Pension Fennia

Pension Fennia's Financial Statements 2003

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The Board of Directors' Report for the Year 2003

The economic operating environment

The recovery of global economy was overshadowed by the budget deficit of the US economy and significant weakening of the dollar. In early 2003, the uncertainty in economy was largely affected by the war in Iraq. The stock markets, however, strengthened when the war proceeded favourably for the United States and the western alliance. In early summer, the stock market rise was also supported by the development of real economy. The US economy improved in particular. The tax cuts implemented in July-August accelerated the growth of private consumption, and in the third quarter of the year the economic growth in the United States was exceptionally strong and the results of companies improved considerably. Furthermore, the favourable economic development of Asian countries, especially China and India, continued.

In the euro zone the economic growth was weak throughout the year 2003. The outlook is still modest, although on the basis of anticipating trade cycle indicators the European economy is hoped to recover during the current year in the wake of the US. The recovery of the export-driven growth of the euro zone is threatened by the possibly continuing strengthening of the euro against dollar.

Inflation expectations and realised inflation were at a reasonable level throughout 2003. In the US the real interest rate was negative, while the short-term interest rate was at a record-low level. The short-term interest rate of the euro zone was also at an exceptionally low level, as the central bank rate stood at 2 per cent. The difference between short and long interest rates in the US and Europe was fairly large. The difference of long-term interest rate (10 years) between the US and Europe was marginal at the end of the year.

Development of the statutory earnings-related pension scheme

The Parliament approved on 18 February 2003 the private sector employment pension reform package that was based on the agreements made by the labour market organisations on 12 November 2001 and 5 September 2002. The reforms will mainly enter into force at the beginning of 2005. The content of the agreement was included in the present TEL, LEL, TaEL and YEL legislation and other relevant acts. Furthermore, the principle of the so-called last pension institution was expanded to the public sector as of the beginning of 2004. The principle of the last pension institution means that the beneficiary can apply for his or her whole statutory pension provision from the last pension insurance institution where he or she has been insured.

Formulated into a law in 2003, the reforming of the employment pension provision will continue in 2004. The goal is to combine the employment pension acts of the private sector in such a way that the TEL, LEL and TaEL acts are repealed, and a corresponding cover is provided under one single act. The new act would enter into force on 1 January 2007. At this stage the change will concern the three above-mentioned acts and, for example, the Self-Employed Persons' Pensions Act (YEL) will probably remain a separate act. LEL Employment Pension Fund turned into Etera Mutual Pension Insurance Company in 2003 and will join the competition for private sector employment pension insurance at the beginning of 2007.

On the basis of the amendment made in the Self-Employed Persons' Pensions Act in 2003, the reported earnings and amount of insurance premium that form the basis of an entrepreneur's pension can follow the company's financial situation and the changes in the entrepreneur's liquidity more than in the present system. The goal of the amendment that will enter into force on 1 January 2005 is to raise the level of self-employed persons' pension from its present level.

The development of the competitive conditions within the statutory earnings-related pension scheme continued during the year under review. The amendment concerning the Act on Employment Pension Insurance Companies that entered into force on 1 July 2003 gives the employer an opportunity, on certain conditions, to transfer the funds accrued in the employment pension insurance company and part of the solvency margin to a pension foundation or pension fund. This requires that the pension institutions make an agreement on the transfer. The goal of the change is to facilitate the founding of a new pension institution. Similar regulations are also applied on employment pension companies, for example, at the dissolution of a pension foundation.

The threshold to change the employment pension company was lowered by changing the regulations in such a way that an employer whose insurance is transferred to another employment pension company will also get a share of the employment pension company's surplus from the old company for three years after the transfer.

Reaching the goals in the year 2003

Pension Fennia's sales increased significantly due to the sales co-operation agreements made in 2001. The growth is indicated by the *new customer acquisition* of 2003 and the strengthened *market share*. Pension Fennia exceeded the market share goal of 10 per cent for 2003, as the company's market share rose from 9.8 per cent to 10.2 per cent.

New sales met the goals. The number of new TEL and YEL customers totalled over 5,700, or 19 per cent of the markets. The result was particularly good for self-employed persons, and the number of YEL customers grew by nearly 20 per cent in a year. Therefore Pension Fennia continued to establish its position as the employment pension company of self-employed persons.

In 2003, there were for the first time four policy transfer rounds instead of just one. Measured by the net number of policies, Pension Fennia was a winner of the transfer round with more than 1,500 YEL and TEL customers. The first three transfer rounds were also positive measured by premium income, while the last round was negative by premium income, mainly because one large insurer moved elsewhere.

Services have been enhanced together with the Fennia Group and co-operation partners by developing the use of electronic tools and by introducing a so-called new entrepreneur's operating model.

The key goal of *investment operations* is to use the solvency margin efficiently in order to reach the best return on investment in all market situations. In order to raise yield expectations, the Board of Directors of Pension Fennia decided to increase the amount of equity investments after the summer, which turned out to be a good decision. Return on invested capital at current values stood at 6.7 per cent for the financial year, while in the previous year it was 1.6 per cent.

The *solvency margin* at the closing of the accounts was 1.9 times the solvency limit. Solvency margin grew by 28 per cent from € 437.5 million to € 560.1 million and was 15.3 per cent of the technical provisions.

The transfer to *bonus reserves* was 0.15 per cent of the total payroll of the insured.

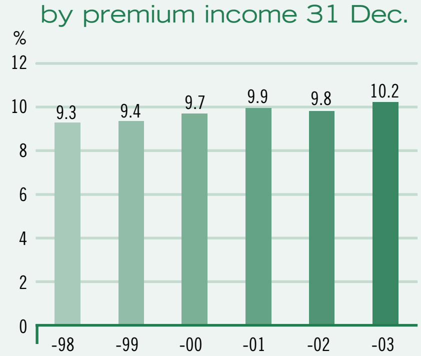
Operating expenses were below the expense loading included in the insurance premium by € 4.1 million, which equals 14 per cent savings.

Administration

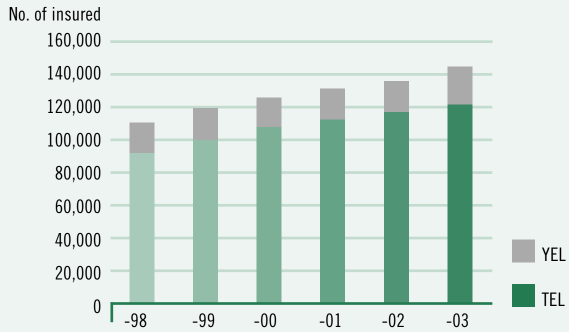
The Annual General Meeting of Pension Fennia on 29 April 2003 re-elected the following persons as members of the Supervisory Board for the three-year term from 2004–2006: Heimo Aho, Kaj Ericsson, Ernst Gylfe, Sirpa Järvinen, Tapio Liinamaa, and Heikki Rinta-Rahko. Elected as new members, Tapio Juusela replaced Pertti Nordman, Lasse Murto replaced Vuokko Rehn, Arto Pohto replaced Esa Ojala, and Ann Selin replaced Nils Komi. Tapio Liinamaa and Arto Pohto were elected at the suggestion of central employer organisations, and Sirpa Järvinen and Ann Selin at the suggestion of central employee organisations. After the Annual General Meeting, the following members have resigned from the Supervisory Board: Henry Fagerström, Ernst Gylfe, Ann Selin and Timo Vallittu.

The Annual General Meeting elected Per-Olof Johansson, Authorised Public Accountant, auditor and the supervisory auditor; Marja Tikka, Authorised Public Accountant, auditor and the deputy supervisory auditor; and Tuija Korpelainen, Authorised Public Accountant, and Arto Tenhula, Authorised Public Accountant, were elected deputy auditors.

Pension Fennia's market share measured by premium income 31 Dec.



Those insured in Pension Fennia 31 Dec.



In its meeting on 18 November 2003, the Supervisory Board of Pension Fennia re-elected Board members Eero Lehti and Pertti Parmanne, and elected Ernst Gylfe and Seppo Riski as new Board members. Hannu Ketola was re-elected deputy member of the Board of Directors, and Rauno Mattila and Timo Vallittu were elected as new deputy members. Ernst Gylfe, Seppo Riski and Rauno Mattila were elected at the suggestion of central employer organisations, and Pertti Parmanne and Timo Vallittu at the suggestion of central employee organisations. Board members Lars-Erik Gästgivars and Jalo Paananen, and deputy member Jorma Kallio resigned. Eero Lehti was elected Chairman of the Board for the year 2004, and Pertti Parmanne and Seppo Riski were elected as deputy chairmen. Markku Koskenniemi was elected the Chairman of the Supervisory Board, and Harri Kainulainen and Eino Rajamäki were elected as deputy chairmen.

Development of the management system

The planning process for Pension Fennia's operations was further developed together with the middle management. Strategic goals were clarified, and the indicators for their realisation were concentrated to just a few essential goals. In addition, the planning and scheduling of the next year will be commenced earlier in order to secure sufficient time for planning. Pension Fennia's vision-level goals were approved after a planning round for three areas, namely, market share, investment operations and handling of pension provision. In order to reach the vision-level goals the company strengthened its strategies related to customers, marketing, partnership, IT, communication, personnel, investments and pension provision.

The risk management process was integrated into operations planning, and a key task of the risk management process is to ensure the realisation of the company's strategic goals and other important projects related to operations. Pension Fennia annually draws up a risk management plan approved by the Board of Directors and covering all operations. The Board follows the progress of measures in accordance with the risk management plan during the year. Pension Fennia's key risks are related to business goals, operational risks and risk management of insurance business. Identification, assessment and measurement of risks related to investment operations and administration measures are included in the investment plan.

The internal supervision implemented in Pension Fennia and the risk management related thereto are parts of the company's management system and its development. The task of internal supervision is to promote profitability, efficiency and appropriateness of operations, keep up the reliability and consistency of operational information, ensure compliance with laws, regulations and agreements, as well as securing the company's assets.

The task of Pension Fennia's internal revision is e.g. to evaluate the sufficiency, appropriateness and efficiency of internal supervision, as well as to co-ordinate the company's risk management process.

Development of operations

New features were added to the online services for customers and the look of the website was clarified. As a new customer group the YEL insured can now use the online services, too. Customers have been satisfied with the new services; notifications traffic via the Internet has multiplied in just a few years.

A large development project was commenced regarding the handling of pension applications as a result of which documents will be converted to electronic format within a couple of years, and controlling the smoothness of the handling process will become much easier. This ensures sufficient capacity when the pension acts are reformed and the baby boom generation retires.

Significant information system co-operation commenced in the employment pension business in 2003, as employment pension companies, public sector pension institutions and the Finnish Centre for Pensions founded a joint company called Arek Oy to administer the building of the new earnings system. The joint development project aims at cost savings, because the whole system will face major changes when the new employment pension acts enter into force in 2007. Pension Fennia owns a 4 per cent share of the new company.

Pension Fennia made a decision in 2003 to start to develop the company's ways of working in a more customer-oriented direction. The goal is set at systematic and active management that allows easier reacting to the changing needs of the customers in different customer groups. 2004 was named the theme year for customer-oriented ways of working, during which the changes required by the new operating model will be applied in practice.

The personnel strategy was implemented in accordance with the focal areas and goals set. A personnel resource plan reaching to the year 2008 was completed during the year under review. A plan was also made for Pension Fennia's supervisor training programme. The goals related to integrating development projects and personnel resources are expected to be met when the new project planning and resource management tool PlanMill is introduced to all employees.

Reaching the goals set was supported through an incentive reward system for the whole staff of Pension Fennia. This was the fourth year that the incentive rewards were used.

Insurance portfolio and premiums written

At the year-end 2003, Pension Fennia was responsible for insuring 143,880 persons' pension provision. The number of TEL basic insurances increased by about 1,000 policies to 16,900, and the number of insured was 120,660. At the end of 2003, the number of insured employment relationships was around 5,000 higher than in the previous year. The number of YEL insured increased by about 4,000 entrepreneurs during the year and stood at 23,220 at year-end.

Premiums written for the year 2003 stood at € 679.1 million. Of this amount, TEL insurance accounted for € 608.1 million before deduction of credit losses and YEL insurances for € 75.5 million. Credit losses on premium receivables stood at € 4.5 million. The average premium of TEL insurance was 21.4 per cent of salaries, of which the employee's share was 4.6 per cent. The YEL premium was 21.4 per cent of reported earnings.

Pensions and well-being at work

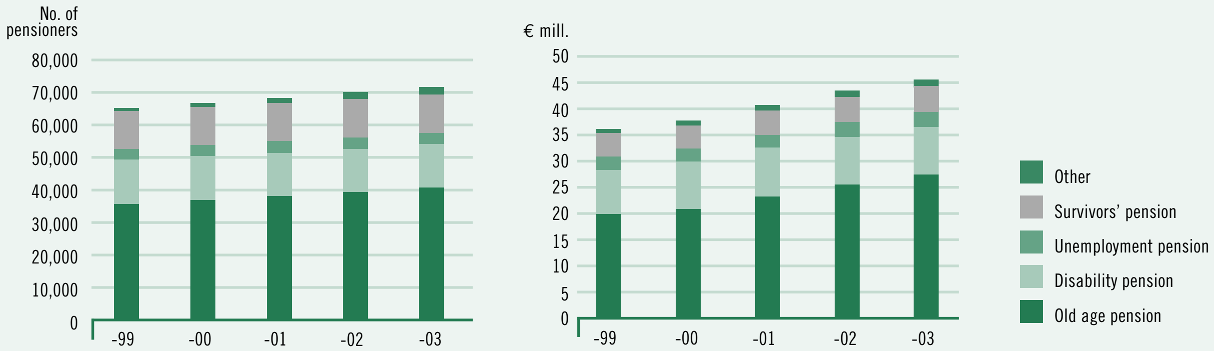
A total of 11,700 pension applications were handled during the year 2003 of which 6,800 were new pension applications. The total number of new pension applications remained almost unchanged compared with the previous year, although the number of part-time pension applications halved. Instead, the number of old age and disability pension applications has increased due to the age structure. The number of rehabilitation applications also increased significantly. This is partly due to the fact that there is more rehabilitation information and training available, and the knowledge of various co-operation parties has increased.

In addition to the above-mentioned, recalculations related to compensation of the basic level of national pension and resulting changes and customer service kept the staff busy last year.

Pension Fennia paid pensions to 71,590 persons at the year-end 2003. A total of € 542 million was paid out in pensions to 37 different countries.

During the year 2003, well-being at work services were made more customer-oriented. The website at www.elake-fennia.fi/efekti was completely revamped. A comprehensive mapping model of well-being at work and a clear plan for implementing the actions in practice were built on the website for use by customers. The TYKY-STEP evaluation tool was created at workplaces for self-evaluation of well-being at work in co-operation with the Finnish Institute of Occupational Health, Fennia and the Finnish Confederation of Salaried Employees STTK. Pension Fennia arranged Efekti training and started and developed well-being at work activities with a number of client companies. More accurate information on opportunities for vocational

Number of pensioners and Pensions paid 31 Dec.



rehabilitation was provided. Studies show that well-being at work activities are worthwhile for companies. Interest in ways to promote them is constantly growing.

Technical provisions and covering assets

Pension Fennia's technical provisions stood at € 4,027.6 million at the end of the year 2003. Technical provisions included € 284.9 million of liabilities accrued from employees' share of premium.

A partial transfer of VR Pension Foundation on 31 December 2003 was added to the technical provisions of 2003. An agreement on the portfolio transfer has been made between VR Pension Foundation and Pension Fennia, and the Insurance Supervision Authority has approved the transfer. The technical provisions transferred in connection with the portfolio transfer stand at about € 1.7 million. This amount includes a sum to be transferred to the solvency margin that equals 12.4 per cent of the actual technical provisions. The final amount of the transferred liabilities will be checked in autumn 2004.

Technical provisions, € mill.	31 Dec. 2003	31 Dec. 2002
Premium reserve		
Future pensions	2,319.7	2,205.9
Provision for current bonuses	4.3	5.0
Provision for future bonuses	351.2	285.6
	2,675.2	2,496.6
Claims reserve		
Current pensions	1,101.5	1,005.2
Equalisation provision	251.0	239.3
	1,352.5	1,244.5
Total	4,027.6	3,741.0

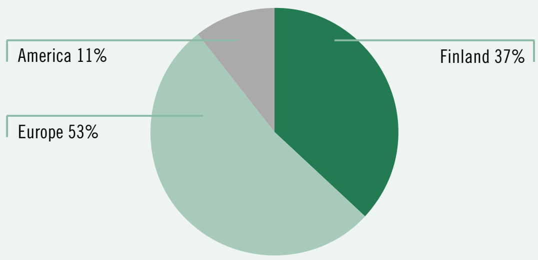
The assets covering technical provisions meet the requirements of the Statute on Gross Margin and those of the Insurance Supervision Authority. Listed margin amounted to € 4,212.6 million, or 4.1 per cent more than the technical provisions to be covered. Pension Fennia's open foreign exchange position, or assets not hedged against exchange rate fluctuations amounted to € 187.6 million. Foreign currency hedging also includes operationally hedging foreign currency forward contracts.

Investment operations

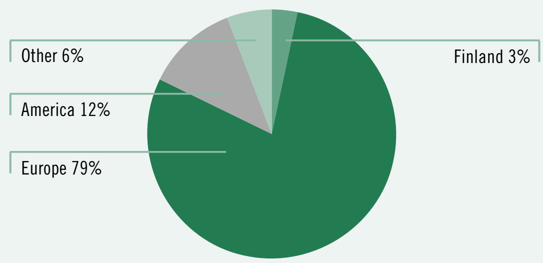
Pension Fennia's investment operations succeeded well in the year 2003. The key goal of the company's investment operations is efficient diversification of assets, in accordance with the risk-bearing capacity allowed by the solvency margin, between and inside different types of property in order to obtain positive returns. Total investment income on invested capital stood at 6.8 per cent before operating expenses and unallocated income and costs of investment operations. The technical rate of interest stood at 4.25 per cent until 1 July 2003 and at 4 per cent for the rest of the year.

As a result of the favourable development of the stock and interest markets, the solvency margin grew, and the company's risk-bearing capacity improved. Hence the company increased the proportion of equities and other risk-bearing instruments in 2003. The proportion of equities and shares rose from 15.7 per cent to 23.3 per cent. The proportion of fixed-income investments in turn decreased from 65.3 per cent to 58.5 per cent. In fixed-income investments, the proportion of corporate bonds increased. The proportion of loans decreased from 6.8 per cent to 6.2 per cent, and that of real estate remained approximately unchanged at 12 per cent.

Geographical distribution of quoted shares 31 Dec., 2003



Geographical distribution of bonds 31 Dec., 2003



The investments table shows the percentage and amount in euro of different asset types on 31 December 2002 and 31 December 2003.

Investments	Current values 31 Dec. 2003		Current values 31 Dec. 2002	
	€ mill.	%	€ mill.	%
Equities and shares	959.4	23.3	592.3	15.7
Equities	866.9	21.0	592.3	15.7
Fixed-income funds	92.5	2.2	-	-
Loans	255.9	6.2	256.1	6.8
Money-market instruments	2,410.5	58.5	2,465.2	65.3
Bonds	1,801.7	43.7	2,140.1	56.7
Other	608.7	14.8	325.1	8.6
Real estate	495.6	12.0	459.9	12.2
Total	4,121.3	100.0	3,773.6	100.0

The net return on investment operations in the profit and loss account stood at € 205.0 million. Capital gains were obtained in equity, fixed-income and real estate investments; the total gain amounted to € 78.6 million. Value adjustments of € 35.7 million were made in equities and shares, € 5.4 million in private equity funds, and € 4.3 million in bonds. Value adjustments on real estate totalled € -7.5 million in the profit and loss account. Value readjustments on equities and bonds stood at € 32.4 million. Valuation differences increased by € 58.9 million during the financial year.

The increase of indexes reflecting different market areas from the beginning of 2003

Market area	Index	Change, %
Finland	HEX Portfolio Yield	22.7
Europe	Stoxx 600	13.7
East Europe	MSCI East Europe	30.1
United States	S&P500	4.9 *
Asia	MSCI Asia Pasific	14.7

*) 26.4 % in local currency

The return on invested capital of Pension Fennia's whole equities portfolio for the year 2003, including derivatives, fixed-income funds and alternative investments (hedge funds and private equity funds) was 16.4 per cent. The return on listed shares stood at 22.5 per cent excluding fixed-income funds.

Diversification of investments geographically, by line of business and by investment type is still the basis of equity investments. The equity strategy is based on dividing the investments into index-like investments and such investments that can significantly deviate from the comparison indexes describing the development of stock exchange rates. The proportion of index-like investments decreased significantly already in 2002, and the trend continued in 2003. In addition to active company selections, foreign asset management was increased in different geographical areas, the United States, East Europe and Asia, and in different investment types, such as book-entry securities and growth shares, as well as small companies. The use of share derivatives and currency hedging was also increased.

The proportion of so-called alternative investments included in equity investments decreased in 2003. No new significant commitments were made in private equity investments, and the proportion of hedge fund investments remained almost unchanged. The objective of hedge funds is to produce a positive yield in all market conditions.

The year 2003 was good for *fixed-income investments*. Long-term interest rates fell slightly. The return on corporate bonds was higher than that on government bonds.

The average credit rating of the bond portfolio was A2. Government bonds accounted for about 21 per cent of the bond portfolio. Fixed-income investments aim at seeking returns through correctly timed interest risk and sector choices.

The return on bond investments calculated on invested capital, including derivatives and fixed-income funds, was 5.2 per cent. The return on the market money portfolio was around 2.6 per cent.

Real estate market continued to decline in terms of office space. The under-utilisation rate was on the increase and the rents were falling. On the other hand, demand for business premises remained strong, and hence the renting of Pension Fennia's shopping centres now at development stage continued as per goals. The overheated demand for purchases in the residential market continued, which was shown as increased notices and circulation. The most important new real estate investments were a share of the Leppävaara shopping centre that owns Kauppakeskus Sello in Espoo, and the office building to be built for the Novo group in Pitäjänmäki, Helsinki. A total of 96 new residences were built in Vuosaari, Helsinki and Leppävaara, Espoo.

The return on real estate investments calculated on invested capital stood at 5.6 per cent, compared with 4.3 per cent in the previous year. The result was hampered by the large projects under construction and the value adjustments made. The net rent income of completed real estate items was in fact higher at 7.5 per cent, calculated on the real estate portfolio at the year-end. Real estate investments totalled € 495.6 million at the year-end.

Towards the end of the year Pension Fennia sold the shares of its subsidiary Kiinteistö-Fennia Oy to Tallberg Toimitilajohto Oy. At the same time, a long-term agreement was made on purchasing leasing and administration services. Tallberg Toimitilajohto Oy is one of the leading real estate and user service suppliers in Finland, and hence the deal provides good opportunities for enhancing operations and increasing the return on real estate. Fennia and Fennia Life also sold their shares of Kiinteistö-Fennia, and the personnel moved to the Tallberg group as a result of the deal.

In late 2003, following a public debate on real estate deals and valuation of real estates, the Insurance Supervision Authority requested an extensive report of real estate deals made in 1999-2003 from the Finnish pension insurance companies. The issue is still being handled by the Insurance Supervision Authority.

Premium loans and other loans of *client financing* totalled € 255.9 million at the year-end. The amount of unarranged loans increased from € 4.8 million in the previous year to € 5.7 million. Value adjustments amounting to € 0.1 million were entered due to bankruptcies and non-securing guarantees during the financial year.

Total operating expenses and personnel

Total operating expenses for the year 2003 stood at € 29.6 million, including operating expenses of well-being at work activities. Personnel and information management expenses including depreciation accounted for 70 per cent of the total operating expenses. Operating expenses covered with expense loading stood at € 24.0 million. Expense loading included in the premium for covering operating expenses totalled € 27.2 million for the year and other income € 0.9 million. Loading profit stood at € 4.1 million. A total of € 7.2 million of activated IT system expenses related to insurance operations are included in the balance sheet as at 31 December 2003. Operating expenses covered from the investment income stood at € 5.3 million. € 0.2 million of operating expenses related to working capacity maintenance were paid from the disability loading of the premium.

The company employed an average of 225 persons in the year 2003. At the year-end 2003, 230 people were permanently employed, and 6 had a fixed-term employment relationship. 7 people were on maternity, home care or study leave, and 9 people were on part-time pension. A total of 14 new employees were hired or fixed-term employments made permanent. 5 employment relationships ended.

Result and solvency

The *book net returns* on investment operations, € 203.8 million, exceeded the required return, € 141.3 million, by € 62.5 million. The valuation differences of investments increased by € 58.9 million. Therefore the *result of investment operations* after the required return compensated on technical provisions is € 125.2 million. The profit on insurance business stood at € 11.9 million, and loading profit was € 4.1 million. The combined total result of Pension Fennia was € 141.1 million.

A total of € 65.4 million was transferred from the total result to the provision for future bonuses and € 4.2 million to be returned to customers as reduced insurance premiums. In addition, 10 per cent of the supplement made from the provision for future bonuses to the provision for current bonuses was returned.

The solvency margin at the year-end amounted to € 560.1 million, or 15.3 per cent of the technical provisions. Valuation differences accounted for € 195.5 million of the solvency margin. Provision for future bonuses stood at € 351.2 at the year-end. The goal set for the growth of the solvency margin was met, and the solvency margin was 1.9 times the solvency limit.

The profit and loss account shows a surplus of € 1,019,962.84.

Pension Fennia and the group

Pension Fennia is a mutual insurance company, and decisions at the Annual General Meeting are made by policyholders, the insured and the guarantee capital owner. The policyholders hold about 80 per cent and the insured about 20 per cent of the votes.

At the year-end 2003, Pension Fennia group included 66 housing and real estate companies as subsidiaries. Additionally, Pension Fennia group included Feva-kiinteistöt Oy. The real estate service company Kiinteistö-Fennia Oy, of whose shares Pension Fennia owned 70 per cent, was sold during the financial year to Tallberg Toimitilajohto Oy. Pension Fennia owns 40 per cent of its associated undertaking Insurance Company Fennia Life.

Significant events after the close of the financial year

In January 2004, Kiinteistö Oy Vantaanportin Liiketilat, owned by Pension Fennia and Polar Kiinteistöt, made a contract agreement with Lemcon Oy on the construction of the second phase of Vantaanportin Jumbo. The work has commenced, and the business premises of around 28,000 square metres will be completed in late 2005. Pension Fennia's share of the real estate company is 40 per cent. The main lessee of the premises will be Stockmann department store.

As the trade cycles have strengthened, economic growth has picked up around the world, although inflation is still at a low level. The development of equity and interest markets has therefore continued favourably early in the year. Pension Fennia's solvency and risk-bearing capacity have further improved. The proportion of equities and shares has been increased, and the duration of fixed-income investments has been raised. Dollar hedging continues.

Pension Fennia's solvency margin stood at € 642 million, or 17.4 per cent of the technical provisions as at 3 March 2004. The proportion of the solvency margin to the solvency limit was 1.8.

Future outlook

There are still uncertainty factors related to the strength of the economic growth. In the United States the growth is slowed down by dual deficit; budget and current account deficit, as well as fairly weak development of employment. The public sector deficit feeds the current account deficit whose financing is at the moment largely handled by central banks of Asia, mainly China and Japan. When the ability or willingness of Asian central banks to buy dollars dies down, there is a risk of considerable rise in long-term interest rates.

The economic growth continues weak in the euro zone. Export-driven growth will weaken, if the euro continues to strengthen. As the inflation is low, the European Central Bank can still lower its rate, if so required by the economic development. In addition, moderate inflation expectations are reflected in long-term interest rates that will probably remain at a reasonably low level throughout the current year. We have, however, probably passed the bottom of the interest cycle.

The developing economies of Asia and Europe continue to grow vigorously, which will also be reflected in the development of the stock markets of those areas. Of the large Asian countries, India's situation seems promising, and so does Russia's that produces raw materials.

Customer is number one

The focal point of 2004 in Pension Fennia is customer-orientation and, consequently, the segmentation of customers will be specified. The goal is to serve different-sized customers that use services differently in the best possible way. Pension Fennia continues to develop easy-to-use electronic insurance solutions for use by its partners.

The year 2004 will be characterised by preparation for the pension reform that will be implemented at the beginning of the next year. New calculation rules will be applied in the pension calculation systems as of May 2004, after which customers can be offered personal estimates on the effect of the pension reform on their pension cover. Pension reform will also be a key topic in the customer occasions and training arranged for partners, and in customer information services in 2004.

Staying longer at work

Furthermore, the changes to be made in the financing of the employment pension system will be specified during 2004. For example, the deductible cost of employers' disability pension will be amended, because as of 2006, the costs will not be directed in full at the last employer. Because there was still a desire to keep up the employment opportunities of aged employees, the sharing of deductible costs of persons hired at over 50 years will continue. Consequently, employers will not in practice incur any disability pension costs during the first three working years for employees that fall ill. Furthermore, the opportunity to reduce the dependence of TEL premium on age, which could lower the threshold to employ aged people, was considered.

The reform of the earnings-related pension scheme aims at extending the working period on average by three years, which would have a major effect on the future pension expenditure and, consequently, on future premium income. The Finnish earnings-related pension scheme is a partly funded system in which the currently working generation pays for a significant share of the pension cover of those on pension. Fairness between the generations demands that future generations will not have to pay essentially more for the cover of pensioners then than at present. Hence one of the future challenges is to follow all development trends that can secure this fairness. By doing this – as well as monitoring other development trends – we want to ensure that the earnings-related pension scheme will develop to be increasingly fair, also from the point of view of different customer and interest groups. The goal is to secure a fair pension cover to all beneficiaries.

The Pension Fennia Board of Directors wishes to thank all personnel and the operative management for a job well done in the financial year 2003.

Profit and Loss Account

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002	Notes
Technical account					
Premiums written	679,139	630,317	679,139	630,317	1
Investment income	349,387	310,551	351,634	308,939	3
Revaluations on investments					
Claims incurred					
Claims paid	-575,513	-536,843	-575,513	-536,843	2
Change in claims paid					
Total change	-108,021	2,660	-108,021	2,660	
Portfolio transfer	445		445		
	-683,089	-534,183	-683,089	-534,183	
Change in premium reserve					
Total change	-178,567	-105,435	-178,567	-105,435	
Portfolio transfer	1,243		1,243		
Statutory charges	-2,546	-968	-2,546	-968	
Operating expenses	-18,391	-16,625	-18,274	-16,924	5
Investment expenses	-147,140	-280,716	-146,650	-276,646	4
Other technical underwriting expenses	-985	-2,425	-985	-2,425	
Balance on technical account/margin	-949	515	1,905	2,674	
Non-technical account					
Other income	316	1	316	1	
Appropriations					
Change in depreciation difference			-21	-53	
Change in optional reserves					
			-21	-53	
Income taxes					
Taxes for the financial year and previous financial years	-1,181	-1,412	-1,180	-1,405	
Calculated tax	106	149			
	-1,075	-1,263	-1,180	-1,405	
Share of result of associated undertakings	1,641	198			
Minority interest in the result for the financial year	-285	-361			
Profit/loss for the financial year	218	-188	1,020	1,217	

Balance Sheet

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002	Notes
ASSETS					
Intangible assets					
Intangible rights	620	909	620	909	
Other long-term expenses	7,432	5,230	7,432	5,230	
	8,052	6,139	8,052	6,139	
Investments					
Investments in land and buildings					
Land and buildings	418,036	404,664	258,044	266,050	6
Loan receivables from group companies			187,882	152,177	
	418,036	404,664	445,927	418,228	
Investments in group companies and participating interests					
Shares and participations in group companies			16,659	16,717	8
Shares and participations in associated companies	16,742	15,101			
	16,742	15,101	16,659	16,717	
Other investments					
Equities and shares	839,698	552,552	838,756	551,610	9
Money-market instruments	2,358,304	2,394,904	2,358,304	2,376,224	
Loans guaranteed by mortgages	112,107	89,371	112,107	89,371	
Other loan receivables	162,912	155,658	143,778	166,763	
Deposits	9,000	18,100	9,000	18,100	
	3,482,021	3,210,586	3,461,944	3,202,069	
	3,916,799	3,630,351	3,924,530	3,637,014	
Debtors					
Direct insurance business					
Policyholders	41,947	44,422	41,947	44,422	
Other debtors					
Receivables from group companies				47	
Receivables from associated undertakings		40			
Receivables from own real estate companies			3,013	3,222	
Receivables from partner companies	294	390	294	373	
Portfolio transfer receivable	8,910	10,603	8,910	10,603	7
Other debtors	54,525	79,608	54,525	79,580	
	63,729	90,642	66,742	93,826	
Other assets					
Tangible assets					
Furniture and fixtures	2,485	2,737	2,485	2,590	
Other tangible assets	399	398	399	398	
	2,884	3,135	2,884	2,988	
Money and cash at bank	6,196	5,212	5,983	3,383	
	9,080	8,346	8,867	6,371	
Prepayments and accrued income					
Accrued interest and rent	48,983	64,195	48,983	64,195	
Other prepayments and accrued income	2,579	3,691	1,160	990	
	51,563	67,887	50,143	65,185	
Total assets	4,091,169	3,847,787	4,100,280	3,852,958	

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002	Notes
LIABILITIES					
Capital and reserves					
Initial fund	3,364	3,364	3,364	3,364	
Guarantee capital	1,682	1,682	1,682	1,682	
Revaluation reserve	692	344			
	5,738	5,390	5,046	5,046	
Other reserves	17,085	15,905	17,055	15,875	
Profit/loss brought forward	-16,740	-15,352	68	51	
Profit/loss for the financial year	226	-188	1,020	1,217	
	571	365	18,142	17,142	
	6,309	5,755	23,188	22,188	11
Minority interest	7,848	10,856			
Accrued appropriations					
Depreciation difference			344	323	
Optional reserves					
			344	323	
Technical provisions					
Premium reserve	2,675,155	2,496,588	2,675,155	2,496,588	
Claims reserve	1,352,475	1,244,454	1,352,475	1,244,454	
	4,027,630	3,741,042	4,027,630	3,741,042	10
Obligatory provisions					
Obligatory provisions		305			
Creditors					
Direct insurance business	1,607	1,748	1,607	1,748	
Loans from financial institutions	8	13	8	13	
Calculated tax debt	1,042	1,148			
Other creditors	14,368	52,119	15,812	53,622	
	17,025	55,028	17,427	55,383	
Accruals and deferred income	32,357	34,801	31,691	34,022	
Total liabilities	4,091,169	3,847,787	4,100,280	3,852,958	

Accounting Principles 2003

In addition to the Accounting Act and Accounting Decree, the bookkeeping and financial statements of an employment pension company are regulated by the Companies Act and the Insurance Companies Act. Orders relating to the matter are also found in the Act on Employment Pension Insurance Companies, the statutes of the Ministry of Social Affairs and Health on financial statements and consolidated financial statements of an insurance company, as well as in the regulations and guidelines issued by the Ministry of Social Affairs and Health and the Insurance Supervision Authority.

Consolidated financial statements

Those subsidiaries in which Pension Fennia holds more than half of the votes have been consolidated in the consolidated financial statements. In 2003, Pension Fennia group comprised as subsidiaries 66 real estate companies and Feva Kiinteistöt Oy. Kiinteistö-Fennia Oy was eliminated from the group on 1 December 2003.

The consolidated financial statements have been compiled as combinations of the profit and loss accounts and balance sheets of the parent company and its subsidiaries. Intra-group income and charges, profit distribution, amounts due to or from group companies and cross-shareholdings have been eliminated. Subsidiaries acquired during the financial year have been consolidated as from the day of acquisition. The subsidiaries sold during the financial year have been consolidated until the day of transfer. Minority interests in the profit or loss for the financial year and in capital and reserves are shown as separate items.

Intra-group cross-shareholdings have been eliminated using the acquisition method. The resulting consolidation difference is allocated to the subsidiaries' asset items within the limits permitted by their current values. The consolidation difference is depreciated in accordance with the planned depreciations of the corresponding asset item. In some real estate companies, value adjustment write-offs have been made in addition to the planned depreciation for the financial year. Previous revaluations in group shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

Copies of the consolidated financial statements are available at the parent company head office, address Kansakoulukuja 1, 00100 Helsinki.

Investments in participating interests

Insurance Company Fennia Life, Pension Fennia's 40 per cent owned associated undertaking, has been consolidated in the consolidated financial statements using the equity method. Fennia Life's market value has been estimated by using a cautiously estimated transfer price that equals the solvency margin in accordance with adapted solvency calculation plus a cautious estimate of how much it would cost to acquire a corresponding insurance portfolio on the market. Housing and real estate companies have not been treated as associated undertakings in the consolidated financial statements, because their effect on group profit and non-restricted capital and reserves is minimal.

Premiums written

The TEL premium income is determined according to the total TEL payroll of the insured. The advance premium based on the payroll estimate and collected during the financial year has been adjusted using the adjustment premium estimate in the financial statements. The differences caused by the estimated and realised adjustment payments of the previous year are also entered in the premiums for the financial year.

The YEL premium income is determined according to the entrepreneur's reported income.

Claims incurred

Claims incurred consist of the pensions paid to the pensioners, rehabilitation costs, clearing of PAYG pensions, operating expenses of claims handling, and the change in the provision for claims.

Valuation of investments and receivables in the balance sheet and determining the current values

Investments in land and buildings are entered at the lower of acquisition cost less depreciation, plus revaluation or current value. The current values of land and buildings and real estate shares are determined by item in the manner required by the Insurance Supervision Authority. Statements of an external, authorised real estate assessor have mainly served as the basis for determining the current values. The net realisable price in accordance with the Act on Housing Production has been used as the current value of Arava (state-subsidised) real estate to be released after the year 2002.

The value adjustments made on real estate are entered in the profit and loss account under value adjustments. Value readjustments with effect on profit have been made on the sold real estate before entering the capital gain. No revaluations on book values of real estate were made in the financial year 2003.

Equities and shares are entered in the balance sheet at the lower of acquisition cost or current value. Previous value adjustments on equities are entered in the profit and loss account as value readjustments for the part that the current value exceeds the book value. Equities are valued using the average price principle. Fixed asset shares are valued in the balance sheet at the acquisition cost, because that is considered to correspond to their current value. The last available closing prices of the financial year are used as current values for listed equities and shares. Cautiously estimated net realisable values are used as market values of unlisted insurance company shares. The current value of other unlisted shares is the acquisition cost or the probable net realisable value.

Money-market instruments include bonds and money-market instruments. The balance sheet value of money-market instruments is the acquisition cost, adjusted with the difference between the nominal value and the acquisition cost. The difference between the nominal value and the acquisition cost is matched as a deduction or addition in interest income over the maturity of the debt instrument. The amount of matching entries entered under acquisitions is presented in the notes to the balance sheet.

Foreign currency denominated receivables have been converted into Finnish currency at the rate quoted by the European Central Bank on 31 December. *Foreign currency denominated other investments* are entered at the rate of the acquisition date. The rates quoted on 31 December have been used to calculate the current values. If the current value on the date of closing the accounts is lower than the acquisition cost, the values of the investments have been adjusted. The unallocated rate differences that have arisen during the financial year are entered under other income and expenses from investments, and allocated rate differences have been handled as adjustments of the relevant income and expenses.

Loans, other receivables and deposits are valued at the lower of nominal value or probable value.

Premium receivables consist of the adjustment premium estimate and the due insurance premiums unpaid at the close of the financial year. The due insurance premiums that have been stated disqualified for payment, as well as receivables from companies that have been declared bankrupt are entered as credit losses.

Derivative contracts have been used by Pension Fennia for both hedging purposes and other purposes. The number of derivative contracts has been small in proportion to the total amount of investments.

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value has been entered in the profit and loss account for the hedged balance sheet item, no entry has been recorded in the profit and loss account for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract. When a value readjustment has been entered for the hedged item, the value change of the derivative used is entered in its entirety as an expense. The income and expenses resulting from a derivative contract are principally entered in the same profit and loss account item as the income and expenses from the hedged balance sheet item or position.

The negative value changes of other derivative contracts are entered in the profit and loss account. The profits and losses resulting from the termination or expiration of contracts during the financial year are entered as income or expenses for the financial year.

In calculating the contribution margin, capital and reserves, and the solvency requirements, those derivatives that have a specific hedging target and are handled as hedging in the books are handled as hedging derivatives. Regarding the counterpart risk, the rules on limiting risk concentration presented in the regulations and guidelines of the Insurance Supervision Authority have been followed.

The option share of *index-bound loans* is entered in other receivables and valued at the lower of acquisition cost or probable current value. A zero coupon bond is entered in the acquisition estimate, adjusted with the matched difference between the nominal value and the acquisition value. The financial year's proportion of the matching is entered as interest income.

Net investment income at current values

Net investment income at current values in relation to invested capital is calculated by investment type and for the total amount of investments, taking into account the cash flows from securities time-weighted daily and from loans time-weighted monthly.

The income for the year is calculated by using a time and money-weighted formula so that the invested capital is calculated by adding to the market value at the beginning of the financial year the cash flow during the year weighted with the relative proportion of the duration of the whole year that is left from the event date or from halfway of the event month to the end of the year.

Investment surplus at current values

Investment surplus at current values is the net investment income less the required yield on technical provisions.

Provisions and tax liabilities

No calculated tax liabilities are presented on valuation differences of investments which are shown in the notes. The revaluations entered as income are taxable income. In the consolidated financial statements, the accrued depreciation difference and voluntary provisions are divided into calculated change in tax liabilities and result for the financial year, as well as into calculated tax liabilities and capital and reserves.

Depreciation

The acquisition cost of depreciable assets is capitalised and entered as depreciation according to plan under expenses during its economic useful life. Revaluations on depreciable assets entered as income are also depreciated according to plan. Software licenses are shown as intangible rights, and software design and programming costs as other long-term expenses. The straight-line depreciation on the original acquisition cost is applied using the following economic useful lives:

Residential, office and business premises	50 years
Industrial premises and warehouses	40 years
Hotels	40 years
Technical equipment in buildings	10 years
Intangible rights	5 years
Motor vehicles	5 years
Computer hardware and software	4 years
Furniture and fixtures	10 years
Office machines	7 years
Other long-term expenses	5 years and 10 years

The maximum depreciation allowed under the Act on the Taxation of Business Profits has been made in the case of some buildings.

Operating expenses

The operating expenses of the company have been divided into different functions according to the instructions issued by the Insurance Supervision Authority as shown in the notes. Long-term software design and programming costs charged by Esy Oy have been entered in other long-term expenses.

Direct taxes and surplus for the financial year

The tax determined according to the result for the financial year is entered on an accrual basis as taxes for the financial year. The withholding tax credit related to foreign dividends received and the avoir fiscal tax credit related to Finnish dividends received is entered under investment income. The withholding tax paid for foreign dividends and withholding tax credit, as well as avoir fiscal tax credit related to Finnish dividends are not entered in an amount exceeding the income tax for the financial year.

Pension Fennia's surplus for the financial year is determined according to the calculation bases applied for by Pension Fennia and confirmed by the Ministry of Social Affairs and Health.

Pension arrangements

The statutory pension provision for the personnel is arranged through TEL insurance. Supplementary pension provision is arranged for part of the personnel through TEL supplementary pension insurance. The Managing Director and his deputy are entitled to retire on old age pension at the age of 60 years on the basis of the TEL supplementary pension insurance. Pension premiums are entered on an accrual basis.

Technical provisions

The liability resulting from insurance contracts is entered as technical provisions. It comprises the premium and claims reserves. The technical provisions are calculated according to the calculation bases confirmed by the Ministry of Social Affairs and Health. The premium reserve includes the provision for future bonuses which is included in the solvency margin.

Solvency margin

The solvency margin of an insurance company consists of the difference between assets and liabilities at current values. In this case, the provision for future bonuses is not included in the technical provisions. The solvency margin and capital and reserves must meet the requirements prescribed in the Act on Employment Pension Insurance Companies. For non-hedging derivatives, the possible maximum loss that equals loss at probability of 2.5 per cent during one day has been deducted from the solvency margin.

Notes to the Accounts

Notes to the Profit and Loss Account

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
1. Premiums written				
Direct insurance				
TEL basic insurance				
Employer contribution	471,988	447,644	471,988	447,644
Employee contribution	130,146	118,819	130,146	118,819
	602,134	566,464	602,134	566,464
TEL supplementary pension insurance	2,638	2,619	2,638	2,619
YEL minimum coverage insurance	74,085	61,796	74,085	61,796
YEL supplementary pension insurance	70	46	70	46
Transition premium to the State Pension Fund	212	-609	212	-609
Total Premiums written	679,139	630,317	679,139	630,317
Items deducted from premiums written				
Credit loss on premiums				
TEL	3,159	3,329	3,159	3,329
YEL	1,345	1,531	1,345	1,531
	4,503	4,860	4,503	4,860
2. Claims paid				
Direct insurance				
Paid to pensioners				
TEL basic insurance	448,889	424,275	448,889	424,275
TEL supplementary pension insurance	16,194	16,298	16,194	16,298
YEL minimum coverage insurance	76,462	72,668	76,462	72,668
YEL supplementary insurance	605	642	605	642
	542,150	513,883	542,150	513,883
Paid/refunded clearing of PAYG pensions				
TEL pensions	31,194	30,299	31,194	30,299
YEL pensions	-3,290	-10,988	-3,290	-10,988
	27,903	19,311	27,903	19,311
Paid/refunded joint liability claims	-533	-1,219	-533	-1,219
	569,521	531,975	569,521	531,975
Claims administration costs	5,750	4,603	5,750	4,603
Working capacity maintenance expenses	242	265	242	265
Total claims paid	575,513	536,843	575,513	536,843

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Net investment income				
3. Investment income				
Income from investments in group companies				
Dividend income				93
Income from real estate investments				
Interest income				
From group companies			7,147	6,554
Others	1,146	652	28	26
Other income	44,268	42,934	40,775	37,378
	45,414	43,585	47,950	43,958
Income from other investments				
Dividend income	12,869	17,245	12,869	17,152
Interest income	116,183	125,381	117,140	126,338
Other income	21,413	19,149	21,413	19,149
	150,465	161,775	151,421	162,639
Total	195,879	205,361	199,371	206,690
Value readjustments	32,951	1,111	32,951	1,111
Gains on realisation	120,557	104,080	119,311	101,138
Total	349,387	310,551	351,634	308,939
4. Investment expenses				
Costs on real estate investments	-15,920	-16,366	-23,803	-22,770
Costs on other investments	-15,029	-24,018	-16,247	-24,018
Interest costs and expenses on other liabilities	-1,686	-2,287	-1,686	-2,287
	-32,635	-42,671	-41,736	-49,075
Value adjustments and depreciation				
Value adjustments	-50,243	-111,905	-52,925	-111,264
Planned depreciation on buildings	-12,909	-10,474	-637	-641
	-63,152	-122,379	-53,561	-111,905
Losses on realisation	-51,353	-115,557	-51,353	115,557
Total	-147,140	-280,608	-146,650	-276,537
Net investment income before revaluations and their adjustment	202,247	29,943	204,984	32,401
Revaluation on investments		-108		-108
Net investment income in the profit and loss account	202,247	29,835	204,984	32,293

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
5. Profit and loss account item operating expenses				
Insurance policy acquisition costs				
Direct insurance remunerations	519	466	519	466
Other insurance policy acquisition costs	5,895	5,499	5,895	5,499
	6,414	5,965	6,414	5,965
Insurance management costs	6,864	6,246	6,864	6,246
Administration costs	5,113	4,414	4,996	4,713
Total	18,391	16,625	18,274	16,924
Total operating expenses by operation				
Claims paid				
Expenses related to claims administration	5,750	4,603	5,750	4,603
Working capacity maintenance expenses	242	265	242	265
	5,992	4,869	5,992	4,869
Operating expenses	18,391	16,625	18,274	16,924
Investment expenses				
Costs on real estate investments	2,051	2,159	1,218	698
Costs on other investments	4,130	4,342	4,130	4,342
	6,182	6,501	5,349	5,040
Total	30,565	27,995	29,615	26,833
Personnel expenses				
Salaries and bonuses	10,439	9,865	9,642	9,000
Pension expenses	2,348	2,005	2,184	1,840
Other social security expenses	868	849	825	760
Total	12,787	12,719	12,652	11,600
Salaries and bonuses of the management				
Managing Director and Deputy Managing Director	458	480	363	382
The Supervisory Board and its deputy members	41	44	41	44
The Board of Directors and its deputy members	97	93	97	93
Total	595	617	501	519

There are no pension commitments for members of the Supervisory Board and the Board of Directors, except the Managing Director and his deputy who are entitled to retire at the age of 60. No money loans or guarantees have been granted to members of the Supervisory Board and the Board of Directors.

Average number of personnel during the financial year	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Office personnel	200	195	200	195
Sales personnel	21	19	21	19
Real estate personnel	24	28	4	4

Notes to the balance sheet

EUR 1,000	Remaining acquisition cost 2003	Book value 2003	Current value 2003	Remaining acquisition cost 2002	Book value 2002	Current value 2002
6. Investments at current value and valuation differences, parent company						
Investments in land and buildings						
Land and buildings	23,643	25,204	28,586	24,274	25,835	28,639
Land and building in group companies	130,758	146,509	188,162	129,497	151,622	187,457
Other land and buildings	83,472	86,331	89,963	85,733	88,593	91,894
Loan receivables from group companies	187,882	187,882	187,882	152,177	152,177	152,177
Investments in group companies						
Shares and participations	16,659	16,659	26,312	16,717	16,717	26,371
Other investments						
Equities and shares	838,747	838,756	921,377	551,564	551,610	563,353
Money-market instruments	2,346,456	2,346,456	2,384,349	2,383,507	2,383,507	2,448,151
Loans guaranteed by mortgages	112,107	112,107	112,107	89,371	89,371	89,371
Other loans	143,778	143,778	143,778	148,084	148,084	148,084
Deposits	9,000	9,000	9,000	18,100	18,100	18,100
Option share of an index-bound loan	11,847	11,847	12,803	11,243	11,243	11,992
	3,904,349	3,924,530	4,104,319	3,610,268	3,636,860	3,765,589
The remaining acquisition cost of money-market instruments includes						
The difference between the nominal value and acquisition cost, released or charged to interest income	-4,644			-2,182		
Income from index-bound loans	3,622			3,018		
Book value includes						
Revaluations entered as income	20,180			26,592		
Valuation difference (difference between current value and book value)			179,790			128,729

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Other loan receivables itemised by guarantee				
Bank guarantee	36,768	47,924	36,768	47,924
Guarantee insurance	45,903	49,161	45,903	49,161
Insurance policy	2,025	537	2,025	537
Real estate share	17,320	19,907	17,320	19,907
Other guarantee	26,205	30,554	26,205	30,554
The remaining acquisition cost	128,222	148,084	128,222	148,084
Total pension loan receivables				
Other loans guaranteed by mortgages	13,013	18,508	13,013	18,508
Other loan receivables	49,692	65,965	49,692	65,965
The remaining acquisition cost	62,705	84,473	62,705	84,473
Receivables from group companies				
Other receivables		40		47

7. Portfolio transfer receivables

Joint liability receivables	638	930	638	930
Receivables from special receivership's estate	8,272	9,673	8,272	9,673
Total portfolio transfer receivables	8,910	10,603	8,910	10,603

8. Shares and participations in group companies, parent company

Shares and participations				
Original acquisition cost, 1 Jan.			16,717	16,710
Increase				8
Transfers			-59	-1
The remaining acquisition cost, 31 Dec.			16,659	16,717

Shares and participations	Holding of all shares, %	votes, %	Book value
Feva Kiinteistöt Oy	100.0	100.0	8
Insurance Company Fennia Life	40.0	40.0	16,651
Total shares and participations			16,659

EUR 1,000	Shares %	Book value 31 Dec. 2003	Market value 31 Dec. 2003
9. Other investments, parent company			
Finnish equities and shares			
Aldata Solution Oyj	0.31	402	402
Alma Media	0.49	1,976	2,140
Amer Group Plc	0.48	3,466	3,997
Aspo Plc	0.37	271	410
Basware Corporation	0.99	517	517
Capman Plc	0.12	142	142
Chips Abp	0.21	609	609
Citycon Oyj	2.04	3,162	3,280
Comptel Plc	0.19	405	405
Electrobit Group	0.25	735	791
Elisa Communications Corp.	0.29	3,335	4,172
Elcoteq Network Corporation	0.53	1,304	1,647
Exel Oyj	0.72	448	457
Finnair Plc	0.28	1,168	1,268
Fiskars Corporation	0.27	977	1,426
Finnlines Plc	0.33	1,572	1,895
F-Secure Corporation	0.58	1,322	1,484
Fortum Corporation	0.30	15,240	21,089
HK Ruokatalo Oyj	0.43	506	559
Honkarakenne Oyj	1.52	210	330
Huhtamäki Oyj	0.35	3,277	3,277
Jaakko Pöyry Group Oyj	0.33	789	994
KCI Konecranes International	0.30	1,064	1,169
Kesko Corporation	0.31	3,205	3,885
Kone Corporation	0.35	5,774	8,532
Kemira Oyj	0.35	3,222	3,893
Kyro Corporation	0.56	1,528	1,740
Lassila & Tikanoja Plc	0.31	849	1,331
Lemminkäinen Corporation	0.48	1,255	1,397
Lännen Tehtaat Plc	0.49	351	351
Marimekko Corporation	1.13	628	834
Metso Corporation	0.17	2,275	2,275
M-Real Corporation	0.14	1,758	1,758
Nokia Corporation	0.04	28,179	28,179
Nokian Tyres Plc	0.40	1,960	2,540
OKO Bank Corporation	0.42	2,328	2,833
Orion Corporation	0.29	3,279	3,347
Outokumpu Oyj	0.26	4,585	5,078
PKC Group Oyj	0.83	948	1,007
Pohjola Group Insurance Corporation	0.26	2,548	2,851
Perlos Corporation	0.32	899	1,078
Raisio Group Plc	0.20	305	325
Rak.Konevuokraamo Oyj	0.30	174	223
Rapala Normark Group	0.25	398	511
Rocla Oyj	0.90	234	237
Rautaruukki Oyj	0.22	1,590	1,811
Sampo Plc	0.33	13,409	15,002
Scanfil plc	0.25	855	855
Sponda	0.26	1,118	1,339
Stonesoft Corporation	0.17	65	65
SSH Communications	0.62	293	293
Stora Enso Oyj	0.27	24,537	24,537
Stockmann plc	0.34	2,777	3,238
SanomaWSOY Oyj	0.30	4,745	8,071
Suominen Corporation	0.36	455	558
Tamfelt Oyj Abp	0.12	272	296
Talentum Oyj	0.89	807	944
Technopolis Plc	0.15	69	96
Teleste Corporation	0.91	538	849
Tecnomen Corporation	0.20	163	163
Tietoenator Corporation	0.35	5,284	6,329
Tieto-X Oyj	0.31	50	50

EUR 1,000	Shares %	Book value 31 Dec. 2003	Market value 31 Dec. 2003
Uponor Oyj	0.29	2,133	2,718
UPM-Kymmene Corporation	0.31	24,616	24,665
Vacon Plc	0.17	223	252
Vaisala Oyj	0.42	1,312	1,433
Vaahto Group Oyj	3.18	256	256
Wärtsilä Corporation	0.26	1,758	2,328
YIT Corporation	0.30	1,683	2,452
Arek Oy	4.00	280	280
Esy Oy	19.00	288	288
Fibrogen Europe	1.03	964	964
Imatra region development company	0.35	8	8
International Security Technology Oy	8.87	286	286
IWS International Oy	1.65	589	589
Metorex International Oy	0.09	2	2
Midinvest Oy	10.87	505	505
Nethawk Oy	2.07	3,418	3,418
Octel Oy	9.09	336	336
Sisu Axels Oy	26.20	842	842
Team Botnia Oy	0.93	2	2
Turun Puhelin Oy	0.00		
Garantia Insurance Company	3.66	1,521	1,521
Vaasan Puhelin Oy	0.00	1	1
Foreign euro zone equities denominated in euro			
Netherlands			
Aegon NV	0.002	390	390
ING Group NV	0.002	804	804
Koninklijke Philips Electronic	0.003	754	754
Royal Dutch Petroleum Company	0.004	3,553	3,553
Unilever NV	0.003	755	778
Belgium			
Fortis	0.002	319	319
Spain			
Antena 3 Television SA	0.001	10	14
Banco Bilbao Vizcaya Argentari	0.003	898	898
Banco Santander Central Hisp	0.002	1,033	1,033
Telefonica SA	0.002	1,262	1,374
Italy			
ENI-Ente Nazionale Idrocarburi	0.002	977	1,002
Assicurazioni Generali	0.002	420	420
Telecom Italia Spa	0.002	517	517
France			
BNP Paribas	0.003	1,022	1,148
Carrefour Supermarche	0.002	631	631
Axa	0.002	559	614
TotalFinaElf SA	0.003	2,254	2,432
L'OREAL	0.001	455	455
Suez SA	0.002	398	398
Germany			
Allianz AG	0.002	793	793
Basf AG	0.002	536	580
Bayer AG	0.003	464	464
Deutsche Bank AG	0.003	970	986
DaimlerChrysler AG	0.002	666	666
Deutsche Telekom	0.001	871	871
E.ON AG	0.002	644	644
Muenchener Rueckversicherungs	0.002	398	405

EUR 1,000	Shares %	Book value 31 Dec. 2003	Market value 31 Dec. 2003
SAP AG	0.001	523	599
Siemens AG	0.002	1,137	1,207
Dow Jones Euro Stoxx 50 EX fund	0.554	8,322	8,757
Salzgitter AG	0.033	165	176
Foreign non-euro zone equities denominated in euro			
Sweden			
Nordea AB FDR	0.041	5,732	7,172
OMHEX Ab	0.087	852	980
TeliaSonera AB	0.083	16,131	16,131
Foreign equities not denominated in euro			
Great Britain			
AVIVA Plc	0.003	397	397
AstraZeneca Plc	0.003	1,711	1,711
Barclays Plc	0.003	1,135	1,181
BP Amoco Plc	0.002	3,341	3,341
British Telecommunications Plc	0.002	375	375
Diageo Plc	0.002	802	802
GlaxoSmithKline plc	0.003	2,815	2,815
HBOS plc	0.003	980	996
HSBC Holdings Plc	0.002	2,969	3,364
Lloyds TSB Group Plc	0.003	953	953
Royal Bank of Scotland Group Plc	0.002	1,412	1,565
Tesco Plc	0.002	484	512
Vodafone Group Plc	0.002	3,277	3,277
Sweden			
WM-DATA Ab B	0.040	235	235
Switzerland			
Credit Suisse Group	0.012	1,017	1,017
Nestle SA	0.003	1,983	1,983
Novartis AG	0.002	2,038	2,054
Roche Holding AG	0.002	864	961
Swiss Re	0.003	440	440
UBS AG	0.007	1,334	1,522
United States			
iShares MSCI Japan Index Fund	0.653	13,908	15,500
Nasdaq-100 Index Tracking Stock	0.063	10,548	10,970
SPDR Trust series 1	0.124	35,435	41,582
Capital trusts			
Aboa Venture II Ky		442	442
Access Capital LP		5,213	5,213
Access Capital LP II A		1,313	1,313
Access Capital LP II B		438	438
Bio Fund Ventures I Ky		1,209	1,209
Bio Fund Ventures II Ky		4,159	4,159
Bio Fund Ventures III Ky		948	948
Ecvitec Technology Funde II Ky		1,306	1,306
Etelä-Pohjanmaan Rahasto Ky		120	120
European Fund Investments UK		1,732	1,732
Finnmezzanine III Ky		6,373	6,373
Finnmezzanine Rahasto I Ky		564	564
Finnmezzanine Rahasto II Ky		1,003	1,003
Finnventure Rahasto III Ky		732	732
Finnventure Rahasto V Ky		9,676	9,676
Forenvia Venture I Ky		618	618
Garantia PK-lainarahasto I Ky		25	25
Garantia PK-lainarahasto II Ky		63	63
GrowHow Rahasto I Ky		387	387

EUR 1,000	Shares %	Book value 31 Dec. 2003	Market value 31 Dec. 2003
Helmet SME Ventures Ky		1,092	1,092
Industri Kapital 2000 Ltd		8,096	8,096
Kareliaventure Rahasto Ky		62	62
Lapin Rahasto I Ky		141	141
MB Equity Fund III		1,118	1,118
Metal Fund Ky		269	269
Midinvest Fund I Ky		514	514
Nordic Mezzanine Fund I Ky		1,513	1,513
Nordic Mezzanine Fund II LP		274	274
Profita Fund I Ky		545	545
Profita Fund II Ky		1,524	1,524
Promotion Capital I Ky		729	729
Promotion Equity I Ky		193	193
Savon Kasvurahasto I Ky		332	332
SFK 99 Rahasto Ky		2,847	2,847
Teknoventure rahasto II Ky		313	313
Telecomia Venture I		467	467
Nordic Capital IV Ltd		6,058	6,214
Equity funds			
Aberdeen Int Plc - Asia Pacific Fund		12,668	13,824
Aberdeen Int Plc - China Opportunities Fund		10,296	14,344
ABN AMRO Altern Inv-AsiaPacific MultiStragecyFund		2,500	2,500
ABN AMRO Eastern Europe Equity Fund		6,387	7,329
Avenir B Kasvu		4,808	5,089
BGI Denmark index		104	124
BGI EMU Equity Index B		4,799	4,799
BGI MMF USA			
BGI Norway Index		57	76
BGI S&P 500 Index		7,791	7,791
BGI Sweden Index		320	321
BGI Switzerland Index		1,005	1,121
BGI UK Index		3,663	3,793
CAF Asian Renais Inst		32,044	40,017
Carnegie Medical		6	7
Elite sijoitusrahasto		2,000	2,849
eQ Arvonkasvattajat A (WIP Value Visions A)		2,000	2,458
eQ Pikkujättiläiset (WIP Small Titans A)		6,000	7,058
Fidelity American Growth Fund		15,842	17,311
Fidelity European Aggressive Fund		30,008	31,578
Fidelity European Growth Fund		50,313	58,332
FIM India Sijoitusrahasto		7,000	8,557
FIM Mondo Kasvurahasto		2,657	2,657
FIM Russia Sijoitusrahasto		19,044	20,352
Fondita Nordic Small Cap B		5,940	6,727
Nektar Asset Management AB		5,307	5,633
Nordea European Value Fund		5,000	5,069
PW Tactical Allocation Fund Y		3,490	3,490
T. Rowe Price -US bl ch eq-I		20,832	23,698
T. Rowe Price -US large cap growth eq fund		32,464	34,872
T. Rowe Price -US large cap value eq		17,515	19,913
T. Rowe Price -US sml co eq		15,073	16,606
Zenit Asset Management AB		4,749	4,824
Fixed-income funds			
Deutsche GlobalSpectrum Fund - Global HghYldBndFnd		5,000	5,224
Gyllenberg High Yield Sijoitusrahasto B		30,000	31,460
PAM (L) Bonds Higher Yield -C		30,000	30,205
RG Capital Growth High Yield Bond Fund		25,000	25,618
Guarantee capital			
Mutual Insurance Company Fennia		3,364	3,364
		838,756	921,377

EUR 1,000	Parent company 2003	Parent company 2002
Liabilities		
Open derivative contracts		
I Interest rate derivatives		
Interest rate swaps		
Nominal value	35,835	39,071
Current value	3,358	4,634
The market value does not include the transferred interest rate of the financial year.		
II Currency derivatives		
Forward and future contracts		
Nominal value of underlying instruments	190,890	76,666
Current value of contracts	12,389	3,312
Closed forward and future contracts		
Nominal value of underlying instruments		
Current value of contracts		
III Share derivatives		
Option contracts		
Bought options		
Nominal value of underlying instruments	6,485	6,479
Current value of contracts	270	277
Set options		
Nominal value of underlying instruments		
Current value of contracts		
The contracts for which the position is closed are not included in the above figures.		
Investment commitments		
Capital trusts	51,120	45,822
Leasing and rent liabilities		
Leasing liabilities in the current financial year	253	253
Leasing liabilities in the future financial years	865	1,118
Other contingent liabilities		
Liability for the VAT debt of the tax liability group in accordance with Value Added Tax Act, Section 188	4,129	7,312
Restitution liability for VAT deduction from new buildings and renovation of real estates	511	511

EUR 1,000	Parent company 2003	Parent company 2002
10. Technical provisions		
Premium reserve		
Future pensions	2,319,661	2,205,910
Provision for future bonuses	351,194	285,631
Provision for current bonuses	4,301	5,046
Total premium reserve	2,675,155	2,496,588
Claims reserve		
Current pensions	1,101,506	1,005,171
Equalisation amount	250,969	239,282
Total claims reserve	1,352,475	1,244,454
Total technical provisions	4,027,630	3,741,042
Bonuses		
Provision for current bonuses, 1 Jan.	5,046	22,121
Client bonuses paid during the financial year	-4,897	-26,149
Transfer to provision for current bonuses	4,151	9,075
Provision for current bonuses, 31 Dec.	4,301	5,046
Solvency margin		
Capital and reserves after the proposed distribution of profit	23,188	22,188
Share capital or equivalent funds, profit brought forward, revaluation reserve and central administration account		
Accrued appropriations	344	323
Valuation difference between current values of assets and book values of balance sheet items	195,537	136,675
Provision for future bonuses	351,194	285,631
Subordinated loans		
Commitments excluded in the balance sheet		
Deferred acquisition costs and intangible assets	-8,052	-6,139
Other items	-2,071	-1,153
	560,140	437,525
Solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	200,902	145,709
Solvency ratio, %	15.33	12.75
The realised solvency margin/technical provisions used in calculating solvency		
Solvency limit, %	8.25	6.37
Lower limit of the target zone, % 2 x solvency limit	16.49	12.73
Upper limit of the target zone, % 4 x solvency limit	32.98	25.47

EUR 1,000	Group 2003	Parent company 2003
11. Capital and reserves		
Guarantee capital	1,682	1,682
Initial reserve	3,364	3,364
Construction reserve	30	
Revaluation reserve	692	
Non-restricted reserves	15,875	15,875
Profit from the year 2002	1,180	1,180
Profit/loss brought forward	-15,540	1,268
Used during the financial year	-1,200	-1,200
Profit for the financial year	226	1,020
Total capital and reserves	6,309	23,188

	Number	Book value	Number	Book value
Guarantee capital				
Mutual Insurance Company Fennia	10	1,682	10	1,682
Capital and reserves after proposed profit distribution				
Holders of guarantee capital:				
Guarantee capital		1,682		1,682
Proposed distribution to holders of guarantee capital				
Policyholders after proposed distribution		4,627		21,506
Total		6,309		23,188
Distributable profits				
Profit for the financial year		226		1,020
Other distributable reserves				
Other reserves		17,055		17,055
Accumulated profit		-16,740		68
Capital and reserves of accumulated appropriations		-1,568		
Total distributable profits		-1,027		18,142

Disposal of profit

The Board of Directors proposes that the EUR 1,019,962.84 surplus for the financial year be disposed as follows:

to be transferred to the contingency reserve	EUR 980,000.00
to be transferred to the Board's expense account	EUR 20,000.00
to be retained on the profit and loss account	EUR 19,962.84

Key Figures of Financial Development

The terms used in the key figures tables are the same as those in the profit and loss account and the balance sheet, unless otherwise stated. The summarising table below shows the most important key figures.

Key Figures, EUR mill.	2003	2002	2001	2000	1999
Premiums written	679.1	630.3	612.8	539.8	499.9
Pensions paid	542.2	513.9	481.6	448.3	427.2
Net investment income at current values	262.7	62.1	4.6	34.3	432.3
Yield on invested capital, %	6.7	1.6	0.1	0.9	14.5
Turnover	1,035.6	944.0	973.7	960.1	757.9
Total operating expenses	29.6	26.8	23.7	20.2	20.2
% of turnover	2.9	2.8	2.4	2.1	2.7
% of TEL payroll and YEL reported earnings [1]	0.7	0.7	0.7	0.6	0.7
Total result	141.1	-83.4	-135.3	-84.2	347.8
Technical provisions	4,027.6	3,741.0	3,638.3	3,341.9	2,982.2
Solvency margin	560.1	437.5	550.2	713.4	830.5
% of technical provisions	15.3	12.7	17.3	24.6	31.2
Ratio to the solvency limit	1.9	2.0	2.1	2.7	2.9
Equalisation provision	251.0	239.3	223.0	204.0	184.3
Pension assets	4,223.2	3,877.7	3,743.7	3,631.0	3,515.5
Transfer to client bonuses, % of TEL payroll [2]	0.15	0.17	0.25	0.55	0.85
Paid client bonuses, % of TEL payroll	0.18	0.62	0.78	0.63	0.35
TEL payroll	2,857.9	2,671.1	2,574.6	2,282.2	2,075.8
YEL reported earnings	366.5	312.9	300.4	286.7	283.6
No. of TEL policyholders	16,900	15,920	14,760	14,730	14,780
No. of TEL insured	120,660	115,460	112,800	107,610	101,000
No. of YEL policyholders	23,220	19,380	18,840	18,750	18,690
No. of pensioners	71,590	70,040	68,300	66,620	65,220

[1] Calculation of the ratio includes total operating expenses without administration costs from investment operations and working capacity maintenance activities.
[2] Does not include supplement to the provision for current bonuses.

Premiums written includes TEL and YEL premium income less credit losses. Pensions paid includes the payments made to the pensioners. Investment income, total surplus and solvency margin are analysed later on. Total surplus comprises of investment surplus and insurance business surplus and loading profit. Turnover equals premiums written before credit losses and reinsurers' share plus investment income in accordance with the profit and loss account, revaluations and other returns less unrealised gains/losses. Equalisation provision serves as a buffer against insurance business fluctuations. Pension assets comprise of the technical provisions in the balance sheet and valuation differences of assets.

The figures have been rounded to the nearest five; thus the figures do not necessarily sum up to the total given.

Investment operations

Investment distribution (includes accumulated interest)	2003 EUR mill.	%	2002 EUR mill.	%	2001 EUR mill.	%	2000 EUR mill.	%	1999 EUR mill.	%
Loans	259.1	6.2	259.2	6.8	263.1	7.1	276.7	7.7	289.0	8.4
Bonds	1,841.1	44.2	2,195.5	57.2	2,003.3	54.3	1,773.3	49.6	1,501.8	43.6
including fixed-income funds	1,933.6		2,195.5		2,157.3		1,873.2		1,501.8	
Other money-market instruments and deposits	612.4	14.7	328.1	8.6	95.1	2.6	181.4	5.1	239.0	6.9
Equities and shares	959.4	23.0	592.3	15.4	897.3	24.3	968.1	27.1	1,024.1	29.7
excluding fixed-income funds	866.9		592.3		743.3		868.2		1,024.1	
Real estate	495.6	11.9	459.9	12.0	427.3	11.6	378.2	10.6	392.4	11.4
Total investments	4,167.5	100.0	3,835.1	100.0	3,686.1	100.0	3,577.7	100.0	3,446.4	100.0

The investment income specification and result table shows how Pension Fennia's net investment income in the profit and loss account and calculated at current values met the minimum yield requirement, i.e. compared with the interest paid on technical provisions and, in 1999, also the interest transferred to support the solvency margin.

Investment income specification and result, EUR mill.	2003	2002	2001	2000	1999
Direct net income	145.2	157.9	159.9	153.9	129.5
Loans	11.7	13.8	14.2	14.1	14.8
Bonds	90.6	97.0	96.3	84.6	79.5
Other money-market instruments and deposits	11.0	10.0	8.3	12.6	5.6
Equities and shares	11.8	15.8	19.2	22.8	11.3
Real estate	23.5	21.8	23.7	21.3	19.7
Other investments					
Unallocated income, costs and operating expenses	-3.4	-0.6	-1.8	-1.5	-1.3
Changes in book value [1]	58.6	-127.0	28.3	124.6	61.9
Equities and shares	17.9	-118.1	-10.0	120.4	46.1
Bonds	45.1	-0.6	39.0	1.6	16.1
Real estate	-4.2	-6.3	0.3	2.7	-0.3
Other investments	-0.1	-2.0	-1.0	-0.2	0.0
Net investment income at book value	203.8	30.9	188.2	278.5	191.4
Change in valuation differences	58.9	31.2	-183.6	-244.2	240.7
Equities and shares	80.0	-45.2	-155.2	-269.6	373.4
Bonds	-27.6	73.7	-33.1	21.3	-135.4
Real estate	6.7	2.3	4.8	3.7	2.7
Other investments	-0.3	0.4	-0.1	0.3	0.0
Net investment income at current values	262.7	62.1	4.6	34.3	432.2
Other interest items [2]	3.8	-0.4	2.8	3.1	7.3
Yield requirement on the technical provisions	-141.3	-165.2	-165.5	-143.8	-128.3
Investment result at book value	66.3	-134.6	25.5	137.9	70.4
Investment result at current values	125.2	-103.4	-158.1	-106.4	311.2

[1] Realisation gains and losses and other changes in book value.
[2] Includes such profit an loss account items that are not entered under investment income.

Rates of return on investments are calculated according to investment distribution for each asset item. The invested capital is calculated by adding the cash flow during the year weighted with the relative proportion of the duration of the whole year that is left from the event date to the end of the year to the market value at the beginning of the financial year. Investment income is formed by the net income in accordance with the profit and loss account for the investment period plus the change in valuation differences. Invested capital includes the accrued interest that has not fallen due.

Net investment income at current values 1.1.–31.12.2003	Net investment income at current values EUR mill. 2003	Invested capital EUR mill. 2003	Yield on invested capital, % 2003	Yield on invested capital, % 2002	2001	2000	1999
Loans	11.7	258.9	4.5	4.6	4.9	5.1	5.0
Bonds	108.0	2,114.3	5.1	8.5	5.6	6.9	-2.2
including fixed-income funds	110.8	2,132.8	5.2	8.4	5.5	6.9	-
Other money-market instruments and deposits	10.7	409.1	2.6	3.7	5.0	4.4	3.0
Equities and shares	109.7	669.2	16.4	-18.5	-14.7	-12.2	93.0
excluding fixed-income funds	107.0	650.8	16.4	-19.1	-17.3	-13.1	-
Real estate	25.9	464.6	5.6	4.3	7.4	7.8	6.0
Total investments	266.1	3 916.2	6.8	1.7	0.2	1.0	14.6
Unallocated income, costs and operating expenses from investment operations	-3.4		-0.1	0.0	-0.1	-0.1	-0.1
Net investment income at current values	262.7		6.7	1.6	0.1	0.9	14.5

The sufficiency of the administration costs in premium and total operating expenses

The assets required for the management of pension provision are collected in the administration costs included in the premium. These administration costs in the premium cover claims settlement expenses, insurance policy acquisition costs, policy management and general administrative expenses, including depreciation. Other income includes, for instance, premium increases charged from clients due to neglected insurance notifications.

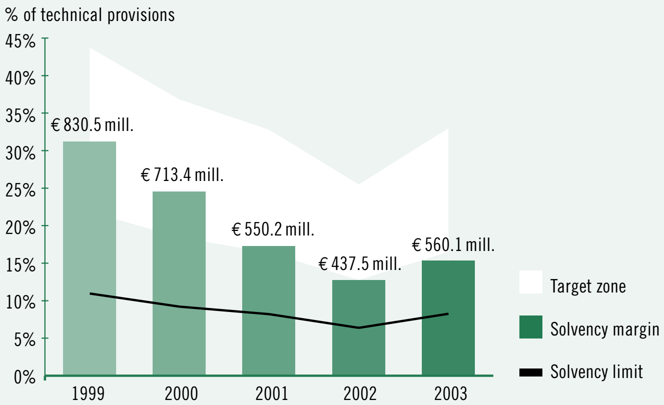
Administration costs from investments are covered from investment income. Pension Fennia has followed the efficiency of the administration of investment operations with the ratio of operating expenses of investment operations and invested capital. This figure is for guidance only, as it does not include, for instance, administration costs of funds that have cut the returns of the funds.

Loading profit and total operating expenses, EUR mill.	2003	2002	2001	2000	1999
Insurance business					
Administration costs in insurance premium	27.2	23.4	22.1	18.6	17.6
Operating expenses by operation	24.0	21.5	19.0	16.5	17.3
Other income	0.9	0.5	0.7	0.5	0.4
Loading profit	4.1	2.4	3.9	2.5	0.7
Operating expenses/loading profit, %	85.5	90.0	83.1	86.8	96.2
Investment					
Operating expenses from investment	5.3	5.0	4.5	3.4	2.7
% of invested capital	0.14	0.13	0.12	0.10	0.09
Operating expenses from working capacity maintenance	0.2	0.3	0.2	0.2	0.2
Total operating expenses	29.6	26.8	23.7	20.2	20.2

Solvency

The solvency of employment pension companies is measured by the solvency margin and its ratio to the solvency limit which is determined according to the risk-bearing of the company's investments and the technical provisions used in calculating the solvency. The solvency margin consists of the capital and reserves, the difference between current values and book values of assets, the provision for future bonuses, and the depreciation difference less intangible assets and maximum loss from non-hedging derivatives.

Solvency margin and its limits % (as percentage of the technical provisions used in the calculation of the solvency limit)	2003	2002	2001	2000	1999
Solvency limit	8.2	6.4	8.2	9.2	10.9
Lower limit of the target zone	16.5	12.7	16.4	18.4	21.9
Upper limit of the target zone	33.0	25.5	32.8	36.8	43.7
Solvency margin	15.3	12.7	17.3	24.6	31.2



Performance analysis for the financial year

Performance analysis gathers together the sources of surplus, i.e. investment income at current values, loading profit, insurance business result and distribution of surplus.

The insurance business result is directly affected by the structure of the insurance portfolio, and the result indicates how well insurance premiums have covered the costs resulting from contingencies. The annually realised positive result from insurance under TEL is entered in the equalisation provision, and the negative result is covered from the equalisation provision. In 2003, the equalisation provision in accordance with TEL supplementary cover exceeded its upper limit and the surplus was transferred to the solvency margin. Similarly, the result of supplementary pension insurance under YEL is included in the change of the solvency margin.

The company's solvency was accumulated by transferring € 65.4 million to provision for future bonuses, including a portfolio transfer of € 0.2 million and € 0.5 million of amortisation of supplement to the provision for current bonuses. A total of € 4.2 million was transferred to provision for current bonuses.

Performance analysis, EUR mill.	2003	2002	2001	2000	1999
Sources of surplus					
Insurance business surplus	11.9	17.6	19.0	19.7	35.9
Investment surplus at current values	125.2	-103.4	-158.1	-106.4	311.3
+ Net investment income at current values	262.7	62.1	4.6	34.3	432.3
+ Other interest items [1]	3.8	-0.4	2.8	3.1	7.3
- Yield requirement on technical provisions	-141.3	-165.2	-165.5	-143.8	-128.3
Loading profit	4.1	2.4	3.9	2.5	0.7
Total surplus	141.1	-83.4	-135.3	-84.2	347.8
Distribution of surplus					
Change in solvency	137.0	-92.5	-141.6	-96.6	330.1
Change in equalisation provision	11.7	16.2	19.0	19.8	36.0
Change in solvency margin	125.3	-108.7	-160.6	-116.4	294.1
Change in provision for future bonuses	65.4	-141.2	28.1	132.9	59.0
Change in valuation differences	58.9	31.2	-183.6	-244.2	240.7
Change in accrual of closing entries	0.0	0.1	-6.4	-6.4	-6.4
Profit for the financial year	1.0	1.2	1.2	1.4	0.8
Transfer to client bonuses	4.2	4.5	6.3	12.5	17.7
Complementing provision for current bonuses [2]	-	4.5	-	-	-
Total	141.1	-83.4	-135.3	-84.2	347.8

[1] Includes such interest items that are not entered under investment income.
[2] On 31 December 2003, there was EUR 4.1 million of supplement to the provision of current bonuses paid in 2002 left to be amortised.

Reader's Guide to Key Figures 2003

Adjusted solvency The purpose of adjusted solvency is to provide an idea of an insurance company's solvency, taking into account its ownership in other insurance companies less cross-financing with other companies in the same insurance companies group.

Assets covering technical provisions The company's assets are divided into eight groups based on the solvency of investments. A maximum share that it can cover of the technical provisions has been determined for each group. The assets covering technical provisions are normally valued at current values.

Capital value Capital value is the sum of pension items amounting to one euro that will fall due in the future. Calculation of the capital value takes into account the remaining lifetime, mortality rate and prevalence rate, and a 3% interest is paid on the accrued remaining capital.

Client bonus The bonus determined by the mutual proportion of the company's solvency margin and solvency ratio which is granted to TEL policyholders as a reduction of the insurance premium.

Equalisation provision The equalisation provision serves as a buffer against insurance business fluctuations. The annual profit on insurance business is added to the equalisation provision and the loss is covered from the equalisation provision.

Invested capital Investments valued at market value at the beginning of the period plus cash flow weighted with investment period weights. Investments also include interest income from investments.

Investment surplus at current values Investment surplus is calculated as follows: book value of investment surplus plus change in valuation differences of assets.

Investment surplus, book value The book value of investment surplus is calculated as follows: net return on investment plus interest items that are included in other items in the profit and loss account less the required rate of return on technical provisions. The net return on investment assets includes value adjustments entered as income.

Loading profit Loading profit is calculated as follows: expense loading, collected for covering operating expenses, less operating expenses, excluding investment management expenses.

Net investment income at current values
Investment income is calculated on investment classes corresponding with asset distribution, time- and money-weighted. Derivatives are taken into account according to their nature by asset class.

Pension assets Pension assets equals the technical provisions in the balance sheet + valuation differences of assets.

Profit on insurance premiums collected The profit on insurance premiums collected indicates the profit on the insurance business on the company's responsibility. It is calculated by subtracting the funded compensations paid from the insurance premiums collected for covering the risk.

Provision for current bonuses Assets are transferred to the provision for current bonuses to be used for client bonuses granted to policyholders.

Provision for future bonuses The provision for future bonuses is a part of the company's solvency margin and serves as a buffer against investment yield fluctuations.

Required rate of return on technical provisions The required rate of return on technical provisions is the minimum interest paid on technical provisions. It is determined by the so-called technical rate of interest that is confirmed by the Finnish Ministry of Social Affairs and Health.

Solvency The follow-up of adequacy of an employment pension company's solvency is based on the scrutinising of theoretical risks. The central quantity is the solvency limit. The lower limit of the target zone is twice and the upper limit four times the solvency limit. The solvency limit and the limits of the target zone are defined as percentages of the company's technical provisions. The riskier the company's asset distribution, the higher the solvency limit.

Solvency margin The solvency margin is the excess of company assets over liabilities at current values. The provision for future bonuses is not included in liabilities in this case.

Statutory payments Pension Fennia's share of the expenses of the Finnish Centre for Pensions.

Technical provisions The company's liability resulting from insurance contracts comprises the premium and claims reserves. The premium reserve is an estimate of the capital value of the pension payments based on future occurrences of the insured events less the capital value of the expected income. The claims reserve in the financial statements contains the future compensations of contingencies that have already commenced. The provisions for current and future bonuses are included in the premium reserve, and the equalisation provision is included in the claims reserve.

Technical provisions to be covered In addition to the technical provisions in the financial statements, the technical provisions to be covered include liabilities in respect of pooled pension expenditures and policyholders. The basic insurance in accordance with the Self-Employed Persons' Pensions Act does not at the moment contain any provisions to be covered.

Turnover Turnover equals premiums written before credit losses and reinsurers' share + investment income in accordance with the profit and loss account + revaluations – unrealised gains/losses + other returns.

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

The Board of Directors' Proposal on the Disposal of Profit

The Board of Directors proposes that the € 1,019,962.84 surplus for the financial year be disposed as follows: € 20,000 be reserved for the public good or similar purpose, € 980,000 be transferred to the contingency reserve, and € 19,962.84 be retained on the profit and loss account. Pension Fennia group's distributable assets for the financial year amount to € -1,027,186.06 due to which no interest is paid on the guarantee capital for the year 2003.

Helsinki, 9 March 2004

Eero Lehti

Pertti Parmanne

Lasse Heiniö
Managing Director

Seppo Riski

Ernst Gylfe

Ilkka Joenpalo

Heikki Kauppi

Olavi Nieminen

Heikki Ropponen

Pekka Sairanen

Mikko Karpoja
Fellow of the Actuarial
Society of Finland,
Actuary in accordance with
Chapter 18, Section 8 of the
Insurance Companies Act

Auditors' Report

To the Owners of Mutual Insurance Company Pension Fennia

We have audited the accounting records, the financial statements, and the administration of Mutual Insurance Company Pension Fennia for the financial year 1 January – 31 December 2003. 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, were prepared by the Board of Directors and the Managing Director. Based on our audit we submit the following statement on the financial statements and the administration of the company.

The undersigned Per-Olof Johansson, Authorised Public Accountant, has been responsible for scrutinising the accounts and administration during the financial year and after the end of the year and has submitted a separate report thereon.

We have conducted the audit in accordance with good auditing practice. This means that the accounts and the accounting principles, contents and mode of presentation have been examined to an extent sufficient to establish that the essential parts of the financial statements have been correctly drawn up. The purpose of the audit of administration has been to examine the compliance of the operations of the Supervisory Board, the Board of Directors and the Managing Director with the provisions of the Act on Employment Pension Insurance Companies, the Insurance Companies Act and the Companies Act.

The financial statements have been prepared in accordance with the Accounting Act 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 result of operations, and of their financial position. We recommend that the financial statements, including the consolidated financial statements, can be adopted and the Supervisory Board, the Board of Directors and Managing Director of the parent company can be released from liability for the period audited by us. The proposal by the Board of Directors on the disposal of the surplus is in compliance with the Insurance Companies Act.

Helsinki, 19 March 2004

Per-Olof Johansson, Authorised Public Accountant

Marja Tikka, Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board of Mutual Insurance Company Pension Fennia has handled the company's financial statements and consolidated financial statements for the year 2003, and the auditors' report. The Supervisory Board has found no cause for criticism concerning them.

The Supervisory Board proposes to the Annual General Meeting that the financial statements and the consolidated financial statements be confirmed, and the Board of Directors' proposal for the disposal of the surplus for the financial year be accepted.

Helsinki 30 March 2004

On behalf of the Supervisory Board

Markku Koskenniemi
Chairman of the Supervisory Board

Pension Fennia Supervisory Board 1 January 2004

Markku Koskenniemi
Tammerneon Oy
Tampere
Chairman

Eino Rajamäki
Seinäjoen Varaosakeskus Oy
Seinäjoki
Deputy Chairman

Harri Kainulainen
Managing Director
Local Insurance Mutual Company
Espoo
Deputy Chairman

Representatives of employer organisations

Jorma Kielenniva
Master of Laws
Helsinki

Tapio Liinamaa
Managing Director
Härmän Kuntokeskus
Ylihärmä

Arto Pohto
Managing Director
Finn-Power Oy
Kauhava

Hannu Riihelä
Managing Director
Eiri Oy
Lahti

Jukka Tikka
Managing Director
Länsi-Savo Oy
Mikkeli

Kalevi Vuorisalo
Managing Director
Teknikum Oy
Vammala

Representatives of employee organisations

Veikko Ampuja
Supervisor
Union of Technical Employees TL
Helsinki

Sirpa Järvinen
Photographic laboratory worker
Union of Technical and Specialized Occupations TEKERI
Helsinki

Auli Korhonen
Project Manager
The Central Organization of Finnish Trade Unions SAK
Helsinki

Markku Markkula
Chairman
The Finnish Association of Graduate Engineers TEK
Helsinki

Håkan Nystrand
Chairman
METO - Forestry Experts' Association
Helsinki

Other members of the Supervisory Board

Heimo Aho
Managing Director
SKS-tekniikka Oy
Vantaa

Kaj Ericsson
Managing Director
Harry Schaumans Stiftelse
Vaasa

Tauno Jalonen
Managing Director
Suomen Yrittäjien Sypoint Oy
Helsinki

Pentti Jussila
Managing Director
Kuljetusliike I Lehtonen Oy
Rovaniemi

Tapio Juusela
Managing Director
RTK-Palvelu Oy
Rauma

Mirja-Leena Kullberg
Brand Manager
Nanso Oy
Nokia

Lasse Murto
Managing Director
A-Clinic Foundation
Helsinki

Heikki Rinta-Rahko
Managing Director
Kurikan Keskus-Optiikka Ky
Kurikka

Lasse Savonen
Managing Director
AstraZeneca Oy
Espoo

Mikael Silvennoinen
President
OKO Bank Group
Helsinki

Advisory Boards 1 January 2004

PENSIONS ADVISORY BOARD

Jukka Vainio
Director
Pension Fennia
Helsinki
Chairman

Ralf Forsén
Master of Laws
The Finnish Association of Graduate Engineers TEK
Helsinki

Raimo Kärnä
Industrial Safety Officer
The Finnish Metalworkers' Union
Helsinki

Vesa Rantahalvari
Agent
Employers' Confederation of Services Industries in Finland
Helsinki

Hannu Saimanen
Director
Wood and Allied Workers' Unemployment Fund
Helsinki

Markku Salomaa
Lawyer
Finnish Confederation of Salaried Employees
Helsinki

Markus Äimälä
Master of Laws
The Confederation of Finnish Industry and Employers
Helsinki

Seppo Mattila
Medical Director
Pension Fennia
Helsinki
Specialist member

THE CONSULTATIVE COMMITTEE OF THE INSURED

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Senior Systems Analyst
Novo Group plc
Helsinki
Chairman

Tom Roth
Supervisor
Suomen Turistiauto Oy
Helsinki
Deputy Chairman

Pertti Asikanius
Office Manager
Keski-Uusimaa Oy
Sipoo

Senja Hakola
Airworthiness Engineer
Blue1 Oy
Espoo

Sinikka Hyyppä
Warehouse employee
Kokkolan Halpa-Halli Oy
Kokkola

Esa Ikkelä
Project Manager
Are Oy
Jyväskylä

Helena Joenkoski
Product assembler
Kemppi Oy
Lahti

Toivo Juntunen
Purchasing Manager
Kemppi Oy
Lahti

Seppo Kurki
Printing house foreman
Uusimaa Oy
Porvoo

Maija Levonpää
Assembler
Metsäpuu Oy
Loimaa

Tuija Majuri
Delivery Supervisor
Schenker Oy
Helsinki

Mauri Nevalainen
Head of Department
Kemppi Oy
Lahti

Heli Mäkinen
Baker
Primulan Leipomot Oy
Helsinki

Kirsti Palvanen
Salary accountant
Foxconn Oy
Lahti

Juhani Parmonen
Stonework employee
Tulikivi Corporation
Juuka

Johanna Rajala
Salesperson
H&M Hennes&Mauritz Oy
Turku

Raimo Rautanen
Lorry driver
Suomen Kiitoautot Oy
Myrskylä

Vuokko Toivola
Production Inspector
Pola Oy
Lappeenranta

Arvi Tuomarmäki
Electrician
Hella Lighting Finland Oy
Salo

THE CONSULTATIVE COMMITTEE OF MAJOR ACCOUNTS

Juhani Enkovaara
Managing Director
Eho Oy
Helsinki
Chairman

Heikki Rinta-Rahko
Managing Director
Kurikan Keskus-Optiikka Ky
Kurikka
Deputy Chairman

Juhani Aho
Chairman of the Board
Helsingin Lääkärikeskus
Helsinki

Kari Blomberg
Managing Director
Rocla Oyj
Järvenpää

Christer Boije
Deputy Director
Nordic Investment Bank
Helsinki

Göran Cedercreutz
Managing Director
Victor Ek Oy Ab
Helsinki

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Chairman of the Board
Kotipizza Oyj
Vaasa

Jarmo Halonen
Managing Director
Elecster Oyj
Toijala

Björn Hartman
Managing Director
Oy C. J. Hartman Ab
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Timo Hietala
Managing Director
TH-Laite Oy
Rovaniemi

Reijo Jokela
Managing Director
Suomen Broiler Oy
Masku

Tuomo Järvinen
Chairman of the Board
Esski Oy
Hollola

Aimo Kaarresalo
Managing Director
Suomen Turistiauto Oy
Helsinki

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Managing Director
Tiliaktiiva Oy
Helsinki

Jyrki Kaskinen
Managing Director
Raskone Oy
Vantaa

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Chairman of the Board
Kolster Oy Ab
Helsinki

Matti Koskenkorva
Chairman of the Board
Panostaja Oyj
Tampere

Heikki Lamminaho
Managing Director
Are Oy
Helsinki

David Lindström
Deputy Managing Director
Blue1 Oy
Vantaa

Pasi Lohikko
Managing Director
Tunturi Oy Ltd
Turku

Ulla Matsi-Koistinen
Financial Director
Taloustutkimus Oy
Helsinki

Martti Paunu
Managing Director
Väinö Paunu Oy
Tampere

Vesa Pollari
Managing Director
Selecta Oy
Helsinki

Irmeli Rytkönen
Managing Director
Gigantti Oy
Vantaa

Klaus Saarikallio
Managing Director
Normek Oy
Vantaa

J. Pertti Siikarla
Managing Director
Yrittäjien Oikeussuoja Oy
Helsinki

Kaj Ström
Managing Director
Motoral Oy Ab
Helsinki

Seppo Suuriniemi
Managing Director
Vammalan Konepaja Oy
Vammala

Antti Tiitola
Managing Director
Lidl Suomi Ky
Espoo

Esko Torssonen
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Suomen Kiitoautot Oy
Joensuu

Juha Valkamo
Managing Director
Primula Oy Ab
Helsinki

Lennart Varjo
Managing Director
Hella Lighting Finland Oy
Salo

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Tulikivi Corporation
Juuka

Arvo Viinonen
Chairman of the Board
Kojaltek Oy
Oulu

Olli Vilppunen
Managing Director
LSK Electrics Oy
Lahti

Pertti Vuorio
Managing Director
Salon Seudun Puhelin Oy
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