2002 return %
TEL premium loans	2,829	1,518	1,075	4.5
Investment loans	940	214	465	5.4
Total	3,769	1,732	1,540	4.7

Ilmarinen's financial standing

In addition to annual and long-term performance, the financial standing of an authorized pension company also has to be assessed by reviewing its solvency position, in particular. This involves assessment of the sufficiency of the company's solvency buffers in relation to its liabilities and risks. The results of the assessment must also be considered in the context of the prevailing economic conditions.

Underwriting business

A pension insurance company's underwriting risks are related to the sufficiency of premiums written and technical provisions in relation to the amount of current and new pensions. A key factor in pension insurance is therefore the uncertainty associated with life expectancy, the number of pension starts and amount of benefit. Annual fluctuations in the underwriting business are handled through the equalization provision included in the technical provisions for this purpose.

The underwriting result for 2002 was EUR 53 million, after several years of even higher surpluses. This further strengthened the equalization provision. In the joint calculation bases used by the employment pension companies an upper limit is set for the equalization provision and a target zone below it. Ilmarinen's equalization provision is about mid-way in the target zone, i.e. 63% of the upper limit. This is very good in view of the volume of our underwriting business and the related risks. The decline in the underwriting result was due to the reduction in the disability component of the insurance contribution as of the beginning of 2002, because of the high level of pension company equalization provisions.

Investments

Solvency capital is intended to form a fluctuation reserve against risks in investment operations. It is made up of assets in excess of the combined total of the company's pension liabilities and the equalization provision. According to Finnish insurance legislation, the solvency capital minimum requirement, other monitoring limits and the upper limit depend on the risk content of the company's investments. A more volatile investment portfolio naturally presupposes larger buffers.

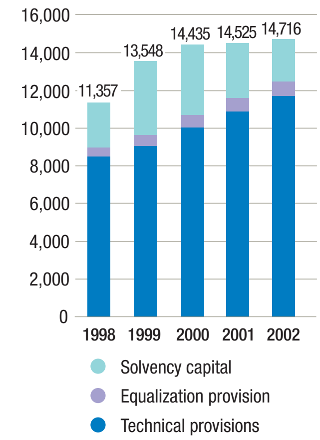
At the end of 2002, Ilmarinen's solvency capital came to EUR 2,243.1 million, which was 18.1% of the technical provisions that define the basis of the solvency capital requirements. The solvency capital was 1.9 times higher than the solvency border. The present solvency mechanism was introduced at the start of 1997, when Ilmarinen's solvency capital equalled 10.6% of the technical provisions at that time.

Ilmarinen's solvency capital continued to increase until 1999, along with the rise in the stock prices, but has been declining since then due to the three-year slump in share prices. In 2000-2002, the company's solvency capital was therefore used for the purpose for which it is originally intended, that is to soften the inevitable fluctuations in the investment portfolio. The company's present solvency capital will also withstand possible continuation in the unfavourable investment market trend.

Pension assets

The pure technical provisions, equalization provision and solvency capital each serve to secure the pension provision. The pension assets covering them comprise almost all of the company's wealth. The technical provisions increase at a steady rate in line with increases in the insurance portfolio, unlike the equalization provision and the solvency capital, which are subject to fluctuations in the underwriting and investment result.

Ilmarinen's pension assets



A constantly improving workplace community

We base our operations on a good working environment and appreciation of each individual employee. We promote a high level of expertise and encourage our personnel to improve their potential and their job skills.

Improved skills breed success

Ilmarinen's human resource accounts are published at the same time as this Annual Report.

Under one roof

The number of personnel employed by Ilmarinen increased further, reaching 666 by the end of the year. Their average age was 42 and the proportion of female staff in the total was 71%.

The relocation to Ilmarinen's new offices in Ruoholahti, Helsinki, was naturally a big event for the company's personnel. The move means that all of Ilmarinen's personnel now work under the same roof for the first time in over 20 years.

The move is visible in the annual survey results

In the annual survey of its management and working practices, Ilmarinen once again received good scores as an employer and for good working relationships. The level of work stress reported in the survey was less than the previous years, too. The overall survey score, however, was down on the previous year's result, due to the move and the extent of the related working practice changes and the speed with which they were introduced. Almost half of the personnel began working in the new open-plan offices. Work has also started on correcting problems that have emerged since the move, and the success of these measures will be assessed on several occasions during the current year.

Developing management and staff skills

Extensive supervisor training for those personnel with supervisory responsibilities was begun at the start of 2002. One reason for the training was the need identified in earlier surveys of management and working practices. The training will continue in 2003, when various personnel engaged in work as experts and advisors will also be involved. The aim is to improve strategic management, process and project management, supervision in general and the management of change.

A new office system was also introduced in 2002, and this led to an increase in the number of days spent in training. The skills development programme is continuing, and attention is also being given to maintaining basic skills. Necessary training will also be given to meet the demands of pension law reforms and development projects.

Promoting well-being

Promoting a positive mood in the workplace was the theme taken up by the workgroup composed of the company's labour protection committee, occupational health care and work environment working group.

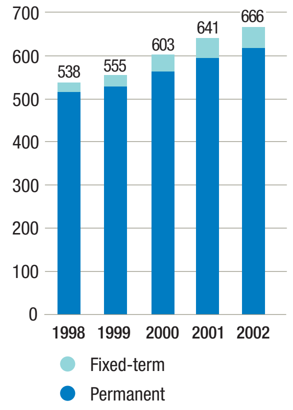
The work of the occupational health care during the year focused on the well-being and working capacity of staff. The survey of management and working practices revealed that the ability of staff to cope with their work was unchanged from the previous year. The amount of sick leave was proportionately less than in previous years.

Attainment of targets is rewarded

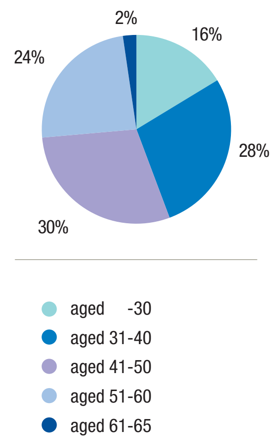
Ilmarinen's personnel reward system is based on the assessment of certain success factors defined in the balanced scorecard. The entire staff are entitled to the company bonus, which itself depends on how far the objectives set in the scorecard have been achieved. A unit-specific or personal bonus is also paid on the basis of how well targets are achieved.

Ilmarinen also operates a reward system for worthy suggestions from staff. In 2002, some one hundred suggestions were received, of which 15 were rewarded.

Trend in staff number



Staff age distribution on Dec. 31, 2002



Corporate social responsibility

Ilmarinen is responsible for safeguarding the statutory earnings-related pension provision of those employees and self-employed persons that it insures, and for managing the investment assets that will provide income to cover future pensions.

Responsibility is a core value

Among the corporate values that guide Ilmarinen's activities is the responsibility it assumes for earnings-related pension provision: it is committed to creating employment pension security on a long-term and consistent basis, and observing fair and honest business principles and practices. The company's other values are profitable operations, satisfied clients and a constantly improving workplace community. The observance of these values in practice is monitored in a number of ways.

Client satisfaction and corporate image are the subjects of in-house and commissioned surveys conducted annually. The results of the latest corporate image survey commissioned jointly by Ilmarinen and the other authorized pension companies were published in December 2001. In this survey, Ilmarinen's image and customer service were rated the best in the field.

In a corporate image survey of pension companies conducted among business decision-makers in 2002, Ilmarinen shared first place. Its major strengths were felt to be customer service and the quality of its products and services.

In another 2002 survey, this time on the image of insurance companies, conducted among various companies, opinion-formers and the media, Ilmarinen was ranked second. Its particular strengths were listed as competitiveness, future outlook and reputation as an employer. Studies show that Ilmarinen is the best-known pension company in Finland.

Surveys of Ilmarinen's management and working practices have been conducted for over thirty years, and the results have been put to good use in developing the company's operations. The surveys assess the working atmosphere and canvass staff opinions about the company's observance of its corporate values in practice. In general, the survey respondents have felt that the corporate value concerning the responsibility for earnings-related pension provision has been closely adhered to in practice, and that the client satisfaction and profitability values have been fairly well observed. By contrast, the value of a constantly improving workplace community has, in recent years, been felt to be only moderately well observed. Nevertheless, it is encouraging that, following the tradition of previous years, Ilmarinen was again considered a good employer; with a grade of 'excellent', this is clearly Ilmarinen's biggest strength. Working relationships with colleagues and satisfaction with both the job and the results of the work also received good scores. Most complaints concerned work stress and cost-cutting.

Responsible pension decisions

One of Ilmarinen's key operating principles is that its pension decisions should always be fair and prompt, and that the grounds for the decisions should be easy to understand. The extent to which the company succeeds in this is assessed in annual surveys. Ilmarinen has usually been more successful in these surveys than its competitors overall. The company naturally observes all the relevant legal provisions and regulations in its pension decisions. In Finland, legal protection of the individual is also guaranteed by a two-stage appeals system free of charge to the appellant. Ilmarinen's pension decisions have held well at the appellate level.

Financial responsibility brings obligations

Profitability and efficiency figure prominently among the company's strategic goals and values. The pension assets entrusted to Ilmarinen totalled EUR 14.7 billion at the end of 2002. In its investment activities, Ilmarinen seeks to obtain the best possible return in the longer run, within its solvency limits. To balance the risks involved, it has a highly diversified investment portfolio. Nevertheless, Ilmarinen has invested more in equities, on average, than the other pension insurance companies. Although recent years have been difficult for equity investment, equities have historically given the highest return in the long run.

Improving the company's operational efficiency is one of the main goals for the next few years.

Promoting reliability and transparency

The importance of social responsibility is also emphasized in Ilmarinen's management, performance targets and indicators. Using a balanced scorecard approach to management, everyone at Ilmarinen is expected to promote the company's role as a reliable partner in the earnings-related pension system in the course of their work. The need for reliability is unequivocal. Transparency is also being systematically promoted, as this goes hand in hand with reliability.

The financial reporting of pension insurance companies has been criticized on occasions for being difficult or impossible to understand. Ilmarinen has made significant efforts to improve its reporting, and it also aims to be a front-runner in the openness of operations. The company is working consistently towards these ends.

Ethics in investment

Ilmarinen's investment activities are guided not only by the demands of profitability and prudence but also by the ethical guidelines for investment approved by the Board of Directors. Ilmarinen aims to invest in companies that respect the following values: environmental friendliness, human rights, sex equality, preventing the use of child labour, and basic labour-market rights approved by the ILO.

Working with stakeholders

In developing its operations, Ilmarinen cooperates closely with affected parties and other important stakeholders. Ilmarinen's Executive Group, for example, includes an employee representative, and the Board of Directors and Supervisory Board both include representatives of the employee and employer organizations and major clients. The company's Advisory Committee for Insurance Clients includes regional representatives from corporate and entrepreneurial organizations throughout the country, and the representatives of the Advisory Committee for the Insured include the principal employee organizations. The Advisory Committee on Pension Affairs includes representatives from both employee and employer organizations.

Ilmarinen also supports social and cultural causes in the form of assistance for non-profit organizations and cultural events through donations and partnership agreements.

Caring for the environment

Environmental management at Ilmarinen is based on the Finnish Quality Award criteria and focuses on conservation of natural resources, recycling and waste management. Responsibility for the environment has also become one of the ethical principles guiding Ilmarinen's investment activities. In 2002, the company began working with Lassila & Tikanoja in a nationwide effort to improve the management, sorting and recycling of waste in buildings owned by Ilmarinen. Ilmarinen's own operations have no significant environmental effects.

Financial statements 2002

Part of the notes to the official financial statements have been omitted since they are almost identical in both the parent company and the Group, or they are otherwise of minor importance, or because the same information is apparent from the Board of Directors' report. The following notes were omitted:

- statement of source and application of funds
- investment in real estate
- specification of investment in affiliated undertakings and participating interests
- changes in tangible and intangible assets
- specification of receivables
- inner-circle loans
- specification of debts other than technical provisions
- notes to consolidated accounts excluding specification of net investment income, operating expenses and capital and reserves plus specification of costs of staff members and corporate organs.

The Finnish-language official financial statements of Ilmarinen and the Group are on display at Ilmarinen's offices in Porkkalankatu 1, Helsinki.

The concepts and terms used in the financial statements are explained in the guide for readers on pages 70-71.

Board of Directors' report

The operating environment

The awaited upturn in the Finnish economy failed to materialize in 2002. GDP growth remained low, and unemployment threatened to rise at the end of the year, after its continued decline in recent years. Share prices fell for the third successive year, ending at around 25% below the 2001 level, despite picking up slightly in the final quarter. The immediate future continues to be characterized by uncertainty. The possibility of worsening international tensions or conflict is also a major risk factor in the Finnish economic outlook.

In autumn 2002, the social partners, namely employers and trade unions, concluded the negotiations begun several years earlier on the reform of Finnish earnings-related pension security in the private sector. Changes in pension benefits based on the agreements reached have been incorporated in the legislation, and most of the changes will come into effect at the start of 2005. The changes will mean less attractive terms for some types of early retirement pension, but this will be offset by improvements in vocational rehabilitation. The earnings-related pension provision for the ageing long-term unemployed will be transferred to the unemployment insurance system. Retirement on an old-age pension will be possible between the ages of 62 and 68, and the pension will accrue at an annual rate of 4.5% from the age of 63, which will probably encourage many people to stay on longer in work. The calculation of pensions will be simplified by the transfer to a system in which pensions are determined on the basis of a person's full working career. The age-related accrual percentage will give added weight to later working years in the pension calculation. The introduction of a life expectancy coefficient, which is an indicator of changes in average life expectancy, will automatically adjust earnings-related pension costs to this ongoing change.

The new method of calculating pensions will enable a significant simplification of the employment pensions legislation. A new employment pensions act will be drafted in 2003 to replace the following laws: Employees' Pensions Act, Temporary Employees' Pensions Act, Pensions Act for Performing Artists and Certain Groups of Employees, and perhaps also the Self-Employed Persons' Pensions Act. The practices and procedures applied to earnings-related pension insurance administration will also be revised at the same time.

In the long term, these changes will alleviate the increasing pressures on both pension expenditure and earnings-related pension contributions by several percentage points and will therefore enhance the financial capacity of the earnings-related pension system.

The principal methods available for controlling the rise in pension contributions are to defer retirement and improve pension companies' investment income. Deferred retirement will be more of a realistic proposition in the future thanks to the reforms being made, while the opportunities for increasing long-term investment income were boosted at the start of 1997, with the solvency capital reform. Constant cooperation between the social partners and the other elements of the earnings-related pension system will ensure that the balance is maintained between any rise in the contribution rate and the financial capacity of the economy. Agreement will be sought on any further changes as necessary.

Results and solvency

The number of persons insured with Ilmarinen and the total wage bill insured by the company grew in 2002. Ilmarinen's underwriting business continued to show a surplus.

The continuing drop in share prices, which was contrary to expectations in the spring, also made 2002 a very difficult year for investment. As a result, the company's net investment income at current values was slightly negative and solvency capital fell to EUR 2,243.1 million, compared with EUR 2,940.8 million in 2001.

Despite the decline in solvency capital over the past three years, Ilmarinen's solvency is still satisfactory. The monitoring limits on an earnings-related pension company's solvency capital depend on the risk content of its investment portfolio. The upper limit of the solvency capital target zone is four times the solvency border. Ilmarinen's solvency capital at the end of the year was 1.9 times its solvency border, compared with 2.3 times at the end of 2001. The company's solvency capital stood at 18.1% (2001: 25.5%) of the technical provisions used in solvency calculations.

Solvency is a key factor in the operations of an earnings-related pension insurance company, as it protects the company's risk-taking capacity. Good solvency also makes it possible to build up and maintain an investment portfolio that offers substantial long-term income potential. The sum available for client bonuses depends on the company's solvency capital and solvency position. Ilmarinen's excellent solvency position before the stock markets began to fall has allowed it to maintain its equity-weighted investment strategy without having to sell, even with the prolonged fall in share prices. However, in these poor investment years the level of client bonuses has been significantly below the business cycle average.

An earnings-related pension insurance company's official profit and loss account and balance sheet compiled according to the Finnish accounting legislation do not give an adequate and comparable picture of its financial performance and standing. The earnings-related pension companies have therefore agreed to present their results information at current values and in a uniform manner, which they have done for several years now. As of December 31, 2002, largely comparable key figures and analyses on the financial statements will be presented in the notes to the accounts by order of the Insurance Supervision Authority. The information given below on Ilmarinen's overall result and on its investment result is presented according to these principles.

The overall result for 2002 was EUR -591.2 (-690.7) million. The underwriting business showed a profit of EUR 53.1 (72.6) million, while the loading profit was EUR 9.7 (12.5) million. Investment income at current values was EUR -57.0 (-179.0) million, which is EUR 654.0 (775.8) million below the EUR 597.0 (596.8) million interest credited to technical provisions.

The negative overall result and the negative investment result were both caused by falling share prices, which led to a reduction of EUR 149.9 (477.6) million in valuation differences. The combined sum of value adjustments entered in the bookkeeping was EUR -585.4 (-457.2) million.

An earnings-related pension insurance company's financial performance must be judged over several years. Ilmarinen's solvency, its high proportion of equity investment and the high long-term yield expectation mean that, overall, it suffers from a larger than average fluctuation in its annual results. Performance over the five-year period 1998-2002 proved to be significantly below the long-term expectation, as a result of the three-year fall in share prices during this period. However, the company's average overall result for the five-year period is an annual profit of EUR 259.3 million after deduction of the interest credited to technical provisions.

The profit from the underwriting business must be transferred to the equalization provision according to the actuarial principles confirmed by the Ministry of Social Affairs and Health, except for the amount by which the equalization provision may have exceeded its upper limit.

A total of EUR 19.0 (40.4) million was earmarked for use as discounts in TEL insurance contributions, i.e. client bonuses. This was 0.20% (0.45%) of the total wage bill insured, and EUR 53 (115) per employment relationship insured with Ilmarinen. The earmarked figure was considerably lower than usual, because of the economic situation. In addition to this figure, a sum of EUR 24.3 million was transferred to the provision for current bonuses, in accordance with a change made in the calculation bases used by the earnings-related pension insurance companies. The transfer concerns a change in the periodization of the client bonuses to be paid and will not mean an increase in the 2003 client bonuses.

The bookkeeping loss and the client bonuses are covered by releasing the provision for future bonuses, which acts as a buffer against fluctuations in investment activities. In all, the amount released from the buffer was EUR 548.0 million.

Insurance portfolio and premiums written

Overall, the sales result was good in 2002. Premiums written via sales of new TEL insurance totalled approximately EUR 63 million. The balance on transfers for TEL insurance was also favourable: on the basis of decisions made in 2002, the net transfer to Ilmarinen will be about 1,900 persons insured under TEL, boosting annual premiums written by some EUR 5.8 million. Transferring from one employment pension insurer to another is now possible every three months, as a result of the change made in the Insurance Terms and Conditions. Very few clients made use of the first quarterly transfer period. Ilmarinen's market share calculated on the total wage bill insured under TEL is estimated to have grown significantly from the 2001 figure of about 33.4%. The net transfer of YEL policies, by contrast, showed a slight loss.

At the end of 2002, the company had 31,689 (31,982) TEL policies, covering 359,000 (351,000) insured persons. This represents a drop of less than 1% in the number of policies, but a rise of 2.3% in the number of persons insured. The total wage bill insured with Ilmarinen was EUR 9,631.0 (8,922.6) million. This was an increase of 7.9%, of which 7.0 percentage points was growth on the exact insured wage bill based on the 2001 annual calculation, which exceeded the estimate used in the 2001 annual accounts by 0.9%.

At the end of 2002, Ilmarinen had 49,322 (49,386) YEL policies, with an average reported income of EUR 16,054 (15,431) a year. This marked an increase of about 4.0% on the 2001 figures; this was slightly above the increase in the TEL index, which was 3.68%.

Ilmarinen's premiums written in 2002 totalled EUR 2,160.9 (1,989.6) million.

TEL premiums written in 2002 totalled EUR 2,004.4 (1,839.5) million, representing a 9.0% increase on the previous year, mostly as a result of the rise in the total wage bill insured. The discounts granted on contributions in 2002 totalled EUR 73.2 (97.5) million. Premiums written in YEL policies in 2002 totalled EUR 156.6 (150.1) million.

Bad debts from unpaid TEL contributions came to EUR 7.1 (6.1) million, and from unpaid YEL contributions EUR 3.6 (3.9) million. As a company, Ilmarinen did not incur any losses from YEL contributions, however, because in the YEL system the government compensates for any contributions not received from policyholders.

Contribution rate

The average TEL contribution confirmed for 2002 was 21.1%, which was the same as in 2001. The employee contribution was 4.4 percentage points of this and the employer's contribution an average of 16.7 percentage points. The contribution rate payable by the employer varies from policy to policy, and also depends on the client bonuses granted by the company in question. Ilmarinen's client bonuses averaged 4.5% of the employer's contribution, i.e. about double the average bonus paid out by Finnish earnings-related pension insurance companies.

In 2003, the TEL contribution will average 21.4% of earnings, i.e. 0.3 percentage points higher than in 2002. When the contribution rate is determined, the client bonuses used are only estimates. As of 2002, a new practice was introduced whereby the difference between estimated and actual client bonuses is taken into account in setting the employee contribution. For this reason, the employee contribution in 2002 was 0.1 percentage points less than it would otherwise have been. As there was no difference between estimated and actual client bonuses in 2002, the 2003 employee contribution will rise to 4.6%. This will be 0.1 percentage points higher than the rise in the average employer contribution, which was set at 16.8%.

In 2002, the YEL contribution was 21.1% of the reported income confirmed under YEL. In 2003 the figure will be 21.4%.

Pension expenditure by type of pension in 2002, EUR mill.

	TEL	YEL	Total	% of total expenditure
Old-age pensions	883.5	85.0	968.5	52.2
Early old-age pensions	103.6	13.0	116.6	6.3
Part-time pensions	29.2	7.3	36.5	2.0
Disability pensions	299.2	26.2	325.4	17.5
Individual early retirement pensions	49.5	3.8	53.3	2.9
Unemployment pensions	159.3	2.2	161.5	8.7
Survivors' pensions	172.9	20.6	193.5	10.4
Total	1,697.2	158.1	1,855.3	100.0

The figures in the table include payments made directly to pension recipients and through the pay-as-you-go pool.

Number of pension recipients, December 31, 2002 (benefits under basic coverage)

Pension type	TEL	YEL	Total
Old-age pension	105,147	14,166	119,313
Early old-age pension	10,760	2,568	13,328
Part-time pension	5,238	1,405	6,643
Disability pension	32,689	4,407	37,096
Individual early retirement pension	3,817	550	4,367
Unemployment pension	13,073	328	13,401
Survivors' pension	30,879	6,029	36,908
Total	201,603	29,453	231,056

Pensions and working capacity maintenance

In 2002, Ilmarinen paid out altogether EUR 1,855.3 (1,642.2) million in pensions.

At the end of the year, 231,056 pension recipients were with Ilmarinen, i.e. 2.8% more than a year earlier. In all, 201,603 (196,319) of these were TEL pension recipients and 29,453 (28,530) YEL pension recipients.

Old-age pension was received by 57% of these pension recipients, and disability pension by 16%. The number of recipients of individual early retirement pension fell to slightly under 2%. The proportion of unemployment pension recipients remained unchanged at about 6%, while survivors' pension recipients accounted for around 16%. The relative increase in the number of part-time pensions continued, and recipients of such pensions accounted for about 3% of the total.

Ilmarinen issued 18,989 pension decisions in 2002, i.e. 7.6% more than in 2001. The highest growth was in the number of part-time pensions granted, which was up 77% on the previous year. This was probably due to the (unwarranted) uncertainty associated with the pension reform process. The number of old-age pension decisions taken was 21% above the figure for 2001. The corresponding figure for disability pensions was an increase of 11%, whereas 23% fewer individual early retirement pensions were granted than in 2001. The number of unemployment pension decisions also fell, by 26%, due to the exceptionally small number of people reaching the lower age limit for unemployment pension.

Ilmarinen measures the efficiency of its pension application processing in terms of average processing time per type of pension, and the quality of its pension decisions in terms of the rulings at appellate level. In both these measures, the company has succeeded better than the other pension companies on average.

Some 25,000 individual pension coverage reports were supplied in response to client queries during the year. Ilmarinen's Motivo programme supports client companies' efforts to maintain the working capacity of their personnel. Together with the other specialists in the field, Ilmarinen organized 244 sessions under this programme.

Ilmarinen continued to support vocational rehabilitation in its client companies by offering advisory training in this area as well as counselling and expert help at the initial stage of rehabilitation planning, for both rehabilitees and client company personnel. During the actual rehabilitation period, Ilmarinen pays benefits in accordance with the employment pensions legislation to ensure an adequate income for the rehabilitee and to reimburse the costs incurred during training. In 2002, Ilmarinen paid out rehabilitation allowance or pension-related rehabilitation increment to 665 insured persons during vocational rehabilitation. The number of rehabilitees was up 17% on 2001.

Underwriting business, technical provisions and portfolio transfers

Technical provisions at the end of 2002 totalled EUR 13,863.5 (13,519.6) million. In net terms, the provision for future bonuses, including portfolio transfers, decreased by EUR 544.8 million, to a year-end total of EUR 1,390.4 million. In other respects, technical provisions rose by 7.7%. The company posted an underwriting result of EUR 53.1 (72.6) million, or 0.6% of the total wage bill forming the basis for the insurance contributions. EUR 52.4 million was transferred to the equalization provision, which increased to EUR 779.2 million. The transfer to the equalization provision was EUR 0.7 million smaller than the technical underwriting result, as the equalization provision for the TEL supplementary pension insurance reached its upper limit. The equalization provision for the TEL basic pension insurance would also have exceeded the upper limit laid down in the calculation bases as it did the previous year, but, in conjunction with the changes made in 2002 in the calculation bases used by the earnings-related pension insurance companies, the upper and lower limits for the equalization provision were revised. The technical rate of interest that regulates the percentage of investment income to be transferred to technical provisions was 5.25% during 2002. At the start of 2003 it was reduced to 4.25%. The Ministry of Social Affairs and Health has confirmed this rate up to June 30, 2003.

Assets covering technical provisions totalled EUR 14,736.3 (14,364.8) million.

In 2002, portfolio transfers were made from four TEL pension funds, totalling EUR 27.4 million, of which provision for future bonuses accounted for EUR 3.2 million.

At the beginning of 1997, some of the technical provisions of the bankrupt Kansa Pension Insurance Company were transferred to Ilmarinen. To the extent that the assets transferred from the special Kansa Pension receivership were insufficient to cover the transferred liability, the deficit has been collected with contribution payments in later years, and so no loss has been incurred by the earnings-related pension insurance companies involved in the arrangement. The assets from the special receivership are in all probability sufficient to cover the deficit, and no further debt recovery will be needed after 2003.

Investment activities

Ilmarinen's investment decisions are made on the basis of an investment plan approved each year by the Board of Directors, together with the related investment authorization. The investment plan is based on the company's average business cycle solvency. The proportion of each investment type in the targeted basic allocation is designed to maximize the overall yield expectation within the risk limits set by the Board of Directors. The investment authorization also specifies the decision-making limits at each organizational level and the prudence requirements for different investment types.

At the end of 2002, Ilmarinen's investment portfolio amounted to a total of EUR 14,520.6 (14,331.6) million at market values, and the overall investment return was -0.4% at market values. The return was still low because of the stock market slump. Nevertheless, the drop in interest rates meant that the return on fixed-income investments served to safeguard the investment portfolio. The return on the company's investment portfolio the previous year had been -1.2%. However, the five-year annual average return at market values stands at 6.1%, which is equivalent to an average real annual return of 4.0%.

Fixed-income investments in 2002 accounted for 51% (46%) of Ilmarinen's investment assets. The year-end market capitalization of the fixed-income portfolio was EUR 7,343.1 (6,527.8) million, with debt securities accounting for EUR 600.2 (641.4) million, or about 8.2% (9.8%), of the total. Corporate bonds accounted for 32% of the bond portfolio, and their average capital-weighted credit rating was AA-. The return on fixed-income investments at market values was 9.0% (5.7%). At the end of 2002, the average term-to-maturity of the fixed-income portfolio was 4.5 (3.8) years.

The value of the equity portfolio decreased during the year because of falling share prices. The uncertainty in the investment environment led to the decision to keep the proportion of equities in the investment portfolio a little below the planned level for most of the year. At the end of 2002, equities accounted for 22% (28%) of Ilmarinen's investment assets, or EUR 3,260.8 (3,992.0) million. Foreign equities represented about 53% (54%) of this total, or some EUR 1,720.5 (2,145.5) million. Due to the unsatisfactory performance of the stock markets, the return on Ilmarinen's equity investments was -21.5% (-17.2%) at market values. The HEX portfolio index fell 13.5%, the DJ STOXX Europe index 31.0% and the S&P 500 index 22.1% (-34.5% in euros) in 2002.

At the end of the year, the market capitalization of Ilmarinen's holding in Pohjola was EUR 195.2 million. This represented 1.3% (1.8%) of Ilmarinen's total investment portfolio, and 6.0% (6.5%) of equity investments.

The equity portfolio includes investments in private equity funds and hedge funds, which Ilmarinen has increased over the last few years. At the end of 2002, these funds accounted for about 1.8% (1.3%) of investment assets.

Ilmarinen's real estate investments at year-end totalled EUR 2,356.9 (2,188.2) million, or 16% (15%) of the total portfolio. The return at market values was 5.6% (7.4%). The vacancy rate of real estate owned by Ilmarinen rose to 7.2% during the year.

Loans granted to clients decreased by 4% in 2002. EUR 217.2 (325.0) million was drawn in new loans, while EUR 275.4 (279.3) million was repaid. The entire loan portfolio totalled EUR 1,559.7 (1,623.6) million at the end of the year, including accrued interest. This amounted to 11% (11%) of the total investment portfolio. The return on loan receivables was 4.7% (4.8%).

Ilmarinen has gradually increased its use of derivatives in order to improve its risk management and optimize the portfolio return/risk profile. Derivatives are used especially in managing equity and exchange rate risks.

Ilmarinen's Board of Directors has approved a set of ethical investment principles for the company and the ownership policy it should adhere to. Throughout its investment activities Ilmarinen also observes the principles of socially responsible investments (SRI). The companies in which Ilmarinen chooses to invest are scrutinized to ensure that they adhere to the law, and particular attention is given to their actions in regard to employees, human rights and the environment. Each company's activities are also examined in regard to the legislation in force in its operating environment and the appropriateness of the activities. The Board-approved ownership policy defines Ilmarinen's position on the administrative structure, dividend distribution policy, incentive systems and other corporate governance issues related to companies in its ownership.

Risk management

Ilmarinen operates according to a risk management plan approved annually by the Board of Directors and covering all of the company's activities. The plan includes a survey of the risks affecting Ilmarinen and an assessment of these risks for the operation of the company. It sets out the risk management practices to be followed by each of the company's business sectors and the steps to ensure adequate internal supervision through internal and external audits. Each unit is responsible in practice for the implementation of risk management in its own operations. A supervisory auditor's report and internal auditing report are submitted each year to the Board of Directors. For the purposes of coordinating and developing risk management at company level, a risk management committee has been set up, composed mainly of management representatives. Further steps to be taken in developing risk management in 2003 will focus on establishing more systematic links with the company's strategic and operating goals and developing risk management reporting at company level.

The management of risks in Ilmarinen's underwriting business is based on the calculation bases confirmed by the Ministry of Social Affairs and Health that meet the prudence requirements of the law, and the company's own actuarial analyses. The solvency regulations that apply to earnings-related pension insurance companies form the framework for the risk management of Ilmarinen's investment activities. The Board of Directors decides the overall risk level to be observed within the limits of these regulations.

Diversification among different asset classes and by country, sector and business is an essential part of investment risk management. At the end of 2002, Ilmarinen's biggest single equity investment represented 1.3% (1.8%) of the company's investments, while the 10 biggest accounted for 6.0% (8.5%). In the case of earnings-related pension insurance companies, the liquidity risk is minor because future pension expenditure can be reliably forecast. Within Ilmarinen's investment organization, the work of monitoring and supervising investment risks is carried out separately from the portfolio management operation. Besides limiting the exchange rate risk, the main use for derivatives is to limit the maximum loss from equity investment through the use of options, while retaining an adequate level of potential return. The sensitivity of options positions is monitored in relation to, for example, changes in the price, volatility, and over time.

Investment portfolio risks can be assessed using sensitivity analysis. The accompanying table shows a number of solvency and investment income indicators and information on how they would be affected by a change in share prices, interest rates or real estate values before the end of the accounting period. The table can also be used to assess the effects of changes of a similar magnitude but in opposite directions.

Personnel

Ilmarinen employed an average of 652 people in 2002, as against 625 a year earlier. At year-end the total was 666 (641), of whom 48 (46) were fixed-term employees. The subsidiary Antilooppi Oy, which administers Ilmarinen's real estate, employed 76 (75) people at the close of the year.

Information technology

Modifications to the company's information systems to extend 'the last institution principle' to the public sector began in 2002. Other main IT projects included implementation of the pension payments system, specification of the annual notification system and the start of its implementation, and adaptation of the YEL management system acquired from an external supplier. These projects will be completed in 2003.

Multilevel architecture reflecting general developments in IT was specified as the basis for Ilmarinen's new network services. As part of the final work on the company's new offices, up-to-date facilities were

Sensitivity analysis of investment portfolio

	Value Dec. 31, 2002	Effect		
		Share prices +25%	Interest rate -1 % point	Real estate value +10%
Solvency capital, EUR mill.	2,243.1	+603	+322	+238
as % of technical provisions	18.1	+4.7 % points	+2.5 % points	+1.8 % points
relative to solvency border	1.9	+0.3	+0.3	+0.2
Return on investment, %	-0.4	+4.2 % points	+2.2 % points	+1.6 % points

built for a server, a local area network was installed, and improved communications links to Ilmarinen's partners were established. During the year, the changeover of most of the local server and workstation environment to a new operating system was completed. The office system software was also changed.

Administration

Heikki Hakala, Chairman and member of Ilmarinen's Board of Directors, tendered his Board membership resignation, to take effect from January 1, 2003. At its meeting of November 28, 2002, Ilmarinen's Supervisory Board elected Tor Bergman as replacement Board member for the remaining term, i.e. until the end of 2005. The Board of Directors meeting of January 22, 2003 elected Tor Bergman as Chairman and re-elected Lauri Ihalainen and Johannes Koroma as Deputy Chairmen.

The Ilmarinen Group comprises the parent company Ilmarinen and a number of real estate companies. There are 204 subsidiaries altogether. The most important associated company is Pohjola Group plc.

In autumn 2002, a preliminary agreement was signed with Aberdeen Property Investors Nordic AB, part of the British group Aberdeen Asset Management. Under this agreement, Ilmarinen sold Aberdeen 60% of the share capital of Antilooppi Oy, the Ilmarinen subsidiary responsible for property management. The deal took effect in January 2003.

In March 2002, Ilmarinen acquired the share capital of Kiinteistö Oy Helsingin Lepakko for its own office purposes. Almost one third of the new real estate has been rented to other users.

Ilmarinen has EUR 22,994,653.31 in guarantee capital, divided into 13,672 guarantee shares. On December 31, 2002, the owners of the guarantee capital, and their shares, were as follows:

	Guarantee shares	Ownership, %
Pohjola Group plc	9,375	68.6
Suomi Mutual Life Assurance Company	4,037	29.5
Pohjantähti Mutual Insurance Company	260	1.9
	13,672	100.0

Future prospects

At the start of 2003, the economic outlook remains uncertain. While the conditions for moderate growth are in place in most countries, consumers, businesses and the financial markets still remain cautious because of the threat of war with Iraq. The trend in share prices and interest rates has continued unchanged from 2002, which has weakened Ilmarinen's solvency to a minor extent.

The company's solvency capital has remained almost double its solvency border, despite the three-year slump in the investment market. This demonstrates that Ilmarinen's solvency allows it to consistently pursue an investment strategy directed at good returns in the long term even during difficult times. The proportion of equities in the portfolio during 2002 was nevertheless kept slightly lower than planned. Although results have not met expectations, because of the unfavourable developments in the investment environment, Ilmarinen has taken the view that there are no grounds for changing its investment strategy. A significant proportion of investments will therefore continue to be made in Finnish and foreign equities. This strategy accords with the goals set for the investment activities of Finnish earnings-related pension insurance companies.

While the chosen investment strategy can be expected to generate a high level of return in the longer run, the volatility of the investment market, especially equities, has a considerable effect on annual performance, and there is no certainty as to when the expected long-term average returns will be realized. The investment result in 2003 will depend to a great extent on what happens to share prices and long-term interest rates.

The maximum amount of client bonus transfers is dictated by the company's solvency capital, on the one hand, and by its solvency position relative to its own investment portfolio risk, on the other. Ilmarinen expects that its relative standing in the competition over bonuses with its competitor companies will remain good in the longer term.

The competition framework among the earnings-related pension insurance companies and the other pension institutions that offer statutory pension insurance has been investigated since 1998 by a number of individuals and working groups. Many of the proposals made during the course of this work have already been implemented, and the package of proposals presented by Jukka Rantala, Managing Director of the Finnish Centre for Pensions, is being considered by the Ministry of Social Affairs and Health. A bill was also passed in Parliament that will allow pension funds administering statutory pension security to be set up using so-called fund transfers from the earnings-related pension insurance companies. If a substantial number of these transfers were made, this would have a negative effect on Ilmarinen's insurance portfolio. The aim of improving investment income, which is specified as the goal of competition, is as such consistent with Ilmarinen's own operating policy. It will also support the funding of the employment pension system in the long term.

Profit and loss account

Technical account	Parent company		Group	
EUR mill.	2002	2001	2002	2001
Premiums written	**2,160.9**	**1,989.6**	**2,160.9**	**1,989.6**
Investment income	**1,258.4**	**1,330.1**	**1,177.3**	**1,020.2**
Claims incurred				
Claims paid	-1,868.7	-1,651.5	-1,868.7	-1,651.5
Change in provision for claims outstanding				
Total change	-58.7	-451.1	-58.7	-451.1
Portfolio transfers	11.5	2.6	11.5	2.6
	-47.1	**-448.5**	**-47.1**	**-448.5**
	-1,915.8	**-2,100.0**	**-1,915.8**	**-2,100.0**
Change in provision for unearned premiums				
Total change	-285.3	-114.0	-285.3	-114.0
Portfolio transfers	15.9	-3.9	15.9	-3.9
	-269.4	**-117.9**	**-269.4**	**-117.9**
Statutory charges	**-3.1**	**-2.9**	**-3.1**	**-2.9**
Operating expenses	**-45.6**	**-40.3**	**-45.6**	**-40.3**
Investment charges	**-1,151.4**	**-990.9**	**-1,075.6**	**-756.2**
Other technical charges	**-4.6**	**-15.0**	**-4.6**	**-15.0**
Balance on technical account	**29.4**	**52.8**	**24.1**	**-22.3**

Non-technical account	Parent company		Group	
EUR mill.	2002	2001	2002	2001
Balance on technical account	**29.4**	**52.8**	**24.1**	**-22.3**
Other income	**1.1**	**1.0**	**1.1**	**1.0**
Other expenses	**-2.1**	**-2.2**	**-2.1**	**-2.2**
Income taxes on ordinary activities	**-17.4**	**-41.3**	**-10.2**	**-10.7**
Profit/loss on ordinary activities	**11.0**	**10.3**	**12.8**	**-34.2**
Appropriations				
Change in accelerated depreciation	-5.1	-5.2	-	-
	-5.1	**-5.2**	**-**	**-**
Minority interest	**-**	**-**	**0.5**	**0.7**
Profit/loss for the financial year	**5.9**	**5.1**	**13.3**	**-33.5**

Balance sheet

Assets	Parent company		Group	
EUR mill.	2002	2001	2002	2001
Intangible assets				
Intangible rights	2.0	2.7	2.1	2.7
Other long-term expenditure	0.3	1.1	0.3	1.1
Prepayments	1.0	1.4	1.0	1.4
	3.3	**5.1**	**3.5**	**5.2**
Investments				
Real estate				
Real estate and shares in real estate	1,598.2	1,385.4	2,076.5	1,937.6
Loans to affiliated undertakings	485.4	565.0	-	-
Loans to participating interests	20.9	19.8	20.9	19.8
	2,104.5	1,970.1	2,097.4	1,957.3
Investments in affiliated undertakings and participating interests				
Interests in affiliated undertakings	0.6	0.5	-	-
Participating interests	203.1	267.0	203.0	266.9
	203.7	267.6	203.0	266.9
Other investments				
Stocks and shares	2,838.6	3,138.3	2,838.7	3,138.3
Debt securities	6,678.0	6,188.1	6,678.0	6,188.1
Loans guaranteed by mortgages	247.7	178.1	247.7	178.1
Other loans	1,292.1	1,419.9	1,292.1	1,419.9
Deposits	205.3	28.1	205.3	28.1
Other investments	0.1	0.2	0.1	0.2
	11,261.9	10,952.6	11,261.9	10,952.7
	13,570.1	**13,190.3**	**13,562.4**	**13,176.9**
Debtors				
Direct insurance debtors				
Policyholders	78.0	62.5	78.0	62.5
Other debtors				
Receivable from portfolio transfers	21.8	33,5	21.8	33.5
Other debtors	179.1	179.6	177.8	176.4
	200.8	213.1	199.6	209.8
	278.8	**275.6**	**277.6**	**272.3**
Other assets				
Tangible assets				
Machinery and equipment	8.7	6.1	9.1	6.7
Other tangible assets	1.5	1.2	1.6	1.2
	10.2	7.3	10.7	7.9
Cash at bank and in hand	56.2	34.1	57.3	34.9
	66.4	**41.4**	**68.0**	**42.8**
Prepayments and accrued income				
Interest and rents	204.7	231.0	205.0	231.4
Other	23.9	57.8	24.2	57.0
	228.6	**288.8**	**229.2**	**288.4**
Assets in total	**14,147.2**	**13,801.2**	**14,140.6**	**13,785.6**

Liabilities	Parent company		Group	
EUR mill.	2002	2001	2002	2001
Capital and reserves				
Guarantee capital	23.0	23.0	23.0	23.0
Other reserves				
Funds and reserves under the Articles of Association	35.7	39.6	35.7	39.6
Other reserves	-	-	0.6	0.6
	35.7	39.6	36.3	40.2
Profit/loss brought forward	-	-	2.4	41.1
Profit/loss for the financial year	5.9	5.1	13.3	-33.5
	64.7	**67.7**	**75.1**	**70.8**
Minority interest	**-**	**-**	**22.7**	**14.1**
Accumulated appropriations				
Depreciation difference	17.8	12.7	-	-
	17.8	**12.7**	**-**	**-**
Technical provisions				
Provision for unearned premiums	9,357.7	9,072.4	9,357.7	9,072.4
Provision for claims outstanding	4,505.9	4,447.2	4,505.9	4,447.2
	13,863.5	**13,519.6**	**13,863.5**	**13,519.6**
Creditors				
Direct insurance creditors	7.3	9.6	7.3	9.6
Other creditors	142.8	176.9	120.1	155.7
	150.2	**186.5**	**127.5**	**165.3**
Accruals and deferred income	**51.1**	**14.6**	**51.9**	**15.8**
Liabilities in total	**14,147.2**	**13,801.2**	**14,140.6**	**13,785.6**

Notes to the accounts
Accounting principles

The accounts are prepared in accordance with the Accountancy Act, the Companies Act and the Insurance Companies Act, and the legislation on companies transacting earnings-related pension insurance. In addition, the accounts comply with the regulations and guidelines of the Ministry of Social Affairs and Health and the Insurance Supervision Authority. As of 2002, the above-mentioned stipulations dictate which key indicators and financial analyses have to be provided in the notes to employment pension company financial statements.

Consolidated accounts

Apart from the parent company, all the subsidiaries in which the parent company holds more than half of the votes, either directly or indirectly, are included in the consolidated financial statements. Ilmarinen's subsidiaries are real estate companies, apart from Antilooppi Oy which specializes in leasing and maintenance of real estate.

The consolidated accounts are drawn up by combining the profit and loss accounts, balance sheets and notes of the parent company with those of the subsidiaries; inter-group receivables and debts, internal gains and losses, distribution of profits and mutual share ownership are eliminated. Subsidiaries acquired during the year are consolidated as of their acquisition date and companies sold during the year are consolidated up to their sale. Minority interest is shown as an item separate from profit and loss and capital and reserves.

Inter-group share ownership is eliminated according to the acquisition cost method. Consolidation goodwill is divided up among the subsidiaries' asset items and written-off according to their depreciation plans.

Value adjustments, value readjustments and revaluations on real estate subsidiaries have been cancelled in the consolidated accounts. Corresponding entries are, on the consolidated balance sheet, allocated at current value to subsidiary-owned shares in real estate.

Associated undertakings, i.e. undertakings in which the Ilmarinen Group holds from 20% to 50% of the voting rights, are included in the consolidated accounts by the equity method. However, 20-50% holdings in housing and real estate companies are not consolidated. Since the expenses for these companies are covered by shareholders, the effect on consolidated profit and distributable reserves is insignificant.

The consolidated profit and loss account includes the Group's share of associated undertaking's profit or loss. In the consolidated balance sheet, the Group's share of associated undertakings' profit or loss which has accrued after acquisition is added to or deducted from associated undertakings' acquisition cost. As the total consolidation difference originating from the acquisition of Pohjola Group plc had been fully depreciated by the end of 2001, the undertaking's value has been decreased in the consolidated balance sheet so that its value shall not exceed the share value entered in the parent company balance sheet.

Book value of investments

Buildings and structures are shown in the balance sheet at the acquisition cost less planned depreciation or they have been entered at current value, if lower. Variable costs arising from acquisition are included in acquisition costs. Shares in real estate and land and water areas are shown in the balance sheet at purchase price or at current value, whichever is lower. The values of some real estate investments have been written up in previous years. Planned depreciation is also deducted from write-up on buildings if entered as unrealized gains in the profit and loss account.

Other shares and holdings classified as investment assets are shown in the balance sheet at purchase price or at current value, whichever is lower. The book value of some shares has been written up in previous years.

Debt securities are entered at their acquisition cost or at their probable value if this is permanently lower. However, appreciation/depreciation caused by fluctuations in interest rates are not entered. The difference between the amount repayable at maturity and the purchase price of debt securities is released to interest income or charged to that income in instalments during the period remaining until repayment. The counter-item is entered as an increase or a decrease in acquisition cost.

Acquisition cost is calculated at the type-specific average price.

The shares of Pohjola Group plc are shown in the balance sheet at their current value as at December 31, 2002, this value being lower than the original acquisition cost.

Shares and holdings regarded as fixed assets are entered in the balance sheet at their acquisition cost less any permanent value adjustments. The acquisition cost is calculated using the FIFO method.

Investments regarded as amounts due are entered in the balance sheet at their nominal value or at a lower current value.

Previously made value adjustments on investments are entered in the profit and loss account as value readjustments insofar as the current value rises.

In respect of the total investments made by Ilmarinen, the amount of derivative contracts signed is insignificant. The instruments used during the financial period comprise equity and fixed-income derivatives plus forward exchange contracts. Hedging calculation is not used for derivatives, though some derivatives business does provide effective protection. Derivative contracts are entered in the balance sheet individually at acquisition cost or the lower current value, with the exception of option strategies made up of purchased options or written options offsetting them, which are assigned an overall value. Profit/loss on closed and mature derivatives is recognized in full in income.

Information on securities assigned as a loan under securities lending agreements is given in the notes to the financial statements. The securities lent are included in the balance sheet. The loans open on the date the accounts are closed are offset by a clearing house, which the borrower has provided with collateral for the loan. Some repurchase agreements on bonds have also been made during the financial year, in which the borrower acts as the counterparty.

Book value of assets other than investments

Intangible assets and equipment are entered in the balance sheet at the acquisition cost less planned depreciation. Variable costs arising from acquisition and manufacture are included in the acquisition cost.

Premium receivables and other receivables are entered in the balance sheet at their nominal value or at permanently lower likely realizable value.

Grounds for planned depreciation

Depreciation follows a predefined depreciation plan. Planned depreciation on buildings and structures is calculated on the acquisition cost per individual building and on write-up released to income as unrealized gains according to the estimated lifespan of the building by the straight-line method. Depreciation times for buildings acquired new are as follows:

Residential and office buildings	50 years
Hotels, commercial and industrial premises	40 years
Power plants	70 years
Building fixtures	10 years
Other assets	Business Taxation Act
Write-up through unrealized gains	As for buildings

A 20% salvage value has been fixed for some real estates.

Planned depreciation on intangible assets and equipment has been calculated on the acquisition cost per group of commodities, according to the estimated lifespan of the group of commodities concerned by the straight-line method. The depreciation times are as follows:

Intangible rights (user licences for software)	5 years
Other long-term expenditure	5 years
Transport facilities and hardware	5 years
Other equipment	10 years

Revaluation of investments

The book values of land and water areas, buildings and securities can be written up. Write-ups of items classified as investments are entered in the profit and loss account as unrealized gains, and write-ups of items classified as fixed assets are entered in the revaluation reserve.

If the entered revaluation proves to be unfounded, unrealized gains are entered as unrealized losses in the profit and loss account, and the revaluation is withdrawn in the balance sheet. In the 2002 financial statements revaluations that were funded earlier have been cancelled and entered as a decrease in non-restricted shareholder's equity, because the revaluation reserve had already been used for guarantee capital.

Unrealized gains on buildings are depreciated according to plan.

Current value of investments and difference between current and book values

In the notes to the accounts, the remaining acquisition cost, book value, and current value of investments and derivatives are given per balance sheet item. The difference between the first two values consists of write-ups of book values. The difference between the latter two values indicates the off-balance-sheet valuation differences.

The current value of real estate investments has been defined for each property using the yield value method. The market value method, based on regional market price statistics, has also been used to supplement this approach. Evaluations also consider the purpose, condition and special characteristics of properties, existing lease agreements, and rental prospects in the market segment concerned. The current value of real estate investments is assessed annually by in-house experts.

The current value of listed securities as well as of securities for which there is a market is the last quoted trading price of the year or, where this is not available, the bid price. The acquisition cost or the management company's estimate is used as the current value of private equity funds, depending which is lower. The current value of other securities is the likely realizable value, the remaining acquisition cost or the net asset value. The market price or the likely realizable value is used as the current value of derivative contracts.

The nominal value or lower probable value is taken as the current value of amounts owed by debtors.

Technical provisions

The liability resulting from insurance contracts is entered in the balance sheet as technical provisions, being composed of the provision for unearned premiums and the provision for claims outstanding. The provision for unearned premiums relates to the company's future liability for pension contingencies and the provision for outstanding claims its liability for pensions already being paid out.

The technical provisions have been calculated using the calculation bases approved by the Ministry of Social Affairs and Health.

The provision for unearned premiums comprises the provision for future bonuses, which is counted in the solvency capital, and the provision for current bonuses which includes the amount intended for distribution as discounts on contributions to policyholders.

The provision for claims outstanding also incorporates the equalization provision, the purpose of which is to balance random fluctuations in pension expenditure in years with a high loss frequency.

Profit for the financial year and capital and reserves

The calculation bases confirmed by the Ministry of Social Affairs and Health define the use of authorized pension companies' book result for each accounting period. Separate stipulations have been given as to the use of the result for changes in the

Notes to the accounts

equalization provision, in the provisions for future and current bonuses, and for the profit/loss shown in the profit and loss account.

Distribution of the company's capital and reserves between the owners of the guarantee capital and the policyholders and a calculation of the distributable profits are shown in the notes to the accounts.

Solvency capital

The Insurance Supervision Authority monitors the solvency of insurance companies. One of the main indicators used is the solvency capital, which refers to the difference between assets and liabilities assessed at current value. Hence, technical provisions do not include the above provision for future bonuses, which also provides a buffer against risks in investment operations. The solvency capital and the capital and reserves have to meet the requirements laid down in the Employee Pension Insurance Companies Act.

The risk level of investment affects the size of the required solvency capital. Definition of these demands is based on various limits related to the solvency capital, i.e. the solvency border, and the upper and lower limits of the target zone. There are different rules on disposal of profits which apply to the zones between these limits. For instance, if the solvency capital is above the solvency border but below the lower limit of the target zone, profit pay-out and transfer to the provision for current bonuses must be restricted in a manner prescribed in lower-level regulations. Insofar as interest on guarantee capital is not paid because of this kind of restriction, it must, according to the Articles of Association, be carried over for pay-out in the next year in which the solvency capital exceeds the lower limit of the target zone.

The solvency capital is presented in the notes to the accounts.

The change in difference between current and book values on the previous year is part of the financial year's total profit and is shown as change of the solvency capital.

Deferred tax liabilities and assets

Taxes for the accounting period and previous accounting periods are entered in the profit and loss account on an accrual basis.

In the consolidated balance sheet, voluntary provisions and accelerated depreciation are included in the capital and reserves after separation of possible minority interest; change in these items is included in the consolidated profit and loss account in profit for financial year.

Deferred tax liabilities and assets are not included in Ilmarinen accounts either in the parent company's balance sheet or in the consolidated balance sheet. Neither is deferred tax liability deducted from the company's solvency capital, because realization of these liabilities and receivables cannot be considered probable in the accounts or consolidated accounts of an insurance company transacting statutory earnings-related pension insurance business.

Currency-based items

Transactions in foreign currencies have been entered at the rate quoted on the day of the transaction. Receivables and liabilities not settled at the end of the financial year and denominated in foreign currencies, and the current value of investments are translated into Finnish currency at the rate quoted by the European Central Bank on the date of closing the books. The exchange gains or losses arising during the financial year and at year-end are entered in the profit and loss account as adjustments of the income and charges concerned or as investment income or charges, provided that the exchange gains or losses pertain to financing transactions.

Function-specific operating expenses and depreciation

Operating expenses and depreciation on equipment and long-term expenses are included as function-specific items in the profit and loss account. The portion of expenses related to claims administration and maintenance of working capacity is included in claims paid and the portion related to investment management in investment charges. Only expenses related to insurance procurement and administration plus administrative overhead charges are presented as operating expenses. Other expenses include expenses resulting from other activities. Planned depreciation on buildings is entered under investment charges.

Pension arrangements for staff

The employment pension provision for personnel and members of the Board of Directors and the Supervisory Board is based on TEL insurance. Pensions paid during the year under review have been entered as expenses on an accrual basis.

Key figures and analyses

As of 2002 financial statements, key figures and financial analyses are presented in the notes to the accounts.

In the case of investment and solvency, figures are given at current values.

The ratio of net income from investment at current values to capital employed is calculated for each type of investment and also on the total investment figure, taking into account of cash flows time-weighted daily or monthly. The Modified Dietz formula is used for calculation purposes. In this, capital employed is calculated by adding to market value at the start of the period cash flows during that period, weighted by the relevant percentage of the total period remaining from the transaction date or mid-point of the transaction month up to the end of the period.

Notes to the accounts
Notes to the profit and loss account and balance sheet

Specification of premiums written

EUR mill.	2002	2001
Direct insurance		
TEL basic coverage		
Employer contribution	1,574.6	1,433.8
Employee contribution	423.8	401.5
	1,998.4	1,835.3
TEL supplementary coverage	11.1	9.3
YEL minimum coverage	156.2	149.7
YEL supplementary coverage	0.3	0.4
	2,166.0	1,994.7
Transition contribution to the State Pension Fund	-2.2	-2.2
Reinsurance	0.0	0.0
Premiums written before reinsurers' share	**2,163.8**	**1,992.6**
Reinsurers	-2.9	-3.0
Premiums written	**2,160.9**	**1,989.6**
Items deducted from premiums written		
Credit loss on outstanding premiums		
TEL	-7.1	-6.1
YEL	-3.6	-3.9
	-10.7	-10.0

Specification of claims paid

Specification of claims paid	2002	2001
Direct insurance		
Paid to pensioners		
TEL basic coverage	1,606.1	1,489.9
TEL supplementary coverage	48.1	46.6
YEL minimum coverage	174.9	164.2
YEL supplementary coverage	0.8	0.7
	1,829.8	1,701.4
Payments to/refunds from the provision for clearing of PAYG pensions		
TEL pensions	43.0	-46.8
YEL pensions	-17.5	-12.4
	25.5	-59.2
Payments to/refunds from the provision for joint and several liability	0.8	0.6
Reinsurance	0.0	0.0
	1,856.1	1,642.8
Claims management expenses	13.4	10.1
Working capacity maintenance costs	1.9	1.3
Claims before reinsurers' share	**1,871.4**	**1,654.2**
Reinsurers	-2.7	-2.8
Total claims paid	**1,868.7**	**1,651.5**

Notes to the accounts

Specification of net investment income	Parent company		Group	
EUR mill.	2002	2001	2002	2001
Investment Income				
Income from participating interests				
Share in associated undertakings' profit/loss	-	-	-11.3	-145.9
Dividend income from other participating interests	60.1	241.2	0.4	0.1
	60.1	**241.2**	**-10.9**	**-145.7**
Income from investment in real estate				
Interest income				
From affiliated companies	15.2	40.3	-	-
From other than affiliated companies	6.3	6.3	6.3	6.5
Other income				
From affiliated companies	1.3	0.1	-	-
From other than affiliated companies	200.6	101.0	205.4	201.5
	223.3	**147.7**	**211.7**	**208.0**
Income from other investments				
Dividend income from other than affiliated companies	89.0	81.9	89.0	81.9
Interest income				
From affiliated companies	-	0,0	-	-
From other than affiliated companies	417.8	406.6	417.8	407.5
Other income from other than affiliated companies	106.4	43.3	106.4	43.3
	613.2	**531.8**	**613.3**	**532.6**
Total	**896.6**	**920.7**	**814.1**	**594.9**
Value readjustments	**10.1**	**46.6**	**11.1**	**46.9**
Capital gains	**351.6**	**362.8**	**352.1**	**378.4**
Total	**1,258.4**	**1,330.1**	**1,177.3**	**1,020.2**
Investment charges				
Charges on real estate investment	**116.5**	**77.6**	**69.2**	**56.5**
Charges on other investments	**83.4**	**44.8**	**83.4**	**44.8**
Interest charges and other charges on liabilities				
To affiliated companies	0.5	0.4	-	-
To other than affiliated companies	3.9	1.6	4.0	1.8
	4.4	**2.0**	**4.0**	**1.8**
Total	**204.2**	**124.4**	**156.5**	**103.1**
Value adjustments and depreciation				
Value adjustments	658.0	701.3	591.7	368.8
Planned depreciation on buildings	11.3	5.0	49.1	123.9
	669.3	**706.2**	**640.9**	**492.7**
Capital loss	**277.9**	**160.3**	**278.2**	**160.3**
Total	**1,151.4**	**990.9**	**1,075.6**	**756.2**
Net investment income before unrealized gains and losses	**107.0**	**339.2**	**101.7**	**264.0**
Net investment income in the profit and loss account	**107.0**	**339.2**	**101.7**	**264.0**

Investment, EUR mill.	Dec. 31, 2002			Dec. 31, 2001		
Current value of investment and difference between current and book value, parent company	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
Real estate investments						
Real estate	452.9	470.4	561.1	461.1	486.4	574.8
Shares in affiliated companies	1,057.1	1,074.0	1,249.2	824.9	841.8	982.3
Shares in participating interests	45.7	45.7	54.9	46.5	46.5	55.3
Other shares in real estate	7.7	7.7	8.4	10.2	10.2	11.0
Acquisition costs pertaining to lease of real estate	0.4	0.4	0.4	0.4	0.4	0.4
Loans to affiliated companies	485.4	485.4	485.4	565.0	565.0	565.0
Loans to participating interests	20.9	20.9	20.9	19.8	19.8	19.8
Investments in affiliated companies						
Shares and holdings	0.6	0.6	0.6	0.5	0.5	0.5
Investments in participating interests						
Shares and holdings	203.1	203.1	203.1	267.0	267.0	267.0
Other investments						
Shares and holdings	2,834.5	2,838.6	3,057.1	3,130.4	3,138.3	3,724.5
Debt securities	6,678.0	6,678.0	6,958.7	6,188.1	6,188.1	6,298.9
Loans guaranteed by mortgages	247.7	247.7	247.7	178.1	178.1	178.1
Other loan receivables	1,292.1	1,292.1	1,292.1	1,419.9	1,419.9	1,419.9
Deposits	205.3	205.3	205.3	28.1	28.1	28.1
Other investments	0.1	0.1	0.1	0.2	0.2	0.2
	13,531.6	**13,570.1**	**14,345.0**	**13,140.3**	**13,190.3**	**14,125.8**
Remaining acquisition cost of debt securities includes that difference between the amount repayable at maturity and purchase price which has been released to interest income (+) or charged to interest income (-)			-32.5			-109.7
Book value comprises:						
Revaluations entered as income		38.5			42.6	
Other revaluations		0.0	38.5		7.4	50.0
Difference between current and book value			**774.9**			**935.5**

Current value of non-hedging derivatives and valuation items, parent company	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
Other receivables						
Prepayments for option contracts	6.3	6.3	6.3	3.6	3.6	3.6
Other debts						
Prepayments on option contracts	-2.0	-2.0	-2.0	-0.3	-0.3	0.0
Difference between current and book value of option contracts			0.0			0.3
Difference between current and book value of forward contracts			11.6			0.5
Difference between current and book value, total			**11.6**			**0.8**

Notes to the accounts

Shares and holdings, parent company, Dec. 31, 2002

	Number of shares	Percentage of shares/votes	Book value EUR mill.	Current value EUR mill.
Shares in affiliated undertakings				
Antilooppi Oy	50,000	100.00	0.6	0.6
Participating interests				
Eltete TPM Oy	300	30.00	2.5	2.5
Pohjantähti Mutual Insurance Company, guarantee capital	60	50.00 / 0.00	5.1	5.1
Pohjola Group plc	13,126,460	25.38	195.2	195.2
Oy Porasto Ab	1,045	24.05	0.3	0.3
Total			**203.1**	**203.1**
Other investments				
Shares and holdings				
Domestic companies, listed				
Aldata Solution Oyj	3,043,400	4.60	2.7	2.7
Alma Media Corporation	533,536	3.40 / 3.55	9.4	9.8
Amer Group plc	654,250	2.70	13.0	22.8
Componenta Corporation	457,600	4.76	0.8	0.8
Comptel Plc	821,425	0.77	0.8	0.8
Eimo Oyj	2,669,400	4.08	2.6	2.6
Elektrobit Group Oyj	4,815,700	0.76	1.4	1.4
Elisa Communications Corporation	3,048,460	2.21	17.4	17.4
Exel Oyj	506,000	9.56	3.2	3.2
Finnlines Plc	826,000	4.13	16.9	16.9
Fortum Corporation	13,844,800	1.64	66.0	86.5
Hackman Oyj Abp	134,400	2.80	2.2	2.6
Huhtamäki Oyj	3,168,120	3.13	22.0	30.3
Ilkka-Yhtymä Oyj	62,640	1.92 / 2.30	1.3	1.4
Instrumentarium Corporation	1,040,692	2.16	18.0	39.7
KCI Konecranes International Abp	757,600	5.29	17.6	17.6
Kemira Corporation	2,327,500	1.90	15.2	15.2
Kesko Corporation	1,201,400	1.32 / 0.32	13.5	14.5
Kone Corporation	860,960	1.36 / 0.58	16.4	24.6
Kyro Corporation	607,200	1.53	3.1	3.8
Larox Corporation	109,900	4.16 / 0.68	0.9	0.9
Lassila & Tikanoja plc	1,466,800	9.27	14.1	22.7
Lemminkäinen Corporation	289,600	1.70	2.7	4.6
Lännen Tehtaat plc	153,800	2.51	1.6	1.6
Martela Oyj	146,700	7.06 / 1.88	2.1	2.1
Metso Corporation	3,055,678	2.24	31.5	31.5
M-real Corporation	4,303,830	2.41 / 6.97	34.0	34.0
Nokia Oyj	10,476,039	0.22	158.7	158.7
Nokian Tyres plc	567,550	5.36	11.7	19.3
Nordic Aluminium Oyj	232,300	5.03	1.5	1.5
Okmetic Oyj	449,300	2.66	1.0	1.0
OKO Osuuspankkien Keskuspankki Oyj	1,394,700	2.99 / 1.53	16.8	20.2
Olvi plc	109,712	4.54 / 0.97	1.8	2.3
Orion Corporation	1,654,970	2.45 / 3.58	33.6	35.4

Shares and holdings, parent company, Dec. 31, 2002

	Number of shares	Percentage of shares/votes	Book value EUR mill.	Current value EUR mill.
Outokumpu Oyj	2,400,236	1.39	19.9	19.9
Perlos Corporation	353,080	0.67	2.1	2.1
Raisio Group plc	1,816,500	1.10 / 0.22	1.9	1.9
Sampo plc	8,455,700	1.52 / 1.51	61.3	61.3
SanomaWSOY Corporation	4,565,126	3.14 / 3.12	21.9	43.5
Stockmann plc	1,580,250	3.08 / 0.57	20.5	21.8
Stora Enso Oyj	7,951,590	0.89 / 1.55	80.1	80.1
Suominen Yhtymä Oyj	1,465,701	9.26	5.7	8.8
Tamfelt Corp.	618,095	6.98 / 2.84	15.5	17.8
Teleste Corporation	840,350	4.93	2.1	2.1
Tietoenator Corporation	1,552,640	1.87	20.2	20.2
Tulikivi Oyj	70,538	3.87 / 1.15	1.4	1.4
UPM-Kymmene Corporation	3,776,233	1.45	75.5	115.6
Uponor Oyj	1,368,700	3.61	21.7	26.7
Vaisala Corporation	1,189,979	6.82 / 1.45	27.3	27.3
Wärtsilä Corporation	743,100	1.25 / 0.70	9.0	9.0
YIT Corporation	1,193,600	4.01	11.3	20.0
Other			2.7	3.5
Total			**955.6**	**1,133.7**
Domestic companies, non-listed				
Dividum Oy	37	4.17	6.2	6.2
Fingrid Oyj	350	10.53 / 4.68	11.8	11.8
Garantia Insurance Company Ltd	8,144	13.57	5.7	5.7
HEX Plc	395,516	2.94	3.3	3.3
Kokemäenjoen Voima Oy	5,984	19.95	0.9	0.9
Kuopion Puhelin Oyj	11,202	1.97 / 1.31	2.6	2.6
Medivire Holding Oy	27,250	10.00	0.5	0.5
Pohjolan Voima Oy	1,500,000	4.26	82.0	82.0
Sato Corporation	97,007	4.41	3.0	3.0
Tornator Timberland Oy	3,750,000	7.50	6.0	6.0
Other			2.3	2.3
Total			**124.1**	**124.1**

Foreign companies, listed

	Book value, EUR mill.	Current value, EUR mill.
Belgium		
Dexia	11.8	11.8
Bermuda		
Accenture Ltd.	5.4	5.5
Denmark		
Danisco A/S	2.8	2.8
Den Danske Bank A/S	13.0	13.0
ISS A/S	4.8	4.8
Novo Nordisk A/S	8.5	8.5
Vestas Wind Systems A/S	3.2	3,3
France		
L'Air Liquide SA	4.3	4.3
Aventis SA	20.1	20.1
BNP Paribas SA	13.2	13.2
Cap Gemini SA	6.1	6.1
Orange SA	10.3	10.3
Pinault-Printemps-Redoute SA	3.8	3.8
Suez SA	4.4	4.4
TF1 Television Francaise	3.9	4.6
TotalFinaElf SA	23.9	23.9
Germany		
Adidas-Salomon AG	11.7	14.5
Bayer AG	2.0	2.1
E.On AG	12.5	12.5
Henkel KGaA	5.8	5.8
SAP AG	3.4	3.4
Schering AG	10.4	10.4

Notes to the accounts

Shares and holdings, parent company, Dec. 31, 2002

Foreign companies, listed

	Book value, EUR mill.	Current value, EUR mill.
Great Britain		
Arm Holdings Plc	3.7	3.7
Astra Zeneca Group Plc	11.5	11.5
Barclays Plc	8.6	8.6
Bodycote International Plc	1.3	1.3
Boots Company Plc	11.3	11.3
BP P.l.c.	15.4	15.4
British Sky Broadcasting Group Plc	3.8	3.8
BT Group Plc	0.7	0.7
Corus Group Plc	3.3	3.3
Diageo Plc	17.9	17.9
Dixons Group Plc	7.3	7.3
FKI Plc	2.4	2.4
GlaxoSmithKline Plc	38.9	38.9
Go-Ahead Group Plc	1.6	1.6
HBOS Plc	11.1	11.1
Kingfisher Plc	3.6	3.6
Lloyds TSB Group Plc	17.2	17.2
Prudential Corporation Plc	9.1	9.1
Severn Trent Plc	2.5	2.5
Standard Chartered Plc	15.2	15.2
Vodafone Group Plc	41.7	41.7
Ireland		
Bank of Ireland	10.7	10.7
Grafton Group Plc	3.4	3.4
Italy		
ENI S.p.A.	16.8	16.8
Liberia		
Royal Caribbean Cruises Ltd.	3.6	3.6
Netherlands		
ABN Amro Holding N.V.	3.1	3.1
Aegon N.V.	12.5	12.5
Akzo Nobel N.V.	7.6	7.6
DSM N.V.	2.6	2.6
Fortis	3.3	3.3
Hagemeyer N.V.	4.5	4.5
Heijmans N.V.	3.3	3.3
Hunter Douglas N.V.	4.8	5.0
ING Groep N.V.	12.3	12.3
Koninklijke Ahold N.V.	1.2	1.2
Koninklijke Philips Electronics N.V.	10.4	10.4
Koninklijke Vendex KBB N.V.	8.0	8.0
Koninklijke Volker Wessels Stevin NV	4.4	4.4
Koninklijke Wessanen NV	2.0	2.0
Royal Dutch Petroleum Company	21.0	21.0
TPG N.V.	12.0	12.0
VNU NV	7.6	7.6
Wolters Kluwer NV	2.2	2.2
Norway		
Den Norske Bank Holding ASA	5.6	5.6
Norske Skogsindustrier ASA	14.4	14.4
Orkla ASA	9.8	9.8
Schibsted ASA	0.9	0.9
Telenor ASA	1.8	1.8
Spain		
Amadeus Global Travel Distribution S.A.	3.4	3.4
Banco Santander Central Hispano S.A.	4.1	4.1
Cortefiel S.A.	1.8	1.8
Iberdrola S.A.	4.1	4.1
Telefonica S.A.	3.8	3.8
Sweden		
Atlas Copco AB	5.2	5.6
Capio AB	6.8	7.6
Cardo AB	5.4	5.6
Aktiebolaget Electrolux	2.4	2.4
Eniro AB	0.8	0.8
Ericsson LM AB	7.1	7.1
Getinge AB	10.7	11.3
Lindex AB	2.2	3.1
Nordea AB	36.9	36.9
Försäkringsaktiebolaget Skandia	34.9	44.4
Skanska AB	8.1	8.1
Aktiebolaget SKF	3.1	3.4
TeliaSonera AB	18.0	18.0
Switzerland		
Adecco SA	5.5	5.6
Kuehne & Nagel International AG	3.0	3.0
Nestle SA	25.6	25.6
Novartis AG	26.6	26.6
STMicroelectronics N.V.	8.4	8.4
The Swatch Group AG	10.5	10.5
UBS AG	18.9	18.9
United States		
AT & T Wireless Services Inc.	6.1	6.1
Cisco Systems, Inc.	1.9	1.9
Citigroup, Inc.	10.7	10.7
Computer Associates International, Inc.	4.6	4.6
Computer Sciences Corporation	4.1	4.1
Dell Computer Corporation	3.1	3.1
Hewlett-Packard Company	13.5	13.5
Intel Corporation	9.7	9.7
International Business Machines Corporation	18.2	18.2
Microsoft Corporation	7.2	7.2
Monsanto Company	0.5	0.6
Motorola, Inc.	6.1	6.1
Oracle Corporation	5.6	5.6
Pfizer, Inc.	22.4	22.4

Shares and holdings, parent company, Dec. 31, 2002

Foreign companies, listed

	Book value, EUR mill.	Current value, EUR mill.
Pharmacia Corporation	8.6	8.6
Schering-Plough Corporation	7.3	8.5
St. Jude Medical, Inc.	5.0	5.7
Sun Microsystems, Inc.	1.6	1.6
Verizon Communications Inc.	5.0	5.0
Vintage Petroleum, Inc.	1.8	1.8
The Walt Disney Company	7.8	7.8
Wyeth	7.8	7.8
Other	0.6	0.7
Total	**1,019.9**	**1,038.7**

Foreign companies, non-listed

	Book value, EUR mill.	Current value, EUR mill.
Estonia		
Tallink	1.2	1.2

Holding percentage in foreign companies 0.002054%-1.71%. Holding higher than 1%: Capio AB 1.30%, Getinge AB 1.15%, Lindex AB 1.23%, Skandia Försäkringsaktiebolaget 1.71% and Tallink 1.34%.

Funds

	Book value, EUR mill.	Current value, EUR mill.
Fixed-income funds		
Evli Corporate Bond	8.4	10.1
Schroder International Selection Fund - Emerging Markets Debt I	11.9	12.3
T. Rowe Price Funds - Global High Yield Bond Fund	30.6	30.6
Total	**50.9**	**53.0**
Equity funds		
ABN Amro Funds - Asian Tigers Equity Fund	7.2	7.2
ABN Amro Funds - Eastern Europe Equity Fund	23.0	26.7
ABN Amro Funds - Europe Equity Growth Fund	6.7	6.7
ABN Amro Funds - Small Companies Europe Equity Fund	23.8	23.8
Alfred Berg Russia	6.6	14.8
BBL Baltic States Cap. Fund	4.0	5.1
BGI Japan Index Sub-Fund	14.3	14.3
BGI US Index Sub-Fund	56.0	56.0
BNP Paribas Antin Mid Cap Europe	6.7	9.7
CAF Asian Growth Fund s.I	19.9	19.9
CS Equity Fund USA	12.9	12.9
CSAM US Small Cap Core Equity Fund	32.4	32.4
Goldman Sachs US Growth Equity Portfolio s.I	41.8	41.8
JP Morgan Fleming Funds Asian Equity Fund s.A	15.0	15.0
JP Morgan Fleming Funds Europe Small Cap Fund s.A	15.1	15.1
JP Morgan Fleming Funds Japanese Equity Fund s.A	32.5	32.5
Mandatum BioTech	11.9	11.9
Orange European Smallcap Fund	14.2	14.2
Pictet Targeted Fund - Small Cap Europe	15.2	15.2
Schroder International Selection Fund - Japanese Equity Class I	55.4	55.4
Schroder International Selection Fund - Pacific Equity Class I	31.8	31.8
Total	**446.6**	**462.5**
Private equity funds		
Aboa Venture II Ky	0.6	0.6
Access Capital LP	6.5	6.5
Advent Private Equity Fund III D	2.8	2.8
Alpha Private Equity Fund IV	2.7	2.7
Apax Europe V - D, L.P.	5.4	5.4
Apax France VI	2.3	2.3
Axa Secondary Fund II	1.7	1.7
Baltic Investment Fund III L.P	0.8	0.8
BC European Capital VII	5.9	5.9
Bio Fund Ventures I Ky	0.8	0.8
Bio Fund Ventures II Ky	4.0	4.0
Bridgepoint Capital The 2nd European Equity Fund B	3.5	3.5
Capman Equity VII B L.P.	1.4	1.4
Duke Street Capital IV UK No 1 L.P.	6.9	6.9
Eqvitec Technology Fund II Ky	2.1	2.1
Eqvitec Teknologiarahasto I Ky	2.4	2.4
European Strategic Partners	10.9	10.9
Euroventures; Baltic Rim Fund Limited	3.1	3.1

Notes to the accounts

Shares and holdings, parent company, Dec. 31, 2002

Funds

	Book value, EUR mill.	Current value, EUR mill.
Fenno Rahasto Ky	3.0	3.0
Finnmezzanine Rahasto I Ky	2.1	2.1
Finnmezzanine Rahasto II B Ky	4.3	4.3
Finnventure Rahasto IV Ky	3.7	3.7
Finnventure Rahasto V Ky	11.7	11.7
Gilde Buy-Out Fund II	3.1	3.1
Hambro European Ventures HEV III UK No 2 L.P.	1.0	1.0
HarbourVest Partners VI-Buyout Partnership Fund L.P.	1.3	1.3
HarbourVest Partners VI-Partnership Fund L.P.	3.4	3.4
Industri Kapital 1997 L.P. II	4.8	4.8
Industri Kapital 2000 L.P. I	13.3	13.3
MB Equity Fund II Ky	3.0	3.0
MB Equity Fund III Ky	0.8	0.8
MB Mezzanine Fund II Ky	1.8	1.8
MediaTel Capital	2.6	2.6
Nordic Capital III Limited	3.5	3.5
Nordic Capital IV Limited	4.1	4.2
Nordic Mezzanine Fund No. 1 L.P.	3.0	3.0
Permira Europe II LP2	11.3	11.3
Promotion Capital I Ky	2.1	2.1
Proventure & Partners Scottish Limited Partnership	2.1	2.1
Proventure Managed The First European Fund Investments L.P.	6.3	6.3
Savon Kasvurahasto I Ky	0.6	0.6
Seedcap Ky	1.0	1.0
SFK 99-Rahasto Ky	7.3	7.3
Sponsor Fund I Ky	3.0	3.0
Stiga Förvaltning AB	1.8	1.8
The Third Cinven Fund Limited Partnership	5.6	5.6
Other	3.6	3.6
Total	**179.0**	**179.1**

	Book value, EUR mill.	Current value, EUR mill.
Other funds		
Absolute Alpha Fund PCC Ltd Diversified Euro	10.0	10.4
Alexandra Global Investment Fund I, Ltd. class Euro *)	0.8	0.8
Basswood Partners - Opportunity Fund *)	0.6	0.6
Blackstone Global Park Avenue Fund, L.P.	14.3	14.3
Bricoleur Offshore Fund Ltd *)	0.7	0.7
Candlewood Offshore Fund Ltd *)	0.7	0.7
Canyon Value Realization Fund *)	0.8	0.8
Centaurus Alpha Fund - Euro *)	0.6	0.6
Crescendo European Fund Ltd. class Euro *)	0.7	0.7
CSFB Sapic-98 hedge fund-of-funds	10.1	10.8
Drake Absolute Return Fund Ltd, class B *)	0.8	0.8
Ferox Fund Ltd - EURO class C *)	0.8	0.8
Green Way Limited - Class B fund-of-funds	5.0	5.4
HBK Offshore class A *)	0.9	0.9
Horseman Global Fund Ltd class B *)	0.7	0.7
Kingate Global Fund Ltd *)	0.8	0.8
Nektar	4.9	6.6
NorthBay Fund Ltd class A *)	0.8	0.8
SVM Highlander Fund class Euro *)	0.7	0.7
Tamarack International Ltd *)	0.7	0.7
The 395 Fund Limited	3.0	3.1
The Endeavour Fund II *)	0.8	0.8
The Eureka USD Fund Ltd *)	0.7	0.7
Vega Structured 2X *)	0.8	0.8
Other	0.9	1.0
Total	**61.3**	**64.8**
Total	**2,838.6**	**3,057.1**

*) The fund in question is part of EIM SA trustee's mandate.
The book value of shares and holdings listed here exceed EUR 500,000.
The shares loaned have not been deducted.

Securities loaned, EUR mill.	2002	2001
Number	4,550,812	2,606,400
Remaining acquisition cost	50.7	44.8
Current value	52.1	66.8

The securities loaned are listed shares.
All the loans are valid for less than a year and can be realized whenever.

Loans, EUR mill.	2002	2001
Loans itemized by type of collateral		
Loans guaranteed by mortgages	247.7	178.1
Other loans		
Bank guarantees	492.1	623.9
Guarantee insurances	430.7	395.5
Other	125.1	113.2
Unsecured loans to		
banks and financing companies	206.2	243.2
insurance companies	20.3	24.1
other	17.7	20.1
Remaining acquisition cost, total	**1,539.8**	**1,598.0**
Total premium loans by balance sheet item, parent company		
Loans guaranteed by mortgages	43.9	33.3
Other loans	1,030.9	1,141.1
Remaining acquisition cost, total	1,074.8	1,174.4

Notes to the accounts

Specification of operating expenses	Parent company		Group	
EUR mill.	2002	2001	2002	2001
Total operating expenses by activity				
Claims paid				
Claims handling expenses	13.4	10.1	13.4	10.1
Working capacity maintenance costs	1.9	1.3	1.9	1.3
	15.3	**11.5**	**15.3**	**11.5**
Operating expenses				
Commissions, direct insurance	0.4	0.6	0.4	0.6
Other policy acquisition costs	9.6	9.4	9.6	9.4
Acquisition costs, total	10.0	10.0	10.0	10.0
Portfolio administration expenses	22.9	19.3	22.9	19.3
Administrative expenses	12.7	11.0	12.7	11.0
	45.6	**40.3**	**45.6**	**40.3**
Investment charges				
Costs on real estate investment	1.5	1.3	7.3	6.8
Other	6.1	5.3	6.1	5.3
	7.6	**6.7**	**13.4**	**12.1**
Other expenses	**2.1**	**2.2**	**2.1**	**2.2**
Total operating expenses	**70.6**	**60.6**	**76.3**	**66.0**

Specification of staff expenses and members of corporate organs	Parent company		Group	
EUR mill.	2002	2001	2002	2001
Staff expenses				
Salaries and remunerations	25.8	22.8	28.8	25.7
Pension expenditure	4.5	4.1	5.1	4.8
Other social security expenses	1.7	1.6	1.8	1.8
Total	**32.0**	**28.5**	**35.7**	**32.3**
Salaries and remunerations to management				
Managing directors and deputies	0.5	0.5	0.6	0.6
Board members and deputy members	0.2	0.2	0.2	0.2
Members of Supervisory Board and deputy members	0.1	0.1	0.1	0.1
Total	**0.8**	**0.7**	**0.9**	**0.8**
Pension commitments for the benefit of the executive management				
The retirement age for company executives is 65 years. Executives who have entered the company's service prior to July 1, 1992 have the right to retire once they have reached the age of 60.				
Average staff number during the financial period	652	625	726	700

Specification of technical provisions, EUR mill.	2002	2001
Provision for unearned premiums		
Future pensions	7,947.1	6,985.9
Provision for future bonuses	1,390.4	1,935.2
Provision for current bonuses	20.2	151.3
Total	**9,357.7**	**9,072.4**
Provision for claims outstanding		
New pension awards	3,726.7	3,720.4
Equalization provision	779.2	726.8
Total	**4,505.9**	**4,447.2**
Total technical provisions	**13,863.5**	**13,519.6**
Bonuses and rebates		
Provision for current bonuses, Jan.1	151.3	213.8
Bonuses paid during the financial year	-174.4	-102.8
Transfer to the provision for current bonuses		
Transfer to bonuses and rebates	19.0	40.4
To augment the provision for current bonuses	24.3	-
Provision for current bonuses, Dec. 31	20.2	151.3

Security and financial commitments, parent company, EUR mill.	2002	2001
As security for own debts		
Mortgaged as security for rents	0.8	0.8
Guarantees	-	7.5
Assets pledged as security for derivative contracts	45.2	33.6
Off-balance-sheet commitments and liabilities		
Investment commitments		
Private equity funds	262.4	234.3
Other	10.9	101.4
Derivative contracts		
Non-hedging		
Currency derivatives		
Forward contracts		
Open, underlying instrument	353.0	252.9
current value	11.4	2.2
Equity derivatives		
Forward and future contracts		
Open, underlying instrument	-	13.6
current value	-	0.3
Closed, current value	-	1.9

Notes to the accounts

Security and financial commitments, parent company, EUR mill.	2002	2001
Option contracts		
Open, bought, underlying instrument	244.9	137.4
current value	6.3	3.6
Open, written, underlying instrument	12.2	12.9
current value	-1.1	0.0
Hedging		
Equity derivatives		
Option contracts		
Open, written, underlying instrument	71.6	-
current value	-0.9	-

All open derivative contracts mature in less than one year.

Valuation principles
The current values of forward exchange contracts are based on market prices. The current value of listed equity derivatives is the market value or an estimate by an outside party. The current values of unlisted equity derivatives are based on the market prices of similar listed contracts or are estimates by outside parties.
The current value of closed forwards and futures is the actual yield.

	2002	2001
Obligation to refund of VAT allowances	11.5	26.5
Other financial commitments	0.1	0.5

Solvency capital, EUR mill.	2002	2001
Capital and reserves after proposed distribution of profits	64.0	66.1
Accumulated appropriations	17.8	12.7
Difference between current value and book value of assets	786.5	935.5
Provision for future bonuses	1,390.4	1,935.2
Other items	-15.5	-8.8
	2,243.1	**2,940.8**
Solvency capital requirement under chapter 17 of the Employee Pension Insurance Companies Act (TVYL)	788.9	845.7
Solvency ratio, % realized solvency capital/ technical provisions used in solvency calculations	18.1	25.5
Solvency border, %	9.5	11.0
Target zone lower limit, % double the solvency border	19.1	22.0
Target zone upper limit, % quadruple the solvency border	38.1	44.0

Specification of capital and reserves

EUR mill.	Parent company 2002	Parent company 2001	Group 2002	Group 2001
Capital and reserves				
Guarantee capital	23.0	23.0	23.0	23.0
Other reserves				
Reserves under the Articles of Association				
Jan. 1	39.6	36.4	39.6	36.4
Transfer from previous year's profit	3.5	3.3	3.5	3.3
Revaluation reversed	-7.4	-	-7.4	-
Other reserves	-	-	0,6	0,6
	35.7	39.6	36.3	40.2
Profit brought forward				
Jan. 1	5.1	4.8	7.5	45.8
Distributed interest paid on guarantee capital	-1.6	-1.5	-1.6	-1.5
Donations	-0.1	-0.1	-0.1	-0.1
Transfer to reserves under the Articles of Association	-3.5	-3.3	-3.5	-3.3
	-	-	2.4	41.1
Profit for the financial year	5.9	5.1	13.3	-33.5
	64.7	**67.7**	**75.1**	**70.8**
Breakdown of capital and reserves after proposed distribution of profits:				
Owners of guarantee shares:				
Guarantee capital	23.0	23.0	23.0	23.0
Proposed distribution of profits to owners of guarantee capital	0.7	1.6	0.7	1.6
Unpaid interest on guarantee capital	0.8	-	0.8	-
Policyholders' share	40.2	43.2	50.6	46.2
Total	64.7	67.7	75.1	70.8

Main principles of the Articles of Association governing guarantee shares:
The guarantee capital is divided into 13,672 guarantee shares. The guarantee shares bear mutually equal rights to company assets and profits. In connection with the arrangement relative to the distribution of assets, the holders of the guarantee shares shall be considered entitled to a proportion of the company's assets in excess of debts that is equal to the guarantee capital, and to a relative return calculated on it as defined in the Articles of Association. The rest of the assets in excess of debts belong to the policyholders as part of the insurance portfolio.
The interest left unpaid as a consequence of the restrictions imposed by law on the distribution of profits will be paid out in the first year in which no restrictions on profit distribution affect the company.

The company and the guarantee share holders have the right to redeem shares that have been transferred elsewhere than to an owner of a guarantee share in the company.

Distributable profits:

Profit for the year	5.9	5.1	13.3	-33.5
+ Other reserves				
Reserves under the Articles of Association	35.7	39.6	35.7	39.6
+ Profit brought forward	-	-	2.4	41.1
- Amount of appropriations entered under capital and reserves	-	-	-19.5	-11.7
Distributable profits, total	41.7	44.8	32.0	35.4

Notes to the accounts
Key figures and analyses

Key figures in brief	2002	2001	2000	1999	1998
Premiums written, EUR mill.	2,160.9	1,989.6	1,764.8	1,766.8	1,572.4
Pensions paid, EUR. mill. 1)	1,829.8	1,701.4	1,504.8	1,416.3	1,339.8
Net investment income at current value, EUR mill.	-64.4	-179.0	386.6	1,911.6	1,409.0
ROCE, %	-0.4	-1.2	2.9	16.2	14.1
Turnover, EUR mill. 2)	3,434.0	3,333.7	3,646.0	3,111.2	2,393.2
Total operating expenses, EUR mill.	70.6	60.6	56.7	48.1	44.2
% of turnover	2.1	1.8	1.6	1.5	1.8
% of TEL wage bill and reported incomes under YEL 3)	0.6	0.5	0.6	0.5	0.5
Total profit, EUR mill.	-591.2	-690.7	-54.1	1,586.7	1,046.0
Technical provisions, EUR mill.	13,863.5	13,519.6	12,954.5	11,082.8	9,605.2
Solvency capital, EUR mill.	2,243.1	2,940.8	3,749.3	3,922.5	2,387.1
% of technical provisions 4)	18.1	25.5	35.4	41.3	27.2
relative to solvency border	1.90	2.32	3.42	3.82	3.42
Equalization provision, EUR mill.	779.2	726.8	654.2	595.8	483.9
Pension assets, EUR mill. 5)	14,650.0	14,455.1	14,367.6	13,415.7	11,247.4
Transfer to bonuses and rebates, % of TEL wage bill	0.20	0.45	1.05	1.77	0.79
Bonuses and rebates paid, % of TEL wage bill	1.8 6)	1.2	0.9	0.8	0.4
TEL wage bill, EUR mill.	9,631.0	8,922.6	8,025.2	7,614.5	6,855.7
Reported incomes under YEL, EUR mill.	780.6	763.3	727.3	734.8	708.8
TEL policyholders	31,689	31,982	32,351	32,874	32,664
Employees insured under TEL	359,000	351,000	335,000	323,000	302,000
YEL policyholders	49,322	49,386	49,938	51,453	51,668
Pension recipients	231,056	224,849	218,932	205,102	199,593

1) Benefits paid to pensioners

2) Turnover = gross premiums written before credit losses on premium receivables and reinsurers' share + investment income in the profit and loss account + revaluations - value adjustments + other income

3) Aggregate operating expenses less investment management charges and working capacity maintenance costs were taken into acoount in calculating the ratio.

4) The ratio was computed as a percentage of the technical provisions used in calculating the solvency border.

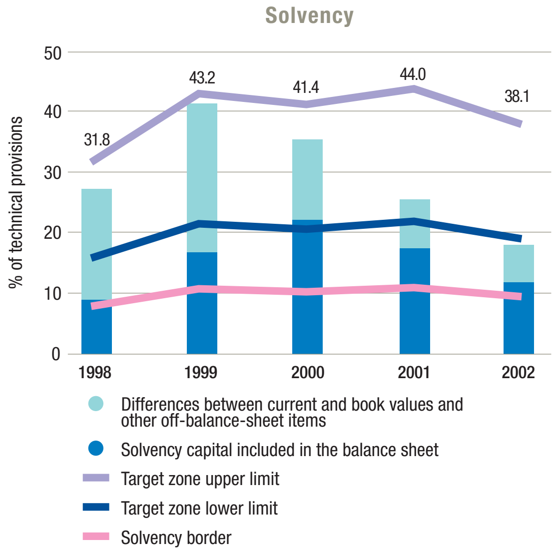
5) Technical provisions + differences between current and book value

6) As a result of the revised calculation bases this includes bonuses on both the 2001 and 2002 contributions. 1.1 percentage points of this is comparable with the figures for 1998-2001.

Performance analysis, EUR mill.	2002	2001	2000	1999	1998
Sources of profits					
Underwriting result	**53.1**	**72.6**	**58.4**	**112.0**	**81.7**
Investment result at current value	**-654.0**	**-775.8**	**-119.8**	**1,460.2**	**952.4**
+Net investment income at current value	-57.0	-179.0	386.6	1,911.6	1,409.0
-Yield requirement on technical provisions	-597.0	-596.8	-506.4	-451.3	-456.5
Loading profit	**9.7**	**12.5**	**7.4**	**14.5**	**11.8**
Profits, total	**-591.2**	**-690.7**	**-54.1**	**1,586.7**	**1,046.0**
Disposal of profits					
Increase/decrease solvency (+/-)	**-634.5**	**-731.1**	**-138.2**	**1,452.2**	**992.2**
Equalization provision (+/-)	**52.4**	**72.6**	**58.4**	**112.0**	**81.7**
Solvency capital (+/-)	**-686.9**	**-803.7**	**-196.6**	**1,340.2**	**910.5**
Change in provision for future bonuses	-548.0	-336.4	789.7	656.7	152.2
Change in difference between current and book values	-149.9	-477.6	-919.8	690.6	749.0
Change in accumulated appropriations	5.1	5.2	-71.3	-38.8	1.7
Profit for the financial year	5.9	5.1	4.8	31.7	7.6
Transfer to bonuses and rebates	**19.0**	**40.4**	**84.1**	**134.6**	**53.8**
To augment the provision for current bonuses	**24.3**				
Total	**-591.2**	**-690.7**	**-54.1**	**1,586.7**	**1,046.0**

Solvency

Solvency capital and limits (% of the technical provisions used in calculating the solvency border)	2002 %	2001 %	2000 %	1999 %	1998 %
Solvency border	9.5	11.0	10.3	10.8	7.9
Target zone lower limit	19.1	22.0	20.7	21.6	15.9
Target zone upper limit	38.1	44.0	41.4	43.2	31.8
Solvency capital	18.1	25.5	35.4	41.3	27.2
- solvency capital included in the balance sheet	11.8	17.4	22.1	16.8	8.9
- differences between current and book values and other off-balance-sheet items	6.2	8.1	13.3	24.5	18.3



Breakdown of investment (current values)	2002 EUR mill.	2002 %	2001 EUR mill.	2001 %	2000 EUR mill.	2000 %	1999 EUR mill.	1999 %	1998 EUR mill.	1998 %
Loan receivables [1]	1,559.7	10.7	1,623.6	11.3	1,574.2	11.0	1,690.8	12.7	1,824.2	16.5
Bonds [1]	6,742.9	46.4	5,886.4	41.1	6,469.5	45.4	5,373.2	40.3	5,674.6	51.2
Other debt securities and deposits	600.2	4.1	641.4	4.5	349.7	2.5	1,375.5	10.3	251.7	2.3
Shares	3,260.8	22.5	3,992.0	27.9	3,805.7	26.7	3,856.0	28.9	2,347.1	21.2
Real estate	2,356.9	16.2	2,188.2	15.3	2,050.0	14.4	1,024.8	7.7	988.2	8.9
Investment, total	**14,520.6**	**100.0**	**14,331.6**	**100.0**	**14,249.1**	**100.0**	**13,320.3**	**100.0**	**11,085.9**	**100.0**

1) Accrued interest included.

Notes to the accounts
Key figures and analyses

Breakdown of investment income and investment result, EUR mill.	2002	2001	2000	1999	1998
Cash income	**678.3**	**755.7**	**821.9**	**527.0**	**523.4**
Loan receivables	71.5	75.9	72.1	80.4	93.7
Bonds	318.2	303.7	293.4	285.6	281.9
Other debt securities and deposits	18.9	18.8	25.2	17.4	16.6
Shares	165.6	289.8	345.7	69.5	51.8
Real estate	108.4	71.1	76.9	51.8	52.4
Unallocated income, charges and operating expenses [1]	-4.3	-3.6	8.7	22.4	27.0
Changes in book value [2]	**-585.4**	**-457.2**	**484.5**	**694.0**	**136.6**
Shares	-673.8	-479.9	511.6	630.4	59.2
Bonds	102.0	28.5	-22.0	66.2	94.7
Real estate	-13.2	-5.5	-5.1	-2.6	-17.3
Other	-0.4	-0.3	0.0	0.0	0.0
Net investment income at book value	**92.8**	**298.6**	**1,306.4**	**1,221.0**	**660.0**
Change in difference between current and book value	**-149.9**	**-477.6**	**-919.8**	**690.6**	**749.0**
Shares	-357.1	-575,9	-1,071.5	1,109.7	557.2
Bonds	171.1	11.3	106.4	-430.4	189.6
Real estate	37.3	85.7	45.1	11.5	2.2
Other	-1.3	1.3	0.2	-0.2	0.0
Net investment income at current value	**-57.0**	**-179.0**	**386.6**	**1,911.6**	**1,409.0**
Yield requirement on technical provisions	**-597.0**	**-596.8**	**-506.4**	**-451.3**	**-456.5**
Investment result at book value	**-504.1**	**-298.2**	**800.0**	**769.6**	**203.5**
Investment result at current value	**-654.0**	**-775.8**	**-119.8**	**1,460.3**	**952.6**

1) Includes interest items in the profit and loss acoount which are not entered as income from investment.
2) Capital gains and losses plus other changes in book values.

Net investment income at current value, January 1-December 31, 2002

	Current value [1] EUR mill. 2002	Capital employed, [2] EUR mill. 2002	ROCE, % 2002	ROCE, % 2001	ROCE, % 2000	ROCE, % 1999	ROCE, % 1998
Loan receivables	71.1	1,514.1	4.7	4.8	4.6	4.7	5.3
Bonds	591.4	6,257.5	9.5	5.8	6.5	-1.5	11.6
Other debt securities and deposits	17.6	487.2	3.6	4.5	4.0	2.8	3.6
Shares	-865.3	4,025.7	-21.5	-17.2	-5.4	58.3	33.8
Real estate	125.0 *)	2,215.6	5.6	7.4	7.8	6.0	3.9
Investment, total	**-60.1** *)	**14,500.0**	**-0.4**	**-1.2**	**2.8**	**16.0**	**13.8**
Unallocated income, charges and operating expenses 3)	-4.3		0.0	0.0	0.1	0.2	0.3
Net investment income, total	**-64.4** *)	**14,500.0**	**-0.4**	**-1.2**	**2.9**	**16.2**	**14.1**

1) Net investment income at current value = Change in market values between the beginning and end of the reporting period less cash flows during the period. Cash flow denotes to the difference between purchases/costs and sales/revenues.

2) Capital employed = Market value at the beginning of the reporting period + cash flows time-weighted daily/monthly.

3) Includes interest items in the profit and loss account which are not entered as income from investment.

*) EUR 7.4 million in reversals of revaluation entered in revaluation reserve was deducted from the income.

Loading profit, EUR mill.	2002	2001	2000	1999	1998
Expense loading components	68.6	63.3	54.1	54.0	48.4
Function-specific operating expenses [1]	-61.1	-52.6	-48.5	-41.1	-38.2
Other income and expenses	2.2	1.7	1.7	1.5	1.6
Loading profit	**9.7**	**12.5**	**7.4**	**14.5**	**11.8**
Operating expenses of load income, %	86	81	87	74	76

1) Excluding investment charges and working capacity maintenance costs.

Proposal by the Board of Directors for distribution of profits

In accordance with the Articles of Association, the amount of interest paid on the guarantee capital equals the technical rate of interest plus one percentage point. Calculated in this way, the return in 2002 was 6.25% and the guarantee capital interest EUR 1,437,165.83. However, since the solvency capital was less than twice the company's solvency border at the end of the financial year, the maximum amount of interest distributable is EUR 657,153.72.

The amount of retained consolidated non-restricted capital and reserves according to the financial statements on December 31, 2002 was EUR 32.0 million. The retained non-restricted capital and reserves of the parent company stood at EUR 41,663,784.70, with profit for the financial year accounting for EUR 5,919,611.61.

The Board of Directors proposes that EUR 657,153.72 be paid as interest on guarantee capital, EUR 780,012.11 be retained for distribution as interest on guarantee capital in the first year in which the company's profit distribution is not restricted, and EUR 50,000.00 be set aside for use at the Board's discretion for generally beneficial purposes.

If the Board proposal is adopted, the company's capital and reserves will stand as follows:

Restricted capital and reserves	
Guarantee capital	EUR 22,994,653.31
Non-restricted capital and reserves	
Contingency fund	EUR 40,956,630.98
Capital and reserves, total	EUR 63,951,284.29

Helsinki, March 4, 2003

Tor Bergman

Lauri Ihalainen	Johannes Koroma	George Berner
Martin Granholm	Eino Halonen	Eero Heliövaara
Seppo Junttila	Jyrki Kiviharju	Risto Piekka
Gretel Ramsay	Kari Puro	

Auditors' report

To the Annual General Meeting of Ilmarinen Mutual Pension Insurance Company

We have audited the accounting, the financial statements and the corporate governance of Ilmarinen Mutual Pension Insurance Company for the period January 1-December 31, 2002. The financial statements, which include the report of the Board of Directors, consolidated and parent company profit and loss accounts, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President. Based on our audit we express an opinion on these financial statements and on corporate governance of the parent company.

PricewaterhouseCoopers Oy, Authorised Public Accountants, have been responsible for the supervisory audit, on which a separate report has been submitted.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of the corporate governance is to examine that the members of the Supervisory Board and the Board of Directors and the President have legally complied with the rules of the Employee Pension Insurance Companies' Act, the Insurance Companies' Act and the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act, the regulations of the Ministry of Social Affairs and Health and other rules and regulations governing the preparation of financial statements. 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 financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable assets is in compliance with law.

Helsinki, March 17, 2003

PricewaterhouseCoopers Oy, Authorised Public Accountants

Juha Wahlroos, Authorised Public Accountant   Sirkku Valkjärvi, Authorised Public Accountant

Statement by the Supervisory Board

The company's pension decision-making and investment activities have been examined by a number of Supervisory Board members selected by the Board itself for the purpose. This examination was conducted in accordance with procedures drafted by the Supervisory Board in conjunction with the company's management. No cause for concern was found.

The Supervisory Board has examined the financial statements of Ilmarinen Mutual Pension Insurance Company and of the Ilmarinen Group, together with the auditors' report. The Supervisory Board finds no cause for comment on the financial statements or the auditors' report. In the opinion of the auditors, the financial statements, including the consolidated financial statements, can be adopted and the Board of Directors' proposal regarding the distributable profits is in conformity with the law.

The membership term of the Supervisory Board members listed below will expire at the 2003 Annual General Meeting:

Pertti Hagren
Antti Herlin
Harri Holkeri
Antti Lagerroos
Simo Leivo

Tapio Mäkinen
Matti Packalén
Kirsti Piponius
Markku Pohjola
Markku Rönkkö

Kari Salminen
Pekka Salojärvi
Hannu Syrjänen
Kalevi Vanhala

Helsinki, March 18, 2003
On behalf of the Supervisory Board

Timo Peltola, Chairman

Corporate governance

Ilmarinen owners

Ilmarinen is a mutual company owned by its clients, i.e. the TEL and YEL policyholders and the employees insured with Ilmarinen plus owners of the guarantee capital. The highest right to decide is vested in the shareholders' meeting.

Shareholders' meeting

At shareholders' meetings, those owners mentioned above and their representatives or authorized agents shall be entitled to vote. At the shareholders' meetings, each TEL policyholder shall have at least three votes and each person insured under this policy shall have at least one vote, in addition to which each policyholder and the insured persons shall be entitled to additional votes on the basis of the contributions paid under the Employees' Pensions Act in the preceding calendar year, so that one vote is calculated for each full EUR 1,700 of insurance contributions. The additional votes received on the basis of the insurance contributions shall be divided among the policyholder and the insured persons in proportion to the average rate of employer and employee contributions under the Employees' Pensions Act.

At the shareholders' meeting, each YEL policyholder shall have at least one vote, in addition to which the policyholder shall be entitled to additional votes on the basis of the insurance contributions paid under the Self-Employed Persons' Pensions Act in the preceding calendar year, so that one vote is calculated for each full EUR 6,700 of insurance contributions.

A shareholder by virtue of ownership of a guarantee share shall have 55 votes for each guarantee share.

At the shareholders' meeting, it is permissible to vote on one's own behalf or authorized by another party using a maximum of one tenth of the votes represented at the meeting. Moreover, the total of the votes based on the guarantee shares owned by those shareholders present at the meeting may not exceed the total of the votes based on the policies of the policyholders and the insured persons represented at the meeting.

The annual general meeting shall consider the annual accounts, the auditors' report and the statement by the Supervisory Board regarding the annual accounts and the auditors' report. On the basis of these documents decisions shall be made regarding adoption of the profit and loss account, the balance sheet, the consolidated profit and loss account and the consolidated balance sheet; any measures which may be occasioned by the profit or loss according to the adopted balance sheet or the consolidated balance sheet; release from liability of the members of the Board of Directors, the Supervisory Board and the President; emoluments to the Supervisory Board, and the grounds for reimbursement of travel expenses; and the number of auditors and deputy auditors, their emoluments, and the grounds for reimbursement of their travel expenses.

In addition, the annual general meeting shall elect the members of the Supervisory Board, the auditors, deputy auditors, supervisory auditor and substitute for the supervisory auditor, and also deal with the other matters stated in the call to the meeting.

An extraordinary meeting of shareholders shall be held whenever the Board of Directors or the Supervisory Board deems there is reason for it or whenever it shall otherwise be held, according to the Finnish Insurance Companies Act.

Supervisory Board

It is the responsibility of the Supervisory Board to supervise the administration of the company as managed by the Board of Directors and the President. For this purpose, the Supervisory Board shall also choose an appropriate number of its members to inspect the company's pension decision practice and investment operations.

The Supervisory Board shall issue its statement regarding the annual accounts at the annual general meeting. In addition, the Supervisory Board shall confirm the principles according to which the plan concerning investment of the company's assets is to be formulated, and decide on the election of members and deputy members of the Board of Directors, their emoluments and reimbursement of their travel expenses.

Moreover, the Supervisory Board may issue the Board of Directors with instructions in matters of great importance or principle.

The Supervisory Board shall consist of 28 members elected at the annual general meeting for two years at a time. At least half of the members shall be chosen from among persons nominated by the central labour market organizations representing the employers and the employees, in such a way that the number of members chosen from among the candidates from both organizations is equal.

Half of the members of the Supervisory Board resign each year. The Supervisory Board elects a chairman and two vice chairmen from among its own members each calendar year.

Board of Directors

It shall be the function of the Board of Directors to direct and attend to the administration of the company and the appropriate organization of its activities. In addition, the Board of Directors shall draw up the company's investment plan and prepare the matters to be dealt with at shareholders' meetings.

The Supervisory Board elects 12 members and four deputy members to the Board of Directors for four years at a time. At least one-half of the members and deputy members of the Board of Directors shall be chosen from among persons nominated by the central labour market organizations representing the employers and the employees, in such a way that the number of members and deputy members chosen from among the candidates from these organizations is equal.

At the beginning of each calendar year, the Board of Directors elects a chairman and two vice chairmen from among its own members.

President and CEO, Deputy CEO, Executive Vice Presidents and Senior Vice Presidents

The company has a President, appointed by the Board of Directors. The Board of Directors may also appoint a Deputy to the President. The Board of Directors shall also appoint the Executive Vice Presidents and the Senior Vice Presidents working as immediate subordinates to the President and CEO.

Supervisory Board

Timo Peltola
Chairman
CEO of Huhtamäki Oyj,
due to resign in 2004

Hannu Syrjänen
Deputy Chairman
President and COO of SanomaWSOY,
due to resign in 2003

Matti Viljanen
Deputy Chairman
President of The Union of Professional Engineers in Finland IL,
due to resign in 2004

Pertti Hagren
Chief Steward of BEMIS Valkeakoski Oy,
due to resign in 2003

Antti Herlin
Deputy Board Chairman of Kone Corporation, due to resign in 2003

Harri Holkeri
Counsellor of State (hon.),
due to resign in 2003

Liisa Joronen
Board Chairman of SOL Palvelut Oy,
due to resign in 2004

Arto Kajanto
Board Chairman of HPO-yhtymä,
due to resign in 2004

Veikko Kuusakoski
President and CEO of Kuusakoski Group Oy, due to resign in 2004

Antti Lagerroos
President and CEO of Finnlines Plc,
due to resign in 2003

Simo Leivo
Executive Director of the Financial Sector Union SUORA (Finland),
due to resign in 2003

Juhani Maijala
Board Chairman of Lassila & Tikanoja plc, due to resign in 2004

Esko Mäkelä
Executive Vice President of YIT Corporation, due to resign in 2004

Esko Mäkeläinen
Senior Executive Vice President of Stora Enso, due to resign in 2004

Tapio Mäkinen
Managing Director of SE Mäkinen Oy,
due to resign in 2003

Matti Packalén
Managing Director,
due to resign in 2003

Kirsti Piponius
Deputy Board Chairman of Sodexho Ltd., due to resign in 2003

Markku Pohjola
Deputy Group CEO of Nordea AB (publ), due to resign in 2003

Jarmo Rantanen
Mayor of Tampere,
due to resign in 2004

Timo Räty
President of the Finnish Transport Workers' Union (AKT),
due to resign in 2004

Markku Rönkkö
Managing Director of Olvi Plc,
due to resign in 2003

Kari Salminen
Commercial Counsellor (hon.),
due to resign in 2003

Pekka Salojärvi
Board Chairman of Gummerus Publishers, due to resign in 2003

Kalevi Vanhala
President of the Wood and Allied Workers' Union,
due to resign in 2003

Erkki Varis
Managing Director of Oy Metsä-Botnia Ab,
due to resign in 2004

Matti Viialainen
Deputy Director of the Central Organization of Finnish Trade Unions SAK, due to resign in 2004

Marjatta Väisänen
Development Manager of the Union of Salaried Employees TU,
due to resign in 2004

Board of Directors

The term of office of all Board members and deputy members will expire on December 31, 2005.

Tor Bergman, **Chairman**
President and CEO of Metso Corporation

Johannes Koroma, **Deputy Chairman**
Director General of the Confederation of Finnish Industry and Employers TT

Lauri Ihalainen, **Deputy Chairman**
President of the Central Organization of Finnish Trade Unions SAK

George Berner
Managing Director of Berner Corporation

Martin Granholm
Executive Vice President of UPM-Kymmene Group

Eino Halonen
President and CEO of Suomi Mutual Life Assurance Company

Eero Heliövaara
President and CEO of Pohjola Group plc

Seppo Junttila
General Secretary of the Finnish Confederation of Salaried Employees STTK

Jyrki Kiviharju
Director of the Bank Employers' Association

Risto Piekka
President of the Confederation of Unions for Academic Professionals AKAVA

Kari Puro
President and CEO of Ilmarinen Mutual Pension Insurance Company

Gretel Ramsay
Managing Director of Tammet Ltd.

Deputy members

Timo Parmasuo
Board Chairman of Meconet Ltd.

Hannu Rautiainen
Solicitor of the Confederation of Finnish Industry and Employers TT

Erkki Vuorenmaa
President of the Metalworkers' Union

Eero Ylä-Soininmäki
CEO of Pohjantähti Mutual Insurance Company

SEATED (LEFT TO RIGHT): JOHANNES KOROMA, LAURI IHALAINEN, GRETEL RAMSAY, TOR BERGMAN. STANDING (LEFT TO RIGHT): EINO HALONEN, TIMO PARMASUO, SEPPO JUNTTILA, KARI PURO, ERKKI VUORENMAA, JYRKI KIVIHARJU, RISTO PIEKKA, EERO YLÄ-SOININMÄKI, MARTIN GRANHOLM. IN THE BACK ROW (LEFT TO RIGHT): GEORGE BERNER, EERO HELIÖVAARA, HANNU RAUTIAINEN.

Inspectors

Inspectors of pension decision operations

The pension decision operations of Ilmarinen are overseen by the following, who were chosen by members of the Supervisory Board from among its own number:

Members

Antti Lagerroos

Simo Leivo

Tapio Mäkinen

Timo Peltola

Hannu Syrjänen

Kalevi Vanhala

Deputies

Liisa Joronen

Veikko Kuusakoski

Jarmo Rantanen

Timo Räty

Erkki Varis

Marjatta Väisänen

Inspectors of investment operations

The investment operations of Ilmarinen are overseen by the following, who were chosen by members of the Supervisory Board from among its own number:

Members

Juhani Maijala

Esko Mäkeläinen

Markku Pohjola

Markku Rönkkö

Pekka Salojärvi

Matti Viialainen

Deputies

Pertti Hagren

Antti Herlin

Arto Kajanto

Esko Mäkelä

Kirsti Piponius

Matti Viljanen

Auditors

Auditor-in-charge:
Juha Wahlroos, APA,
PricewaterhouseCoopers Oy

Sirkku Valkjärvi, APA,
PricewaterhouseCoopers Oy

Deputy auditors

Sari Airola, APA,
PricewaterhouseCoopers Oy

Marja-Terttu Sotka, APA,
PricewaterhouseCoopers Oy

Organization

Senior management on March 1, 2003

President and CEO
Kari Puro

Finance and Actuarial Matters	Client Relations	Pension Services	Investments
Jaakko Tuomikoski Deputy CEO	Sini Kivihuhta Senior Vice President	Timo Aro Senior Vice President	Jussi Laitinen Senior Vice President

Corporate Communications	Legal Matters	Information Technology	Personnel and Administration
Satu Mehtälä Senior Vice President	Pirkko Auvinen Senior Vice President	Juhani Karjasilta Senior Vice President	Kristiina Hämäläinen Senior Vice President

Senior Vice President Hannu Rissanen,
Chief Actuary Hillevi Mannonen and personnel representative
Simo Mattinen are also members of the Ilmarinen Executive Group.

Other management

Client Relations
Juha Elovirta
Major Clients and Broker Relations

Anneli Uimonen
Major Clients and Broker Relations

Pekka Harjanne
Client Relations/Pohjola, A-Insurance and savings banks

Ari Jaatinen
Marketing/Pohjola, A-Insurance and savings banks

Marja-Leena Kolu
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A guide for readers

The financial statements of a pension insurance company and the related key ratios contain numerous concepts and calculations that differ from conventional business terminology. Some of the key concepts are explained below, in alphabetical order.

Assets covering technical provisions

The assets of an insurance company are divided on the basis of prudence into eight groups. The first group includes investments for which the risk is borne by the State and the eighth group includes unlisted company shares and similar instruments. There are statutory provisions stipulating the maximum proportion of technical provisions covered by each group. The assets in cover of technical provisions are calculated at current value.

Bonuses and rebates

A refund from the provision for current bonuses paid to policyholders in the form of discounts on contributions.

Equalization provision

Equalization provision is a buffer accumulated from technical underwriting result; it is used in years when an above-average number of pension contingencies occur.

Expense loading component

One of the components of the insurance contribution intended to cover the company's operating expenses.

Investment result

Return on investment at current values is obtained by deducting the yield requirement on technical provisions from the company's net investment income and the change in valuation gains/losses. The resulting surplus from investment is part of Ilmarinen's total profits.

Loading profit

The loading profit shows how much the expense loading components and other similar income exceed the operating expenses to be covered by them. The management charges incurred from investment are covered out of the return on investment. The management expenses of maintaining working capacity included in claims incurred are deducted from the underwriting result. When Ilmarinen saves on operating costs, the resulting savings are included in its total profits.

Operational efficiency

For a pension insurance company, operational efficiency is the percentage of operating expenses of the expense loading components included in insurance premiums and of other income. The smaller the percentage - that is, the smaller the volume of expense loading components used - the more efficient the operations.

Other technical charges

An item shown in the profit and loss account which includes the annual change in the refunds received for payments toward joint liability (see under Receivable from portfolio transfers). The refunds are increased by the interest accrued on the unsettled receivable from portfolio transfers and decreased by the increment arising from joint and several liability and collected in premiums written.

Paid refunds for payments toward the guarantee scheme

An item included in claims paid in the profit and loss account expressing the extent to which Ilmarinen's share as cleared by the Finnish Centre for Pensions differs from the joint liability increment collected in premiums written.

Provision for current bonuses

The provision for current bonuses is that portion of the technical provisions accumulated from the investment profit and the loading profit, which is distributed to policyholders in the form of a bonus.

Provision for future bonuses

The provision for future bonuses is that part of the technical provisions included in the solvency capital and used to level out the impact of fluctuations in the value of investments.

Receivable from portfolio transfer

The unpaid portion entered in the financial statements of the cover for liabilities transferred on January 1, 1997 from the special Kansa Pension receivership. The part of the receivable not covered by the assets in the receivership is called a refund received for payments toward joint liability. To cover this receivable, an increment arising out of the joint liability is collected from policyholders as part of premiums written.

Solvency border

The solvency border is the quantity calculated on the basis of the structure of the company's investment portfolio and the amount of technical provisions, which gives the limit within which yearly fluctuations in the value of investments should in all probability stay.

Solvency capital

The solvency capital is the difference between the company's assets, calculated at current values, and its liabilities. It is intended to level off the risks inherent in investments.

Solvency capital target zone

The lower limit of the target zone is double the solvency border and the upper limit quadruple. The company's solvency capital is expected to remain between the solvency border and upper limit of the target zone. The nearer the solvency capital approaches the solvency border, the greater the company's obligation to increase its solvency by limiting the transfer to client bonuses. If above the upper limit, the company can ensure that its solvency capital returns below this limit by altering its investment strategy or by distributing the surplus.

Statutory charges

A cost incurred by an insurance institution to finance the operations of the Finnish Centre for Pensions, operating as the central body of the system, and to cover bad debts on the Finnish Centre for Pensions' credit insurance.

Technical provisions

Technical provisions are the estimate entered in the financial statements of the future pension expenditure for which the company is liable under the employment pension legislation. Technical provisions are divided into a provision for unearned premiums and a provision for outstanding claims. The provision for unearned premiums pertains to the liability of the company for future pension contingencies for pensions accrued by the end of the financial period. The provision for outstanding claims is an estimate of future expenditure on pension contingencies already occurred.

The provision for unearned premiums includes the provisions for current and future bonuses and the provision for outstanding claims an equalization provision.

Technical provisions to be covered

The technical provisions to be covered equal the technical provisions entered in the financial statements plus liabilities in respect of pooled pension expenditure and owed to policyholders and less the provision for unearned premiums for self-employed persons' pension insurance.

Technical underwriting result, net

Technical underwriting result is the difference between premium components intended to cover risks and claims incurred. A positive underwriting result increases the equalization provision and a negative one reduces it. In related analyses, technical underwriting result includes 3% assumed interest on the equalization provision.

Turnover

Turnover means premiums written before credit losses and the reinsurers' share + income from investment + other income + unrealized gains insofar as materialized in connection with realizations.

Valuation gains/losses

The difference between the current value and book value of assets.

Yield requirement on technical provisions

The yield requirement on technical provisions is the interest to be credited on technical provisions. It is calculated using the employment pension companies' joint calculation bases. In 2002, this so-called technical rate of interest stood at 5.25%.

The Finnish earnings-related pension system

Pension benefits

Statutory earnings-related pension is the most important of the benefits provided by the Finnish pension system. It is a defined benefit pension with a target level of roughly 60% of career average earnings for a full career.

The most important of the Finnish pension laws is the Employees' Pensions Act (TEL), the provisions of which currently affect just over 50% of the employed labour force.

Administration and supervision

The Finnish employment pension system is decentralized. TEL pension coverage is managed by six pension insurance companies, including Ilmarinen, eight industry-wide pension funds and 37 company pension funds. The pension benefits are independent of the managing institution. The managing institutions are supervised by the Insurance Supervision Authority.

Funding

TEL pensions are partially funded in advance. The funding of each type of pension is defined by law and is independent of the pension institution. For employees under 55 years of age, the pre-funded portion of the old-age pension is increased each year by 0.5% of salary. In the case of disability pensions and unemployment pensions, 80% of the original amount is pre-funded when the pension is granted, except for pensions that are based on paid-up policies only. The pre-funded parts of old-age pensions are augmented on an annual basis (see below under technical provisions). In all, the funding rate is approximately one quarter.

The remaining three quarters, including all index increments, are financed according to the pay-as-you-go principle and pooled between all TEL institutions.

Arrangements under other pension acts, including those affecting the public sector, also involve advance funding to varying degrees. At the end of 2002, employee pension funds totalled some EUR 71 billion, equivalent to half of the Finnish GDP.

Technical provisions

Technical provisions are calculated according to principles common to all TEL institutions and confirmed by the Ministry of Social Affairs and Health. The individual provision is the discounted value of pre-funded pension expenditure. A 3% discount rate is used, in addition to which the calculation of present value will take into account mortality, disability incidence, and recovery rate. In addition to these individually calculated provisions, there is an IBNR reserve and an equalization provision. The common calculation bases also include a higher interest rate, so-called technical rate of interest, which may be changed twice a year. The income arising from the difference between this technical rate of interest (4.25% as of January 1, 2003) and the 3% discount rate is used each year to augment the pre-funded old-age pensions.

Contributions

In 2003, the TEL contribution averages 21.4% of salary. The employee contributes 4.6% and the employer an average of 16.8%. The total contribution is expected to rise some five percentage points in the next 30 years. This increase will be borne equally by employers and employees.

An employer with its own TEL pension fund bears ultimate financial responsibility for all of the fund's operations, the insurance risk and the investment risk. For employers that have their TEL insurance with a pension insurance company, the risk is transferred to the insurer against the TEL contribution. For large employers, the TEL contribution for disability and unemployment pensions is determined by an experience rating. If an employer switches its TEL policy to another insurance company or to its own pension fund, its financial liability towards the previous pension institution will cease after the end of the experience rating's three- to five-year follow-up concerning disability and unemployment contingencies that occurred while the insurance was in force. As regards the employer's financial responsibility, insured TEL cover is accordingly a defined contribution arrangement.

In estimating pension costs in future years, the long-term forecast of the contribution level can be used (see page 10). The new legislation will reduce starting pensions in line with growing longevity, thus largely eliminating the effect of the latter on the future contribution level.

Investment activities

The TEL pension insurance companies, industry-wide and company pension funds conduct their investment activities independently but within common solvency requirements which automatically take into account differences in asset portfolios. Investment income is used to boost solvency capital and to increase client bonuses.

Guarantee scheme

In the case of insolvency of a pension institution, the pension benefits are guaranteed by statutory joint liability and will be financed via future contribution increases for all employees and employers.

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