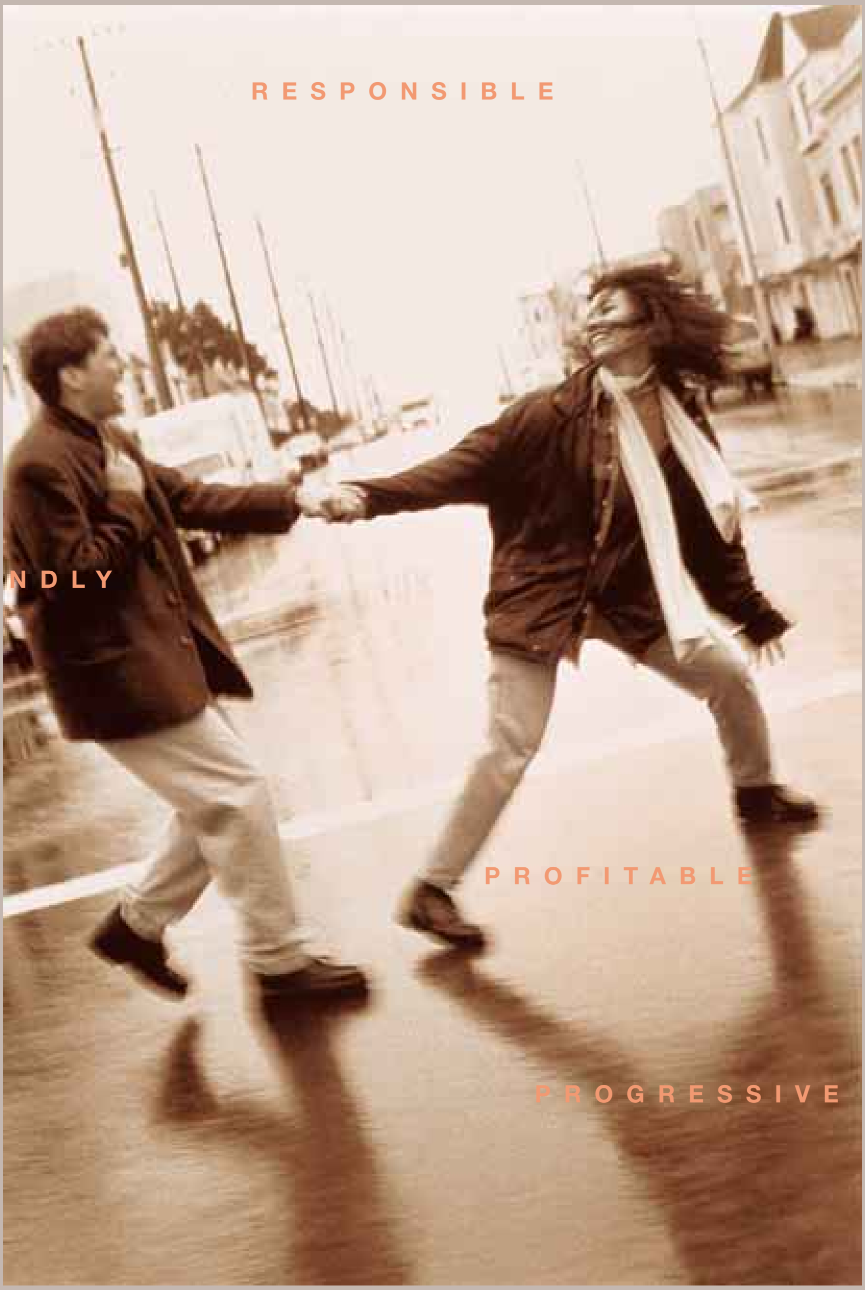
ANNUAL REPORT 2003



FRIENDLY

ILMARINEN

ANNUAL REPORT 2003

CONTENTS

ILMARINEN – RESPONSIBILITY FOR EARNINGS-RELATED PENSION PROVISION

Values	Responsibility for earnings-related pension provision	Profitable operations	Satisfied clients	Constantly improving workplace community
Ilmarinen's core business areas	Insurance services	Investment activities	Pension services	
Other client services	Well-being at work	Advisory services	Customer financing	Other services

Our mission

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

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

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

Our values

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

The values that guide our activities are:

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

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

One of Ilmarinen's key operating principles is that its pension decisions should always be fair and prompt, and that the grounds for the decisions should be easy to understand. The extent to which the company succeeds in this is assessed in annual surveys. Ilmarinen has usually been more successful in these surveys than its competitors overall, and Ilmarinen's pension decisions have held well at the appellate level. Moreover, pension applicants have been satisfied with Ilmarinen's customer services.

- **Profitable operations.** Together we can achieve results to be proud of. The pension assets entrusted to Ilmarinen totalled EUR 16.2 billion at the end of 2003. In its investments aimed at covering future pensions, Ilmarinen seeks to obtain the best possible return in the longer run within its solvency limits. To this end, the company pursues a more equity-weighted investment strategy than the other pension insurance companies. Ilmarinen's investment activities are guided not only by the demands of profitability and prudence but also by the ethical guidelines for investment approved by the Board of Directors.

Improving the company's operational efficiency is one of the main goals for the next few years. The company aims to achieve this through goal-oriented management, performance assessment and the bonus system. The objectives set in the corporate scorecard are consistent with the corporate values.

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

Client satisfaction and corporate image are the subjects of in-house and commissioned surveys conducted annually. Over the next few years, Ilmarinen will be making a concerted effort to improve its services in accordance with the corporate strategy. Service and client relations management will be developed to ensure that client needs are met and that clients receive the best services available.

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

Staff views and opinions on their workplace community are valued. Surveys of Ilmarinen's management and working practices have been conducted for over thirty years, and the results have been put to good use in developing the company's operations. According to these surveys, the staff have always considered Ilmarinen to be a good employer.

Services and partnerships

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

Ilmarinen has a nationwide service network through which the company's clients can handle all their insurance business. Ilmarinen markets its employment pension insurance and manages client relations through its partners Pohjola, the Pohjola subsidiary A-Insurance Ltd and Pohjantähti and via insurance brokers. Ilmarinen also has a sales partnership agreement with savings banks.

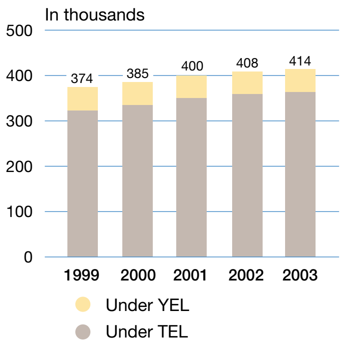
The most important of Ilmarinen's partners is Pohjola, which handles most of the company's insurance sales. Cooperation with brokers has also grown substantially, and about 20 per cent of Ilmarinen's TEL-insured persons are in broker portfolios. In 2003, the brokers elected Ilmarinen as the best employment pension company and Pohjola as the best non-life insurance company. Suomi, which is a member of the partnership group, was viewed as the best life insurance company.

With its comprehensive service network, Ilmarinen is able to reach a very wide range of clients. Ilmarinen's services and practices have been developed in cooperation with its partners to ensure that the employment insurance services needed by different clients are available and that client relations are managed as well as possible. To improve the employment pension expertise of its partners, Ilmarinen provides a regular and extensive training programme.

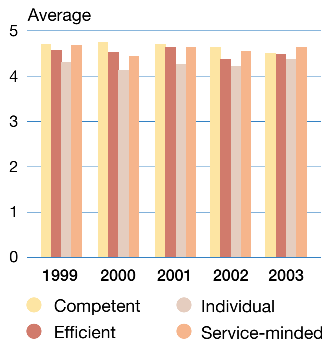
The rapid rise in the use of electronic services for handling of insurance matters has been significant. The number of clients with an Internet agreement with Ilmarinen has risen to about 7,000.

Measured in terms of total premiums written, Ilmarinen's share of the Finnish employment pension market is approximately one third.

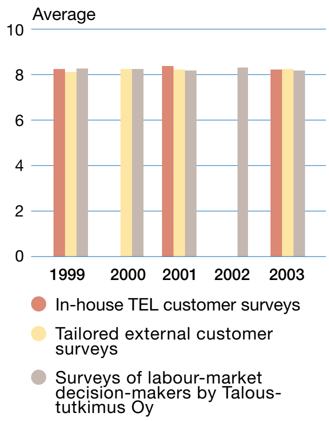
Number of people insured



Pension decision recipients' evaluation of service



Policyholders' evaluation of Ilmarinen



February 13: Ilmarinen concludes a partnership agreement with 33 savings banks. The agreement concerns marketing cooperation for statutory TEL and YEL insurance and the provision of employment pension insurance services at savings banks.

March 5: Ilmarinen publishes its results for 2002. Premiums written increased 8.6% and overall insurance sales were good. Falling equity markets affected performance, however, pushing investment income slightly into the red.

March 20: Ilmarinen moves into the era of electronic invoicing, offering this as a new service for its clients. The service initially covers TEL contributions and loans and is aimed at medium-sized and large clients.

June 4: In the early part of June, Ilmarinen sends a preliminary pension estimate to its YEL clients aged 51 to 61. Different age groups are sent an estimate of their accrued YEL pension in alternate years.

June 13: Brokers select Ilmarinen, Pohjola and Suomi as the best service-providers among insurance companies. The decision was based on a survey conducted by the Finnish Insurance Broker Association, which evaluated the ability of insurers in Finland to serve insurance brokers. In the category of employment pension companies Ilmarinen was an easy winner.

August 20: Aberdeen Property Investors Finland Oy, Ilmarinen's property management and leasing associated company, rewarded the best employees of its real estate management partners under the BSC quality and efficiency measurement system for real estate services.

August 21: Ilmarinen publishes its interim report for January 1 to June 30, 2003. Stock markets improved and the return on all Ilmarinen asset categories was at least satisfactory. The return on Ilmarinen's investment portfolio was 3.5% at market values. The number of TEL-insured grew by over four thousand during the period under review.

September 18: Megahertsi, Ilmarinen's new shopping centre in eastern Helsinki, opens its doors.

September 26: The Ilmarinen Award is presented to Consulting Engineers Mikko Vahanen Ltd for a new application of the old apprenticeship model. This award for Personnel Deed of the Year is part of Ilmarinen's efforts to promote well-being at work in cooperation with HENRY ry, the Finnish Association for Human Resource Management.

October 2: The balance on transfer business at the end of September was affected by Nordea's withdrawal, which was the principal reason for Ilmarinen losing a net total of 13,200 insured persons through transfer decisions made during 2003. The number of Ilmarinen's TEL-insured has nevertheless increased by 36,000 employees over the past three years.

November 18: Ilmarinen's electronic invoicing service is expanded to include a direct debiting system, which clients can use to pay their TEL contributions. The service is aimed at small companies in particular.

November 20: The renovation of the Ympyrätalo office building owned by Ilmarinen, nears completion. At the time of its launch, it was the biggest single renovation project in Finland.

November 27: A residential building containing 69 rental apartments and one commercial property, being built for Ilmarinen in Vuosaari, a district in eastern Helsinki, is ready for its topping out ceremony. A total of 252 new rental apartments in four separate buildings were built for Ilmarinen in 2003.

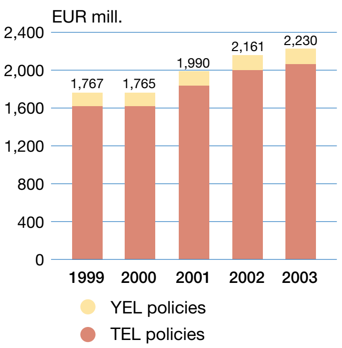
December 18: Ilmarinen opens an on-line pension service for its customers, which provides them with preliminary estimates of old-age pensions and checks previous employment relationships and the pensions accrued.

KEY FIGURES 1999-2003

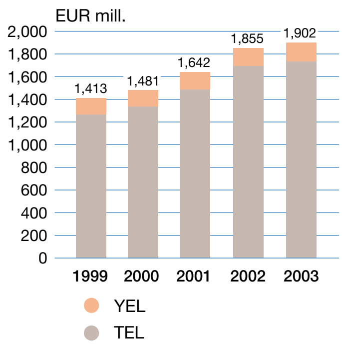
	2003	Change, %	2002	2001	2000	1999
Premiums written, EUR mill.	2,229.6	3.2	2,160.9	1,989.6	1,764.8	1,766.8
Pensions paid out, EUR mill. 1)	1,901.7	2.5	1,855.3	1,642.2	1,481.7	1,413.1
Aggregate operating expenses, EUR mill.	79.4	12.5	70.6	60.6	56.7	48.1
Technical provisions, EUR mill.	15,275.0	10.2	13,863.5	13,519.6	12,954.5	11,082.8
Balance sheet total at current value, EUR mill.	16,475.0	10.3	14,933.6	14,737.5	14,685.4	13,841.3
Solvency capital, EUR mill.,	2,951.2	31.6	2,243.1	2,940.8	3,749,3	3,922.5
% of technical provisions	22.3		18.1	25.5	35.4	41.3
relative to solvency border	2.2		1.9	2.3	3.4	3.8
Investment, EUR mill.	15,933.3	9.7	14,520.6	14,331.6	14,249.1	13,320.3
Investment income at current value, %	8.7		-0.5	-1.2	2.8	16.1
Pension recipients	235,965	2.1	231,056	224,849	218,932	205,102
TEL policies	31,927	0.8	31,689	31,982	32,351	32,874
Employees insured under TEL	364,000	1.4	359,000	351,000	335,000	323,000
YEL policies	49,696	0.8	49,322	49,386	49,938	51,453
Personnel, December 31	696	4.5	666	641	603	555

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

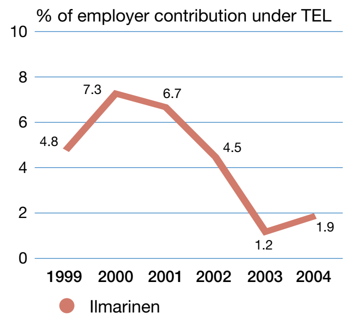
Premiums written



Benefits paid out



Bonuses and rebates



A good year for Ilmarinen

The year 2003 was a good one for Ilmarinen. Although the decline in unemployment in Finland came to a halt and job losses occurred at intervals during the year, Ilmarinen's total premiums written increased to EUR 2.23 billion from the previous year's EUR 2.16 billion. Sales of new policies boosted annual premiums written by about EUR 77 million. By contrast, however, 2003 was not a successful year for Ilmarinen in TEL insurance transfers, due principally to the departure of one major client.

After a three-year slide, share prices began to climb again in spring 2003, and this contributed to our good investment result. Ilmarinen invests a higher proportion of its assets in equities than that invested by the other earnings-related pension insurers. The reason for this is that both theory and practice confirm that equities produce the best return in the long run. Even in difficult years for equity investment, our solvency has allowed us to maintain our return-oriented investment strategy. In 2003, the company's net investment income at current values rose to 8.7%, and its solvency capital strengthened to 2.2 times the solvency border.

Our clients also benefit from the company's high level of investment income and good solvency position, as this provides further boost to bonus transfers.

Cooperation essential to achieve the pension reform objectives

Cooperation between the government, the labour market organizations and the pension institutions has been an essential element in the continuous development of Finland's earnings-related pension scheme. International comparison of employment pension systems is not easy due to differences in the structure of different countries' social security systems. Comparisons made in 2003 indicated, however, that the Finnish decentralized system is very competitive in relation to other European countries, both in terms of insurance contributions and investment return.

In addition to the rapid ageing of the population, a further challenge in Finland is the early exit of employees from the labour market. This leads to pressure to increase insurance contributions in future decades. These challenges are being addressed by introducing important reforms in the legislation, which will come into effect at the start of 2005. These are based on agreements made in 2001 and 2002 with the central labour market organizations. The goal is to achieve an increase in the average age at which people retire from the workforce, and thus to reduce the pressure to raise insurance contributions. A preliminary report on the views of employees nearing retirement, completed at the start of 2004, provides a cautious indication that people would remain in work for a few more years, which is in line with the goal. What is needed now is a concerted effort from all involved to ensure that this really happens in practice.

Improving efficiency and competitiveness

Putting the pension legislation reforms into effect will require considerable development input from Ilmarinen and the other earnings-related pension insurers over the next few years. At the same time, we will also be investing substantially in service and efficiency improvements. Although this will mean an increased workload and a temporary increase in personnel and costs, the aim is that our total personnel in 2007 will be the same as in 2002, and our loading profit will increase to well over 10%. This will be achieved by improving and streamlining our operating practices and by making more effective use of information technology.

Development of services will be based on client needs. By improving our Internet service we aim to make it easier for clients to manage their insurance and pension business. At the same time, improved online services will undoubtedly improve the efficiency of our operations. The aim is to introduce a few new services every year.

Amidst all these developments, it is essential to all personnel that we do not focus excessively on internal matters but maintain our high standards of customer care on a daily basis.

Future outlook

The future outlook is good. We have every reason to be optimistic that the pension reform objectives will be successfully met. However, financial incentives by themselves will not be sufficient for people to stay on at work. Improvements will also have to be made in working life, which will require joint efforts to ensure that employees are able to remain longer in work.

In 2004, the so-called last institution principle – which simplifies the employment pension procedures for both applicants and recipients – was expanded to cover public-sector pensions. The next important stage in the simplification process is to combine the separate laws concerning private-sector earnings-related pension schemes. A Government bill will probably be presented on this during 2004 and a law introduced at the start of 2007.

The current year has begun well on the stock markets, which has further strengthened Ilmarinen's solvency position since the end of last year. There are nevertheless uncertainties surrounding the future course of the world economy, and the euro's continued strengthening has further hampered the recovery in demand for Finnish exports. Moreover, the weak trend in employment in Finland may restrict growth in the insurance portfolio during 2004.

Ilmarinen's financial performance in 2004 will depend to a great extent on developments in the stock markets. In the competition over bonuses, we are confident that we can maintain our good position relative to the other earnings-related pension insurance companies. During the past two or three years, our market share has grown by almost two percentage points. The loss made on transfer business in 2003 will reduce the company's market share slightly in 2004.

Ilmarinen's business brings with it a considerable social responsibility. To ensure the success of our operations, the input of each and every member of staff is essential. Once again, I would like to thank everyone for their excellent work during the past year. I also wish to thank our clients and partners for their confidence in Ilmarinen, and I look forward to continuing our fruitful cooperation.

Wide range of employment pension systems

Almost every European country has its own particular version of employment pension arrangements for its citizens. There is less variation, however, when it comes to the size of earnings-related pensions based on a full career. In relation to earnings, a target level of roughly two-thirds seems to be considered a generally acceptable and necessary level.

Defined contribution or defined benefit?

Employment pension security in Finland is based on defined benefits: the amount of the pension in relation to earnings is defined by law, as are the index increases which ensure the real value of pensions. Contribution-based pensions are determined according to pension contributions and the related investment income. In this case, the future pension recipient bears the inherent risk.

The majority of the European statutory pension schemes are defined benefit arrangements. Over the past few years, however, the trend in several countries has been towards defined contribution formulae. This is particularly true of the new developing economies of Europe, although the closest example is Sweden. The risk of insufficient cover is especially high in cases where the system is partly voluntary and based on defined contribution. There is an ongoing debate in the UK on whether this will mean that the country's pension security will eventually prove insufficient.

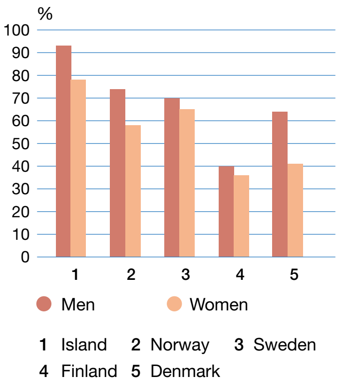
Employment pension security decentralized in Finland

In Finland, earnings-related pensions are regulated by special legislation and are an integral part of citizens' social security, although the administration of the system has been decentralized and managed by private pension institutions from the beginning. In other EU countries, the provision of statutory earnings-related pensions has, in practice, been excluded from competition, because it is managed by the state or a corresponding monopoly.

In Finland, TEL employers can select an insurer for their earnings-related pensions from among six pension companies and eight pension funds, or they can establish their own pension foundation. In order to improve efficiency and develop the sector, competition has also been promoted through legislative reforms, for example, by facilitating transfers from one pension provider to another. Pension insurers compete on the basis of services, investment income, client bonuses and efficiency.

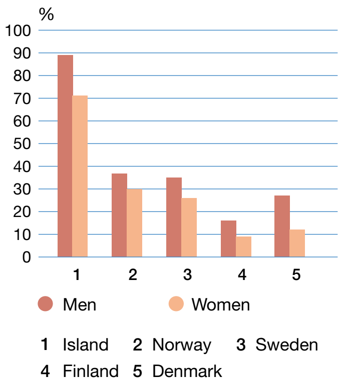
Despite the decentralized administration, Finnish earnings-related pension insurers are ultimately jointly liable for ensuring pension provision and cooperate in matters where it is economically sensible. The central organization for the private-sector employment security system is the Finnish Centre for Pensions, which provides joint central registry services and publishes guidelines (e.g. on the application of legislation), survey results and statistics.

60-year-old men and women in gainful employment in the Nordic countries



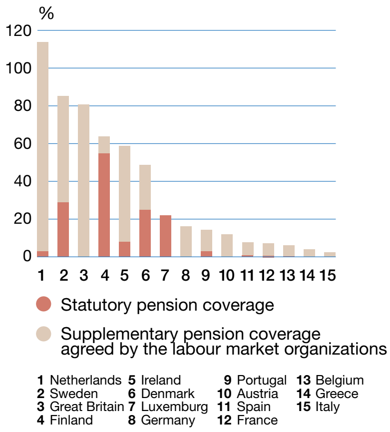
Source: NOSOSCO

65-year-old men and women in gainful employment in the Nordic countries



Source: NOSOSCO

Pension assets as a percentage of GDP in EU countries, 2000-2002



Source: The Finnish Pension Alliance TELA

Advance funding – a Finnish strength

The statutory pension systems of most countries have no advance funding: the funds for the pensions to be paid out that year are collected the same year. This kind of financing system is susceptible to changes in the population structure. As the population structure of most European countries is rapidly ageing, the European debate focuses on the desire to raise the pre-funding rate of statutory pension systems.

The considerable funds of the Finnish statutory pension system, equivalent to half of the Finnish GDP, are a key strength and essential component of the earnings-related pension scheme. Thanks to these funds, the level of earnings-related pension contributions will rise by less than pension expenditure in relation to the total payroll over the next few decades, i.e. only by about five percentage points, despite the rapidly worsening age structure.

Pension costs: expensive or moderate?

A good pension is expensive, regardless of the formula used. By far the most effective way of influencing the price of a pension is to delay retirement: even two years longer at work will reduce costs significantly.

The ratio between a pension and its price is also dependent on the long-term development of investment markets. This is because pension contributions are collected and invested over several decades.

Administrative costs are the third factor affecting the price of pension security. In the Finnish collective pension system, which meets the entire need for employment pension security, these form a minor part of the costs compared with systems that comprise several individual features.

Due to the differences in the social security structures of different countries, a comparison of employment pension costs is difficult. The 2003 comparison calculations show, however, that the Finnish system is very cost-competitive compared with other European countries.

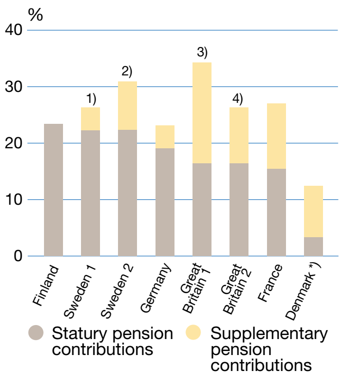
Comparison of investment income

The investment income of Finnish pension funds also fares well by international comparison. As an example, the accompanying diagram compares the income of large European pension funds with the total investment income of Finnish employment pension insurers. Any comparison should bear in mind that in Finland employment pension companies, pension funds and pension foundations also carry the insurance risk and must therefore, because of the necessary solvency regulations, limit their investment risks to some extent. Despite this, the incomes of Finnish employment pension funds have been competitive compared with European funds.

Employment pension reform

In Finland, employment pension security is financed by employers and employees jointly. It is therefore justifiable that both parties decide on the structure and amount of cover. As a result of the cooperation between labour market organizations and the government, employment pension security will be revised as of 2005 in a way which aims to ensure the economic foundation of Finland's pension cover, even in the event of the age structure worsening dramatically. The reform aims to encourage people to stay on at work a few years longer before they retire. Nordic comparisons shows that there is room for this type of behavioural change. The next stage of the pension reform is the combining of the private-sector employment pension acts (the present TEL, LEL and TaEL) into a single employment pension act, as of the beginning of 2007.

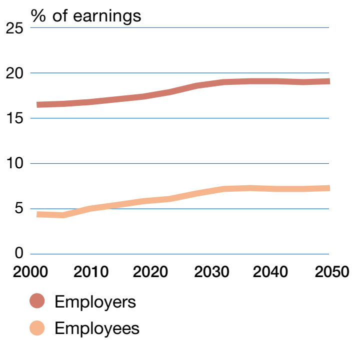
Statutory and supplementary pension contributions as a percentage of average pay, 2002



1) Non-salaried employees 3) Benefit-based
2) Salaried employees 4) Contribution-based
*) includes a considerable amount of financing via taxes

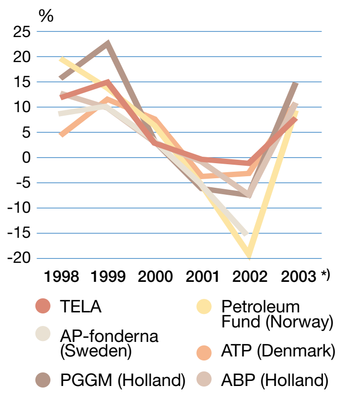
Source: The Finnish Centre for Pensions

Employers' and employees' TEL pension contributios



Source: The Finnish Centre for Pensions

Annual investment income of European pension funds



*) preliminary data

Source: The Finnish Pension Alliance TELA

ILMARINEN AIMS TO BE A FRONT-RUNNER IN EARNINGS-RELATED PENSION INSURANCE AND TO PURSUE PROFITABLE GROWTH.

Key priorities in Ilmarinen's strategy to 2007

During the strategy period Ilmarinen will improve its competitive position by focusing on the improvement of services and efficiency and on cost-efficient methods of contact and communication. As regards investment activities, the company aims to be a responsible investor with a long-term approach and with the most competitive client bonuses.

The aim is to provide the best services

The main services provided by Ilmarinen include statutory earnings-related pension insurance, insurance and claims services, advisory services, promotion of well-being at work, client financing and property management and rental.

In the future, the competition among pension companies will focus increasingly on the range and quality of client services and active contacts with clients, in addition to client bonuses. Ilmarinen is preparing for this change by developing its earnings-related pension services to be the best in the sector, and by expanding its methods of contact and communication with clients. Several development projects are underway for the achievement of this end.

Service development at Ilmarinen is driven by the changing needs of clients. Clients are used to electronic banking, which can be done anywhere and any time, and so they expect equally convenient ways of managing their employment pensions. For this purpose Ilmarinen will be continually developing its online services. The aim is to provide clients easier ways of handling their insurance and pensions and at the same time improve the cost-effectiveness of its client services and insurance procedures.

The renewal and development of Ilmarinen's online services is progressing as planned. In 2003, a new electronic service for insured customers was launched, which provides them with advance calculations on their old-age pensions via the Internet and allows them to check their previous employment records and pensions accrued from them. Services for TEL insurance clients were improved through an electronic invoicing service, which offers companies the option of receiving bills online from Ilmarinen. Online invoicing is supplemented by a direct debiting service aimed specifically at small companies. A special area of focus in 2004 will be the online service for self-employed persons. Ilmarinen will also revise its entire website in 2004.

Along with its online services Ilmarinen will be investing in customer relations management, support for client services and digital document processing. The digital processing of documents and their electronic archiving, which will be introduced in 2004, will improve services considerably. The upgrading of the current telephone service aims at better and more accessible services with the help of new call management technology, as well as centralization and better organization of the service.

Efficiency will improve considerably

Over the next few years, implementation of the pension reforms and harmonization of private-sector employment pension legislation will bring about cost pressures in addition to the investment made to develop the company's services. These improvements will also add considerably, although temporarily, to the workload of Ilmarinen's pension, insurance and information technology service units. The implementation of the new laws will also require major investment in information technology.

The company aims to ensure that the number of staff at the end of the strategy period will be the same as at the end of 2002, despite the increase in workloads. It aims to achieve this target by evaluating and developing operating methods and substantially increasing the use of technology. The digital document processing and electronic archiving mentioned above are good examples of such projects.

The bulk of earnings-related pension companies' operating costs are covered by the expense loading component included in the insurance contributions. Ilmarinen's long-term target for loading profit is 10%. However, the company has predicted that its costs over the next few years will be so high, for the reasons given above that it will not be possible to reach the target. From 2006 onwards, however, there is a possibility that the loading profit will clearly exceed the 10% target after the rapid increase in personnel has come to an end and the major IT investments have begun to improve efficiency as planned.

In addition to the new IT investments, the reforms proposed in the strategy will mean changes in operating methods and skills requirements. This is why Ilmarinen is investing in staff training and in measures to help staff cope with the changes being made.

Return-oriented and responsible investor

Ilmarinen aims at the best possible return on its invested pension assets in the long term, but in a manner which does not place the company's solvency capital at a risk greater than that approved by the Board of Directors. The risks associated with the company's equity-oriented investment strategy are limited by the use of hedging when necessary.

The emphasis on equity investment enabled a better solvency ratio and better client bonuses than the company's competitors in 1999-2002. The weak trend in the equity markets in 2000-2002 neutralized Ilmarinen's advantage over the competition. The extended economic downturn did, however, prove that Ilmarinen could engage in a consistent return-oriented policy even during bad times, thanks to its solvency. The good investment result in 2003 will improve Ilmarinen's competitive position.

Ilmarinen's investments are guided by ethically sustainable practices entered in the ownership policy and approved by the Board of Directors. Ilmarinen's views on good governance of publicly quoted companies are also stated in its ownership policy.

OUR PRIMARY OBJECTIVES FOR THE NEXT FEW YEARS

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

The number of personnel increased

Over the past few years, Ilmarinen has employed a considerable number of new staff. The main reason for this is the temporary increase in employees due to the heavy workload required in developing the company's operations and the need to prepare for the retirement of a large number of personnel.

Job demands and employee well-being

Everybody at Ilmarinen is affected by the pressures of maintaining a high-quality client service while preparing for the major changes in the pension legislation and new IT solutions. Personnel well-being is affected by how accurately the skills demands of new jobs can be predicted, and how successfully employees can be trained and prepared for them. Achievement of efficiency targets also requires courage to seek new operating methods and to implement them. The ability of personnel to cope at work will be supported by just and efficient supervision and active cooperation and interaction between personnel and management.

Various measures and projects have been launched to meet the changing circumstances and challenges facing management. One example is the extensive supervisor training programme which started in 2002. Ilmarinen is also compiling a new personnel strategy, and its skills development focuses much more on business targets. Amid these changes, Ilmarinen is safeguarding and promoting the well-being of its personnel in many ways. These include the services arranged by the company's occupational health service and the provision of recreational activities.

Developing management

Business development challenges, working atmosphere surveys and supervisor training have all helped define Ilmarinen's human resources management needs more accurately. The 2004 personnel strategy will survey the new focus areas for human resources management and the key development projects. The personnel strategy will help to support attainment of the targets set in Ilmarinen's business strategy.

Challenges in acquiring new skills

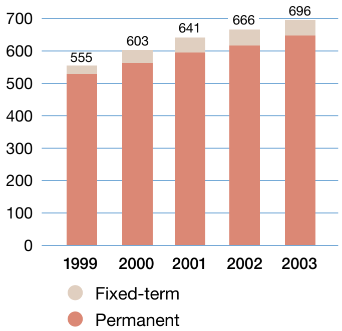
In 2003, skills management and development was further strengthened through development plans and discussions as part of Ilmarinen's scorecarding system. The goal is to link skills improvement more closely with business targets and to achieve greater success with planned and targeted skills. Development work has been carried out both in-house and by outside experts.

The supervisor training mentioned above, which will provide a uniform basis for Ilmarinen's supervisory work in the future, was concluded last autumn.

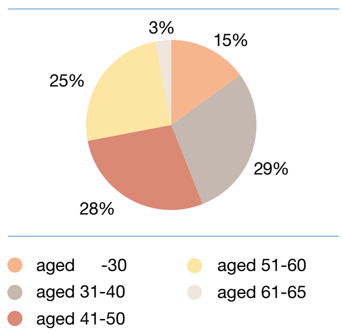
Good employer image

Working atmosphere and job satisfaction are monitored regularly, and each year Ilmarinen's highest score in these personnel surveys is for its standing as an employer. The results of a commissioned employer image surveys support this view. According to the 2003 working atmosphere survey, working relationships with colleagues and satisfaction with both the job and the results of the work also received good scores. The pace of work was still considered hectic, but there was also a belief that staff will be able to cope better at work in the future.

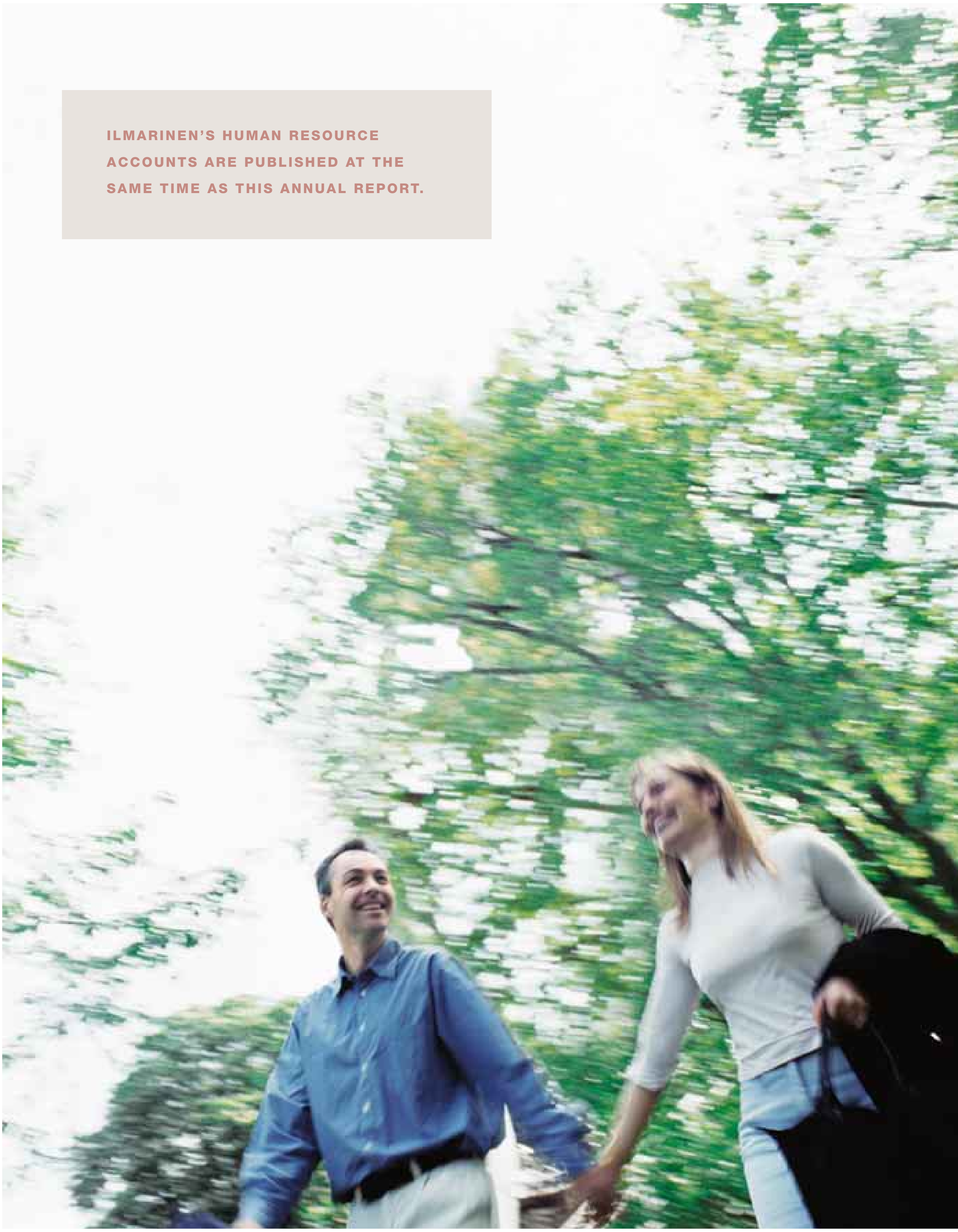
Trend in staff number 1999-2003



Staff age distribution on Dec. 31, 2003



ILMARINEN'S HUMAN RESOURCE ACCOUNTS ARE PUBLISHED AT THE SAME TIME AS THIS ANNUAL REPORT.



Return-oriented investment strategy focuses on equities

The employment pension system allows sufficient time for long-term return expectations to be realized, because pension assets are invested over a period of decades. While the chosen investment strategy can be expected to produce a high return on investment in the longer run, fluctuations in investment markets, especially stock markets, have a strong influence on the annual investment result. Finance theory indicates that equities will provide the best return in the long run, and this is also confirmed by the historical behaviour of investment markets. Ilmarinen has therefore invested a larger portion of total assets in equities than is the average for all Finnish earnings-related pension insurance companies.

Balance between risk and return

To maintain a balance between risk and return, investments are spread over many different types of asset. Along with easily realizable fixed-income and equity investments, the principal asset categories include real estate investments, customer financing and, to a limited extent, private equity investments, hedge funds and various structured investments. The main elements of Ilmarinen's investment strategy are all based on long-term planning. The investment strategy is subject to ratification annually by the Board of Directors in conjunction with approval of the operating plan for the coming few years. The Board also approves the investment plan and the investment limits for operational investment staff each year. The investment plan includes exact target weightings between asset classes and benchmarks within every asset class, and also decisions on investing in new types of assets. The investment limits define the decision-making powers at different levels within the organization.

The targeted investment distribution, i.e. the basic allocation, is defined to maximize the overall expected return within the risk level set by the Board of Directors. The principle of the statutory solvency requirements that apply to employment pension insurance companies is that a higher level of solvency is needed for asset categories with a higher risk. Investment risks are also managed by means of the risk management plan approved by the Board. Spreading the risk over different types of asset is the most important tool in risk management. More information on risk management is given on pages 18-19 and 30-32.

Most investments managed in-house

At the end of 2003, Ilmarinen's investment organization employed 54 people. The company manages most of its direct investments in-house. Management of other investments, including management of real estate and private equity investments, is largely outsourced.

Portfolio management is also outsourced in areas that require considerable human resources or special expertise that is not reasonable for Ilmarinen to possess. For instance, investments in developing economies, fixed-income instruments with a low credit-rating, private equity funds and hedge funds are managed by outsourced fund managers. At the end of 2003, 8.4% of the management of Ilmarinen's investment assets was outsourced.

Active ownership policy

The ownership policy approved by the Board of Directors and published on the company's website defines Ilmarinen's view in corporate governance issues such as the administrative structure, dividend distribution policy and incentive systems of companies in its ownership. The insider rules apply to all personnel who are involved in the company's investment activities.

Ilmarinen believes that an active ownership policy allows it to have a positive influence on the value of its holdings and to reduce the investment risks. The main areas of focus here include the administrative structures and reward systems of the companies concerned.

Guided by ethical principles

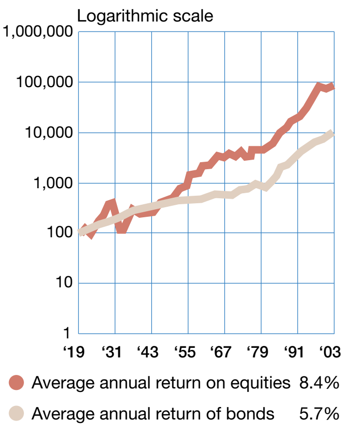
In accordance with Ilmarinen's ownership policy, the investments it makes should not only be profitable but also socially responsible and ethically sustainable. Ilmarinen expects the companies it

invests in to follow the principles of sustainable development. In practice, this means that the company should operate in accordance with the relevant international and local legislation and should, for instance, have undertaken the necessary environmental investment required for its operations. Treatment of personnel must also be appropriate and must respect human rights. In evaluating potential companies to invest in, Ilmarinen adopts a positive approach, meaning that we do not directly exclude any particular sector but select companies in each sector from among those that operate in accordance with sustainable development principles. The assumption is that such companies also manage their financial obligations better and more transparently, on average, which reduces the investment risk. This, in turn, decreases the required return for the company in question and also enables an above-average valuation level.

To assess the social responsibility of investments, Ilmarinen uses the services of an outside expert, who analyses Ilmarinen's equity and bond portfolio twice a year. The aim is to ensure that the operations of companies meet the principles for ethical investment. The equities and bonds of companies who contravene these principles can be removed from the portfolio if the company's response is not satisfactory. Under Ilmarinen's active ownership policy, any company removed from the portfolio is informed of the reasons behind Ilmarinen's decision.

Reports submitted by the outside expert are discussed by the investment management's risk management group. The minutes of these meetings and the lists of companies removed from, or threatened with removal from, the portfolio on the grounds of contravening ethical principles are circulated to all persons making investment decisions. In 2003, three companies were removed from Ilmarinen's portfolio for ethical reasons.

Equity vs. bond market in the USA, 1919-2003



By the end of 2003, a USD 1,000 investment in 1919 would have yielded
- USD 965,902 on the equity market
- USD 107,743 on the bond market

ILMARINEN SEEKS TO GAIN THE BEST POSSIBLE LONG-TERM RETURN ON ITS INVESTMENT PORTFOLIO WITHIN THE LIMITS PERMITTED BY ITS SOLVENCY. THE COMPANY AIMS TO INVEST ITS ASSETS PROFITABLY, SECURELY AND RESPONSIBLY.

Responsible pension cover

Earnings-related pension insurance is a major component of the Finnish social welfare system. For this reason, Ilmarinen believes that its position as a statutory pension provider brings with it a special responsibility. To ensure goals are achieved and a strong financial standing maintained, the company pursues an appropriate risk management strategy. Assessment of the company's financial standing entails not only an analysis of the annual and long-term financial performance but also an assessment of the sufficiency of the solvency buffers in relation to the company's liabilities and risks.

Risk management of underwriting business

The underwriting risks of an earnings-related pension insurance company are related to the sufficiency of the insurance contribution and technical provisions in relation to the amount of current and new pensions. The main underwriting risk in the long term is the uncertainty associated with life expectancy, and in the short term the uncertainty over the number of pension starts and claims.

Risk management in Ilmarinen's underwriting business is based on the calculation bases meeting the prudence requirements of the law, with which the insurance contribution and technical provisions are calculated, and on the company's own actuarial analyses. The tariffs are common for all earnings-related pension companies, and the law states that a company may not refuse to grant a pension that has been legitimately applied for. Fluctuations in the annual result of the underwriting business are allowed for by maintaining a buffer (equalization provision) in the technical provisions, accrued from the underwriting business surpluses of earlier years. Ilmarinen's insurance portfolio is so large that the use of reinsurance is not justifiable financially.

Ilmarinen's underwriting result for 2003 was again a surplus, following the pattern of recent years, and amounted to EUR 38.5 million. This further strengthened the equalization provision, which is about two thirds of the upper limit for the underwriting buffer, as set out in the calculation bases. The equalization provisions of earnings-related pension insurers are generally at a high level, which is why their growth has been restricted by reducing the disability component of the insurance contribution.

Investment risk management

The solvency rules for earnings-related pension insurers provide the framework for risk management of investments. Solvency capital, comprising assets in excess of the combined total of the company's pension liabilities and equalization provision, is intended to form a fluctuation reserve against investment risks. The minimum solvency capital requirement, solvency border and other monitoring limits set out in the Finnish insurance legislation are all dependent on the company's investment risks. The greater the investment risk, the greater the solvency capital required. The Board of Directors establishes the overall risk level of the company's investment by defining the degree of certainty with which the solvency capital is expected to remain above the solvency border.

If investment income exceeds the interest credited to technical provisions, the difference is added to the solvency capital. In the reverse situation, the necessary amount is deducted from the solvency capital. A good solvency position will also mean greater client bonuses.

Diversifying the risk among different types of asset and within each asset type by country, sector and company is an essential part of managing the market risks. For an earnings-related pension insurer, the liquidity risk can be managed without difficulty because pension expenditure can be accurately forecast. Currency risks and maximum potential losses on equity investments are controlled using derivatives.

At the end of 2003, Ilmarinen's solvency capital amounted to EUR 2,951.2 million. This was an increase of EUR 708.1 million on the previous year. Solvency capital was 22.3% (2002: 18.1%) of the technical provisions that define the basis of the solvency capital requirements, and was 2.2 (1.9) times the solvency border. For Ilmarinen's solvency capital to fall to the solvency border, share prices would have had to drop by about 60% or the general rate of interest rise by about four percentage points.

The company's strong solvency capital is sufficient to withstand the fluctuations inherent in the investment markets and thus allows Ilmarinen to pursue a long-term, return-oriented investment strategy, in which equities comprise a large proportion of the targeted investment distribution. A sensitivity analysis of the company's investment portfolio is given on page 31 of the Board of Directors' report.

Other risk management

The main elements of Ilmarinen's risk management are systematically linked to management of the company's principal duties and to its strategic and operational goals. The risk management system is set out in the risk management plan, which covers all the company's operations. The plan is reviewed and approved by the Board of Directors each year. It includes a survey of the risks affecting Ilmarinen and an assessment of these risks for the operation of the company. The plan defines the relation between risk management and strategic planning, annual planning and development project management, and sets out the risk management practices to be followed by each of the company's business sectors and the steps to ensure adequate internal supervision through internal and external audits. Each of Ilmarinen's units is responsible in practice for the implementation of risk management in its own operations.

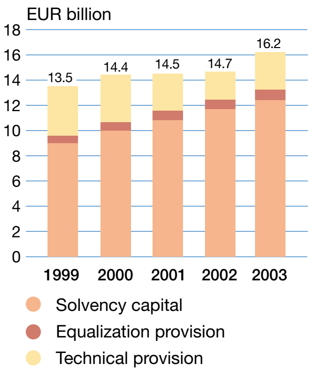
Auditing and internal supervision

Ilmarinen's Supervisory Board, Board of Directors and President and CEO have statutory responsibilities in organizing and conducting the company's internal supervision. For the purposes of coordinating and developing risk management at company level, a risk management committee has been set up, composed of representatives of the different business units. Its tasks include drawing up the risk management plan. Ilmarinen operates its own internal audit system. Supervisory auditors and the internal auditor of the company report to the Board of Directors on a regular basis.

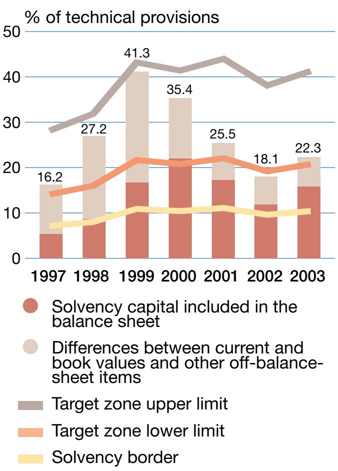
Ilmarinen's financial standing

The technical provisions, equalization provision and solvency capital each serve to secure the pension provision. The pension assets covering them comprise almost all of the company's wealth. The technical provisions have been calculated prudently and must always be covered. Technical provisions increase at a steady rate in line with the increase in the insurance portfolio, unlike the equalization provision and the solvency capital, which are subject to fluctuation in the underwriting and investment result. Ilmarinen's solvency is good and its risks have been controlled in relation to the extent of the solvency buffers.

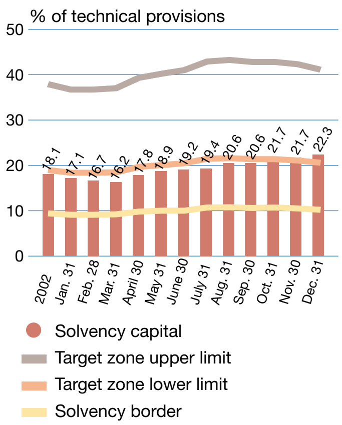
Ilmarinen's pension assets



Solvency, annual



Solvency, monthly



FINANCIAL STATEMENTS 2003

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

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

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

The concepts and terms used in the financial statements are explained in the guide for readers on pages 68-69.

Improvement in the economy

The long awaited upturn in the international economy finally materialized in 2003. The effect on the Finnish economy was only partial, however, as the notable strengthening of the euro against the US dollar weakened the demand for exports. Growth of overall output remained modest and labour market news was marked by redundancies. The total number of persons employed declined, because new jobs created in the service sector were not sufficient to compensate for job losses in industry and agriculture. The fall in unemployment seen over the last few years came to a halt and the unemployment rate remained at the 2002 level, with the labour supply shrinking at the same rate as jobs. Inflation remained under one per cent. The demand for office premises was weak, in line with the employment trend. The immediate future is to some extent overshadowed by uncertainty over whether the improvement in the economy is on a sustainable foundation.

Development of the employment pension system

The agreements concluded by the social partners, namely employers and trade unions, in 2001 and 2002 sought to harmonize and simplify the criteria for determining earnings-related pensions in the private sector. The President of the Republic ratified these amendments on June 27, 2003, and most of them will take effect on January 1, 2005. Similar amendments are also underway for other earnings-related pension acts, including the legislation on the public sector. The reform of vocational rehabilitation aimed at early identification of employees whose working capacity is threatened entered into force on January 1, 2004. At the same time it became possible to appeal against rehabilitation decisions.

The changes relating to pension entitlement, determination of pensions and vocational rehabilitation are aimed at encouraging people to retire later and to cope at work for a longer period before retiring. Developments in 2003 did not support this goal though, as there were many redundancies, some of which will lead to people retiring on unemployment pensions. In the longer run, however, these changes will relieve the upward pressure (by several percentage points) on pension expenditure and employment pension contributions vis-à-vis the total wage bill and further strengthen the financial capacity of the employment pension system. Attention will be paid to maintaining a balance between the rising contribution rate and the financial capacity of the national economy through continued close cooperation between the social partners and the employment pension system. Agreement will be sought on any further changes as necessary.

It was also agreed that the legislation governing the pension security of private-sector wage-earners will be later harmonized. A bill proposing that the present Employment Pensions Act, the Temporary Employees' Pensions Act and the Pensions Act for Performing Artists and Certain Other Employee Groups be replaced by a single employment pension act will probably be introduced to Parliament in 2004 and enter into force on January 1, 2007. In addition to the benefit provisions currently covered by separate acts, the new act will comprise totally new provisions on employment pension insurance practices as regards both regular employers and employers commissioning work on a temporary basis. The changes regarding actuarial practices, operations of pension institutions and information technology will be extensive. With the new law, the special status of Etera Mutual Pension Insurance Company (former LEL Employment Pension Fund) will be removed and the company will compete with the TEL institutions for the same clientele as are currently insured under the pension laws mentioned above and the Self-Employed Persons' Pensions Act.

The harmonization of benefits and laws will mean extensive modifications to the information systems and operating practices and will require considerable resources and investment from both Ilmarinen and other employment pension companies over the next few years.

The 'last institution principle' was extended to cover public-sector pensions as of the beginning of 2004. Under this principle, the last pension institution in which the pension applicant was insured will grant and pay the applicant's pension, regardless of which pension act they are covered by. This will simplify employment pension procedures for pension applicants and recipients.

Investigation of the competition among employment pension companies, which began several years ago, has now been concluded. The development proposals made during the various stages of the investigation have been evaluated and those found viable incorporated into the new legislation, insurance terms and conditions and calculation bases.

The most important of the changes was the act which entered into force in summer 2003, which allows the transfer of funds accrued during the validity of an employment pension insurance from an employment pension insurance company to a pension fund or pension foundation, and from a pension fund to a pension foundation. The transfer requires the consent of the pension institution surrendering the funds, and a certain amount of solvency capital is transferred with the funds. The other changes introduced as a result of the competition investigations aim at lowering the threshold for transferring an insurance policy from one employment pension company to another.

Results and solvency

Both the number of persons insured with Ilmarinen and the total wage bill insured by the company increased in 2003. Ilmarinen's underwriting business showed a surplus.

After an upturn in share prices after three difficult years, 2003 was also a favourable year for investment. As a result, the company's net investment income at market values increased to 8.7% compared with -0.5% in 2002, and solvency capital grew to EUR 2,951.2 million compared with EUR 2,243.1 million in 2002.

During the period of falling share prices Ilmarinen's solvency remained at least satisfactory, and has since strengthened. The monitoring limits on an earnings-related pension company's solvency capital depend on the risk content of its investment portfolio. Ilmarinen's solvency capital at the end of the year was 2.2 times its solvency border, compared with 1.9 in 2002. The company's solvency capital stood at 22.3% (2002: 18.1%) of the technical provisions used in solvency calculations and 54% (47%) of the upper limit of the solvency capital target zone.

Ilmarinen's excellent solvency position before the stock markets began to fall has allowed it to maintain its equity-weighted investment strategy during the business cycle without having to sell. Good solvency has enabled the company to build up and maintain an investment portfolio that offers substantial long-term income potential. The sum available for client bonuses depends on the company's solvency capital and solvency position. Ilmarinen's client bonuses in 2004 which are based on the 2003 results, will be considerably higher than those issued the previous year.

The information given below on the company's results and solvency is based on the indices and analyses (calculated at market values) appended to the financial statements.

The overall result for 2003 was EUR 818.3 (-591.2) million. The underwriting business showed a profit of EUR 38.5 (53.1) million, while the loading profit was EUR 9.1 (9. 7) million. Net investment income at market values totalled EUR 1,278.5 (-60.2) million. Together with other interest items, net investment income exceeded the EUR 510.4 (597.0) million interest credited to technical provisions by EUR 770.7 million, having fallen below it by EUR 654.0 million in 2002.

Ilmarinen's solvency, its high proportion of equity investment and the high long-term expected return mean that, overall, it has a larger than average fluctuation in its annual results. Performance over the five-year period included two particularly difficult years from 2000-2002, as a result of which the period remained significantly below the long-term expectation. However, the company's average overall result for 1999-2003 is an annual profit of EUR 213.8 million after deduction of the interest credited to technical provisions.

The profit from the underwriting business will be transferred to the equalization provision according to the actuarial principles confirmed by the Ministry of Social Affairs and Health, except for EUR 3.1 million, the amount by which the equalization provision for the TEL supplementary pension insurance would otherwise have exceeded its upper limit.

A total of EUR 33.0 (19.0) million was earmarked for use as discounts in TEL insurance contributions, i.e. client bonuses. This was 0.33% (0.20%) of the total wage bill insured, and EUR 91 (53) per employment relationship insured with Ilmarinen.

The rest of the overall result is retained in the company's solvency capital.

Insurance portfolio and premiums written

At the end of 2003, the company had 31,927 (31,689) TEL policies, covering 364,000 (359,000) insured persons. Thus the number of policies remained almost unchanged, but a rise of 1.4% was recorded in the number of persons insured. The average number of persons covered by a TEL policy remained at about 11.

The total wage bill insured with Ilmarinen under TEL was EUR 9,879.4 (9,631.0) million, which was an increase of 2.6% on 2002. The estimate for the total wage bill is 4.5% higher than the exact insured wage bill based on the 2002 annual calculation, which was 1.9% below the estimate used in the 2002 annual accounts. Ilmarinen's market share calculated on the total wage bill insured under TEL is estimated to have grown slightly from the 2002 figure of about 33.8%.

At the end of 2003, Ilmarinen had 49,696 (49,322) YEL policies. The average reported annual income was EUR 16,559 (16,054), which is about 3.1% above the 2002 figures and slightly higher than the increase of 2.38% in the TEL index. The average YEL income was significantly lower than the average earnings of TEL employees.

Ilmarinen's premiums written in 2003 totalled EUR 2,229.6 (2,160.9) million.

TEL premiums written in 2003 totalled EUR 2,063.3 (2,004.4) million. The discounts granted on TEL contributions, i.e. client bonuses, totalled EUR 19.4 (73.2) million in 2003. The increase in premiums written was 2.9%, which was mainly due to the increase in the estimate for the wage bill in the financial statement and the rise in the contribution rate.

Premiums written in YEL policies in 2003 totalled EUR 166.3 (156.6) million, i.e. an increase of 6.2%.

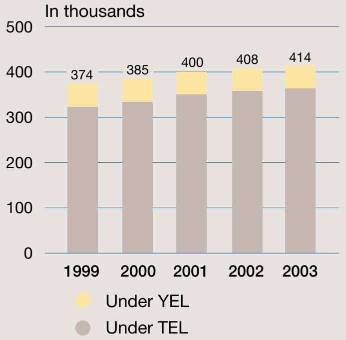
Bad debts from unpaid TEL contributions came to EUR 5.4 (7.1) million, and from unpaid YEL contributions EUR 3.5 (3.6) million. As a company, Ilmarinen did not incur any losses from YEL contributions, however, because in the YEL system the government compensates for any contributions that have not been paid by policyholders.

Annual premiums written via sales of new TEL insurance totalled approximately EUR 63 million in 2003. The overall sales result for the year under review showed a loss, however, due to the balance on transfers for TEL insurance. On the basis of decisions made in 2003 the net transfer to other employment pension companies will be approximately 13,200 persons insured under TEL, which will reduce annual premiums written by about EUR 84.7 million. Most of this is due to one major client transferring away from Ilmarinen. Transferring from one employment pension insurer to another is now possible every three months, as a result of the change in the insurance terms and conditions. Most transfers, however, are made by changing the insurer at the end of the year.

The sale of new YEL policies increased premiums written by EUR 14.4 million annually. The balance on transfer for YEL insurance is slightly in the red.

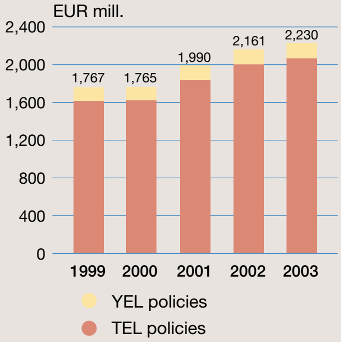
Number of people insured

In thousands



Premiums written

EUR mill.



Contribution rate

The average TEL contribution confirmed for 2003 was 21.4%, which was 0.3 percentage points higher than in 2002. The employee contribution was 4.6 percentage points of this and the employer's contribution an average of 16.8 percentage points. The contribution rate payable by the employer varies from policy to policy, and also depends on the client bonuses granted by the company in question. Ilmarinen's client bonuses averaged 1.2% of the employer's contribution. In 2004, the average TEL contribution will continue to be 21.4% of the wage.

In 2003, the YEL contribution was 21.4% of the reported income confirmed under YEL. In 2004 the figure will continue to be 21.4%

Pensions and maintaining working capacity

In 2003, Ilmarinen paid out a total of EUR 1,901.7 (1,855.3) million in pensions.

At the end of the year, 235,965 pension recipients were with Ilmarinen, i.e. 2.1% more than a year earlier, when they totalled 231,056. At year end, TEL pension recipients totalled 205,807 (201,603) and YEL pension recipients 30,158 (29,453). Old-age pension was received by 58% of these pension recipients, and disability pension by 16%. Recipients of individual early retirement pension accounted for less than 2%. The proportion of unemployment pension recipients remained unchanged at about 6%, while survivors' pension recipients accounted for around 16%. The relative increase in the number of part-time pensions continued, and recipients of such pensions accounted for only about 3% of the total.

Pension expenditure by type of pension in 2003, EUR mill.

	TEL	YEL	Total	% of total expenditure
Old-age pensions	917.7	89.8	1,007.5	53.0
Early old-age pensions	115.8	14.2	130.0	6.8
Part-time pensions	36.3	8.9	45.2	2.4
Disability pensions	301.0	27.2	328.2	17.2
Individual early retirement pensions	41.0	3.2	44.2	2.3
Unemployment pensions	150.9	2.5	153.4	8.1
Survivors' pensions	171.9	21.3	193.2	10.2
Total	1,734.6	167.1	1,901.7	100.0

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

Number of pension recipients, December 31, 2003
Benefits under basic coverage

Pension type	TEL	YEL	Total
Old-age pension	108,518	14,529	123,047
Early old-age pension	11,554	2,745	14,299
Part-time pension	5,365	1,437	6,802
Disability pension	33,529	4,540	38,069
Individual early retirement pension	3,040	418	3,458
Unemployment pension	12,678	341	13,019
Survivors' pension	31,123	6,148	37,271
Total	205,807	30,158	235,965

New pension decisions, December 31, 2003

	2003	2002	Percentage change
Disability pensions	6,883	5,954	15.6
Individual early pensions	522	503	3.8
Unemployment pensions	2,728	2,771	-1.6
Old-age pensions	2,892	2,695	7.3
Early old-age pensions	1,157	1,430	-19.1
Part-time pensions	1,286	2,934	-56.2
Survivors' pensions	2,559	2,702	-5.3
Total	18,027	18,989	-5.1

Ilmarinen made 18,027 pension decisions in 2003, i.e. 5.1% less than in 2002. This was due to the fall in the number of new part-time pensions to less than half of the previous year's figure; the 2002 figure was high as a result of the uncertainty associated with the pension reform process, which increased the number of applications considerably. The number of old-age pension and unemployment pension decisions made was roughly the same as in 2002. The number of disability pensions granted was up by 16% on the previous year and the number of early individual pensions by just under 4%.

Ilmarinen measures the efficiency of its pension application processing in terms of average processing time per type of pension, and the quality of its pension decisions in terms of the permanence of the rulings at appellate level. In both these measures, the company has succeeded better than the other pension companies on average. The processing times are shown in the accompanying figure. Ilmarinen's pension decisions were changed by the Pension Appeals Board in 5.3% of cases and by the Insurance Court in 18.9% of the cases.

Altogether 26,500 individual pension coverage reports were supplied in 2003 in response to requests from clients.

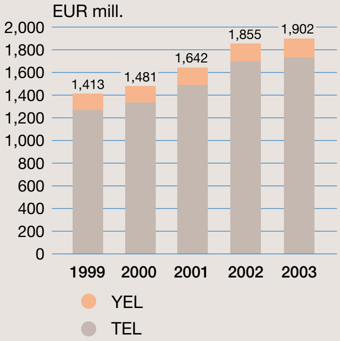
Ilmarinen's Motivo programme supports client companies' efforts to maintain the working capacity of their personnel. Together with the other specialists in the field, Ilmarinen organized 217 sessions under this programme.

Ilmarinen continued to support vocational rehabilitation in its client companies by offering advisory training in this area as well as counselling and expert help at the initial stage of rehabilitation planning, for both rehabilitees and client company personnel. During the actual rehabilitation period, Ilmarinen pays benefits in accordance with the employment pension legislation to ensure an adequate income for the rehabilitee and to reimburse the costs incurred during training. In 2003, Ilmarinen paid out rehabilitation allowance or pension-related rehabilitation increment to 733 insured persons during vocational rehabilitation. The number of rehabilitees was up 10% on 2002.

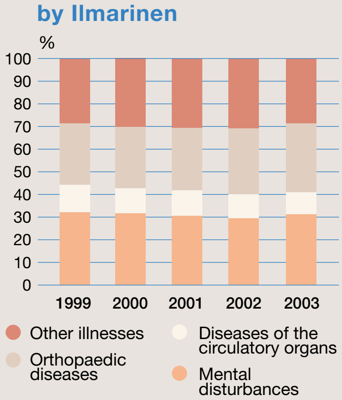
Underwriting business, technical provisions and portfolio transfers

Technical provisions at the end of 2003 totalled EUR 15,275.0 (13,863.5) million. In net terms, the provision for future bonuses,

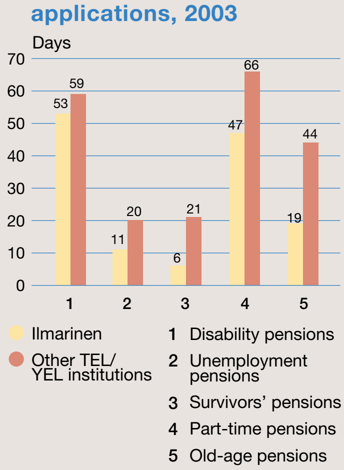
Benefits paid out



Disability pensions granted by Ilmarinen



Processing times for pension applications, 2003



including portfolio transfers, grew by EUR 624.7 million, to a year-end total of EUR 2,015.1 million. In other respects, technical provisions increased by 6.3%. The company posted an underwriting result of EUR 38.5 (53.1) million, or 0.4% of the total wage bill forming the basis for the insurance contributions. EUR 35.4 million was transferred to the equalization provision, which increased to EUR 814.6 million. The transfer to the equalization provision was EUR 3.1 million less than the technical underwriting result, as the equalization provision for the TEL supplementary pension insurance reached its upper limit. The technical rate of interest that regulates the percentage of investment income to be transferred to technical provisions was 4.25% until June 30, 2003 after which it was 4.0%. At the start of 2004 it increased to 4.50%.

Assets covering technical provisions totalled EUR 16,034.7 (14,736.3) million.

In 2003 portfolio transfers were made from three TEL pension foundations, totalling EUR 9.4 million, of which provision for future bonuses accounted for EUR 1.0 million.

Investments

Trends in the investment environment

The 2003 investment environment was marked by considerable changes in equity, fixed-income and currency exchange markets.

The trend in the fixed-income market was characterized by a growing risk tolerance on the part of investors due to the fall in risk-free interest rates to a level significantly below their long-term averages. Interest rates, which were at their lowest in June, were held down because of the strong belief that no increases would be forthcoming in short-term rates in the near future. As a result, the record low interest rates cut profits from money market investments in the euro zone. Returns on the high-est risk fixed-income investments, i.e. on interest-bearing instruments of companies with the weak-est credit ratings and of developing countries, grew to over 20%. Also, the lower risk corporate bonds gave a better yield than government bonds, whose return in the euro zone, for example, was 4% on average.

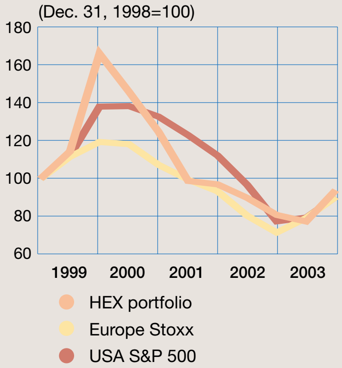
Share prices continued to fall until March 2003. The negative trend came to a halt in March, when the valuation of the equity market in relation to the interest rate was exceptionally low. The rapid end to the Iraqi war and the fall in the price of oil increased investors' risk tolerance, and with the rising share prices more investors were able to increase their equity risk. Growth companies in particular, whose share prices had, on average, declined in the previous three years to about one quarter of their record level in 2000, benefited from the increase in risk tolerance, and by the end of 2003 their share prices had risen by more than 50% from the low point in March. The return on the equity markets in 2003 was clearly better than the long-term average: the HEX portfolio index climbed 22.7%, the DJ STOXX Europe index 16.8% and the S&P 500 index 28.7% (6.8% in euros) in 2003.

The strengthening of the euro which began in autumn 2001 continued. Compared with the US dollar, which is suffering from the indebtedness of the US economy, the euro has risen from its lowest level by almost 50%.

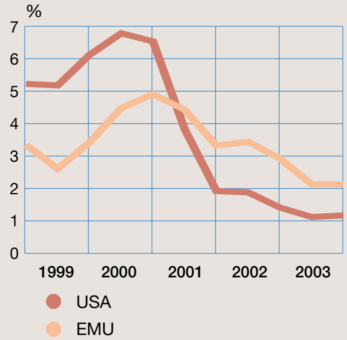
Decisions on investment breakdown

In the basic allocation (i.e. the targeted investment breakdown)

Stock market performance



3-month rates



approved each year by the Board of Directors the proportion of each investment type is designed to maximize the overall yield expectation within the risk limits set by the Board. The principle behind the assessment of the risk level is the company's average solvency over the business cycle. Because of the uncertainties in the investment environment, a justified exception was made in 2002, when the proportion of equities in the investment portfolio was kept slightly below the basic allocation for most of the year, by the decision of the Board of Directors.

In the early part of 2003, Ilmarinen continued its policy from the year before, keeping the proportion of equities in the portfolio lower than the basic allocation would have required, as up until March the falling share prices had reduced Ilmarinen's solvency capital to a level where taking any substantial additional risks was difficult. With the upswing of the equity market in the spring, Ilmarinen began actively to increase equity risk by buying call options. After the company's solvency had improved, the focus shifted to direct equity investments. In August, equities had already reached their basic allocation level. Overall, equity risk in its various forms was increased actively by about EUR 600 million.

For the purpose of limiting the exchange rate risk, the main part of this risk was hedged, as it had been the year before, which clearly improved the return on the investments from outside the euro zone.

Investment portfolio and investment income

At the end of 2003, Ilmarinen's investment portfolio amounted to a total of EUR 15,933.3 (14,520.6) million at market values. Fixed-income investments accounted for 51% (51%) of Ilmarinen's investment assets, equities 25% (22%), real estate 15% (16%) and loans to customers 9% (11%).

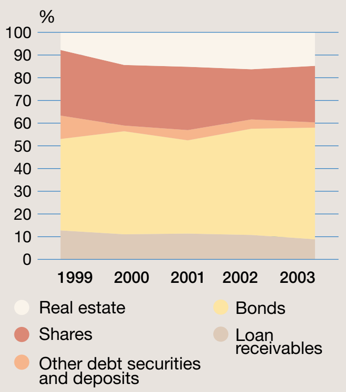
The recovery of the equity markets increased the return on investments to 8.7% at market values in 2003, which corresponds to a real return of 7.7%. The return on the investment portfolio in 2002 stood at -0.5%. The average annual return at market values over the past five years has been 5.0%, corresponding to an average real return of 3.0%. As of the beginning of 1997, when employment pension insurance companies' risk-taking potential in investment was improved by revising the regulations, average annual return at market values on Ilmarinen's investments has totalled 6.8%, corresponding to an average real return of 4.9%.

Fixed-income investments

The year-end market capitalization of the fixed-income investment portfolio was EUR 8,200.1 (7,398.1) million, with government bonds accounting for EUR 4,452.5 (4,523.4) million, i.e. 54.3% (61.1%) of the total. Debt securities accounted for EUR 367.8 (600.2) million, or about 4.5% (8.1%), and the return was 1.8% (3.6%). The remainder 41.2% were corporate bonds, loans to developing economies and investments in fixed-income funds.

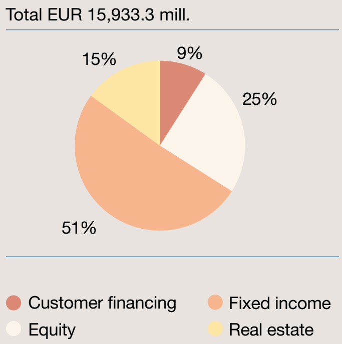
Despite the growing share

Structure of Ilmarinen's investment assets

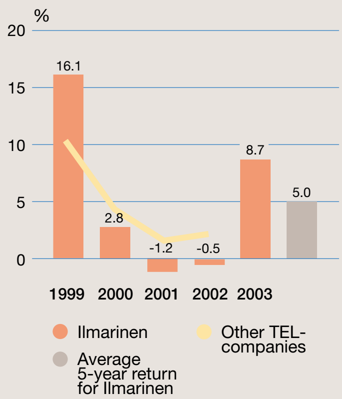


Breakdown of investment assets on Dec. 31, 2003

Total EUR 15,933.3 mill.



Net investment income, at current value



of corporate bonds, the average credit rating for Ilmarinen's fixed-income investment remains very high. The credit rating for most of these investments is excellent. The average capital-weighted credit rating of corporate bonds was AA- and no credit losses were recorded.

The return on fixed-income investments at market values was 4.9% (9.0%).

At the end of 2003, the average term-to-maturity of the fixed-income portfolio was 4.2 (4.5) years.

Equity investments

The value of the equity portfolio increased in 2003 to EUR 3,963.7 (3,205.8) million as a result of the rise in share prices and net buying of equities. Foreign equities accounted for 57% (51%) of this or about EUR 2,264.3 (1,675.7) million.

The favourable development of the equity markets raised the return on Ilmarinen's equity investments calculated at market values to 22.1% (-21.8%). The right selection of equities, correct timing and over-weighting of developing economies and small companies offering higher than average returns helped to improve the return of the equity portfolio. In spring 2003, the weighting for Japan, which had suffered 13 years of falling share prices, was increased, as the valuation of the market had finally fallen to an acceptable level. Diversification of the equity portfolio has been actively improved since 2000, and at the end of 2003 the diversification reached the targeted level.

At the end of the year, the market capitalization of Ilmarinen's holding in Pohjola was EUR 278.4 million. This represented 1.7% (1.3%) of Ilmarinen's total investment portfolio, and 7.0% (6.1%) of equity investments.

The most significant change in Ilmarinen's equity investment operations was the substantial increase in the use of derivatives. Equity derivatives were used to limit maximum losses from equity investments. This enabled the company to take active measures to increase equity weighting without taking too much risk.

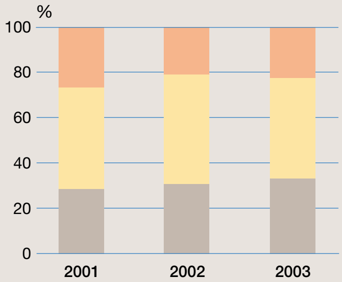
Ilmarinen's equity portfolio also includes investments in venture capital funds and hedge funds, which the company has been increasing over the past few years. At the end of 2003, they accounted for about 2.2% (1.8%) of total investment assets. Venture capital funds accounted for EUR 219.1 million of the total and hedge funds for EUR 133.0 million. The return on the hedge funds totalled an average of 8.5% and on venture capital funds -2.0% in 2003.

In accordance with the Board's ownership policy, Ilmarinen was active in corporate governance issues such as incentive systems and dividend distribution policies of companies. Under the Board-approved set of ethical investment principles, investments in three companies were removed from the portfolio.

Real estate investments

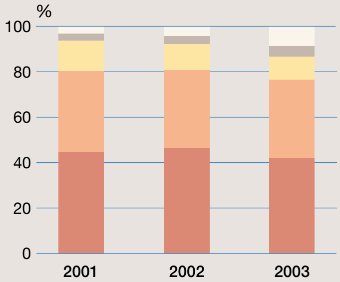
Ilmarinen's real estate portfolio at year-end totalled EUR 2,366.6 (2,356.9) million. Although the total amount of such investments grew, their percentage of the in-

Breakdown of equity portfolio by business sector



Growth — business sectors in which growth in turnover is above average
Defensive — less sensitive business sectors
Cyclical — highly sensitive business sectors

Geographical breakdown of listed shares



Other countries
Japan
USA
Europe
Finland

Client loan portfolio, EUR mill.

	1993	1998	2003	Percentage return
TEL loans	2,955.0	1,546.8	925.2	4.3
Investment loans	754.6	277.5	477.7	5.2
Total	3,709.6	1,824.3	1,403.0	4.6
Of total portfolio, %	63	16	9	

vestment portfolio fell, mainly due to the increase in equity investments.

The overall return on real estate investment at market values was 5.2% (5.6%). The many renova-tion projects underway and write-offs made during the year reduced the annual return. The vacancy rate of office premises owned by Ilmarinen was 11.2% at the end of the year. Investments made in real estate totalled EUR 80.9 million in 2003. Renovations accounted for a substantially higher proportion of the investments than in the previous years. The most important investment was the renovation of the Ympyrätalo office building in Helsinki, which, at the time it was started, was the biggest single renovation project in the country. Housing production focused on free-market rental housing on land owned by Ilmarinen. Altogether 252 homes were completed in four buildings in the course of the year. Another two buildings with 122 homes are still under construction in the Helsinki metropolitan area.

A survey on Ilmarinen's potential to diversify its real estate portfolio abroad was completed in the early part of 2003. The implementation and follow-up of the survey will take place in cooperation with Aberdeen Property Investors Nordic Ab. Significant diversification of the real estate portfolio abroad is, however, hampered by the unfavourable classification of indirect real estate investments in the regulations on solvency and on the assets covering technical provisions, in comparison with the classification of direct investments.

Loans to clients

Loans granted to clients decreased by 10% in 2003. These loans have accounted for a declining proportion of the company's total investments over the past decade, falling from 63% to 9%. In 2003, new loans accounted for EUR 108.1 (217.2) million, and EUR 262.0 (275.4) million was repaid. The entire loan portfolio totalled EUR 1,403.0 (1,559.7) million at the end of the year, including accrued interest. The return on loan receivables was 4.6% (4.7%).

Risk management

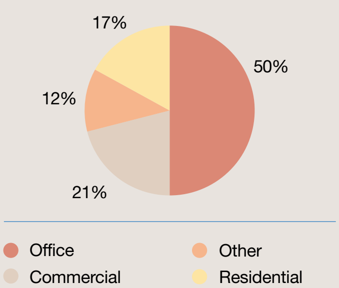
Ilmarinen operates according to a risk management plan approved annually by the Board of Directors and covering all of the company's activities. Risk management is systematically linked with the management of the company's basic responsibilities and with the company's strategic and operational aims. The risk

Real estate by location on Dec. 31, 2003

Total EUR 2,366.6 mill.

Real estate by use on Dec. 31, 2003

Total EUR 2,366.6 mill.



management plan includes a survey of the risks affecting Ilmarinen and an assessment of these risks for the operation of the company. It sets out how to integrate risk management into strategic planning, annual planning and the management process of development projects, together with the risk management practices followed by each of the company's business sectors and the steps to ensure adequate internal supervision through internal and external audits. Each unit is responsible in practice for the implementation of risk management in its own operations. A supervisory auditor's report and internal auditing report are submitted each year to the Board of Directors. For the purposes of coordinating and developing risk management at company level, a risk management committee has been set up, composed of representatives from business sectors and support functions.

The management of risks in Ilmarinen's underwriting business is based on the calculation bases confirmed by the Ministry of Social Affairs and Health that meet the prudence requirements of the law, and the company's own actuarial analyses. Ilmarinen does not use reinsurance for the risk management of its underwriting business because the substantial size of its insurance portfolio makes the management of such risks as part of the company's own liability economically more attractive.

The solvency regulations that apply to earnings-related pension insurance companies form the framework for the risk management of Ilmarinen's investment activities. The Board of Directors decides the overall risk level to be observed within the limits of these regulations.

Diversification among different asset classes and by country, sector and business is an essential part of investment risk management. At the end of 2003, Ilmarinen's biggest single equity investment represented 1.7% (1.3%) of the company's investments, while the 10 biggest accounted for 6.0% (6.0%). In the case of earnings-related pension insurance companies, the liquidity risk is minor because future pension expenditure can be reliably forecast. Within Ilmarinen's investment organization, the work of monitoring and supervising investment risks is carried out separately from the portfolio management operation. Besides limiting the exchange rate risk, the main use for derivatives is to limit the maximum loss from equity investment through the use of options, while retaining an adequate level of potential return. The sensitivity of options positions is monitored in relation to, for example, changes in the price and volatility of the underlying financial instrument, and over time.

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

Probability assessment can be used to supplement the picture given by the sensitivity analysis.

Sensitivity analysis of investment portfolio

	Value Dec. 31, 2003	Effect		
		Share prices +25%	Interest rate -1% point	Real estate value +10%
Solvency capital				
EUR mill.	2,951.2	+916	+326	+240
as % of technical provisions	22.3	+6.9	+2.5	+1.8
relative to solvency border	2.16	+0.44	+0.28	+0.18
Return on investment, %	8.7	+6.2	+2.2	+1.6

Ex-amination of end-of-the-year investments showed that the probability of their values declining by EUR 513 million or more within one month was 2.5%. Such a fall would be equivalent to 3.2% of the company's investments and would reduce solvency capital to 18.5% of technical provisions and 1.85 times the solvency border.

Personnel

Ilmarinen employed an average of 682 people in 2003, as against 652 a year earlier. At year-end the total was 696 (666), of whom 47 (48) were fixed-term employees.

Changes relating to pension legislation reform, IT projects and promotion of the company's competitiveness will increase the need for personnel training significantly in the next few years. In 2003 the training given was an average of 7 (7) days per person. The extensive training programme for supervisory and specialist personnel launched in 2002 was completed last year.

Operating expenses

Total operating expenses accounted for EUR 79.4 million in 2003, i.e. an increase of 12.5% on the previous year. Investment charges totalled EUR 8.5 million, equivalent to 0.05% of the total amount of investment. These charges are financed using the return on investments. Working capacity maintenance costs, which are financed using the administrative component for these purposes in the insurance premium, totalled EUR 2.3 million. Other operating costs are financed using the expense loading component and were EUR 9.1 million, i.e. 11.7%, below this.

In its action plan for the next few years, the Board of Directors has accepted that, due to the pension reform and the development projects currently underway within the company, the loading profit may temporarily fall below 10% of the expense loading components in the next few years. The 10% target will be enforced, however, before 2007, when the total number of personnel is also required to return on the 2002 level.

Information technology

Modifications to the company's information systems to extend the so-called last institution principle to the public sector were completed according to schedule and the first combined pension decision was granted by Ilmarinen on January 7, 2004. The first stage of the new pension payments system was introduced on time at the end of 2003 and the new YEL insurance management system was brought into use. The specifications for IT modifications related to the pension legislation reform were launched in parallel with the legislative changes; most of the modification work is scheduled for 2004-2005.

The technical platform was totally redesigned and implemented for Ilmarinen's new network services for customers and internal use. The first electronic service for policyholders and the company's internal processing system for annual notifications was introduced in the new system environment at the end of the year. For the needs of data and document management and for call centre purposes, an application package was purchased and its integration began with the aim of launching the services in 2004. The IT systems for investment operations were incorporated as part of Ilmarinen's local area network.

Employment pension companies and the Central Pension Security Institute were making preparations for a new common earnings information system, with a view to the harmonization of employment pension legislation. The aim is to combine and simplify IT systems for the management of employment pension security and to reduce IT expenditure. The specification of the earnings information system and implementation of the technical environment were begun in the second half of the year. For administration and control purposes, a joint service company was founded at the end of the year.

Administration

Tor Bergman, Chairman of Ilmarinen's Board of Directors, was released from his liabilities as a Board member at his own request as of December 31, 2003. At its meeting of December 4, 2003, Ilmarinen's Supervisory Board elected Hannu Syrjänen as replacement Board member for the remaining term, i.e. until the end of 2005. The Board of Directors meeting of January 19, 2004 elected Hannu Syrjänen as Chairman and re-elected Lauri Ihalainen and Johannes Koroma as Deputy Chairmen.

Ilmarinen Group

The Ilmarinen Group comprises the parent company Ilmarinen and 193 real estate companies. The most important associated company is Pohjola Group plc.

In January 2003, the Group sold 60% of the share capital of Antilooppi Oy (the Ilmarinen subsidiary responsible for property management) to Aberdeen Property Investors Nordic AB, which is part of the British group Aberdeen Asset Management. The company will continue its operations under the name of Aberdeen Property Investors Finland Oy.

Guarantee capital

Ilmarinen has EUR 22,994,653.31 in guarantee capital, divided into 13,672 guarantee shares. On December 31, 2003 the owners of the guarantee capital and their shares were as follows:

	Guarantee shares	Ownership, %
Pohjola Group plc	9,375	68.6
Suomi Mutual Life Assurance Company	4,037	29.5
Pohjantähti Mutual Insurance Company	260	1.9
	13,672	100

Future prospects

Overall, the start of 2004 has been encouraging, especially in the investment market. The deficit problems of the United States, however, are an uncertainty factor as regards continuation of the rapid growth there. In the euro zone and particularly in Finland, the continued strengthening of the euro has hampered recovery of the demand for exports.

The loss made in the transfer business in 2003 will weaken Ilmarinen's market share slightly in 2004 compared with the previous year. Finland's poor employment trend will probably curb the growth of the insurance portfolio. On the other hand, the positive development of the investment market has further strengthened Ilmarinen's solvency compared with the situation at year-end. By the end of January, solvency capital had increased to 23.3% of the technical provisions used to calculate solvency. Since January the trend has continued to be favourable.

The employment pension insurers' solvency framework has now been in use for seven years. This period has included an unprecedented boom in share prices, which was followed by an extremely steep slump and then an upturn. This has provided practical experience of how the solvency capital mechanism works over an entire business cycle. During this period Ilmarinen's solvency capital reached its highest point at almost the upper limit, and was at its lowest at a point slightly below twice the solvency border.

This has also demonstrated that in practice Ilmarinen's solvency allows it to consistently pursue an investment strategy directed at good returns in the long term even during difficult times. Thus a significant proportion of investments will continue to be directed towards domestic and international shares in the future. This strategy accords with the goals set for the investment activities of Finnish earnings-related pension insurance companies. However, if the planned tax reform were to subject the dividends received by employment pension insurers to double taxation, equity investments in Finland would become less attractive.

While the chosen investment strategy can be expected to generate a high level of return in the longer run, the volatility of the investment market, especially equities, has a considerable effect on annual performance. The result in 2004 will depend to a great extent on what happens in the investment markets. Ilmarinen expects that its relative standing in the competition over bonuses with its competitor companies will remain good in the longer term.

PROFIT AND LOSS ACCOUNT

Technical account	Parent company		Group	
EUR mill.	2003	2002	2003	2002
Premiums written	**2,229.6**	**2,160.9**	**2,229.6**	**2,160.9**
Investment income	**1,610.9**	**1,258.4**	**1,598.4**	**1,177.3**
Claims incurred				
Claims paid	-1,918.8	-1,868.7	-1,918.8	-1,868.7
Change in provision for claims outstanding				
Total change	-390.7	-58.7	-390.7	-58.7
Portfolio transfers	5.0	11.5	5.0	11.5
	-385.6	**-47.1**	**-385.6**	**-47.1**
	-2,304.5	**-1,915.8**	**-2,304.5**	**-1,915.8**
Change in provision for unearned premiums				
Total change	-1,020.8	-285.3	-1,020.8	-285.3
Portfolio transfers	4.3	15.9	4.3	15.9
	-1,016.5	**-269.4**	**-1,016.5**	**-269.4**
Statutory charges	**-8.4**	**-3.1**	**-8.4**	**-3.1**
Operating expenses	**-49.9**	**-45.6**	**-49.9**	**-45.6**
Investment charges	**-448.7**	**-1,151.4**	**-441.9**	**-1,075.6**
Other technical charges	**-1.9**	**-4.6**	**-1.9**	**-4.6**
Balance on technical account	**10.7**	**29.4**	**5.0**	**24.1**

Non-technical account	Parent company		Group	
EUR mill.	2003	2002	2003	2002
Balance on technical account	**10.7**	**29.4**	**5.0**	**24.1**
Other income	**1.3**	**1.1**	**1.3**	**1.1**
Other expenses	**-2.0**	**-2.1**	**-2.0**	**-2.1**
Income taxes on ordinary activities	**-3.2**	**-17.4**	**-3.2**	**-10.2**
Profit on ordinary activities	**6.8**	**11.0**	**1.1**	**12.8**
Appropriations				
Change in accelerated depreciation	-1.2	-5.1	-	-
	-1.2	**-5.1**	**-**	**-**
Minority interest	**-**	**-**	**1.0**	**0.5**
Profit for the financial year	**5.5**	**5.9**	**2.1**	**13.3**

BALANCE SHEET

Assets	Parent company		Group	
EUR mill.	2003	2002	2003	2002
Intangible assets				
Intangible rights	2.9	2.0	2.9	2.1
Other long-term expenditure	0.1	0.3	0.1	0.3
Prepayments	2.6	1.0	2.6	1.0
	5.6	**3.3**	**5.6**	**3.5**
Investments				
Real estate				
Real estate and shares in real estate	1,601.8	1,598.2	2,075.3	2,076.5
Loans to affiliated undertakings	501.0	485.4	-	-
Loans to participating interests	20.6	20.9	20.6	20.9
	2,123.4	2,104.5	2,095.9	2,097.4
Investments in affiliated undertakings and participating interests				
Interests in affiliated undertakings	-	0.6	-	-
Participating interests	285.6	203.1	285.2	203.0
	285.6	203.7	285.2	203.0
Other investments				
Stocks and shares	3,496.5	2,838.6	3,497.9	2,838.7
Debt securities	7,488.0	6,678.0	7,488.0	6,678.0
Loans guaranteed by mortgages	237.0	247.7	237.0	247.7
Other loans	1,149.0	1,292.1	1,149.0	1,292.1
Deposits	123.2	205.3	123.2	205.3
Other investments	0.1	0.1	0.1	0.1
	12,493.8	11,261.9	12,495.2	11,261.9
	14,902.9	**13,570.1**	**14,876.2**	**13,562.4**
Debtors				
Direct insurance debtors				
Policyholders	68.0	78.0	68.0	78.0
Other debtors				
Receivable from portfolio transfers	17.2	21.8	17.2	21.8
Other debtors	241.9	179.1	239.3	177.8
	259.1	200.8	256.4	199.6
	327.0	**278.8**	**324.4**	**277.6**
Other assets				
Tangible assets				
Machinery and equipment	9.8	8.7	9.8	9.1
Other tangible assets	1.7	1.5	1.7	1.5
	11.5	10.2	11.5	10.7
Cash at bank and in hand	64.0	56.2	64.5	57.3
	75.6	**66.4**	**76.0**	**68.0**
Prepayments and accrued income				
Interest and rents	205.2	204.7	205.3	205.0
Other	52.7	23.9	52.8	24.2
	257.9	**228.6**	**258.1**	**229.2**
Assets in total	**15,569.0**	**14,147.2**	**15,540.4**	**14,140.6**

Liabilities	Parent company		Group	
EUR mill.	2003	2002	2003	2002
Capital and reserves				
Guarantee capital	23.0	23.0	23.0	23.0
Other reserves				
Funds and reserves under the Articles of Association	41.0	35.7	41.0	35.7
Other reserves	-	-	0.6	0.6
	41.0	35.7	41.5	36.3
Profit brought forward	-	-	9.8	2.4
Profit for the financial year	5.5	5.9	2.1	13.3
	69.5	**64.7**	**76.5**	**75.1**
Minority interest	**-**	**-**	**21.5**	**22.7**
Accumulated appropriations				
Depreciation difference	19.0	17.8	-	-
	19.0	**17.8**	**-**	**-**
Technical provisions				
Provision for unearned premiums	10,378.5	9,357.7	10,378.5	9,357.7
Provision for claims outstanding	4,896.5	4,505.9	4,896.5	4,505.9
	15,275.0	**13,863.5**	**15,275.0**	**13,863.5**
Creditors				
Direct insurance creditors	7.5	7.3	7.5	7.3
Other creditors	188.2	142.8	149.8	120.1
	195.7	**150.2**	**157.3**	**127.5**
Accruals and deferred income	**9.9**	**51.1**	**10.2**	**51.9**
Liabilities in total	**15,569.0**	**14,147.2**	**15,540.4**	**14,140.6**

ACCOUNTING PRINCIPLES

The accounts are prepared in accordance with the Accountancy Act, the Companies Act and the Insurance Companies Act, and the legislation applying to companies transacting earnings-related pension insurance. In addition, the accounts comply with the regulations and guidelines of the Ministry of Social Affairs and Health and the Insurance Supervision Authority.

Consolidated accounts

The consolidated accounts cover the parent company and all subsidiaries in which the parent company holds more than half the votes, either directly or indirectly. Ilmarinen's subsidiaries are all real estate companies.

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

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

Value adjustments, value re-adjustments and revaluations concerning real estate subsidiary shares have been cancelled in the consolidated accounts. On the consolidated balance sheet, the corresponding entries are allocated at current value to the real estate holdings of the subsidiaries.

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

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

Book value of investments

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

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

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

Acquisition cost is calculated at the average price for the investments in question.

The shares of Pohjola Group plc are shown in the balance sheet at their current value on December 31, 2003, because this is lower than the original acquisition cost.

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

Investments regarded as amounts due are entered in the balance sheet at either their nominal value or at current value, whichever is lowest.

Previously made value adjustments on investments are entered in the profit and loss account as value readjustments in cases where the current value has risen.

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

Year-end information on securities assigned as a loan under securities lending agreements and on securities borrowed is given in the notes to the accounts. The securities lent are included in the balance sheet. The securities borrowed have been sold forward and the sale price entered in the balance sheet as short-term debt at the sale price or, if higher, the market price at the closing of the accounts. The borrower has provided collateral for the loans. Some bond repurchase agreements were also made during the year.

Book value of assets other than investments

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

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

Grounds for planned depreciation

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

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

A 20% salvage value has been fixed for some buildings and structures.

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

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

Revaluation of investments

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

If the revaluation proves to be unfounded, unrealized gains are entered as unrealized losses in the profit and loss account, and the revaluation is withdrawn in the balance sheet.

Unrealized gains on buildings are depreciated according to plan.

Current value of investments and difference between current and book values

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

The current value of real

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

The year's final trading price, or in the absence of this the purchase price, is used as the current value of listed shares. (The market value of investment fund units is taken as the last available fund unit value calculated by the management company. The acquisition cost or the management company's estimate is used as the current value of private equity funds, depending which is lower. The current value of other shares is the likely realizable value, the remaining acquisition cost or the net asset value.

The current value of debt securities is calculated using market quotations from the banks. In the absence of these, the acquisition price is used.

The market price or the likely realizable value is used as the current value of derivative contracts.

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

Technical provisions

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

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

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

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

Profit for the financial year and capital and reserves

The calculation bases confirmed by the Ministry of Social Affairs and Health define the use of authorized pension companies' book results for each accounting period. Separate stipulations are given regarding the use of the book result for changes in the equalization provision, in the provisions for future and current bonuses, and for the profit/loss shown in the profit and loss account.

The notes to the accounts include details of the distribution of the company's capital and reserves among the owners of the guarantee capital and the policyholders and a calculation of the distributable profits.

Solvency capital

The Insurance Supervision Authority monitors the solvency of insurance companies. One of the main indicators used is the solvency capital, which refers to the difference between assets and liabilities assessed at current value. Hence, technical provisions do not include the provision for future bonuses, which provides a buffer against investment risks. The solvency capital and the capital and reserves have to meet the requirements laid down in the Employee Pension Insurance Companies Act. In the case of non-hedging derivatives, the maximum amount of any loss is deducted from the solvency capital.

The risk level of investment affects the size of the required solvency capital. Definition of these demands is based on various limits related to the solvency capital, i.e. the solvency border, and the upper and lower limits of the target zone. There are different rules on the distribution of profits which apply to the zones between these limits. The maximum amount transferred to the provision for current bonuses depends on the solvency position. Distribution of profits must be restricted if the solvency capital is above the solvency border but below the lower limit of the target zone. There are no restrictions on profit distribution if the solvency capital is in the target zone. Insofar as interest on guarantee capital is not paid because of this kind of restriction, it must, according to the Articles of Association, be carried over for pay-out in the next year in which the solvency capital exceeds the lower limit of the target zone. The interest on guarantee capital that was not distributed in 2002 for this reason will be distributed in conjunction with the 2003 profit distribution.

The solvency capital is presented in the notes to the accounts. Any change in the difference between current and book values on the previous year, i.e. a change in the valuation differences, forms part of the overall result for the financial year and is shown as a change in solvency capital.

Deferred tax liabilities and assets

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

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

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

Currency-based items

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

Function-specific operating expenses and depreciation

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

Pension arrangements for staff

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

Key figures and analyses

The key figures and analyses concerning the company's financial performance are calculated and presented in accordance with the regulations issued by the Insurance Supervision Authority regarding notes to the accounts.

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

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

Specification of premiums written

EUR mill.	2003	2002
Direct insurance		
TEL basic coverage		
Employer contribution	1,607.6	1,574.6
Employee contribution	454.5	423.8
	2,062.1	1,998.4
TEL supplementary coverage	8.8	11.1
YEL minimum coverage	166.0	156.2
YEL supplementary coverage	0.3	0.3
	2,237.2	2,166.0
Transition contribution to the State Pension Fund	-5.3	-2.2
Reinsurance	0.1	0.0
Premiums written before reinsurers' share	**2,232.0**	**2,163.8**
Reinsurers	-2.4	-2.9
Premiums written	**2,229.6**	**2,160.9**
Items deducted from premiums written		
Credit loss on outstanding premiums		
TEL	-5.4	-7.1
YEL	-3.5	-3.6
	-8.8	-10.7

Specification of claims paid

Specification of claims paid	2003	2002
Direct insurance		
Paid to pensioners		
TEL basic coverage	1,706.2	1,606.1
TEL supplementary coverage	48.9	48.1
YEL minimum coverage	183.8	174.9
YEL supplementary coverage	0.9	0.8
	1,939.8	1,829.8
Payments to/refunds from the provision for clearing of PAYG pensions		
TEL pensions	-20.5	43.0
YEL pensions	-17.6	-17.5
	-38.1	25.5
Payments to/refunds from the provision for joint and several liability	0.3	0.8
Reinsurance	-	0.0
	1,902.0	1,856.1
Claims management expenses	16.7	13.4
Working capacity maintenance costs	2.3	1.9
Claims before reinsurers' share	**1,921.0**	**1,871.4**
Reinsurers	-2.2	-2.7
Total claims paid	**1,918.8**	**1,868.7**

Specification of net investment income	Parent company		Group	
EUR mill.	2003	2002	2003	2002
Investment Income				
Income from participating interests				
Share in associated undertakings' profit/loss	-	-	108.1	-11.3
Dividend income from other participating interests	26.6	60.1	0.3	0.4
	26.6	**60.1**	**108.5**	**-10.9**
Income from investment in real estate				
Interest income				
From affiliated companies	17.3	15.2	-	-
From other than affiliated companies	5.7	6.3	5.9	6.3
Other income				
From affiliated companies	0.8	1.3	-	-
From other than affiliated companies	201.4	200.6	207.7	205.4
	225.2	**223.3**	**213.6**	**211.7**
Income from other investments				
Dividend income from other than affiliated companies	94.1	89.0	94.2	89.0
Interest income				
From affiliated companies	0.0	-	-	-
From other than affiliated companies	367.9	417.8	367.9	417.8
Other income from other than affiliated companies	203.9	106.4	203.9	106.4
	666.0	**613.2**	**666.0**	**613.3**
Total	**917.8**	**896.6**	**988.1**	**814.1**
Value readjustments	**263.7**	**10.1**	**180.5**	**11.1**
Capital gains	**429.5**	**351.6**	**429.7**	**352.1**
Total	**1,610.9**	**1,258.4**	**1,598.4**	**1,177.3**
Investment charges				
Charges on real estate investment	**-113.8**	**-116.5**	**-67.6**	**-69.2**
Charges on other investments	**-162.5**	**-83.4**	**-162.5**	**-83.4**
Interest charges and other charges on liabilities				
To affiliated companies	-0.5	-0.5	-	-
To other than affiliated companies	-2.2	-3.9	-2.3	-4.0
	-2.7	**-4.4**	**-2.3**	**-4.0**
Total	**-279.1**	**-204.2**	**-232.4**	**-156.5**
Value adjustments and depreciation				
Value adjustments	-67.6	-658.0	-66.8	-591.7
Planned depreciation on buildings	-11.4	-11.3	-52.0	-49.1
	-79.0	**-669.3**	**-118.8**	**-640.9**
Capital loss	**-90.7**	**-277.9**	**-90.7**	**-278.2**
Total	**-448.7**	**-1,151.4**	**-441.9**	**-1,075.6**
Net investment income before unrealized gains and losses	**1,162.2**	**107.0**	**1,156.5**	**101.7**
Net investment income in the profit and loss account	**1,162.2**	**107.0**	**1,156.5**	**101.7**

Investment, EUR mill.	Dec. 31, 2003			Dec. 31, 2002		
Current value of investment and difference between current and book value, parent company	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
Real estate investments						
Real estate	458.5	474.6	569.1	452.9	470.4	561.1
Shares in affiliated companies	1,061.6	1,074.2	1,251.3	1,057.1	1,074.0	1,249.2
Shares in participating interests	45.0	45.0	53.5	45.7	45.7	54.9
Other shares in real estate	7.5	7.5	8.2	7.7	7.7	8.4
Acquisition costs pertaining to lease of real estate	0.4	0.4	0.4	0.4	0.4	0.4
Loans to affiliated companies	501.0	501.0	501.0	485.4	485.4	485.4
Loans to participating interests	20.6	20.6	20.6	20.9	20.9	20.9
Investments in affiliated companies						
Shares and holdings	-	-	-	0.6	0.6	0.6
Investments in participating interests						
Shares and holdings	285.6	285.6	285.6	203.1	203.1	203.1
Other investments						
Shares and holdings	3,493.5	3,496.5	3,939.3	2,834.5	2,838.6	3,057.1
Debt securities	7,488.0	7,488.0	7,632.4	6,678.0	6,678.0	6,958.7
Loans guaranteed by mortgages	237.0	237.0	237.0	247.7	247.7	247.7
Other loan receivables	1,149.0	1,149.0	1,149.0	1,292.1	1,292.1	1,292.1
Deposits	123.2	123.2	123.2	205.3	205.3	205.3
Other investments	0.1	0.1	0.1	0.1	0.1	0.1
	14,871.2	**14,902.9**	**15,770.7**	**13,531.6**	**13,570.1**	**14,345.0**
Remaining acquisition cost of debt securities includes that difference between the amount repayable at maturity and purchase price which has been released to interest income (+) or charged to interest income (-)		-20.8			-32.5	
income from index-linked loans		0.0	-20.8		-	-32.5
Book value comprises:						
Revaluations entered as income			31.7			38.5
Difference between current and book value			**867.8**			**774.9**

Current value of non-hedging derivatives and valuation items, parent company	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
Other receivables						
Prepayments for option contracts	17.5	17.5	20.0	6.3	6.3	6.3
Other debts						
Prepayments on option contracts	-5.0	-5.0	-3.8	-2.0	-2.0	-2.0
Difference between current and book value of option contracts			3.8			0.0
Difference between current and book value of forward and future contracts			34.4			11.6
Difference between current and book value, total			**38.2**			**11.6**

Shares and holdings, parent company, Dec. 31, 2003

	Number of shares	Percentage of shares/votes	Book value EUR mill.	Current value EUR mill.
Participating interests				
Aberdeen Property Investors Finland Oy	20,000	40.00	0.2	0.2
Eltete TPM Oy	300	30.00	1.7	1.7
Pohjantähti Mutual Insurance Company	60	50.00 / 0.00	5.1	5.1
Pohjola Group plc	13,129,910	25.86	278.4	278.4
Oy Porasto Ab	1,045	24.05	0.3	0.3
Total			**285.6**	**285.6**
Other investments				
Shares and holdings				
Domestic companies, listed				
Aldata Solution Oyj	4,640,500	6.88	9.0	9.0
Alma Media Corporation	482,386	3.07 / 3.55	10.0	13.5
Amer Group plc	373,750	1.53	7.5	12.8
Citycon Oyj	5,000,000	4.73	7.5	7.6
Componenta Corporation	457,600	4.76	1.3	1.3
Comptel Plc	774,025	0.72	1.6	1.6
Elektrobit Group Oyj	5,515,700	0.87	2.8	2.8
Elisa Corporation	2,552,860	1.85	27.1	27.1
Exel Oyj	466,200	8.73	3.1	5.5
Finnlines Plc	829,000	4.15	18.5	23.8
Fortum Corporation	10,422,200	1.23	52.9	85.3
Huhtamäki Oyj	2,142,870	2.12	15.0	20.0
Ilkka-yhtymä Oyj	62,640	1.92 / 2.30	1.3	1.8
KCI Konecranes Plc	677,600	4.74	18.7	18.7
Kemira Corporation	1,879,500	1.54	13.6	17.3
Kesko Corporation	1,124,500	1.23 / 0.30	12.6	15.6
Kone Corporation	415,220	0.65 / 0.28	7.9	18.9
Kyro Corporation	607,200	1.53	3.1	4.8
Larox Corporation	109,900	4.16 / 0.68	1.2	1.3
Lassila & Tikanoja plc	1,185,900	7.49	12.3	32.6
Oyj Leo Longlife Plc	100,950	2.29 / 0.45	0.6	0.7
Lännen Tehtaat plc	153,800	2.51	1.8	1.8
Martela Oyj	167,700	8.07 / 2.14	2.4	2.4
Metso Corporation	3,490,478	2.56	33.8	33.8
M-real Corporation	4,873,330	2.72 / 8.28	37.0	37.0
Nokia Oyj	8,705,739	0.18	119.4	119.4
Nokian Tyres plc	367,660	3.44	8.1	22.0
Nordic Aluminium Oyj	232,300	5.03	1.9	2.1
Okmetic Oyj	449,300	2.66	1.5	1.5
OKO Osuuspankkien Keskuspankki Oyj	1,148,050	2.38 / 1.24	14.6	20.8
Olvi plc	219,424	4.49 / 0.97	1.8	2.9
Orion Corporation	1,171,070	1.73 / 3.57	19.9	19.9
Outokumpu Oyj	2,942,436	1.70	30.6	31.7
Perlos Corporation	353,080	0.66	2.2	2.2
Sampo plc	6,788,555	1.23 / 1.22	55.7	55.7
SanomaWSOY Corporation	4,697,766	2.93 / 3.06	24.8	78.4

Shares and holdings, parent company, Dec. 31, 2003

	Number of shares	Percentage of shares/votes	Book value EUR mill.	Current value EUR mill.
SSH Communications Security Corp	483,450	1.74	0.8	0.8
Stockmann plc	1,029,150	1.96 / 0.37	13.5	18.8
Stora Enso Oyj	6,549,290	0.75 / 1.52	71.1	71.1
Suominen Yhtymä Oyj	2,150,652	9.07	7.6	14.1
Tamfelt Corp.	1,620,282	8.89 / 5.07	20.7	23.4
Teleste Corporation	840,350	4.86	4.5	4.5
Tietoenator Corporation	1,187,640	1.43	25.8	25.8
Tulikivi Oyj	515,595	5.66 / 1.69	2.2	2.7
UPM-Kymmene Corporation	9,819,566	1.88	106.3	148.5
Uponor Oyj	1,076,700	2.88	17.4	26.9
Vaisala Corporation	1,165,429	6.67 / 1.41	28.4	28.6
YIT Corporation	1,028,500	3.37	10.6	27.7
Other			3.5	3.4
Total			**895.1**	**1,149.7**
Domestic companies, non-listed				
Dividum Oy	37	4.17	6.2	6.2
Fingrid Oyj	350	10.53 / 4.68	11.8	11.8
IT-Palvelukeskus ITPAL Oy	1,260,000 [1)]	19.78	1.3	1.3
Kokemäenjoen Voima Oy	5,984	19.95	0.9	0.9
Kuopion Puhelin Oyj	11,202	1.97 / 1.31	2.6	2.6
Medivire Holding Oy	27,250	10.00	0.5	0.5
Pohjolan Voima	1,500,000	4.56	82.0	82.0
Sato Corporation	122,007	5.55	4.4	4.4
Tornator Timberland Oy	3,750,000	7.50	6.0	6.0
VVO-yhtymä Oyj	350,000	5.82	7.0	7.0
Garantia Insurance Company	8,144	13.57	5.7	5.7
YH-Group Ltd.	5,782 [2)]	6.56	0.9	0.9
Other			1.6	1.6
Total			**130.7**	**130.7**

1) Shares subscribed in conjunction with a share issue. Increase in share capital not registered by Dec. 31, 2003.
2) 5,000 of the shares were subscribed in conjunction with a new issue. Increase in share capital not registered by Dec. 31, 2003.

	Book value EUR mill.	Current value EUR mill.
Foreign companies, listed		
Belgium		
Dexia	6.7	7.4
Electrabel SA	12.9	14.2
Fortis	7.2	7.2
Bermuda		
Accenture Ltd.	5.4	7.5
Denmark		
Danisco A/S	3.0	3.0
Den Danske Bank A/S	14.0	15.3
ISS A/S	5.5	5.5
Novo Nordisk A/S	10.3	10.3
France		
L´Air Liquide SA	8.2	9.0
Aventis SA	9.6	9.6
BNP Paribas SA	16.3	18.5
Bouygues SA	3.1	3.6
Danone Group	7.2	7.2
France Telecom	14.2	15.6
TF1 Television Francaise	3.9	5.0
Vinci SA	2.4	2.6

Shares and holdings, parent company, Dec. 31, 2003

	Book value EUR mill.	Current value EUR mill.
Foreign companies, listed		
Germany		
Adidas-Salomon AG	5.7	7.8
Bayer AG	8.2	13.5
E.On AG	19.1	19.1
Fresenius Medical Care	6.4	8.5
Heidelberger Druckmaschinen	6.5	10.5
Henkel KGaA	6.5	6.5
Münchener Rückversicherungs-Gesellschaft AG	1.0	1.0
Schering AG	11.0	11.0
Great Britain		
Alliance Unichem Plc	6.6	6.8
Allied Domecq Plc	8.0	10.4
Arm Holdings Plc	6.6	11.1
Astra Zeneca Group Plc	10.9	10.9
Barclays Plc	16.1	16.4
Bodycote International Plc	6.5	7.6
Boots Group Plc	5.2	5.6
BP Plc.	39.6	39.6
Cadbury Schweppes Plc	16.2	18.3
Diageo Plc	18.5	18.5
FKI Plc	4.2	4.2
GlaxoSmithKline Plc	39.8	39.8
HBOS Plc	14.4	14.4
HSBC Holding Plc	14.9	18.4
Kingfisher Plc	1.7	1.7
Lloyds TSB Group Plc	8.3	8.3
Misys Plc	2.6	2.6
MmO2 Plc	1.9	2.2
National Grid Transco Plc	15.4	15.4
Reckitt Benckiser Plc	11.1	14.0
Severn Trent Plc	8.6	9.5
Tate & Lyle Plc	0.9	0.9
United Utilities Plc	8.7	8.7
Vodafone Group Plc	42.4	42.4
Ireland		
Allied Irish Banks Plc	9.5	9.5
Bank of Ireland	10.7	10.8
Grafton Group Plc	4.9	8.1
Italy		
ENI S.p.A	40.2	41.4
Snam Rete Gas S.p.A	13.2	13.5
Liberia		
Royal Caribbean Cruises Ltd.	4.1	6.3
Netherlands		
Akzo Nobel N.V.	10.1	11.6
ASML Holding N.V.	2.7	3.1
DSM N.V.	5.2	5.2
Fugro N.V	7.0	7.4
Hagemeyer N.V.	2.4	2.4
Heijmans N.V.	6.2	6.2
Heineken N.V.	7.5	7.5
Hunter Douglas N.V.	4.3	5.7
Koninklijke Philips Electronics N.V	15.4	16.0
Koninklijke Vendex KBB N.V.	4.6	4.6
Koninklijke Wessanen N.V.	2.8	2.9
Royal Dutch Petroleum Company	42.5	42.5
TPG N.V.	11.3	11.3
VNU N.V.	7.6	7.6
Norway		
Norske Skogsindustrier ASA	16.1	16.1
Orkla ASA	10.7	10.7
Schibsted ASA	1.2	1.3
Telenor ASA	1.1	1.3
Spain		
Altadis S.A.	13.2	13.7
Amadeus Global Travel Distribution S.A.	4.5	4.5
Banco Popular Espanol S.A.	8.4	9.5
Cortefiel S.A.	2.5	3.1
Iberdrola S.A.	19.5	21.0
Telefonica S.A.	2.2	5.4
Sweden		
Alfa Laval AB	8.4	8.9
Capio AB	9.3	9.3
Cardo AB	5.4	5.6
Eniro AB	1.0	1.0
Föreningssparbanken AB	7.8	10.1
Getinge AB	5.8	9.6
Lindex AB	1.2	2.1
Nobia AB	5.5	6.8
Nordea AB	36.8	39.4
Skanska AB	11.9	11.9
Swedish Match AB	7.0	8.5
Svenska Handelsbanken AB	4.7	5.2
TeliaSonera AB	8.4	8.4
Switzerland		
Adecco SA	4.7	6.9
Kuehne & Nagel International AG	3.0	5.1
Novartis AG	33.3	33.3
Roche Holdings SA Genusscheine	7.4	9.9
STMicroelectronics N.V.	16.6	16.6
The Swatch Group AG	8.8	8.8
UBS AG	16.4	18.7
United States		
3Com Corporation	1.9	1.9
Amerisourcebergen Corporation	8.9	8.9
AT & T Wireless Services, Inc.	7.5	7.5

Shares and holdings, parent company, Dec. 31, 2003

	Book value EUR mill.	Current value EUR mill.
Foreign companies, listed		
Check Point Software Technologies	2.7	2.7
Cisco Systems, Inc.	6.7	7.7
Citrix Systems, Inc.	1.5	1.5
Computer Associates International, Inc.	13,0	16.2
Computer Sciences Corporation	13.7	13.7
Dell Computer Corporation	3.3	3.3
Electronic Data Systems Corporation	4.5	4.7
Hewlett-Packard Company	24.0	24.0
Intel Corporation	33.4	33.4
International Business Machines Corporation	18.1	18.1
Microsoft Corporation	6.0	6.0
Monsanto Compay	0.5	0.8
Motorola, Inc.	8.3	8.3
Omnicom Group	8.9	11,4
Oracle Corporation	11.8	11,8
Pfizer, Inc.	8.4	8,4
The Walt Disney Company	10.3	10,7
Wyeth	2.7	2,7
Total	**1,194.4**	**1,286.9**
Foreign companies, non-listed		
Estonia		
Tallink	4.4	4.7

Holding percentage in foreign companies 0.0026%-3,27%. Holding higher than 1%: Bodycote International Plc 1.47%, Capio AB 1.87%, Fugro N.V. 1.25%, Hagemeyer N.V. 1.21%, Heijmans N.V. 1.44%, Nobia AB 1.43% and Tallink 3.27%.

Funds

	Book value EUR mill.	Current value EUR mill.
Fixed-income funds		
ABN Amro Global Emerging Markets Bond Fund	27.7	33.2
Evli European High Yield B	10.7	11.8
Goldman Sach Global High Yield Fund	80.8	84.2
ING (L) Renta Fund - Emerging Markets Debt (LOCAL C) Cap. -P-	19.7	19.7
ING International (II) Emerging Markets Debt (USD) C	30.6	31.5
Pohjolan Vaihtovelkakirjalainarahasto B	10.0	10.5
SISF Emerging Markets Debt I	37.1	37.1
T.Rowe Global high Yield Bond Fund	30.2	30.2
Total	**246.7**	**258.0**
Equity funds		
Aberdeen International Fund Plc - China Opportunities Fund	23.8	31.7
ABN Amro Funds - Eastern Europe Equity Fund	23.0	32.8
ABN Amro Funds - Global Emerging Markets Equity Fund	27.8	35.2
ABN Amro Funds - Small Companies Europe Equity Fund	9.4	9.4
Alfred Berg Russia	6.6	22.0
Alfred Berg Small Cap-B	4.0	4.7
AXA Rosenberg Pan European Small Cap Alpha Fund	20.0	21.2
AXA Rosenberg Japan Small Cap Alpha Fund	14.3	14.3
BGI Japan Index Sub-Fund	16.3	16.3
CAF Asian Growth Fund s.I	30.3	30.3
CAF Emerging Markets Institutional Fund	32.3	36.7
Conventum US 500 Plus rahasto	5.0	5.6
DCF Fund Baltic States cap	5.5	10.3
EasyETF EuroStoxx Insurance	40.8	42.3
FIM Fenno	7.0	8.2
Goldman Sachs US Growth Equity Portfolio s.I	43.2	43.2
Health Care Select Sector SPDR Fund	54.9	54.9
HEX25 Index Share	15.3	16.1
JP Morgan Fleming Funds Europe Small Cap Fund s.A	19.2	19.2
JP Morgan Fleming Funds Japanese Equity Fund s.A	37.7	37.7
Mandatum BioTech	14.0	14.0
OP-Suomi Kasvu	4.0	4.8
Orange European Smallcap Fund	17.3	17.3
Pictet Funds - Small Cap Europe I	18.2	20.6
Pohjola Finland Value B	7.0	7.8
I Shares Russell 200 Index Fund	15.8	15.8
Schroder International Selection Fund - Japanese Equity Class I	58.6	58.6
Schroder International Selection Fund - Pacific Equity Class I	45.1	45.1
TSE Topix ETF	39.1	39.1
Total	**655.4**	**715.0**
Private equity funds		
Aboa Venture II Ky	0.6	0.6
Access Capital LP	7.8	7.8
Advent Private Equity Fund III D	2.3	2.3
Alpha Private Equity Fund IV	6.0	6.0
Apax Europe V - D, L.P.	11.6	11.6

Shares and holdings, parent company, Dec. 31, 2003

	Book value EUR mill.	Current value EUR mill.
Apax France VI	3.4	3.4
Arcadia Beteiligungen BT GmbH & Co. KG	2.1	2.1
Atlas Venture VI	0.6	0.6
Axa Secondary Fund II	6.1	6.1
Baltic Investment Fund III L.P	1.3	1.3
BC European Capital VII	8.0	8.0
Bio Fund Ventures I Ky	0.6	0.6
Bio Fund Ventures II Ky	3.6	3.6
Bridgepoint Capital The 2nd European Equity Fund B	7.0	7.0
Capman Equity VII B L.P.	3.5	3.5
Coller International Partners IV-FD, L.P.	1.4	1.4
Duke Street Capital IV UK No 1 L.P.	4.7	4.7
Eqvitec Teknologiarahasto I Ky	2.6	2.6
Eqvitec Technology Fund II Ky	3.6	3.6
European Strategic Partners	13.9	13.9
Euroventures; Baltic Rim Fund Limited	2.9	2.9
Fenno Rahasto Ky	3.0	3.0
Finnmezzanine Rahasto I Ky	1.4	1.4
Finnmezzanine Rahasto II B Ky	4.1	4.1
Finnventure Rahasto IV Ky	3.9	3.9
Finnventure Rahasto V Ky	12.5	12.5
Gilde Buy-Out Fund II	3.4	3.4
Hambro European Ventures HEV III UK No 2 L.P.	0.6	0.6
HarbourVest Partners VI-Buyout Partnership Fund L.P.	1.8	1.8
HarbourVest Partners VI-Partnership Fund L.P.	3.6	3.6
Industri Kapital 1997 L.P. II	4.1	4.1
Industri Kapital 2000 L.P. I	13.4	13.4
MB Equity Fund II Ky	3.2	3.2
MB Equity Fund III Ky	2.4	2.4
MB Mezzanine Fund II Ky	1.8	1.8
MediaTel Capital	3.1	3.1
Nordic Capital III Limited	3.7	3.7
Nordic Capital IV Limited	4.8	4.8
Nordic Mezzanine Fund No. 1 L.P.	1.8	1.8
Permira Europe II LP2	13.5	13.5
Permira Europe III LP	1.1	1.1
Promotion Capital I Ky	2.2	2.2
Proventure & Partners Scottish Limited Partnership	2.3	2.3
Proventure Managed The First European Fund Investments L.P	7.7	7.7
Savon Kasvurahasto I Ky	0.6	0.6
Seedcap Ky	1.3	1.3
Sention Kasvurahasto Ky	0.6	0.6
SFK 99-Rahasto Ky	7.2	7.2
Sponsor Fund I Ky	1.8	1.8
Sponsor Fund II Ky	2.2	2.2
The Third Cinven Fund Limited Partnership	9.7	9.7
Other	2.9	2.9
Total	**219.1**	**219.1**

Other funds

	Book value EUR mill.	Current value EUR mill.
Absolute Alpha Fund PCC Ltd Diversified Euro	25.0	26.7
Alexandra Global Investment Fund I, Ltd class Euro *)	0.8	1.0
Bailey Coates Cromwell Fund *)	0.8	0.8
Basswood Partners - Opportunity Fund *)	0.7	0.7
Blackstone Global Park Avenue Fund, L.P.	13.0	13.0
Bluecrest Strategic *)	0.7	0.7
Bricoleur Offshore Fund Ltd *)	0.7	0.7
Candlewood Offshore Fund Ltd *)	0.6	0.6
Canyon Value Realization Fund *)	0.8	0.8
Claiborne cp prt-B *)	0.5	0.5
CSFB Sapic-98 hedge fund-of-funds	10.1	12.3
DKR International Relative Value Fund Plus B	8.6	8.6
Drake Absolute Return Fund Ltd, class B *)	0.8	0.8
DRD Fund	30.0	45.9
Epsilon Global Active Value Fund II *)	0.8	0.8
Ferox Fund Ltd - EURO class C *)	0.8	0.9
Futuris Fund	5.0	5.2
GLG Global Macro Fund *)	0.5	0.5
Green Way Limited - Class B fund-of-funds	5.0	5.9
Horseman Global Fund Ltd class B *)	0.8	0.8
JP Morgan Multi-Strategy Fund Ltd s. A	19.2	19.2
Jupiter Hyde Park Hedge Fund *)	0.6	0.6
Kingate Global Fund Ltd *)	0.8	0.8
Lotus Global Multi-Strategy Fund *)	0.5	0.5
Nektar	9.9	12.2
NorthBay Fund Ltd class A *)	0.8	0.8
SDB Fund	10.0	10.5
Tamarack International Ltd *)	0.7	0.7
The Eureka Euro Fund Limited *)	0.7	0.7
Vega Structured 2X *)	0.8	0.8
Other	0.9	0.9
Total	**150.6**	**175.0**
Total	**3,496.5**	**3,939.3**

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

Open securities agreements, EUR mill.	2003	2002
Securities loaned		
Number	4,459,970	4,550,812
Remaining acquisition cost	39.3	50.7
Current value	48.6	52.1
Securities borrowed		
Number	10,000	-
Current value	1.0	-

The securities loaned and borrowed are listed shares.
All the loans are valid for less than a year and can be realized whenever.
Collateral for loans has been provided by the borrower.

Loans, EUR mill.	2003	2002
Loans itemized by type of collateral		
Loans guaranteed by mortgages	237.0	247.7
Other loans		
Bank guarantees	406.1	492.1
Guarantee insurances	396.5	430.7
Other	136.3	125.1
Unsecured loans to		
banks and financing companies	169.2	206.2
insurance companies	22.0	20.3
other	18.9	17.7
Remaining acquisition cost, total	1,386.0	1,539.8
Total premium loans by balance sheet item, parent company		
Loans guaranteed by mortgages	39.4	43.9
Other loans	874.1	1,030.9
Remaining acquisition cost, total	913.4	1,074.8

Specification of operating expenses

EUR mill.	Parent company 2003	Parent company 2002	Group 2003	Group 2002
Total operating expenses by activity				
Claims paid				
Claims handling expenses	16.7	13.4	16.7	13.4
Working capacity maintenance costs	2.3	1.9	2.3	1.9
	19.0	**15.3**	**19.0**	**15.3**
Operating expenses				
Commissions, direct insurance	0.4	0.4	0.4	0.4
Other policy acquisition costs	9.0	9.6	9.0	9.6
Acquisition costs, total	9.3	10.0	9.3	10.0
Portfolio administration expenses	25.7	22.9	25.7	22.9
Administrative expenses	14.8	12.7	14.8	12.7
	49.9	**45.6**	**49.9**	**45.6**
Investment charges				
Costs on real estate investment	1.8	1.5	2.2	7.3
Other	6.7	6.1	6.7	6.1
	8.5	**7.6**	**8.8**	**13.4**
Other expenses	**2.0**	**2.1**	**2.0**	**2.1**
Total operating expenses	**79.4**	**70.6**	**79.8**	**76.3**

Specification of staff expenses and members of corporate organs

EUR mill.	Parent company 2003	Parent company 2002	Group 2003	Group 2002
Staff expenses				
Salaries and remunerations	27.4	25.8	27.4	28.8
Pension expenditure	5.1	4.5	5.1	5.1
Other social security expenses	1.6	1.7	1.6	1.8
Total	**34.1**	**32.0**	**34.1**	**35.7**
Salaries and remunerations to management				
Managing director and deputies	0.5	0.5	0.5	0.6
Board members and deputy members	0.2	0.2	0.2	0.2
Members of Supervisory Board and deputy members	0.1	0.1	0.1	0.1
Total	**0.8**	**0.8**	**0.8**	**0.9**
Pension commitments for the benefit of the executive management				
The retirement age for company executives is 65 years. Executives who have entered the company's service prior to July 1, 1992 have the right to retire once they have reached the age of 60.				
Average staff number during the financial period	682	652	682	726

Specification of technical provisions, EUR mill.	2003	2002
Provision for unearned premiums		
Future pensions	8,330.0	7,947.1
Provision for future bonuses	2,015.1	1,390.4
Provision for current bonuses	33.4	20.2
Total	**10,378.5**	**9,357.7**
Provision for claims outstanding		
New pension awards	4,082.0	3,726.7
Equalization provision	814.6	779.2
Total	**4,896.5**	**4,505.9**
Total technical provisions	**15,275.0**	**13,863.5**
Bonuses and rebates		
Provision for current bonuses, Jan.1	20.2	151.3
Bonuses paid during the financial year	-19.8	-174.4
Transfer to the provision for current bonuses		
Transfer to bonuses and rebates	33.0	19.0
To augment the provision for current bonuses	-	24.3
Provision for current bonuses, Dec. 31	33.4	20.2

Security and financial commitments, parent company, EUR mill.	2003	2002
As security for own debts		
Mortgaged as security for rents	0.8	0.8
Assets pledged as security for derivative contracts	132.0	45.2
Assets pledged as security for equities lending	10.5	-
Off-balance-sheet commitments and liabilities		
Investment commitments		
Private equity funds	234.3	262.4
Other	10.9	10.9
Derivative contracts		
Non-hedging		
Interest derivatives		
Future contracts		
Open, underlying instrument	296.5	-
current value	-2.1	-
Option contracts		
Open, written, underlying instrument	200.0	-
current value	-2.3	-
Current derivates		
Forward contracts		
Open, underlying instrument	752.1	353.0
current value	32.7	11.4
Closed, current value	1.9	-
Equity derivatives		
Future contracts		
Open, underlying instrument	118.4	-
current value	64.6	-

Security and financial commitments, parent company, EUR mill.	2003	2002
Option contracts		
Open, bought, underlying instrument	1,347.1	244.9
current value	20.0	6.3
Open, written, underlying instrument	5.3	12.2
current value	-0.2	-1.1
Hedging		
Equity derivatives		
Option contracts		
Open, written, underlying instrument	-	71.6
current value	-	-0.9

Profit on closed and mature derivatives is recognized in full in the profit and loss account

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

	2003	2002
Amount of joint liability		
The company belongs to the Pohjola Group plc tax liability group. The tax liability group members are jointly liable for the group's value added tax. At the end of the year the group's tax debt comprised the taxes to be paid for November-December. The deferred tax liabilities were included in the group's other companies' balance sheets	0.2	-
Obligation to refund of VAT allowances	10.9	11.5
Other financial commitments	1.3	0.1

Solvency capital, EUR mill.	2003	2002
Capital and reserves after proposed distribution of profits	67.5	64.0
Accumulated appropriations	19.0	17.8
Difference between current value and book value of assets	906.0	786.5
Provision for future bonuses	2,015.1	1,390.4
Other items	-56.3	-15.5
	2,951.2	**2,243.1**
Solvency capital requirement under chapter 17 of the Employee Pension Insurance Companies Act (TVYL)	910.3	788.9
The equalization provision for years with heavy losses is included in the technical provisions.	814.6	779.2
Solvency ratio, % realized solvency capital/technical provisions used in solvency calculations	22.3	18.1
Solvency border, %	10.3	9.5

Specification of capital and reserves	Parent company		Group	
EUR mill.	2003	2002	2003	2002
Capital and reserves				
Guarantee capital	23.0	23.0	23.0	23.0
Other reserves				
Reserves under the Articles of Association				
Jan. 1	35.7	39.6	35.7	39.6
Transfer from previous year's profit	5.2	3.5	5.2	3.5
Revaluation reversed	-	-7.4	-	-7.4
Other reserves	-	-	0.6	0.6
	41.0	35.7	41.5	36.3
Profit brought forward				
Jan. 1	5.9	5.1	15.8	7.5
Distributed interest paid on guarantee capital	-0.7	-1.6	-0.7	-1.6
Donations	-0.1	-0.1	-0.1	-0.1
Transfer to reserves under the Articles of Association	-5.2	-3.5	-5.2	-3.5
	-	-	9.8	2.4
Profit for the financial year	5.5	5.9	2.1	13.3
	69.5	**64.7**	**76.5**	**75.1**
Breakdown of capital and reserves after proposed distribution of profits:				
Owners of guarantee shares:				
Guarantee capital	23.0	23.0	23.0	23.0
Proposed distribution of profits to owners of guarantee capital	2.0	0.7	2.0	0.7
Unpaid interest on guarantee capital	-	0.8	-	0.8
Policyholders' share	44.5	40.2	51.5	50.6
Total	69.5	64.7	76.5	75.1

Main principles of the Articles of Association governing guarantee shares:

The guarantee capital is divided into 13,672 guarantee shares. The guarantee shares bear mutually equal rights to company assets and distribution of profits.

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

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

Distributable profits:

Profit for the year	5.5	5.9	2.1	13.3
+ Other reserves				
Reserves under the Articles of Association	41.0	35.7	41.0	35.7
+ Profit brought forward	-	-	9.8	2.4
- Amount of appropriations entered under capital and reserves	-	-	-23.3	-19.5
Distributable profits, total	46.5	41.7	29.6	32.0

KEY FIGURES AND ANALYSES

Key figures in brief	2003	2002	2001	2000	1999
Premiums written, EUR mill.	2,229.6	2,160.9	1,989.6	1,764.8	1,766.8
Pensions paid, EUR. mill. 1)	1,939.8	1,829.8	1,701.4	1,504.8	1,416.3
Net investment income at current value, EUR mill. *)	1,278.5	-60.2	-179.7	371.1	1,887.0
ROCE, % *)	8.7	-0.5	-1.2	2.8	16.1
Turnover, EUR mill.	3,853.1	3,434.0	3,333.7	3,646.0	3,111.2
Total operating expenses, EUR mill.	79.4	70.6	60.6	56.7	48.1
% of turnover	2.1	2.1	1.8	1.6	1.5
Total operating expenses less investment management charges and working capacity maintenance costs % of TEL wage bill and reported incomes under YEL	0.6	0.6	0.5	0.6	0.5
Total profit, EUR mill.	818.3	-591.2	-690.7	-54.1	1 586.7
Technical provisions, EUR mill.	15,275.0	13,863.5	13,519.6	12,954.5	11,082.8
Solvency capital, EUR mill.	2,951.2	2,243.1	2,940.8	3,749.3	3,922.5
% of technical provisions 2)	22.3	18.1	25.5	35.4	41.3
relative to solvency border	2.16	1.90	2.32	3.42	3.82
Equalization provision, EUR mill.	814.6	779.2	726.8	654.2	595.8
Pension assets, EUR mill. 3)	16,181.0	14,650.0	14,455.1	14,367.6	13,415.7
Transfer to bonuses and rebates, % of TEL wage bill	0.33	0.20	0.45	1.05	1.77
TEL wage bill, EUR mill.	9,879.4	9,631.0	8,922.6	8,025.2	7,614.5
Reported incomes under YEL, EUR mill.	812.4	780.6	763.3	727.3	734.8
TEL policyholders	31,927	31,689	31,982	32,351	32,874
Employees insured under TEL	364,000	359,000	351,000	335,000	323,000
YEL policyholders	49,696	49,322	49,386	49,938	51,453
Pension recipients	235,965	231,056	224,849	218,932	205,102

1) Pensions and claims paid to pension recipients
2) The ratio was computed as a percentage of the technical provisions used in calculating the solvency border
3) Technical provisions + differences between current and book value
*) The key figures for reference years have been changed in accordance with the 2003 revised regulations of the Insurance Supervision Authority.

Performance analysis, EUR mill.	2003	2002	2001	2000	1999
Sources of profits					
Underwriting result	**38.5**	**53.1**	**72.6**	**58.4**	**112.0**
Investment result at current value	**770.7**	**-654.0**	**-775.8**	**-119.8**	**1,460.2**
+Net investment income at current value + other interest items 1)	1,281.1	-57.0	-179.0	386.6	1,911.6
-Yield requirement on technical provisions	-510.4	-597.0	-596.8	-506.4	-451.3
Loading profit	**9.1**	**9.7**	**12.5**	**7.4**	**14.5**
Profits, total	**818.3**	**-591.2**	**-690.7**	**-54.1**	**1,586.7**
Disposal of profits					
Increase/decrease solvency (+/-)	**785.3**	**-634.5**	**-731.1**	**-138.2**	**1,452.2**
Equalization provision (+/-)	**35.4**	**52.4**	**72.6**	**58.4**	**112.0**
Solvency capital (+/-)	**749.9**	**-686.9**	**-803.7**	**-196.6**	**1,340.2**
Change in provision for future bonuses	623.7	-548.0	-336.4	789.7	656.7
Change in difference between current and book values	119.5	-149.9	-477.6	-919.8	690.6
Change in accumulated appropriations	1.2	5.1	5.2	-71.3	-38.8
Profit for the financial year	5.5	5.9	5.1	4.8	31.7
Transfer to bonuses and rebates	**33.0**	**19.0**	**40.4**	**84.1**	**134.6**
To augment the provision for current bonuses 2)		**24.3**			
Total	**818.3**	**-591.2**	**-690.7**	**-54.1**	**1,586.7**

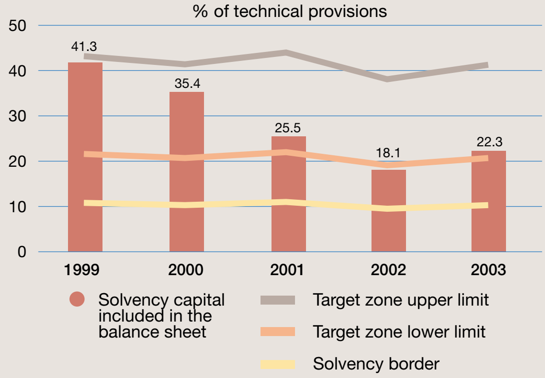
1) Includes interest items in the profit and loss account which are not entered as income from investment.
2) On Dec. 31, 2003, EUR 21.0 million of the transfer to augment the provision for current bonuses remained unamortized.

Solvency

Solvency capital and limits (% of the technical provisions used in calculating the solvency border)	2003 %	2002 %	2001 %	2000 %	1999 %
Solvency border	10.3	9.5	11.0	10.3	10.8
Target zone lower limit	20.7	19.1	22.0	20.7	21.6
Target zone upper limit	41.3	38.1	44.0	41.4	43.2
Solvency capital	22.3	18.1	25.5	35.4	41.3

Solvency

% of technical provisions



Breakdown of investment (current values)

	2003 EUR mill.	2003 %	2002 EUR mill.	2002 %	2001 EUR mill.	2001 %	2000 EUR mill.	2000 %	1999 EUR mill.	1999 %
Loan receivables 1)	1,403.0	8.8	1,559.7	10.7	1,623.6	11.3	1,574.2	11.0	1,690.8	12.7
Bonds 1)	7,571.0	47.5	6,742.9	46.4	5,886.4	41.1	6,469.5	45.4	5,373.2	40.3
incl. fixed-income funds	7,832.3	49.2	6,797.9	46.8						
Other debt securities and deposits 1)	367.8	2.3	600.2	4.1	641.4	4.5	349.7	2.5	1,375.5	10.3
Shares	4,225.0	26.5	3,260.8	22.5	3,992.0	27.9	3,805.7	26.7	3,856.0	28.9
excl. fixed-income funds	3,963.7	24.9	3,205.8	22.1						
Real estate	2,366.6	14.9	2,356.9	16.2	2,188.2	15.3	2,050.0	14.4	1,024.8	7.7
Investment, total	**15,933.3**	**100.0**	**14,520.6**	**100.0**	**14,331.6**	**100.0**	**14,249.1**	**100.0**	**13,320.3**	**100.0**

1) Accrued interest included.

Breakdown of investment income and investment result, EUR mill.	2003	2002	2001	2000	1999
Cash income	**635.5**	**675.1**	**755.1**	**806.4**	**502.4**
Loan receivables	65.6	71.5	75.9	72.1	80.4
Bonds	279.9	318.2	303.7	293.4	285.6
Other debt securities and deposits	9.3	18.9	18.8	25.2	17.4
Shares	176.9	165.6	289.8	345.7	69.5
Real estate	112.9	108.4	71.1	76.9	51.8
Other					
Unallocated income. charges and operating expenses	-9.1	-7.5	-4.3	-6.8	-2.2
Changes in book value 1)	**523.5**	**-585.4**	**-457.2**	**484.5**	**694.0**
Shares	350.9	-673.8	-479.9	511.6	630.4
Bonds	169.7	102.0	28.5	-22.0	66.2
Real estate	2.6	-13.2	-5.5	-5.1	-2.6
Other	0.2	-0.4	-0.3	0.0	0.0
Net investment income at book	**1,159.0**	**89.6**	**297.9**	**1,290.9**	**1,196.4**
Change in difference between current and book value	**119.5**	**-149.9**	**-477.6**	**-919.8**	**690.6**
Shares	248.3	-357.1	-575.9	-1 071.5	1 109.7
Bonds	-133.7	171.1	11.3	106.4	-430.4
Real estate	4.9	37.3	85.7	45.1	11.5
Other	-0.1	-1.3	1.3	0.2	-0.2
Net investment income at current value	**1,278.5**	**-60.2**	**-179.7**	**371.1**	**1,887.0**
Other interest items 2)	**2.6**	**3.2**	**0.7**	**15.5**	**24.6**
Yield requirement on technical provisions	**-510.4**	**-597.0**	**-596.8**	**-506.4**	**-451.3**
Investment result at book value	**651.2**	**-504.1**	**-298.2**	**800.0**	**769.6**
Investment result at current value	**770.7**	**-654.0**	**-775.8**	**-119.8**	**1,460.3**

1) Capital gains and losses plus other changes in book values.

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

Net investment income at current value, January 1-December 31, 2003

	Current value 1) EUR mill. 2003	Capital employed, 2) EUR mill 2003	ROCE, % 2003	ROCE, % 2002	ROCE, % 2001	ROCE, % 2000	ROCE, % 1999
Loan receivables	65.8	1,444.3	4.6	4.7	4.8	4.6	4.7
Bonds	316.0	6,899.0	4.6	9.5	5.8	6.5	-1.5
incl. fixed-income funds	362.7	7,113.0	5.1	9.5			
Other debt securities and deposits	9.3	518.6	1.8	3.6	4.5	4.0	2.8
Shares	776.1	3,518.9	22.1	-21.5	-17.2	-5.4	58.3
excl. fixed-income funds	729.3	3,304.9	22.1	-21.8			
Real estate	120.5	2,303.8	5.2	5.6	7.4	7.8	6.0
Investment, total	**1,287.6**	**14,684.5**	**8.8**	**-0.4**	**-1.2**	**2.8**	**16.0**
Unallocated income, charges and operating expenses *)	-9.1	14,689.1	-0.1	-0.1	0.0	0.0	0.1
Net investment income, total *)	**1,278.5**	**14,689.1**	**8.7**	**-0.5**	**-1.2**	**2.8**	**16.1**

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

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

*) The key figures for reference years have been changed in accordance with the 2003 revised regulations of the Insurance Supervision Authority.

Loading profit, EUR mill.	2003	2002	2001	2000	1999
Expense loading components	75.7	68.6	63.3	54.1	54.0
Function-specific operating expenses 1)	-68.6	-61.1	-52.6	-48.5	-41.1
Other income	2.1	2.2	1.7	1.7	1.5
Loading profit	**9.1**	**9.7**	**12.5**	**7.4**	**14.5**
Operating expenses of load income, % 2)	88	86	81	87	74

1) Excluding investment charges and working capacity maintenance costs.
2) (operating expenses + other expenses)/expense loading components + other income)

PROPOSAL BY THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFITS

In accordance with the Articles of Association, the amount of interest paid on the guarantee capital equals the technical rate of interest plus one percentage point. Calculated in this way, the return in 2003 was 5.125% and the guarantee capital interest EUR 1,178,475.98.

The amount of retained consolidated non-restricted capital and reserves according to the financial statements on December 31, 2003 was EUR 29.6 million. The retained non-restricted capital and reserves of the parent company stood at EUR 46,479,041.13, with profit for the financial year accounting for EUR 5,522,410.15.

The Board of Directors proposes that EUR 1,178,475.98 be paid as interest on guarantee capital for 2003, and EUR 780,012.11 for 2002, which at that time was retained for distribution as interest on guarantee capital in the first year in which the company's profit distribution is not restricted. In addition, the Board proposes that EUR 50,000.00 be set aside for use at the Board's discretion for generally beneficial purposes. If the Board proposal is adopted, the company's capital and reserves will stand as follows:

Restricted capital and reserves	
Guarantee capital	EUR 22,994,653.31
Non-restricted capital and reserves	
Contingency fund	EUR 44,470,553.04
Capital and reserves, total	EUR 67,465,206.35

Helsinki, February 25, 2004

Hannu Syrjänen

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

AUDITORS' REPORT

To the Annual General Meeting of Ilmarinen Mutual Pension Insurance Company

We have audited the accounting, the financial statements and the corporate governance of Ilmarinen Mutual Pension Insurance Company for the period January 1-December 31, 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, have been prepared by the Board of Directors and the President. Based on our audit we express an opinion on these financial statements and on corporate governance of the parent company.

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

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

In our opinion the financial statements have been prepared in accordance with the Accounting Act, the regulations of the Ministry of Social Affairs and Health, the Insurance Supervisory Authority and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable assets is in compliance with law.

Helsinki, March 10, 2004

PricewaterhouseCoopers Oy, Authorised Public Accountants

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

STATEMENT BY THE SUPERVISORY BOARD

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

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

The membership term of the Supervisory Board members listed below will expire at the 2004 Annual General Meeting:

Liisa Joronen
Arto Kajanto
Veikko Kuusakoski
Juhani Maijala
Esko Mäkeläinen
Timo Peltola
Jarmo Rantanen
Ilkka Rantasalo
Timo Räty
Erkki Varis
Matti Viialainen
Matti Viljanen
Marjatta Väisänen.

Helsinki, March 11, 2004

On behalf of the Supervisory Board
Timo Peltola, Chairman

General

Provisions on the administration and supervision of earnings-related pension insurance companies are laid down in the Companies Act, the Insurance Companies Act and the Act on earnings-related pension insurance companies, and in Ilmarinen's Articles of Association.

Ilmarinen is a mutual earnings-related pension insurance company owned (subject to the conditions set out in the Articles of Association) by its clients, i.e. TEL and YEL policyholders, employees insured with Ilmarinen and the owners of the guarantee capital.

Shareholders' meeting

The company's highest power of decision is vested in its shareholders' meetings.

Those entitled to vote at shareholders' meetings are the owners referred to above or their authorized representatives. At shareholders' meetings, each TEL policyholder has at least three votes and each person insured has at least one vote, in addition to which policyholders and insured persons are entitled to further votes on the basis of contributions paid under the Employees' Pensions Act in the preceding calendar year.

At a shareholders' meeting, each YEL policyholder has at least one vote, in addition to which the policyholder is entitled to further votes on the basis of the insurance contributions paid under the Self-Employed Persons' Pensions Act in the preceding calendar year.

The owners of the guarantee shares have 55 votes for each guarantee share.

At shareholders' meetings, voting on one's own behalf or by authorization of another party is not permitted to exceed one tenth of the votes represented at the meeting. Moreover, the total of the votes based on the guarantee shares owned by those shareholders present at the meeting may not exceed the total of the votes based on the insurance policies of the policyholders and insured persons represented at the meeting.

The company's Annual General Meeting deals with the matters required under the legislation on insurance companies concerning approval of the annual accounts, profit distribution and granting release from liability, and any other matters mentioned in the invitation to the meeting.

An extraordinary meeting of shareholders is held whenever the Board of Directors or the Supervisory Board deem it necessary, or whenever there is a requirement to do so under the Insurance Companies Act.

The 2003 Annual General Meeting was held on April 10 at Ilmarinen's headquarters. It discussed the matters necessary under the Articles of Association and heard the President's review of 2002. All the AGM decisions were passed unanimously.

Supervisory Board

Under the Act on earnings-related pension insurance companies, Ilmarinen is required to have a supervisory board with duties determined according to the legislation on corporate law and the company's Articles of Association. Ilmarinen's Supervisory Board is responsible for supervising the corporate governance actions undertaken by the Board of Directors and the President and CEO. As part of its supervisory duties, the Supervisory Board also selects some of its own members to examine the company's decision-making on pensions and the investment activities.

The Supervisory Board issues a statement on the annual accounts to the Annual General Meeting. It also confirms the principles by which the company's investment plan is to be prepared, decides on the fees payable to members and deputy members of the Board of Directors and the reimbursement of their travel expenses, and elects the members of the Board of Directors.

The Supervisory Board may issue the Board of Directors with instructions on matters of great importance and principle.

The Supervisory Board consists of 28 members elected at the Annual General Meeting for a term of two years. At least half of the members are chosen from among persons nominated by the central labour market organizations representing employers and employees, in such a way that the number of members chosen from among the candidates from both the employer and employee organizations is equal.

The term of half of the members of the Supervisory Board expires each year. The Supervisory Board elects a chairman and two deputy chairmen from among its own members each calendar year.

The combined total of the fees paid to the members and deputy members of the Supervisory Board in 2003 is shown on page 51 of this Annual Report.

Board of Directors

It is the function of the Board of Directors to direct and attend to the administration of the company. In addition, the Board draws up the company's investment plan, approves the investment authorizations, prepares the matters to be dealt with at shareholders' meetings, decides annually on the company's operating policies for the next few years and its risk management plan, and monitors implementation of the plans referred to.

The Supervisory Board elects 12 members and four deputy members to the Board of Directors for a four-year term. Under the Act on earnings-related pension insurance companies, at least half of the members and deputy members of the Board of Directors must be elected from among persons nominated by the central labour market organizations representing employers and employees, in such a way that the number of members and deputy members elected from among the candidates from both the employer and employee organizations is equal.

The term of office of the members and deputy members of the Board of Directors begins at the start of the financial year following their election and expires at the end of the fourth financial year following their election. The term of office of the present Board members expires in 2005.

At the beginning of each calendar year, the Board of Directors elects a chairman and two deputy chairmen from among its own members. In 2003, the Board met 10 times. The combined total of the fees paid to the Board members and deputy members in 2003 is given on page 51.

President and CEO, Deputy CEO and Executive Vice President

The Board of Directors appoints the company's President and CEO and also an Executive Vice President to deputize for the President and CEO.

Ilmarinen's President and CEO is Kari Puro. Together with the Board of Directors, his job is to lead the company in a professional manner and in accordance with sound business principles.

The company's Deputy CEO is Executive Vice President Jaakko Tuomikoski.

Other organizational aspects and responsibilities

Besides appointing the President and CEO, the Board of Directors also appoints the company's Senior Vice Presidents, who are responsible for operations in their own sector and take decisions on relevant matters within the framework of the approved strategy, corporate scorecards and budgets.

The company's Executive Group meets regularly for the purpose of assisting the President and CEO in his decision-making.

Management remuneration and retirement age

On January 20, 1999, the Ilmarinen Board of Directors approved an incentive scheme covering all personnel; the scheme has been in force since the beginning of 1999. A bonus related to monthly salary is paid to everyone on the basis of how well the company has met its targets. In addition, departmental bonuses may be payed on the basis of how well each department has met its targets. A personal performance-related bonus can also be paid to management and other key personnel in accordance with the extent to which targets have been achieved. The maximum bonus is normally equivalent to one month's salary.

The combined total of the salaries and fees of the President and CEO and his Deputy in 2003 is given on page 51 of this Annual Report.

The retirement age for senior management is 65, with the exception of those appointed prior to July 1, 1992, for whom the retirement age is 60.

The Board of Directors and the President and CEO Kari Puro have agreed that he can continue as President and CEO until 2006, when he will reach the age of 65.

Risk management and supervision arrangements

Details of Ilmarinen's risk management and supervision arrangements are given on pages 18-19 and 30-32. The company's auditors and the persons elected annually from among the Supervisory Board's members to examine the decision-making on pensions and the investment activities are listed on page 64.

SUPERVISORY BOARD

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

Antti Herlin
Deputy Chairman
Board Chairman of Kone
Corporation, due to resign in 2005

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

Pertti Hagren
Chief Steward of BEMIS Valkeakoski
Oy, due to resign in 2005

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

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

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

Antti Lagerroos
President and CEO of Finnlines Plc,
due to resign in 2005

Simo Leivo
Executive Director of the Financial
Sector Union SUORA (Finland),
due to resign in 2005

Juho Lipsanen
President and CEO of Alma Media
Corporation, due to resign in 2005

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

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

Yrjö Mäkinen
Taxi driver, The Finnish Taxi
Association, due to resign in 2005

Markku Niskala
Secretary General, IFRC
(International Federation of Red
Cross and Red Crescent Sosieties),
due to resign in 2005

Kirsti Piponius
Deputy Board Chairman of Sodexho
Oy, due to resign in 2005

Veli-Matti Puutio
President of Osuuskauppa Arina,
due to resign in 2005

Jarmo Rantanen
Mayor of Tampere, due to resign
in 2004

Ilkka Rantasalo
Managing Director of Engel Group
LTD, due to resign in 2004

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

Markku Rönkkö
Managing Director of Olvi Plc,
due to resign in 2005

Pekka Salojärvi
Board Chairman of Garamond Oy
(Gummerus), due to resign in 2005

Kalevi Vanhala
President of the Wood and Allied
Workers' Union, due to resign
in 2005

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

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

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

Seated from left: Johannes Koroma, Kari Puro, Lauri Ihalainen and George Berner. Standing from left: Risto Piekka, Timo Parmasuo, Eino Halonen, Jyrki Kiviharju, Hannu Syrjänen, Eero Heliövaara, Gretel Ramsay, Seppo Junttila and Hannu Rautiainen.

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

Hannu Syrjänen, **Chairman**
President and COO of SanomaWSOY
b. 1951

Johannes Koroma, **Deputy Chairman**
Director General of the Confederation of Finnish Industry and Employers (TT)
b. 1943

Lauri Ihalainen, **Deputy Chairman**
President of the Central Organization of Finnish Trade Unions (SAK)
b. 1947

George Berner
Managing Director of Berner Corporation
b. 1948

Martin Granholm
Executive Vice President of UPM-Kymmene Group
b. 1946

Eino Halonen
President and CEO of Suomi Mutual Life Assurance Company
b. 1949

Eero Heliövaara
President and CEO of Pohjola Group plc
b. 1956

Seppo Junttila
General Secretary of the Finnish Confederation of Salaried Employees (STTK)
b. 1947

Jyrki Kiviharju
Director of the Bank Employers' Association
b. 1945

Risto Piekka
President of the Confederation of Unions for Academic Professionals (AKAVA)
b. 1948

Kari Puro
President and CEO of Ilmarinen Mutual Pension Insurance Company
b. 1941

Gretel Ramsay
Managing Director of Tammet Ltd
b. 1955

Deputy members

Timo Parmasuo
Board Chairman of Meconet Ltd
b. 1950

Hannu Rautiainen
Solicitor of the Confederation of Finnish Industry and Employers (TT)
b. 1952

Erkki Vuorenmaa
President of the Metalworkers' Union
b. 1947

Eero Ylä-Soininmäki
CEO of Pohjantähti Mutual Insurance Company
b. 1952

INSPECTORS

Inspectors of pension decision operations

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

Members

Liisa Joronen
Veikko Kuusakoski
Jarmo Rantanen
Timo Räty
Erkki Varis
Marjatta Väisänen

Deputies

Juhani Maijala
Esko Mäkeläinen
Ilkka Rantasalo
Markku Rönkkö
Pekka Salojärvi
Matti Viialainen

Inspectors of investment operations

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

Members

Pertti Hagren
Antti Herlin
Arto Kajanto
Kirsti Piponius
Veli-Matti Puutio
Matti Viljanen

Deputies

Antti Lagerroos
Simo Leivo
Juho Lipsanen
Yrjö Mäkinen
Markku Niskala
Kalevi Vanhala

Auditors

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

Sirkku Valkjärvi, APA,
PricewaterhouseCoopers Oy

Deputy auditors

Sari Airola, APA,
PricewaterhouseCoopers Oy

Marja-Terttu Sotka, APA,
PricewaterhouseCoopers Oy

ORGANIZATION

Executive Group

From left: Hillevi Mannonen (Chief Actuary), Kristiina Hämäläinen (Senior Vice President, Personnel and Administration), Jussi Laitinen (Senior Vice President, Investments), Timo Aro (Senior Vice President, Pension Services), Kari Puro (President and CEO), Satu Mehtälä (Senior Vice President, Corporate Communications), Sini Kivihuhta (Senior Vice President, Client Relations), Pirkko Auvinen (Senior Vice President, Legal Matters), Jaakko Tuomikoski (Deputy CEO), Simo Mattinen (personnel representative) and Juhani Karjasilta (Senior Vice President, Information Technology).

Other management, April 1, 2004

Client relations
Major Clients and Broker Relations
Juha Elovirta

Arja Alasentie
Major Clients

Corporate Clients/Pohjola, A-Insurance and savings banks
Ari Jaatinen

Kirsti Koponen
Business Services

Client Relations/Pohjantähti and non-profit organizations
Lise-Lotte Rautio-Murros

Client Services and Development
Irmeli Kesonen

Paula Ojala-Ruuth
Client Services

Juha Junnelin
Insurance Services

Markku Riikonen
Collection and Payments

Minna Hakkarainen
Development Services

Special Services
Maarit Wilén
Supplementary Insurance and Pension Foundation Services

Pension Services
Risto Ali-Penttilä
Employer Pension Services

Tarja Hurskainen
Pension Benefits

Anne Koivula
Disability Pension and Rehabilitation Decisions

Markus Palomurto
Pension Payments

Personnel and Administration
Arja Savolainen
Personnel

Olli-Veikko Kurvinen
Administration

Seija Rönnholm
Operating Costs Accounting

Investments
Jari Puhakka
Equities and Fixed Income

Jari Eskelinen
Fixed Income

Mikko Mursula
Equities

Timo Kankuri
Real Estate

Vesa Pohjankoski
Customer Financing

Heidi Koskinen
Investment Administration

Internal Audit
Markku Alho

Finance and Actuarial Matters
Hillevi Mannonen
Actuarial Services

Pirjo Pohjankoski
Accounts and Bookkeeping

Information Technology
Jukka Hirvinen
IT Management

Pekka Makkonen
Client and Insurance Systems

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

Assets covering technical provisions

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

Client bonuses

Client bonuses are paid to TEL policyholders in the form of discounts on contributions. They are distributed from the provision for current bonuses.

Equalization provision

Equalization provision is a buffer accumulated from the technical underwriting result; it is used in years when an above-average number of new pensions are granted.

Expense loading component

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

Investment result

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

Loading profit

The loading profit shows how much the expense loading components and other similar income exceed the operating expenses to be covered by them. The management charges incurred from investment are covered out of the return on investment. The management charges incurred in maintaining working capacity that are included in claims incurred are deducted from the underwriting result. The loading profit is part of Ilmarinen's total profits.

Operational efficiency

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

Provision for current bonuses

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

Provision for future bonuses

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

Solvency border

The investment risk will affect the amount of solvency capital required. The requirement is determined on the basis of solvency capital limits, which comprise the solvency border and the related upper and lower limits of the target zone.

The solvency border is the figure expressing the limit within which yearly fluctuations in the value of investments should in all probability remain. It is calculated on the basis of the structure of the company's investment portfolio and the amount of technical provisions.

Solvency capital

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

Solvency capital target zone

The lower limit of the target zone is double the solvency border and the upper limit quadruple. Different profit distribution rules apply to the zones between different limits. The better the solvency position, the higher the maximum bonus transfer in the area between the solvency border and the upper limit of the target zone. If the solvency capital is within the target zone, the guarantee capital interest is paid in full; if below the target zone, profit distribution must be restricted. The company's solvency capital is expected to remain between the solvency border and the upper limit of the target zone. If above the upper limit, the company can ensure that its solvency capital returns below this limit by altering its investment strategy or by distributing the surplus.

Statutory charges

The costs incurred by an insurance institution in financing the operations of the Finnish Centre for Pensions (the central body of the Finnish statutory earnings-related pension scheme), and to cover any of the Centre's bad debts on credit insurance.

Technical provisions

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

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

Technical provisions to be covered

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

Technical underwriting result, net

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

Turnover

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

Valuation gains/losses

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

Yield requirement on technical provisions

The yield requirement on technical provisions is the interest to be credited on technical provisions. It is calculated using the employment pension companies' joint calculation bases. In 2003, this so-called technical rate of interest was an average of 4.125%.

Pension benefits

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

Coverage

The statutory earnings-related pension system applies to all persons engaged in an employment relationship and all self-employed persons. The most important of the Finnish pension laws is the Employees' Pensions Act (TEL), the provisions of which currently affect just over 50% of the employed labour force.

Administration and supervision

The Finnish earning-related pension system is a decentralized system. TEL pension coverage is managed by six pension insurance companies (including Ilmarinen), eight industry-wide pension funds and 35 company pension funds. The pension benefits are independent of the managing institution. The managing institutions are supervised by the Insurance Supervision Authority.

Funding

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

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

Arrangements under the other pension laws, including those affecting the public sector, also involve advance funding to varying degrees. At the end of 2003, employee pension fund assets totalled EUR 79 billion, equivalent to more than half of Finland's GDP.

Technical provisions

Technical provisions are calculated according to principles common to all TEL institutions and confirmed by the Ministry of Social Affairs and Health.

The individual provision is the discounted present value of pre-funded pension expenditure. A 3% discount rate is used, in addition to which the calculation of present value takes into account mortality, disability incidence and the likelihood of re-employment without disability. In addition to these individually calculated provisions, the technical provisions include an IBNR reserve and an equalization provision.

The common calculation bases also include a higher interest rate, the so-called technical rate of interest, which may be changed twice a year. The income arising from the difference between this technical rate of interest (4.5% on January 1, 2004) and the 3% discount rate is used each year to augment the pre-funded old-age pensions.

Contributions

In 2004, the TEL contribution averages 21.4% of earnings. The employee contributes 4.6% and the employer an average of 16.8%. The total contribution is expected to rise some five percentage points in the next 30 years. This increase will be borne equally by employers and employees.

An employer with its own TEL pension fund bears the entire insurance risk and investment risk. For employers that have their TEL insurance with a pension insurance company, the risk is transferred to the insurer against the TEL contribution.

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

In estimating pension costs in future years, the long-term forecast of the contribution level can be used (see page 11). The new legislation will reduce starting pensions in line with growing longevity, thus largely eliminating the effect of the latter on the future contribution level.

Investment activities

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

Guarantee scheme

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

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