Pension Fennia

Pension Fennia's Financial Statements 2004

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The Board of Directors' Report

Economic development

In 2004, the growth of the world economy was rapid and the inflation was moderate. Companies improved their results both in the United States and Europe at a rate that is usually only reached during the strongest boom of the trade cycle. This was also reflected on the equities markets. After the strong rise of share prices in January-February, the markets began to fear the acceleration of inflation and rise of interest rates particularly in the US. The concern for inflation was increased by the heavy rise of raw material and oil prices caused by China. Thanks to the strong development of companies' profits, the adaptation of valuations did not lead to a fall of share prices, but there was room for rise in the equities markets of the western world especially towards the end of the year. In Finland, the equities markets developed excellently, and companies paid substantial dividends. The rise of share prices did, however, slow down from the development of 2003 in e.g. the United States and Europe.

A more important negative factor than the high oil price for the European economy was the strengthening of the euro against dollar late in the year. The weak dollar increased the fears about the stopping of the economic growth that leans on exporting. The development of the exchange rate resulted, for instance, in a different development of interest rates in the US and the Euro currency area. The US Federal Reserve Bank began to tighten the monetary policy by rising its central bank rate moderately. Long interest rates were supported by moderate inflation and exceptionally large demand for bonds.

Development of the statutory earnings-related pension scheme

The year 2004 was characterised by preparation for the pension reform that entered into force at the beginning of 2005. One of the central goals of the pension reform is to delay the average retirement age by 2-3 years from the present 59 years and to adapt the pension system to the continuous rise of the average life expectancy. These goals are targeted by, for instance, introducing the life-expectancy coefficient and flexible retirement age from 63-68 years, and by changing early retirement pensions.

According to an agreement made by the labour market organisations, the objective is to combine and clarify the private sector employment acts. The pension acts concerning private sector employees (TEL, LEL and TaEL) will be joined into a single act, so that the employer can arrange the pension insurance for all of its employees with just one insurance. The Self-employed Persons' Pensions Act YEL is also planned to be reformed when the new TyEL pension act is introduced. The Farmers Pensions Act and Seamen's Pensions Act will remain as separate acts. TyEL is planned to enter into force on 1 January 2007.

There will be major changes in the financing of the TEL system, partly in connection with the pension reform. It has been agreed that an equal contribution system is introduced in 2007, as a result of which the age of the employees will no longer affect the amount of the TEL contribution. The deductible technique, however, means that in case of larger employers, this goal is not fully met. The equal contribution will be introduced gradually, so that the age-dependence of the large employer contribution for 2005 has been relieved. For employees the pension reform may, however, mean a larger share of premium, if the share of premium of over 53-year-old employees has been raised in connection with increasing the pension accrual.

From the beginning of 2005, listed companies must publish their consolidated annual accounts using the IFRS standard. Some auditors think that the standard would have required very large additional provisions in the disability deductibles under TEL for these companies. Hence the deductible of disability pension for large employers was given up, and it will be replaced with a technique based on premium categories as of the year 2006. The premium category of the employers' TEL disability pension premium will be determined according to the employers' realised disability risk in previous years.

Reaching the goals in the year 2004

Pension Fennia reached most of the strategic goals set for 2004. The company's market share grew, and solvency margin was used efficiently in investment operations. Customer-orientation was in special focus in Pension Fennia in 2004. The goal is to serve customers of different size who deal with the company differently in the best possible way. Pension Fennia also continues to develop easy-to-use electronic insurance solutions for customers and partners. Reaching the goals set was supported through an incentive reward system for the whole staff of Pension Fennia. This was the fifth year that the incentive rewards were used.

Pension Fennia was successful in the earnings-related pension markets and strengthened its market position. In 2004, the market share grew from 10.2 per cent to about 10.8 per cent. The number of new TEL and YEL customers totalled over 6,000, or over 19 per cent of start-up companies and entrepreneurs. Like a year before, the result was good for self-employed persons, and the number of YEL customers grew by over 9 per cent in a year.

The goals set for transfer business in 2004 were also met. Measured by the net number of policies, Pension Fennia was a winner of the transfer rounds with more than 1,700 TEL customers. Each transfer round was also positive measured by premium income, and Pension Fennia was number one in the market for the year.

The key goal of *investment operations* is to use the solvency margin efficiently in order to reach the best return on investment in all market situations. *Return* on invested capital at fair values stood at 7.4 per cent for the financial year, while in the previous year it was 6.7 per cent. The amount of *solvency margin* was 2.1 times the solvency limit at the closing of accounts. Solvency margin grew by 24 per cent, from € 560.1 million to € 696.7 million, and was 17.7 per cent of technical provisions.

Development of operations

As for handling of pension applications, Pension Fennia prepared for the amendments of pensions acts that were implemented at the beginning of 2005 by providing training and developing IT systems. The company will introduce *electronic document management and job queues* in late 2005. This reform project kept the pensions handling busy throughout the year. The project will enhance working while anticipating the retirement of the baby boom generation.

IT service provider Octel Oy, which was owned by e.g. Pension Fennia, the Finnish Centre for Pensions and Varma, was sold to TietoEnator Corporation in April. The purpose of the deal was to ensure reliable and cost-efficient provision of operating services also in case of rapid changes of technology and environment in the future. The deal implemented *key goals of Pension Fennia's IT strategy* by securing the cost-efficiency of basic services.

Founded in late 2003, Arek Oy had a busy year. Pension Fennia is a shareholder of the company and participates together with nearly all other earnings-related pension actors in the development of a *new earnings system* to be introduced in 2007.

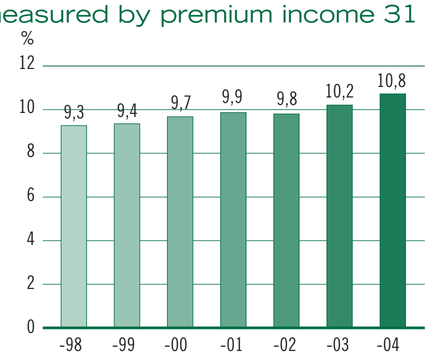
During 2004, the steering of Pension Fennia's development projects was strengthened by standardising the procedures and tools of project work and by setting up a *new steering group of project administration*. The objective of project administration is to steer the use of both personnel resources and investment contributions in a balanced and profitable way for the whole organisation.

The most significant opening for project steering was the starting of a development project related to a *customer-oriented way of working* in autumn 2004. A basis for the work was partly created by the reorganisation of insurance services and customer contacts into a customer line in May 2004. In the customer line the policyholders are served according to size in three segments: small, medium-sized and large. The *co-operation agreements* with Fennia Group, Local Insurance Group and OP Group were extended to the end of 2008, which will ensure long-term development.

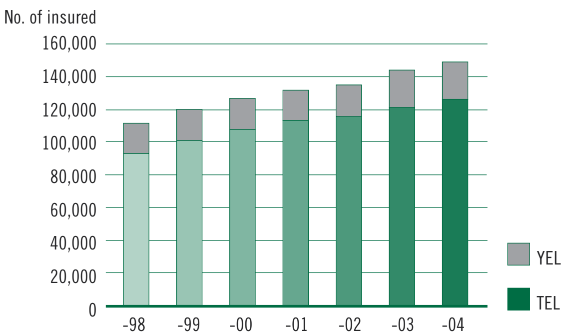
The content of the *Pension Fennia Online* services for company and entrepreneur users expanded significantly as a result of development projects, and the number of customers using the services almost doubled during the year.

As for *personnel strategy*, Pension Fennia focused on management of expertise, the goal of which is, for example, to secure the expertise needed in implementing the vision and strategies. An expertise management process that is linked to the planning and strategy process of the company was built in 2004. The work will continue in 2005 with pilots that aim, for example, to specify Pension

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



Those insured in Pension Fennia 31 Dec.



Fennia's expertise map and renew the practice of goal and development discussions.

Insurance portfolio and premiums written

At year-end 2004, Pension Fennia was responsible for insuring 151,040 persons' pension provision. The number of TEL basic insurances increased by about 1,000 policies to 17,900, and the number of insured was 125,660. At the end of 2004, the number of insured employment relationships was over 5,000 higher than in the previous year. The number of YEL insured increased by about 2,100 entrepreneurs during the year and stood at 25,376 at the year-end.

Premiums written for the year 2004 stood at € 747.4 million. Of this amount, TEL insurance accounted for € 668.9 million before deduction of credit losses and YEL insurances for € 83.4 million. Credit losses on premium receivables stood at € 4.8 million. The average premium of TEL insurance was 21.4 per cent of salaries, of which the employee's share was 4.6 per cent. The YEL premium was 21.4 per cent of reported earnings.

Pensions and well-being at work

A total of 11,800 pension applications were handled during the year 2004 of which 6,300 were new pension applications. The total number of new disability pension applications decreased by about 10 per cent from the previous year. On the other hand, the number of rehabilitation applications increased significantly as expected. The reasons for growth were the amendments of legislation that entered into force at the beginning of 2004, such as subjective right to vocational rehabilitation, and the increased knowledge of different co-operation parties about rehabilitation. However, the growth was greatest in the number of old-age pension applications. As a result of the amendment that entered into force at the beginning of 2005, three age classes are entitled to retire on old-age pension in 2005. In anticipation of that, the number of old-age pension applications started to increase already in late 2004.

In addition to the above-mentioned, the staff was kept busy last year by the new duties caused by the entry into force of the principle of last institution (Vilma) and training for practical situations, as well as system and telecommunication specifications. A total of 1,500 pension applications in accordance with the Vilma legislation were handled in 2004.

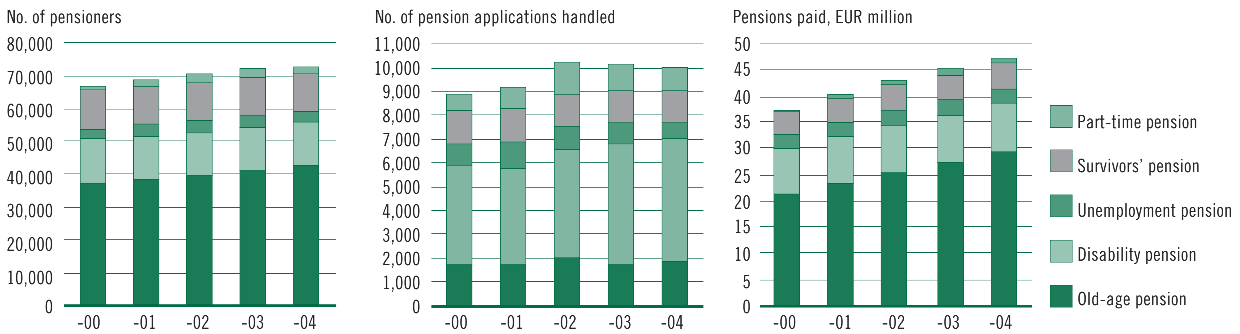
Pension Fennia paid pensions to 72,587 persons at year-end 2004. A total of € 568 million was paid out in pensions to 37 different countries.

The pension reform has been the central topic in training arranged to the insured and partners, in customer events, and in customer information in 2004. A total of 46,160 pension estimates were sent out in 2004. The age classes that are the first with an opportunity to choose the time of retirement flexibly were sent 9,200 calculation estimates concerning the amount of pension and the effect of staying at work.

Correctly timed solutions for the challenges of well-being at work

The objective of Pension Fennia's well-being at work experts is to find for client companies solutions that promote well-being at work and are correctly timed from the point of view of both the employee and the employer. The interest and resources of companies for promoting well-being at work have increased considerably. The TYKY-STEP evaluation tool created in co-operation with the

Number of pensioners and pension applications handled and pensions paid (EUR million) 31 Dec.



Finnish Institute of Occupational Health and the Efekti planning model have been frequently used together with companies. They have helped in building development plans based on needs at a number of workplaces. Tailored training events have been compiled for client companies on the basis of these plans. Pension Fennia's online service Efekti at www.elake-fennia.fi/efekti has been an info package that the customers have frequently studied.

Important progress from the point of view of customers also took place in the *working community development services* whose supply and content were analysed and conceptualised with the goal to create a service package that provides even more support to the client companies' business.

Technical provisions and covering assets

Pension Fennia's technical provisions stood at € 4,364.9 million at the end of the year 2004. Technical provisions included € 315.3 million of liabilities accrued from employees' share of premium.

Two partial transfers of insurance business from the pension foundation of Finland Post were added to the technical provisions of 2004. The technical provisions transferred in connection with the portfolio transfer stand at about € 5.4 million. This amount includes a sum to be transferred to the solvency margin that equals 12.4 per cent of the actual technical provisions. The final amount of the transferred liabilities will be checked in autumn 2005.

Technical provisions, EURm	31 Dec. 2004	31 Dec. 2003
Premium reserve		
Future pensions	2,473.3	2,319.7
Provision for current bonuses	7.4	4.3
Provision for future bonuses	404.6	351.2
	2,885.2	2,675.2
Claims reserve		
Current pensions	1,215.8	1,101.5
Equalisation provision	263.9	251.0
	1,479.7	1,352.5
Total	4,364.9	4,027.6

The assets covering technical provisions meet the requirements of the Statute on Gross Margin and those of the Insurance Supervision Authority. Listed margin amounted to € 4,625.8 million, or 5.8 per cent more than the technical provisions to be covered. Pension Fennia's open foreign exchange position, or assets not hedged against exchange rate fluctuations amounted to € 185 million. Foreign currency hedging also includes operationally hedging foreign currency forward contracts.

Investment operations

The principal task of investment operations of earnings-related pension insurance companies is to take care that the solvency margin is efficiently used in different market situations. This ensures the yield requirement of technical provisions in the long term and aims to cover the complementation of solvency margin required by the growth of the technical provisions, and the bonuses paid to the customers.

Pension Fennia's investment operations succeeded well in the year 2004. Total *investment income on invested capital* stood at 7.5 per cent before operating expenses and unallocated income and costs of investment operations. The technical rate of interest stood at 4.5 per cent until 1 July 2004 and at 5 per cent for the rest of the year.

Investments	Fair values 31 Dec. 2004 EURm	%	Fair values 31 Dec. 2003 EURm	%
Equities and shares	1,308.1	28.9	959.4	23.3
Equities	913.4	20.2	866.9	21.0
Fixed-income funds	394.7	8.7	92.5	2.2
Loans	257.2	5.7	255.9	6.2
Money-market instruments	2,389.8	52.9	2,410.5	58.5
Bonds	2,021.6	44.7	1,801.7	43.7
Other	368.2	8.1	608.7	14.8
Real estate	564.8	12.5	495.6	12.0
Total	4,519.9	100.0	4,121.3	100.0

*) Includes € 12.7 million of derivatives not included in the balance sheet.

The *net return on investment operations in the profit and loss account* stood at € 233.3 million. Capital gains were obtained in equity, fixed-income and real estate investments; the total gain amounted to € 103.4 million. Value adjustments of € 18.8 million were made in equities and shares, € 6.0 million in bonds, and € 3.3 million in real estate. Value readjustments on equities, bonds and real estate stood at € 3.4 million. Valuation differences increased by € 80.9 million during the financial year. The *net return on investment operations at fair values* stood at € 312.0 million.

The return on invested capital of Pension Fennia's whole *equities portfolio* for the year 2004, including derivatives, fixed-income funds, real estate investment funds and alternative investments (hedge funds and private equity funds) was 10.7 per cent. The return on listed shares stood at 12.0 per cent including derivatives. During the year, equities were hedged with derivatives, which decreased the return on equities by about 0.9 percentage points.

Listed equity investments have been internationally diversified; however, keeping the proportion of Finnish investment large. The equity strategy is based on selection of companies in Finland and on selection of funds in international investments. The best returns were gained in Finland and East Europe. Investments in the United States were reduced during the year, and the proportion of European equities in particular was increased.

The return on so-called alternative investments included in equity investments stood at around 3.9 per cent. Private equity investments accounted for 1.4 per cent of the total investment portfolio, and hedge fund investments for 1.3 per cent.

The year 2004 was excellent for *fixed-income investments*, as long interest rates fell and the credit risk margins of corporate bonds were reduced. The average credit rating was AA-. Fixed-income investments were efficiently decentralised, and the proportion of investments with a credit risk was increased in particular during the year.

The return on bond investments calculated on invested capital, including derivatives, was 7.1 per cent. With fixed-income investments included the return was 7.5 per cent. The return on the market money portfolio was around 2.2 per cent.

Real estate market was fairly stable and its liquidity was improved by the further increased international investment in the Finnish market. The under-utilisation rates rose in office space and residences, but remained very low in business premises. There is increasing pressure for lowering office space rents, while the rents of business premises in good locations kept rising.

Pension Fennia's biggest new real estate investments were the head office of WM-data Oy currently under construction, shopping centre Sello in Leppävaara, shopping centre Jumbo in Vantaa, and the six housing corporations in the Helsinki region bought from Kesko's pension foundation. The number of residential flats increased by 438, and they now account for one third of the real estate portfolio. Four large construction projects with a total value of over € 70 million were completed during the year. Real estates and residential flats were sold for around € 24 million. The largest items sold were Anttila department store in Hyvinkää, S-market in Lielahti, and Gigantti retail outlet in Tampere.

The return on real estate investments calculated on invested capital stood at 6.3 per cent, compared with 5.6 per cent in the previous year. The net rent income of completed real estate items was 7.3 per cent, calculated on the real estate portfolio at the year-end. Real estate investments totalled € 564.8 million at the year-end.

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

Premium loans and other loans of *client financing* totalled € 257.2 million at the year-end. The amount of unarranged loans decreased from € 5.7 million in the previous year to € 3.1 million. Value adjustments amounting to € 2.1 million were entered due to bankruptcies and non-securing guarantees during the financial year.

Total operating expenses and personnel

Total operating expenses for the year 2004 stood at € 34.3 million, including operating expenses of well-being at work activities. Personnel and information management expenses including depreciation accounted for 70 per cent of the total operating expenses. A total of € 8.5 million of activated IT system expenses related to insurance operations are included in the balance sheet as at 31 December 2004.

Operating expenses covered with expense loading stood at € 28.1 million. Operating expenses covered from the investment income stood at € 5.9 million. € 0.3 million of operating expenses related to working capacity maintenance were paid from the disability loading of the premium. Expense loading included in the premium for covering operating expenses totalled € 32 million for the year and other income € 0.6 million. Loading profit stood at € 4.5 million.

The company employed an average of 235 persons in the year 2004. At the year-end 2004, 241 people were permanently employed, and 7 had a fixed-term employment relationship. 8 people were on maternity, child care or study leave, and 10 people were on a permanent part-time employment, of which 9 were on part-time pension and one on partial disability pension. A total of 11 new employees were hired or fixed-term employments made permanent. 5 employment relationships ended, 3 of them due to retirement.

Result and solvency

The *book net returns* on investment operations, € 231.1 million, exceeded the required return, € 172. 7 million, by € 58.4 million. The valuation differences of investments increased by € 80.9 million. Therefore the *result of investment operations* after the required return compensated on technical provisions is € 138.3 million. The *profit on insurance business* stood at € 12.9 million, and *loading profit* was € 4.5 million. The combined total result of Pension Fennia was € 155.7 million. The total result grew by € 14.6 million, or 10.4 per cent compared with the previous year.

A total of € 53.4 million was transferred from the total result to the provision for future bonuses and € 7.3 million to be returned to customers as reduced insurance premiums. In addition, 10 per cent of the supplement made from the provision for future bonuses to the provision for current bonuses was returned.

The *solvency margin* at the year-end amounted to € 696.7 million, or 17.7 per cent of the technical provisions. Valuation differences accounted for € 276.4 million of the solvency margin. Provision for future bonuses stood at € 404.6 at the year-end.

The profit and loss account shows a surplus of € 1,406,312.37.

Internal supervision, risk management, internal and external revision

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

Pension Fennia Board of Directors has approved a *risk management plan* that covers all operations. The risk management process has been integrated into operations planning, and a key task of the risk management process is to ensure the realisation of the company's strategic goals and other important projects related to operations. The Board has followed the progress of measures in accordance with the risk management plan during the year. The Board has also assessed the appropriateness of internal revision. Internal revision has annually drawn up a review on internal supervision and a report on the progress of the measures in accordance with the risk management plan to the Board of Directors and the company's Executive Group. Risk management is described in more detail in the notes to the accounts.

As part of the investment plan the Board of Directors confirms the *principles of internal supervision and risk management* and approves the principles for the use of derivatives. Identifying, assessing and measuring the risks related to investment operations as well as administrative measures are included in the investment plan. The Board of Directors reviews and confirms the investment plan twice a year. The Investment Committee monitors the financial and operational risks in investment operations.

The line directors acting as members of the Executive Group are responsible for ensuring in their own fields that internal supervision is implemented and that the line-specific risk management processes are appropriate. The Executive Group follows the progress of actions, combined effects of central risks, and their relationship to the company's risk-bearing capacity. According to Chapter 18, Section 8 of the Insurance Companies Act, an actuary must be appointed to each earnings-related pension company whose task inside the company is to see, for example, that the actuarial methods are appropriate.

In 2004, a decision was made to found a risk management function that is independent of the functions that take a business risk. More detailed decisions on the organisation and way of working of the risk management will be made in 2005.

Solvency margin is used for preparing for *investment* risks. The key figures used in the follow-up and evaluation of the total risk position of investment operations are the ratio of solvency margin to technical provisions and to the solvency limit in accordance with the statutes. Investment risks include the interest rate, credit and liquidity risks related to a large bond portfolio, price and liquidity risk of equities, exchange rate risks, risks related to real estate investments, building and client financing, as well as formation of customer risk concentrations.

Insurance business risks are related to the sufficiency of insurance premium and technical provisions in the short and long term. The sufficiency is essentially affected by life expectancy and the number of new pensions. The risk management of insurance business is based on premium bases and bases for technical provisions that meet the security requirements, which are the same for all companies. The bases for pensions are also the same for all. With solutions for promoting working capacity and reducing disability expenditure offered by well-being at work experts, the company can try to influence the pension expenditure. Since the system is statutory, companies cannot decline to insure. Pension Fennia has drawn up instruction for the personnel to limit the acquisition of customers with payment defaults. The company has prepared for *fluctuations of insurance business* with the *equalisation provision* included in the technical provisions. In years when there is a large number of damages, the part of the increase of technical provisions that cannot be covered with the premiums is covered from that reserve. Correspondingly, in those years when the premiums collected exceed the sum needed in increasing the technical provisions, the excess is transferred from the premium to the equalisation provision.

Operational risks related to business

The operational risks related to business have been identified in connection with the drawing up of the risk management plans, and their administrative measures have been recorded in the risk management plans of functions. The most important operational risks are related to, for example, person risks, dangerous work combinations, defective skills, management , legal affairs, information systems and privacy protection. The effect of operational risk in investment operations is pronounced, as the investment operations become faster, more complicated and international.

Internal and external revision

The task of Pension Fennia's internal revision is to evaluate the sufficiency, appropriateness and efficiency of internal supervision, as well as to co-ordinate the company's risk management process. Administratively, internal revision operates under the Managing Director. Internal revision annually draws up an operating plan that is introduced to the Executive Group and approved by the Board of Directors. Observations are reported to the Executive Group, and a report is annually drawn up for the Board of Directors.

External revision of operations is carried out by the authorised auditors elected by the Annual General Meeting and the Insurance Supervision Authority.

Administration

Pension Fennia's Board of Directors decided in its meeting on 25 August 2004 that the company shall follow the recommendation of the corporate governance working party as appropriate. The Board of Directors has approved a working order for itself and set up an Appointment and Remuneration Committee and Audit Committee in accordance with the working order. The Appointment and Remuneration Committee is formed by the Chairman of the Board Eero Lehti and deputy chairmen Pertti Parmanne and Seppo Riski. Board members Heikki Kauppi, Olavi Nieminen and Heikki Ropponen were elected as members of the Audit Committee.

In its meeting on 27 November 2004 the Supervisory Board approved the reformed working order and set up a Labour Committee to prepare issues mentioned in the working order that fall under the authority of the Supervisory Board. The Labour Committee is formed by Chairman of the Supervisory Board Markku Koskenniemi and deputy chairmen Harri Kainulainen and Eino Rajamäki, as well as members Lars Gästgivars, Tapio Liinamaa, Tuovi Orpana and Marjaana Valkonen.

The Annual General Meeting of Pension Fennia on 27 April 2004 re-elected Jukka Tikka at the suggestion of central employer organisations, and elected Lars Gästgivars and Seppo Matikainen as new members, and re-elected Håkan Nystrand at the suggestion of central employee organisations, and elected Tuovi Orpana, Matti Putkonen, Marjaana Valkonen and Anssi Vuorio as new members. In addition, the following persons were re-elected to the Supervisory Board: Pentti Jussila, Markku Koskenniemi, Eino Rajamäki and Lasse Savonen, and Antti Tiitola was elected as a new member.

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

In its meeting on 23 November 2004, the Supervisory Board of Pension Fennia re-elected Board members Lasse Heiniö and Olavi Nieminen and deputy member Tarkko Jousi.

Eero Lehti was elected Chairman of the Board for the year 2005, and Pertti Parmanne and Seppo Riski were elected as Deputy Chairmen. Markku Koskenniemi was elected the Chairman of the Supervisory Board, and Harri Kainulainen and Eino Rajamäki were elected as Deputy Chairmen.

The Board of Directors convened 10 times during the year, and the participation percentage was 93. The Supervisory Board convened twice and the shareholder's general meeting once.

Pension Fennia and the group

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

At year-end 2004, Pension Fennia group included 65 housing and real estate companies as subsidiaries. In addition, Pension Fennia group included Feva-kiinteistöt Oy. Pension Fennia owns 40 per cent of its associated undertaking Insurance Company Fennia Life.

Significant events after the close of the financial year

The company's result has developed favourably early in the year, as share prices have risen and long interest rates have remained stable. The proportion of equities investment was slightly increased and that of money markets was decreased in early 2005.

Pension Fennia's solvency margin stood at € 756 million, or 19.0 per cent of the technical provisions as at 22 February 2005. The proportion of the solvency margin to the solvency limit was 1.9.

Future outlook

The growth of both economy and profit in 2005 has been significantly slower in the western world compared with the previous year. The *company's result* is essentially affected by the development of the investment markets in the current year. The peak of the trade cycle has been passed, and hence the share prices are expected to rise slightly. It is anticipated that long interest rates will no longer fall, so the return on the bond portfolio will probably settle at the level of the coupon rate, if the expectations for inflation remain moderate.

The year 2005 will continue to be dominated by development and system projects that support a *customer-oriented way of working*. With segment-specific service models Pension Fennia is better able to respond to the needs and expectations of different-sized client companies. The work for strengthening electronic channels and raising the self-service rate in exchanging information will also continue in the coming years. It is particularly important to strengthen the expertise that takes the customer's needs into account, for example, in the fields of working community development services and total pension provision.

The *pension reform* that entered into force at the beginning of the year has a central role in customer communication. It is also a key subject in training provided for partners and in various customer events. A new area in both in-house training and training for customers and partners is the TyEL pension act that will enter into force at the beginning of 2007.

Major changes have been planned for *legislation* governing the operations of earnings-related pension insurance companies. The starting point is the overall reform of the Companies Act that is intended to enter into force on 1 January 2006. The Insurance Companies Act will also have to be completely rewritten, and the Ministry of Social Affairs and Health has set up a working group to prepare the proposal. Many issues that are currently included in decrees and stipulations must be included in the law, and the authorisation regulations must be specified. Two subgroups have been set up for the working party; one of them is preparing regulations on solvency and distribution of profit and the other those on covering technical provisions.

The Ministry of Social Affairs and Health appointed Bank Director Matti Louekoski as of 1 April 2004 to study the needs for reforming the Act on Employment Pension Companies. The study shall investigate what kind of needs for change the overall reform of the Companies Act and the consequent amendment of the Insurance Companies Act will cause, as well as estimating how the amendment to the law should be implemented. The first phase of the investigation will end on 31 May 2005 by which date an intermediate report must be submitted. Further measures will be decided on after a comment round.

The possibility to increase the *profit expectations* of assets covering pensions have also been pondered within the pension system, so that the pressure to raise insurance premiums can be relieved in the long term. Because the future development of the insurance premium is affected by the degree of funding, the determination bases for the interest paid on technical provisions, and the solvency margin and profit margin regulations that govern the taking of investment risk are also being pondered.

The Pension Fennia Board of Directors wishes to thank all personnel and the operative management for a job well done in the financial year 2004.

Profit and Loss Account

EUR thousand	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003	Notes
Technical account					
Premiums written	747,416	679,139	747,416	679,139	1
Investment income	406,768	349,392	409,487	351,634	3
Revaluations on investments					
Claims incurred					
Claims paid	-619,961	-575,513	-619,961	-575,513	2
Change in claims paid					
Total change	-127,229	-108,021	-127,229	-108,021	
Portfolio transfer	1,534	445	1,534	445	
	-745,656	-683,089	-745,656	-683,089	
Change in premium reserve					
Total change	-210,022	-178,567	-210,022	-178,567	
Portfolio transfer	3,902	1,243	3,902	1,243	
Statutory charges	-3,624	-2,546	-3,624	-2,546	
Operating expenses	-22,280	-18,391	-22,280	-18,274	5
Investment expenses	-175,251	-147,136	-176,186	-146,650	4
Other technical underwriting expenses	402	-985	402	-985	
Balance on technical account/margin	1,655	-941	3,439	1,905	
Non-technical account					
Other income	87	316	87	316	
Appropriations					
Change in depreciation difference			94	-21	
Change in optional reserves					
Income taxes					
Taxes for the financial year and previous financial years	-2,214	-1,181	-2,214	-1,180	
Calculated tax	156	106			
	-2,059	-1,075	-2,214	-1,180	
Share of result of associated undertakings	3,678	1,641			
Minority interest in the result for the financial year	-258	-285			
Profit/loss for the financial year	3,620	226	1,406	1,020	

Balance Sheet

EUR thousand	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003	Notes
ASSETS					
Intangible assets					
Intangible rights	527	620	527	620	
Other long-term expenses	7,997	7,432	7,997	7,432	
	8,524	8,052	8,524	8,052	
Investments					
Investments in land and buildings					
Land and buildings	475,059	418,036	277,467	258,044	6
Loan receivables from group companies			232,572	187,882	
	475,059	418,036	510,039	445,927	
Investments in group companies and participating interests					
Shares and participations in group companies			16,659	16,659	8
Shares and participations in associated companies	20,429	16,742			
	20,429	16,742	16,659	16,659	
Other investments					
Equities and shares	1,147,950	839,698	1,146,873	838,756	9
Money-market instruments	2,308,067	2,358,304	2,308,067	2,358,304	
Loans guaranteed by mortgages	138,432	112,107	138,432	112,107	
Other loan receivables	140,375	162,912	118,719	143,778	
Deposits	4,900	9,000	4,900	9,000	
	3,739,725	3,482,021	3,716,992	3,461,944	
	4,235,212	3,916,799	4,243,690	3,924,530	
Debtors					
Direct insurance business					
Policyholders	67,566	41,947	67,566	41,947	
Other debtors					
Receivables from group companies			71		
Receivables from associated undertakings	71				
Receivables from own real estate companies			1,505	3,013	
Receivables from partner companies	71	294	71	294	
Portfolio transfer receivable	4,282	8,910	4,282	8,910	7
Other debtors	54,514	54,525	53,510	54,525	
	58,938	63,729	59,439	66,742	
Other assets					
Tangible assets					
Furniture and fixtures	2,134	2,485	2,134	2,485	
Other tangible assets	399	399	399	399	
	2,533	2,884	2,533	2,884	
Money and cash at bank	4,053	6,196	3,519	5,983	
	6,586	9,080	6,052	8,867	
Prepayments and accrued income					
Accrued interest and rent	50,168	48,983	50,168	48,983	
Other prepayments and accrued income	5,737	2,579	5,037	1,160	
	55,905	51,563	55,205	50,143	
Total assets	4,432,732	4,091,169	4,440,475	4,100,280	

EUR thousand	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003	Notes
LIABILITIES					
Capital and reserves					
Initial fund	3,364	3,364	3,364	3,364	
Guarantee capital	1,682	1,682	1,682	1,682	
Revaluation reserve	344	692			
	5,390	5,738	5,046	5,046	
Other reserves	18,065	17,085	18,035	17,055	
Profit/loss brought forward	-17,514	-16,740	88	68	
Profit/loss for the financial year	3,620	226	1,406	1,020	
	4,171	571	19,529	18,142	
	9,561	6,309	24,574	23,188	11
Minority interest	7,590	7,848			
Accrued appropriations					
Depreciation difference			250	344	
Optional reserves					
			250	344	
Technical provisions					
Premium reserve	2,885,178	2,675,155	2,885,178	2,675,155	
Claims reserve	1,479,704	1,352,475	1,479,704	1,352,475	
	4,364,882	4,027,630	4,364,882	4,027,630	10
Obligatory provisions					
Obligatory provisions					
Creditors					
Direct insurance business	2,260	1,607	2,260	1,607	
Loans from financial institutions	2	8	2	8	
Calculated tax debt	887	1,042			
Other creditors	22,690	14,368	24,086	15,812	
	25,838	17,025	26,348	17,427	
Accruals and deferred income	24,861	32,357	24,422	31,691	
Total liabilities	4,432,732	4,091,169	4,440,475	4,100,280	

Accounting Principles

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

Consolidated financial statements

Those subsidiaries in which Pension Fennia holds more than half of the votes have been consolidated in the consolidated financial statements. In 2004, Pension Fennia group comprised as subsidiaries 65 real estate companies and Feva Kiinteistöt Oy.

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

Intra-group cross-shareholdings have been eliminated using the acquisition method. The resulting consolidation difference is allocated to the subsidiaries' asset items within the limits permitted by their fair values. The consolidation difference is depreciated in accordance with the planned depreciations of the corresponding asset item. Previous revaluations in group shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

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

Investments in participating interests

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

Premiums written

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

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

Claims incurred

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

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

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

The value adjustments made on real estate are entered in the profit and loss account under value adjustments. Value readjustments with effect on profit have been made on the sold real estate before entering the capital gain. No revaluations on book values of real estate were made in the financial year 2004.

Equities and shares are entered in the balance sheet at the lower of acquisition cost or fair value. Previous value adjustments on equities are entered in the profit and loss account as value readjustments for the part that the fair value exceeds the book value, but not in amount exceeding the value adjustments made earlier. Equities are entered in the books using the average price principle. Fixed asset shares are valued in the balance sheet at the acquisition cost, because that is considered to correspond to their fair value. The last available closing prices of the financial year are used as fair values for listed equities and shares. Cautiously estimated net realisable values are used as market values of unlisted insurance company shares. The fair value of other unlisted shares is the acquisition cost or the probable net realisable value.

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

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

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

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

In the new TEL premium system that was introduced in June 2004 premium receivables are grouped according to the strongest collection procedure of the insurance as follows: bankruptcy, debt recovery, debt restructuring and other. The old system only allowed one collection procedure.

Derivative contracts have been used by Pension Fennia for both hedging purposes and other purposes. The principles of the use of derivatives and risk management of derivatives are described in the Risk Management appendix of the Annual Report.

Hedging calculation is only applied to those derivative contracts that meet the requirements set in the regulations and guidelines of the Insurance Supervision Authority. Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value has been entered in the profit and loss account for the hedged balance sheet item, no entry has been recorded in the profit and loss account for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract. When a value readjustment has been entered for the hedged item, the value change of the derivative used is entered in its entirety as an expense. The income and expenses resulting from a derivative contract are principally entered in the same profit and loss account item as the income and expenses from the hedged balance sheet item or position.

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

In calculating the contribution margin, capital and reserves, and the solvency requirements, those derivatives that have a specific hedging target and are handled as hedging in the books are handled as hedging derivatives. Furthermore, in calculating the cover for technical provisions, such foreign currency derivatives that fulfil the definition of the regulations and guidelines of the Insurance Supervision Authority on operationally hedging foreign currency derivatives are entered as hedging derivatives. Regarding the counterpart risk, the rules on limiting risk concentration presented in the regulations and guidelines of the Insurance Supervision Authority have been followed.

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

Net investment income at fair values

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

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

Investment surplus at fair values

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

Provisions and tax liabilities

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

Depreciation

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

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

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

The amount of unfinished computer software capitalised in the balance sheet is € 854,041.98, which is not included in the notes under changes in intangible and tangible assets.

Operating expenses

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

Direct taxes and surplus for the financial year

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

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

Pension arrangements

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

Technical provisions

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

Solvency margin

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

Notes

Notes to the Profit and Loss Account

EUR thousand	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
1. Premiums written				
Direct insurance				
TEL basic insurance				
Employer contribution	519,724	471,988	519,724	471,988
Employee contribution	143,208	130,146	143,208	130,146
	662,932	602,134	662,932	602,134
TEL supplementary pension insurance	2,624	2,638	2,624	2,638
YEL minimum coverage insurance	81,798	74,085	81,798	74,085
YEL supplementary pension insurance	63	70	63	70
Transition premium to the State Pension Fund		212		212
Total Premiums written	747,416	679,139	747,416	679,139
Items deducted from premiums written				
Credit loss on premiums				
TEL	3,295	3,159	3,295	3,159
YEL	1,538	1,345	1,538	1,345
	4,833	4,503	4,833	4,503
2. Claims paid				
Direct insurance				
Paid to pensioners				
TEL basic insurance	471,436	448,889	471,436	448,889
TEL supplementary pension insurance	16,112	16,194	16,112	16,194
YEL minimum coverage insurance	79,480	76,462	79,480	76,462
YEL supplementary insurance	584	605	584	605
	567,612	542,150	567,612	542,150
Paid/refunded clearing of PAYG pensions				
TEL pensions	46,185	31,194	46,185	31,194
YEL pensions	5	-3,290	5	-3,290
	46,190	27,903	46,190	27,903
Paid/refunded joint liability claims	16	-533	16	-533
	613,818	569,521	613,818	569,521
Claims administration costs	5,815	5,750	5,815	5,750
Working capacity maintenance expenses	328	242	328	242
Total claims paid	619,961	575,513	619,961	575,513

Notes to the Profit and Loss Account

EUR thousand	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Net investment income				
3. Investment income				
Income from investments in group companies				
Dividend income			224	
Income from real estate investments				
Interest income				
From group companies			8,122	7,147
Others	1,390	1,146	24	28
Other income	48,854	44,268	44,963	40,775
	50,243	45,414	53,109	47,950
Income from other investments				
Dividend income	25,406	12,869	25,182	12,869
Interest income	112,495	116,183	113,616	117,140
Other income	45,664	21,413	45,664	21,413
	183,566	150,465	184,463	151,421
Total	233,809	195,879	237,796	199,371
Value readjustments	3,362	32,951	3,362	32,951
Gains on realisation	169,596	120,562	168,328	119,311
Total	406,768	349,392	409,487	351,634
4. Investment expenses				
Costs on real estate investments	-18,525	-15,920	-27,468	-23,803
Costs on other investments	-29,698	-15,029	-30,944	-16,247
Interest costs and expenses on other liabilities	-3,766	-1,686	-3,766	-1,686
	-51,990	-32,635	-62,178	-41,736
Value adjustments and depreciation				
Value adjustments	-30,821	-50,243	-30,192	-52,925
Planned depreciation on buildings	-9,254	-12,906	-629	-637
	-40,075	-63,149	-30,821	-53,561
Losses on realisation	-83,186	-51,353	-83,186	-51,353
Total	-175,251	-147,136	-176,186	-146,650
Net investment income before revaluations and their adjustment	231,517	202,255	233,301	204,984
Revaluation on investments				
Net investment income in the profit and loss account	231,517	202,255	233,301	204,984

EUR thousand	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
5. Profit and loss account item operating expenses				
Insurance policy acquisition costs				
Direct insurance remunerations	608	519	608	519
Other insurance policy acquisition costs	6,905	5,895	6,905	5,895
	7,513	6,414	7,513	6,414,
Insurance management costs	9,091	6,864	9,091	6,864
Administration costs	5,676	5,113	5,676	4,996
Total	22,280	18,391	22,280	18,274,
Total operating expenses by operation				
Claims paid				
Expenses related to claims administration	5,815	5,750	5,815	5,750
Working capacity maintenance expenses	319	242	319	242
	6,134	5,992	6,134	5,992
Operating expenses	22,280	18,391	22,280	18,274
Investment expenses				
Costs on real estate investments	1,246	2,051	1,246	1,218
Costs on other investments	4,681	4,130	4,681	4,130
	5,927	6,182	5,927	5,349
Total	34,340	30,565	34,340	29,615
Personnel expenses				
Salaries and bonuses	11,219	10,439	11,219	9,642
Pension expenses	2,589	2,348	2,589	2,184
Other social security expenses	943	868	943	825
Total	14,751	13,655	14,751	12,652
Salaries and bonuses of the management				
Managing Director and Deputy Managing Director	350	458	350	363
Board of Directors	105	97	105	97
Supervisory Board	55	41	55	41
Total	510	595	510	501

Managing Director Lasse Heiniö's salary amounted to € 179,300 and fringe benefits totalled € 25,600. There are no pension commitments for members of the Supervisory Board and the Board of Directors, except the Managing Director and his deputy who are entitled to retire at the age of 60 on the basis of a supplementary pension arrangement in accordance with TEL or other corresponding system. No money loans or guarantees have been granted to members of the Supervisory Board and the Board of Directors.

Fees paid to the auditors

In 2004, Ernst & Young Oy was paid € 106,600 for auditing the accounts of Pension Fennia and the real estates owned by it.

The fees paid for consultation amounted to € 26,300.

Average number of personnel during the financial year	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Office personnel	210	200	210	200
Sales personnel	19	21	19	21
Real estate personnel	6	24	6	4

Notes to the Balance Sheet EUR thousand	Remaining acquisition cost 2004	Book value 2004	Fair value 2004	Remaining acquisition cost 2003	Book value 2003	Fair value 2003
6. Investments at fair value and valuation differences, parent company						
Investments in land and buildings						
Land and buildings	23,208	24,769	29,236	23,643	25,204	28,586
Land and buildings in group companies	143,390	159,140	206,501	130,758	146,509	188,162
Other land and buildings	90,744	93,558	96,956	83,472	86,331	89,963
Loan receivables from group companies	232,572	232,572	232,572	187,882	187,882	187,882
Investments in group companies						
Shares and participations	16,659	16,659	26,312	16,659	16,659	26,312
Other investments						
Equities and shares	1,146,864	1,146,873	1,274,057	838,747	838,756	921,377
Money-market instruments	2,295,613	2,295,613	2,366,459	2,346,456	2,346,456	2,384,349
Loans guaranteed by mortgages	138,432	138,432	138,432	112,107	112,107	112,107
Other loans	118,719	118,719	118,719	143,778	143,778	143,778
Deposits	4,900	4,900	4,900	9,000	9,000	9,000
Option share of an index-bound loan	12,454	12,454	13,217	11,847	11,847	12,803
	4,223,555	4,243,690	4,507,360	3,904,349	3,924,530	4,104,319
The remaining acquisition cost of money-market instruments includes						
The difference between the nominal value and acquisition cost, released or charged to interest income	-5,696			-4,644		
Income from index-bound loans	4,228			3,622		
Book value includes						
Revaluations entered as income	20,135			20,180		
Valuation difference (difference between fair value and book value)			263,670			179,790

EUR thousand	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Other loan receivables itemised by guarantee				
Bank guarantee	30,161	36,768	30,161	36,768
Guarantee insurance	40,238	45,903	40,238	45,903
Insurance policy	6,042	2,025	6,042	2,025
Real estate share	2,605	17,320	2,605	17,320
Other guarantee	28,010	26,205	28,010	26,205
The remaining acquisition cost	107,056	128,222	107,056	128,222
Total pension loan receivables				
Other loans guaranteed by mortgages	6,875	13,013	6,875	13,013
Other loan receivables	37,119	49,692	37,119	49,692
The remaining acquisition cost	43,994	62,705	43,994	62,705
Receivables from group companies				
Other receivables	71		71	

7. Portfolio transfer receivables

Joint liability receivables	1,099	638	1,099	638
Receivables from special receivership's estate	3,183	8,272	3,183	8,272
Total portfolio transfer receivables	4,282	8,910	4,282	8,910

8. Shares and participations in group companies, parent company

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

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

EUR thousand	Shares, %	Book value 31 Dec. 2004	Market value 31 Dec. 2004
9. Other investments, parent company			
Finnish equities and shares			
Alma Media Oyj	0.32	1,338	2,216
Amanda Capital Plc	3.74	1,415	1,511
Amer Group Plc	0.29	2,253	2,679
Arek Oy	4.00	280	280
Comptel Plc	0.47	931	931
Efore Plc	2.07	2,581	2,581
Elcoteq Network Corporation	0.20	591	716
Electrobit Group	0.31	978	1,124
Elisa Corporation	0.27	3,874	4,575
Esy Oy	19.00	288	288
Etteplan Oyj	4.61	1,488	1,650
Exel Oyj	2.63	2,794	3,335
Fibrogen Europe E	1.01	964	964
Finnlines Plc	0.20	1,017	1,045
Fiskars Corporation	0.28	718	1,204
Fortum Corporation	0.24	15,379	27,888
F-Secure Corporation	1.02	2,244	2,773
HK Ruokatalo Oyj	0.14	229	303
Honkarakenne Oyj	1.58	210	298
Huhtamäki Oyj	0.29	3,035	3,599
Ilkka-Yhtymä Group	3.45	3,366	3,366
Imatra Region Development Company	0.35	8	8
International Security Technology Oy	7.64	385	385
IWS International Oy	2.69	679	679
Jaakko Pöyry Group Oyj	0.40	1,060	1,239
KCI Konecranes Oyj	0.04	176	196
Kemira GrowHow Oyj	0.16	471	505
Kemira Oyj	0.31	3,334	3,860
Kesko Corporation	0.18	2,225	3,008
Kone Corporation	0.36	8,727	11,076
Larox Corporation	1.13	377	377
Lassila & Tikanoja Plc	0.30	1,120	1,516
Lemminkäinen Corporation	0.23	600	604
Marimekko Corporation	0.71	841	841
Metso Corporation	0.39	6,023	6,256
Midinvest Oy	10.87	505	505
M-Real Corporation	0.34	5,173	5,173
Nethawk Oy	2.07	3,418	3,418
Nokia Corporation	0.05	27,750	27,750
Nokian Tyres Plc	0.28	1,713	3,343
Okmetic Oyj	2.23	919	919
OP Bank Group	0.68	5,276	5,369
Orion Corporation	0.27	4,078	4,297
Outokumpu Oyj	0.33	7,302	7,896
Perlos Corporation	0.38	1,577	2,395
PKC Group Oyj	0.64	1,055	1,150
Pohjola Group plc	0.26	2,874	3,396
Rapala Normark Group	1.40	2,850	3,068
Rautaruukki Corporation	0.31	3,253	3,772
Rocla Oyj	1.38	369	423
Sampo plc	0.40	18,301	22,665
SanomaWSOY Corporation	0.40	7,083	10,414
Scanfil plc	0.36	1,009	1,009
Sisu Axels Oy	26.20	842	842
SSH Communications	0.42	152	152

EUR thousand	Shares, %	Book value 31 Dec. 2004	Market value 31 Dec. 2004
Stockmann Plc	0.30	2,668	3,489
Stonesoft Corporation	0.17	58	58
Stora Enso Oyj	0.29	26,878	27,730
Suominen Corporation	0.40	380	380
Tamfelt Oyj Abp	0.57	1,235	1,235
Team Botnia Oy	0.93	2	2
Tecnomen Corporation	0.80	618	618
Teleste Corporation	0.70	577	728
TietoEnator Corporation	0.36	6,313	6,967
Tulikivi Corporation	1.34	569	569
Turun Puhelin Oy subscription	1.00		
UPM-Kymmene Corporation	0.30	23,738	25,368
Uponor Oyj	0.31	2,633	3,148
Vaahto Group Oyj	3.15	326	326
Vaasan Puhelin Oy	1.00	1	1
Vaisala Oyj	0.29	737	737
Garantia Insurance Company	3.70	1,521	1,521
Wärtsilä Corporation	0.45	4,849	6,582
YIT Corporation	0.67	5,719	7,521
Foreign non-euro zone equities denominated in euro			
Sweden			
Nordea AB FDR	0.038	5,771	8,228
TeliaSonera AB	0.343	16,059	16,059
Foreign equities not denominated in euro			
Sweden			
AINAX Ab	0.005	37	38
Assa Abloy Ab -B	0.017	620	755
Autoliv Inc SWEDEN SDR	0.011	344	353
Ericsson LM-B	0.005	1,877	1,880
ForeningsSparbanken Ab -A	0.004	337	358
Getinge Ab	0.016	268	275
Gunnebo Ab	0.069	258	277
Hennes & Mauritz Ab B share	0.006	1,042	1,155
Hexagon Ab -B	0.026	140	158
IBS Ab -B	0.131	131	144
Lindex Ab	0.073	214	295
Medivir Ab -b	0.163	203	203
Micronic Laser Systems Ab	0.089	203	259
Nolato Ab	0.191	245	289
Nordea Bank AB (Publ) Sweden	0.005	786	891
Oriflame Cosmetics SA AB	0.034	338	341
Partnertech Ab	0.175	118	151
Q-Med Ab	0.040	201	203
Retail and Brands Ab	0.680	394	452
Sandvik Ab	0.011	807	891
Scania Ab -B	0.020	508	583
Skandia Försäkring Ab	0.015	497	550
Skandinaviska Enskilda Banken Ab -A	0.002	173	214
Skanska Ab -B	0.021	566	707
SKF Ab	0.005	162	164
WM-DATA Ab B	0.035	218	219
Volvo Ab -B	0.008	730	730
Finnish capital trusts			
Aboa Venture II Ky		444	444
Access Capital LP II A		2,396	2,396

EUR thousand	Book value 31 Dec. 2004	Market value 31 Dec. 2004
Access Capital LP II B	626	626
Access Capital LP	5,946	5,946
Bio Fund Ventures I Ky	1,168	1,168
Bio Fund Ventures II Ky	4,256	4,256
Bio Fund Ventures II Jatkosijoitusrahasto Ky	385	385
Bio Fund Ventures III Ky	1,379	1,379
Ecvitec Technology Funde II Ky	2,283	2,283
Etelä-Pohjanmaan Rahasto Ky	168	168
European Fund Investments UK	1,878	1,878
Finnmezzanine Rahasto I Ky	403	403
Finnmezzanine Rahasto II Ky	803	803
Finnmezzanine III Ky	6,860	6,860
Finnventure Rahasto III Ky	712	712
Finnventure Rahasto V Ky	4,473	4,473
Forenvia Venture I Ky	637	637
Garantia PK-lainarahasto I Ky	25	25
Garantia PK-lainarahasto II Ky	63	63
GrowHow Rahasto I Ky	717	717
Helmet SME Ventures Ky	1,092	1,092
Industri Kapital 2000 Ltd	8,389	8,389
Kareliaventure Rahasto Ky	57	57
Lapin Rahasto I Ky	158	158
MB Equity Fund III	1,660	1,660
Metal Fund Ky	315	315
Midinvest Fund I Ky	764	764
Nordic Mezzanine Fund I Ky	1,338	1,338
Nordic Mezzanine Fund II LP	793	793
Profita Fund II Ky	2,092	2,092
Profita Fund I Ky	536	536
Promotion Capital I Ky	581	581
Promotion Equity I Ky	288	288
Savon Kasvurahasto I Ky	304	304
SFK 99 Rahasto Ky	2,552	2,552
Teknoventure rahasto II Ky	418	418
Telecomia Venture I	475	475
Foreign capital trusts not denominated in euro		
Nordic Capital IV Ltd	6,730	6,932
Equity funds		
Aberdeen Int Plc - Asia Pacific Fund	21,073	25,430
Aberdeen Int Plc - China Opportunities Fund	4,603	5,172
ABN AMRO Altern Inv-AsiaPacific		
Multi Strategy Fund	2,500	2,641
ABN AMRO Eastern Europe Equity Fund	4,136	5,609
ABN AMRO Latin American Equity Fund	4,664	5,511
AIG Japan Small Companies Fund plc	4,406	4,735
AXA Rosenberg Equity Alpha Trust -		
Japan Equity Alpha Fund	29,306	30,757
AXA Rosenberg Equity Alpha Trust -		
Pacific ex Japan	9,724	10,005
Blackstone Fifth Avenue Offshore Fund Ltd	18,354	19,106
Carnegie Fund - European Equity	8,554	8,813
Celeres HR Suomi	2,005	2,041
Elite erikoissijoitusrahasto B	2,036	2,657
eQ Arvonkasvattajat A (WIP Value Visions A)	2,000	2,926
eQ Pikkujättiläiset (WIP Small Titans A)	6,000	8,733
eQ Toinen Aalto (2. osuus)	6,000	6,449

EUR thousand	Book value 31 Dec. 2004	Market value 31 Dec. 2004
er Umbrella Fund Ltd -E	5,000	5,070
Fidelity European Aggressive Fund	9,520	11,930
Fidelity European Growth Fund	64,077	81,424
Fidelity European Mid Cap Fund	10,000	10,334
FIM Emerging Europe Sijoitusrahasto	6,500	7,005
FIM India Sijoitusrahasto	5,000	5,325
FIM Russia Sijoitusrahasto	14,092	15,126
FIM Visio Sijoitusrahasto	6,375	7,300
Fondita Nordic Small Cap B	5,940	8,572
Fourton Odysseus rahasto	4,000	4,438
Fourton Stamina rahasto	4,000	4,403
Griffin Eastern European Fund	20,000	21,418
ICECAPITAL European Property Fund	2,000	2,214
JPMorgan Fleming Fund -		
Europe Strategic ValueFund	33,972	36,437
Nordea European Equity Hedge	5,000	5,026
Nordea European Value Fund	10,001	11,084
PW Tactical Allocation Fund Y	3,618	3,618
SA Fund tranche 1	5,000	5,570
SEB Alt Investment Hedge		
Fund of Funds Moderate	20,000	20,681
T. Rowe Price -US large cap growth eq fund	26,948	29,745
T. Rowe Price -US large cap value eq	25,542	29,807
T. Rowe Price -US sml co eq	5,111	7,160
Templeton Latin America Fund	4,772	5,465
VEGA Diversified 2X Fund-		
Investor USD Class of Sha	4,405	4,571
Fixed-income funds		
ABN AMRO High Yield Bond Fund (Euro)	25,001	25,801
Ashmore SICAV Emerging Markets Debt Fund	30,000	32,341
BRG Fund - Convertible Intl	20,000	21,763
BlackRock Global Series Plc -		
High Yield Bond Fund	7,347	8,089
PAM (L) Bonds Higher Yield -C	47,097	51,775
Citi FCP Citibond USD High Yield Fund	7,342	8,038
CLAM Obli Haut Rendement	24,983	26,205
GLG Investments plc -		
Global Convertible UCITS s.M	20,000	21,222
GLG Investments plc -		
Global Convertible UCITS s.N	20,000	21,224
Gyllenberg High Yield Sijoitusrahasto B	10,873	12,471
ING (L) Renta Fund Emerging Markets Debt	25,000	25,838
ING (L) Renta Fund		
Emerging Markets Debt (Local ccy)	49,189	50,848
Julius Baer Multibond - Emerging Bond Fund	30,074	31,106
RG Capital Growth High Yield Bond Fund	9,635	10,855
Schroder Special Situations Fund -		
StrEnhCash EUR	20,000	20,394
Sydinvest Engros Emerging Market Bonds	25,365	26,767
Real estate investment funds		
Tishman Speyer European Strategic		
Office Fund Scots Feeder L.P.	1,642	1,642
Guarantee capital		
Mutual Insurance Company Fennia	3,364	3,364
Other investments total	1,146,873	1,274,057

EUR thousand	Parent Company 2004	Parent Company 2003
Liabilities		
Open derivative contracts		
I Interest rate derivatives		
Option contracts		
Bought options		
Nominal value of underlying instruments	550,000	
Fair value of contracts	2,890	
Set options		
Nominal value of underlying instruments	450,000	
Fair value of contracts	-1,415	
Interest rate swaps		
Nominal value	34,683	35,835
Fair value	2,704	3,358
The market value does not include the transferred interest for the financial year.		
II Currency derivatives		
Forward and future contracts		
Nominal value of underlying instruments	195,701	190,890
Fair value of contracts	9,804	12,389
Closed forward and future contracts		
Nominal value of underlying instruments	22,025	
Fair value of contracts	981	
Open option contracts		
Bought options		
Nominal value of underlying instruments	66,708	
Fair value of contracts	1,233	
Set options		
Nominal value of underlying instruments	133,416	
Fair value of contracts	-929	
Open currency exchange contracts		
Nominal value of underlying instruments	49,189	53,048
Fair value of contracts	5,497	930
III Share derivatives		
Option contracts		
Bought options		
Nominal value of underlying instruments	65,579	6,485
Fair value of contracts	1,828	270
Sold options		
Nominal value of underlying instruments	59,025	
Fair value of contracts	-760	
Investment commitments		
Capital trusts	38,050	51,120
Real estate investment funds	8,358	
Leasing and rent liabilities		
Leasing liabilities in the current financial year	266	253
Leasing liabilities in the future financial years	643	865

EUR thousand	Parent Company 2004	Parent Company 2003
Other contingent liabilities		
Liability for the VAT debt of the tax liability group in accordance with Value Added Tax Act, Section 188	5,629	4,129
Restitution liability for VAT deduction from new buildings and renovation of real estates	106	511
10. Technical provisions		
Premium reserve		
Future pensions	2,473,253	2,319,661
Provision for future bonuses	404,560	351,194
Provision for current bonuses	7,364	4,301
Total premium reserve	2,885,178	2,675,155
Claims reserve		
Current pensions	1,215,812	1,101,506
Equalisation amount	263,892	250,969
Total claims reserve	1,479,704	1,352,475
Total technical provisions	4,364,882	4,027,630
Bonuses		
Provision for current bonuses, 1 Jan.	4,301	5,046
Client bonuses paid during the financial year	-4,199	-4,897
Transfer to provision for current bonuses	7,262	4,151
Provision for current bonuses, 31 Dec.	7,364	4,301
Solvency margin		
Capital and reserves after the proposed distribution of profit	24,574	23,188
Share capital or equivalent funds, profit brought forward, revaluation reserve and central administration account		
Accrued appropriations	250	344
Valuation difference between fair values of assets and book values of balance sheet items	276,404	195,537
Provision for future bonuses	404,560	351,194
Subordinated loans		
Commitments excluded in the balance sheet		
Deferred acquisition costs and intangible assets	-8,524	-8,052
Other items	-565	-2,071
	696,699	560,140
Solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	224,300	200,902
Solvency ratio, %	17.67	15.33
The realised solvency margin/technical provisions used in calculating solvency		
Solvency limit, %	8.53	8.25
Lower limit of the target zone, % 2 x solvency limit	17.06	16.49
Upper limit of the target zone, % 4 x solvency limit	34.13	32.98

EUR thousand		Group 2004		Parent Company 2004
11. Capital and reserves				
Guarantee capital		1,682		1,682
Initial reserve		3,364		3,364
Construction reserve		30		
Revaluation reserve		344		
Non-restricted reserves		17,055		17,055
Profit from the year 2003		980		980
Profit/loss brought forward		-16,514		1,088
Used during the financial year		-1,000		-1,000
Profit for the financial year		3,620		1,406
Total capital and reserves		9,561		24,574
	Number	Book value	Number	Book value
Guarantee capital				
Mutual Insurance Company Fennia	10	1,682	10	1,682
Capital and reserves after proposed profit distribution				
Holders of guarantee capital:				
Guarantee capital		1,682		1,682
Proposed distribution to holders of guarantee capital				
Policyholders after proposed distribution		7,879		22,893
Total		9,561		24,574
Distributable profits				
Profit for the financial year		3,620		1,406
Other distributable reserves				
Other reserves		18,035		18,035
Accumulated profit		-17,514		88
Capital and reserves of accumulated appropriations		-1,122		
Total distributable profits		3,019		19,529

Disposal of profit

The Board of Directors proposes that the EUR 1,406,312.37 surplus for the financial year be disposed as follows:

to be transferred to the contingency reserve	EUR	1,380,000.00
to be transferred to the Board's expense account	EUR	20,000.00
to be retained on the profit and loss account	EUR	6,312.37

Risk Management

Risks related to investment operations and managing them

The Board of Directors confirms the risk management principles concerning investment operations as part of the investment plan and approves the principles on using derivatives. The investment plan determines and describes the goals for security and yield of investment operations, allocation of investment operations and the instruments used, arrangement of foreign currency business, as well as goals for decentralisation and liquidity. The investment plan is updated twice a year.

The selection of the investment strategy is centrally limited by the amount of the company's solvency margin, solvency position, profit margin, and the interest rate required for the liabilities. Optimal return-risk ratio is targeted through decentralisation both at asset category level and inside asset categories. The company's Actuary gives a report on the requirements of the technical provisions to investment operations for the investment plan. The most significant ones are the minimum yield, securing, decentralisation and liquidity requirements. The reaching of the requirement concerning the technical rate of interest is buffered by the provision for future bonuses included in the company's solvency margin.

In monitoring and evaluating the total risk position of investment operations, the most important key figure is the amount of solvency margin proportioned to technical provisions. Another key figure used as an indicator of total risk position is the proportion of solvency margin to the solvency limit in accordance with the regulations. The Board of Directors of the company confirms the permitted limit for this indicator. VaR (Value-at-Risk) calculation, optimisation of the investment portfolio, sensitivity analysis on the sufficiency of the solvency margin, and stress test of solvency are used in making allocation decisions and following the company's total risk position. In addition, the development of realised returns compared with the company's yield requirement is monitored. Stress tests estimate the biggest possible change in share prices or interest rate without going below the limit confirmed by the Board of Directors. The company has a financial risk management group with representatives from finance and investment departments.

Monitoring and evaluation of risks and returns by asset category

In addition to strategic risks, the risk management plan of investment operations describes risks by asset category and the means for managing them. Risks by asset category are managed by following over- and under-weight proportioned to the comparison index. The price risk of equity investments is managed by decentralising the investments geographically and to different investment types and funds. The interest rate risk of bonds and money-market investments is managed by following and changing the modified duration of investments which reflects the sensitivity of change in value of investments when the interest rate changes. Credit risk is managed by decentralising investments to different lines of business and credit classes, and geographically. Protection against direct currency risk is mainly achieved and the risk managed by following the currency position and hedging degree by asset category and by currency. Investments have also been decentralised to alternative investments (capital trusts and hedge funds). Company analyses, customer monitoring and follow-up of loan securities are carried out in connection with client loans. In real estate investments, attention is paid to geographical distribution, division of rent income by line of business, timing of acquisitions, and division of type of use.

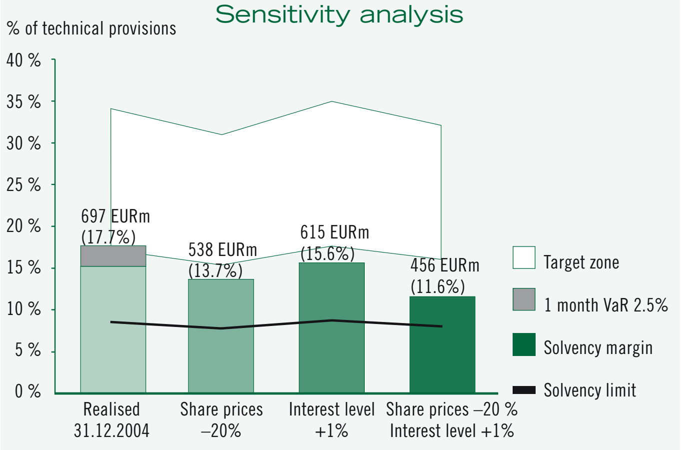
The investment unit follows the development of risks and returns on a daily basis. It reports on risks and returns by asset category, including derivatives, monthly to the Board of Directors and weekly to portfolio managers and members of the Investment Committee.

Pension Fennia's principles on the use of derivatives including risk management of derivatives are part of the company's investment plan. In addition to market risks, the principles take into account the operational and legal risks inherent in derivatives. The company uses derivatives both for hedging purposes and other than hedging purposes. Those derivative types that can be used for the above-mentioned purposes are listed in the principles list by asset category. The hedging contract and the object of hedging are documented in case of both operational hedging and hedging in terms of accounts. Derivative contracts can be made within the limits and decision-making authorities approved by the Board of Directors. The effect of derivatives is included in the return and risk figures and distribution of assets reported to the management and the Board of Directors. The derivative contracts made are also regularly reported.

Risks related to insurance business and managing them

The employees' pension system (TEL) is a defined benefit pension plan. The law guarantees a certain benefit to the beneficiary, part of which is the responsibility of the pension institution, and the rest is funded through the pay-as-you-go system, when the pension falls due. The entrepreneurs' pension system (YEL) is entirely in accordance with the pay-as-you-go system, which means that the insurance contributions are directly used to cover the pension expenditure of that year,

Sensitivity analysis



- The VaR figure is an estimate of the biggest possible change of the value of assets during one month in a normal market situation at probability of 97.5 per cent.
- Sensitivity analyses estimate how a change in share prices or interest level would affect the total risk position.

and the missing share is paid by the state. The present TEL and YEL insurances can also include a statutory supplementary pension arrangement.

According to the statutes, the terms and bases of pension cover are confirmed by the Ministry of Social Affairs and Health, and they are the same for all companies. The law also stipulates about the common technical rate of interest, or yield requirement, which is in practice determined according to the average solvency margin level in the industry. Pension institutions are jointly responsible for the pension liabilities of a bankrupt pension institution.

Pension institutions prepare and apply for the bases for the insurance premium, technical provisions and technical rate of interest together. The insurance risk is therefore significantly managed at system level with, for example, uniform analyses and studies. In an operating environment where the bases of premiums and technical provisions are prepared commonly without differences, a company can continuously produce a loss compared with other companies, for example, due to an exceptional disability incidence rate or structure of administrative costs. In TEL insurance the premium is annually redefined, and consequently, at system level an insufficient premium can be acted on in the following year. Pension Fennia participates in the preparation of calculation bases under management of the Actuary together with the insurance technique function.

In TEL basic insurance Pension Fennia is responsible for the funded parts of old-age, disability and unemployment pensions. If the payment received is not sufficient for funded pension expenditure, the claims expenditure is buffered by the equalisation provision that has been collected for years with lots of claims. The company's equalisation provision is very healthy. Similarly, the state of equalisation provision was so good in all employment pension companies that they were able to reduce the disability part of the TEL premium for 2004 to below the expenditure. Consequently, the result of the company's risk business will be negative in 2004. The TEL supplementary pension insurance also includes equalisation provision which is near its upper limit.

The companies have no choice of risk, because the system is statutory. Nevertheless, Pension Fennia has drawn up instructions on risk selection for the personnel to limit the acquisition of customers with disruptions in payments. The amount of credit losses can also be affected through efficient collection. Because the level of pension provision must be secured in all situations, the equalisation provision includes a part that the company uses to prepare for unpaid premiums.

The company charges an expense loading in connection with TEL and YEL premiums to cover operating costs. If the administrative cost is not sufficient for all operating expenses, the company's result declines. The expense loading has shown a surplus.

Management of operational risks related to business

The operational risks related to business have been identified while drawing up risk management plans, and their administration measures have been recorded in the risk management plans of functions. Operational risks are administered, for example, by separating operations and job descriptions so that dangerous work combinations are not created. As for person risks, an efficient system of substitutes has been developed. Work instructions and process descriptions are maintained. Legal risks are managed either by company lawyers or experts hired from outside. Both legislative and information technology expertise has been fostered with diverse internal and external training in the long term.

Investment decisions are prepared and implemented in investment sections. The market valuation of investment assets and reporting to support operations are the responsibility of securities administration which is part of the investment section. The official yield, solvency and profit margin reporting and limit monitoring is produced in the financial section. The company has a securities process group with representatives from the financial and investment sections. When new investment instruments are introduced, the company draws up a product description that specifies the product's financial and operational risks, including legal risks, and ensures that the functions are capable of administering and monitoring the product.

In order to be better able to respond to the needs and expectations of different-sized client companies, Pension Fennia reorganised the insurance services and customer contacts into a customer line that serves the policyholders according to their size in three segments: small, medium-sized and major accounts. Securing the continuity of operations and processes in a changed situation is in a key position in terms of risk management. In order to secure operation, the company drew up a new management system, updated the instructions and continuously supervised the process of change.

Due to the information-intensive nature of employment pension business, complex information systems are becoming more and more important. The earnings-related pension reform and other legislative changes set great demands for both the company's personnel resources and the development of the system. The schedule for the amendments is tight, and this causes risks that might affect the performance of the core tasks of pension companies if they were realised. These risks are managed, for example, by doing and ordering the work from large combinations of the industry (e.g. Esy Oy, Arek Oy) that can ensure the availability of sufficient resources and the best possible project management methods. At the same time, there have been other operational reform projects underway whose goal is to raise the cost-efficiency of operations. The proceeding of all these projects is carefully monitored in Pension Fennia's own project management.

The information security group has supervised the situation of information risks in the company and is responsible for the production and maintenance of instructions concerning information security. Training in information security is annually arranged for new employees and summer employees. At the beginning of 2005, the company founded a security team whose job description comprises assessing the state of different areas of security and making plans for development thereof.

Key Figures

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

Key figures	2004	2003	2002	2001	2000
Premiums written, € mill.	747.4	679.1	630.3	612.8	539.8
Pensions paid, € mill.	567.6	542.2	513.9	481.6	448.3
Net investment income at fair values, € mill.	312.0	262.7	62.1	4.6	34.3
Yield on invested capital, %	7.4	6.7	1.6	0.1	0.9
Turnover, € mill.	1,161.8	1,035.6	944.0	973.7	960.1
Total operating expenses, € mill.	34.3	29.6	26.8	23.7	20.2
% of turnover	3.0	2.9	2.8	2.4	2.1
% of TEL payroll and YEL reported earnings [1]	0.8	0.7	0.7	0.7	0.6
Total result, € mill.	155.7	141.1	-83.4	-135.3	-84.2
Technical provisions, € mill.	4,364.9	4,027.6	3,741.0	3,638.3	3,341.9
Solvency margin, € mill.	696.7	560.1	437.5	550.2	713.4
% of technical provisions	17.7	15.3	12.7	17.3	24.6
Ratio to the solvency limit	2.1	1.9	2.0	2.1	2.7
Equalisation provision, € mill.	263.9	251.0	239.3	223.0	204.0
Pension assets, € mill.	4,641.3	4,223.2	3,877.7	3,743.7	3,631.0
Transfer to client bonuses, % of TEL payroll [2]	0.24	0.15	0.17	0.25	0.55
Paid client bonuses, % of TEL payroll	0.15	0.18	0.62	0.78	0.63
TEL payroll, € mill.	3,069.2	2,857.9	2,671.1	2,574.6	2,282.2
YEL reported earnings, € mill.	410.8	366.5	312.9	300.4	286.7
No. of TEL policyholders	17,860	16,900	15,920	14,760	14,730
No. of TEL insured	125,660	120,660	115,460	112,800	107,610
No. of YEL policyholders	25,380	23,220	19,380	18,840	18,750
No. of pensioners	72,590	71,590	70,040	68,300	66,620

1) Calculation of the ratio includes total operating expenses without administration costs from investment operations and working capacity maintenance activities.

2) Does not include supplement to the provision for current bonuses.

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

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

Investment operations

Investment distribution	2004		2003		2002		2001		2000	
(includes accumulated interest)	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%
Loans	260.0	5.7	259.1	6.2	259.2	6.8	263.1	7.1	276.7	7.7
Bonds	2,066.1	45.2	1,841.1	44.2	2,195.5	57.2	2,003.3	54.3	1,773.3	49.6
including fixed-income funds	2,460.8		1,933.6		2,195.5		2,157.3		1,873.2	
Other money-market instruments and deposits	368.7	8.1	612.4	14.7	328.1	8.6	95.1	2.6	181.4	5.1
Equities and shares [1]	1,308.1	28.6	959.4	23.0	592.3	15.4	897.3	24.3	968.1	27.1
excluding fixed-income funds	913.4		866.9		592.3		743.3		868.2	
Real estate	564.8	12.4	495.6	11.9	459.9	12.0	427.3	11.6	378.2	10.6
Total investments	4,567.7	100.0	4,167.5	100.0	3,835.1	100.0	3,686.1	100.0	3,577.7	100.0

1) Includes real estate investment funds.

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

Investment income specification and result, EUR million	2004	2003	2002	2001	2000
Direct net income	154.5	145.2	157.9	159.9	153.9
Loans	10.8	11.7	13.8	14.2	14.1
Bonds	89.8	90.6	97.0	96.3	84.6
Other money-market instruments and deposits	6.6	11.0	10.0	8.3	12.6
Equities and shares	26.3	11.8	15.8	19.2	22.8
Real estate	25.0	23.5	21.8	23.7	21.3
Other investments					
Unallocated income, costs and operating expenses	-4.0	-3.4	-0.6	-1.8	-1.5
Changes in book value [1]	76.6	58.6	-127.0	28.3	124.6
Equities and shares	52.4	17.9	-118.1	-10.0	120.4
Bonds	26.3	45.1	-0.6	39.0	1.6
Real estate	0.7	-4.2	-6.3	0.3	2.7
Other investments	-2.8	-0.1	-2.0	-1.0	-0.2
Net investment income at book value	231.1	203.8	30.9	188.2	278.5
Change in valuation differences	80.9	58.9	31.2	-183.6	-244.2
Equities and shares	40.6	80.0	-45.2	-155.2	-269.6
Bonds	34.0	-27.6	73.7	-33.1	21.3
Real estate	6.6	6.7	2.3	4.8	3.7
Other investments	-0.3	-0.3	0.4	-0.1	0.3
Net investment income at fair values	312.0	262.7	62.1	4.6	34.3
Other interest items [2]	-1.0	3.8	-0.4	2.8	3.1
Yield requirement on the technical provisions	-172.7	-141.3	-165.2	-165.5	-143.8
Investment result at book value	57.4	66.3	-134.6	25.5	137.9
Investment result at fair values	138.3	125.2	-103.4	-158.1	-106.4

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

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

Net investment income at fair values

Net investment income at fair values 1.1.–31.12.2004	Net investement income at fair values EURm 2004	Invested capital EURm 2004	Yield on invested capital, % 2004	Yield on invested capital, % 2003	2002	2001	2000
Loans	8.7	248.7	3.5	4.5	4.6	4.9	5.1
Bonds	150.1	2,107.0	7.1	5.1	8.5	5.6	6.9
including fixed-income funds	171.0	2,290.5	7.5	5.2	8.4	5.5	6.9
Other money-market instruments and deposits	5.6	251.2	2.2	2.6	3.7	5.0	4.4
Equities and shares [1]	119.3	1,119.7	10.7	16.4	-18.5	-14.7	-12.2
excluding fixed-income funds	98.4	936.2	10.5	16.4	-19.1	-17.3	-13.1
Real estate	32.3	510.5	6.3	5.6	4.3	7.4	7.8
Total investments	316.0	4,237.2	7.5	6.8	1.7	0.2	1.0
Unallocated income, costs and operating expenses from investment operations	-4.0		-0.1	-0.1	0.0	-0.1	-0.1
Net investment income at fair values	312.0		7.4	6.7	1.6	0.1	0.9

[1] Includes real estate investment funds.

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

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

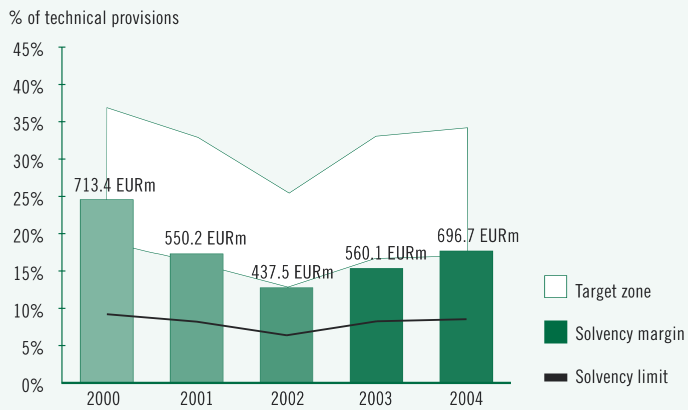
Administration costs from investments are covered from investment income. Pension Fennia has followed the efficiency of the administration of investment operations with the ratio of operating expenses of investment operations and invested capital. This figure is for guidance only, as it does not include,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

Loading profit and total operating expenses, EURm	2004	2003	2002	2001	2000
Insurance business					
Administration costs in insurance premium	32.0	27.2	23.4	22.1	18.6
Operating expenses by operation	28.1	24.0	21.5	19.0	16.5
Other income	0.6	0.9	0.5	0.7	0.5
Loading profit	4.5	4.1	2.4	3.9	2.5
Operating exp./loading profit, %	86.1	85.5	90.0	83.1	86.8
Investment					
Operating expenses from investment	5.9	5.3	5.0	4.5	3.4
% of invested capital	0.14	0.14	0.13	0.12	0.10
Operating expenses from working capacity maintenance	0.3	0.2	0.3	0.2	0.2
Total operating expenses	34.3	29.6	26.8	23.7	20.2

Solvency

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

Solvency margin and its limits (as percentage of the technical provisions used in the calculation of the solvency limit)	2004	2003	2002	2001	2000
Solvency limit	8.5	8.2	6.4	8.2	9.2
Lower limit of the target zone	17.1	16.5	12.7	16.4	18.4
Upper limit of the target zone	34.1	33.0	25.5	32.8	36.8
Solvency margin	17.7	15.3	12.7	17.3	24.6



Performance analysis for the financial year

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

The insurance business result is directly affected by the structure of the insurance portfolio, and the result indicates how well insurance premiums have covered the costs resulting from contingencies. The annually realised positive result from insurance under TEL is entered in the equalisation provision, and the negative result is covered from the equalisation provision.

The company's solvency was accumulated by transferring € 53.4 million to provision for future bonuses, including a portfolio transfer of € 0.6 million and € 0.5 million of amortisation of supplement to the provision for current bonuses. A total of € 7.3 million was transferred to provision for current bonuses.

Performance analysis, EUR million	2004	2003	2002	2001	2000
Sources of surplus					
Insurance business surplus	12.9	11.9	17.6	19.0	19.7
Investment surplus at fair values	138.3	125.2	-103.4	-158.1	-106.4
+ Net investment income at fair values	312.0	262.7	62.1	4.6	34.3
+ Other interest items [1]	-1.0	3.8	-0.4	2.8	3.1
- Yield requirement on technical provisions	-172.7	-141.3	-165.2	-165.5	-143.8
Loading profit	4.5	4.1	2.4	3.9	2.5
Total surplus	155.7	141.1	-83.4	-135.3	-84.2
Distribution of surplus					
Change in solvency	148.5	137.0	-92.5	-141.6	-96.6
Change in equalisation provision	12.9	11.7	16.2	19.0	19.8
Change in solvency margin	135.5	125.3	-108.7	-160.6	-116.4
Change in provision for future bonuses	53.4	65.4	-141.2	28.1	132.9
Change in valuation differences	80.9	58.9	31.2	-183.6	-244.2
Change in accrual of closing entries	-0.1	0.0	0.1	-6.4	-6.4
Profit for the financial year	1.4	1.0	1.2	1.2	1.4
Transfer to client bonuses	7.3	4.2	4.5	6.3	12.5
Complementing provision for current bonuses [2]	-	-	4.5	-	-
Total	155.7	141.1	-83.4	-135.3	-84.2

[1] Includes such interest items that are not entered under investment income.
[2] On 31 December 2004, there was € 3.6 million of supplement to the provision of current bonuses paid in 2002 left to be amortised.

Reader's Guide to Key Figures

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

Assets covering technical provisions The company's assets are divided into eight groups based on the solvency of investments. The maximum share that it can cover of the technical provisions has been determined for each group. The assets covering technical provisions are normally valued at fair values. In addition, the largest municipal, real estate and corporate risk concentrations and individual risk concentrations are monitored. A maximum proportion of technical provisions has been determined for each type of risk concentration.

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

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

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

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

Investment surplus at fair values
Calculated as follows: book value of investment surplus plus change in valuation differences of assets.

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

Loading profit Loading profit is calculated as follows: expense loading, collected for covering operating expenses, less operating expenses, excluding investment management expenses. Therefore the bases for the determination of the expense loading also affect the loading profit.

Net investment income at fair values Calculated on investment classes corresponding to asset distribution, time- and money-weighted. Derivatives are taken into account according to their nature by asset class. In addition, net investment income takes into account the unallocated income and expenses entered under investment income, as well as operating expenses.

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

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

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

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

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

Solvency The follow-up of adequacy of an employment pension company's solvency is based on the scrutinising of theoretical risks. The central quantity is the solvency limit. The operations of an employment pension company are not limited by supervisory measures of the authorities, if the solvency margin is above the solvency limit, although a separate target zone has also been determined for solvency margin. The lower limit of the target zone (early warning) is twice and the upper limit four times the solvency limit. The minimum amount of the solvency margin is two thirds of the solvency limit. The solvency limit and the limits of the target zone are defined as percentages of the company's technical provisions. The riskier the company's asset distribution, the higher the solvency limit and the larger solvency margin it requires.

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

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

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

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

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

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

The Board of Directors' Proposal on the Disposal of Profit

The Board of Directors proposes that the € 1,406,312.37 surplus for the financial year be disposed as follows: € 20,000 be reserved for the public good or similar purpose, € 1,380,000.00 be transferred to the contingency reserve, and € 6,312.37 be retained on the profit and loss account. Pension Fennia group's distributable assets for the financial year amount to € 3,018,648.61. No interest is paid on the guarantee capital for the year 2004.

Helsinki 8 March 2005

Eero Lehti

Pertti Parmanne	Lasse Heiniö Managing Director	Seppo Riski
Ernst Gylfe	Ilkka Joenpalo	Heikki Kauppi
Olavi Nieminen	Heikki Ropponen	Pekka Sairanen
		Mikko Karpoja Fellow of the Actuarial Society of Finland, Actuary in accordance with Chapter 18, Section 8 of the Insurance Companies Act

Auditors' Report

To the Shareholders of Mutual Insurance Company Pension Fennia

We have audited the accounting records, the financial statements and the administration of Mutual Insurance Company Pension Fennia for the financial year 1 January – 31 December 2004. The financial statements, which include the report of the Board of Directors, consolidated and parent company profit and loss accounts, balance sheets and notes to the financial statements, were prepared by the Board of Directors and the Managing Director. Based on our audit we submit the following statement on the financial statements and the administration of the company.

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

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

The financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, and of their financial position. We recommend that the financial statements, including the consolidated financial statements, can be adopted, and the Supervisory Board, the Board of Directors and Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors on the disposal of the surplus is in compliance with the Insurance Companies Act.

Helsinki 21 March 2005

Per-Olof Johansson
Authorised Public Accountant

Marja Tikka
Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board of Mutual Insurance Company Pension Fennia has handled the company's financial statements and consolidated financial statements for the year 2004, and the auditors' report. The Supervisory Board has found no cause for criticism concerning them.

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

Helsinki 5 April 2005

On behalf of the Supervisory Board

Markku Koskenniemi
Chairman of the Supervisory Board

Official financial statements

The company's official financial statements and consolidated financial statements can be viewed at Pension Fennia's head office, address Kansakoulukuja 1, 00100 Helsinki.

Corporate Governance

Pension Fennia is an employment pension insurance company, and in addition to the Act on Employment Pension Insurance Companies its administration and supervision are governed by the Insurance Companies Act and the Companies Act, as well as statutes, regulations and instructions given by virtue thereof.

The company's operational elements are the Annual General Meeting, the Supervisory Board, the Board of Directors and the Managing Director. When the employment pension acts were passed in the early 1960's, the labour market organisations played a key role, and they have statutory representation in the administration of employment pension companies.

The Board of Directors of Pension Fennia approved the instructions concerning the company's corporate governance and good administrative practice on 25 August 2004. The instructions are based on the corporate governance regulations for listed companies which are followed either as such or as applicable to a TEL company.

Owners

Pension Fennia is a mutual insurance company whose owners are the policyholders with a valid insurance in the company in accordance with the Employees' Pensions Act or Self-employed Persons' Pensions Act. Furthermore, owners are the insured covered by each policy under the Employees' Pensions Act as a collective group, and owners of the guarantee capital.

Annual General Meeting

The absolute power of decision in Pension Fennia is exercised by the owners in the shareholder's meeting. In the Annual General Meeting the policyholders and owners of the guarantee capital are entitled to vote. In addition, an elected representative of the insured under each TEL policy has the right to vote.

Detailed information on the division of the voting rights can be found in Pension Fennia's Articles of Association that is available on the company's website at www.elake-fennia.fi.

Pension Fennia's Annual General Meeting was held on 27 April 2004.

Supervisory Board

Pension Fennia has a Supervisory Board in accordance with the Act on Employment Pension Insurance Companies.

The Annual General Meeting elects 28 members to the Supervisory Board for three years at a time, so that a maximum of ten members resign each year. Seven members are elected from among candidates named by major employer organisations and seven from among candidates named by major employee organisations.

The duties of the Supervisory Board are listed in the law and in the Articles of Association. In its meeting on 23 November 2004, the Supervisory Board approved an operating procedure for itself that describes the composition of the Supervisory Board, its duties, the issues related to arranging a meeting of the Supervisory Board, as well as the composition and tasks of the Labour Committee.

The Supervisory Board supervises the company's administration by the Board of Directors and the Managing Director. Other duties of the Supervisory Board are:

- To elect the members and deputy members of the Board of Directors
- To elect Chairman of the Board of Directors and one or more Deputy Chairmen for one calendar year at a time
- To confirm the remuneration to the Chairman, Deputy Chairmen, members and deputy members of the Board of Directors
- To submit its statement to the Annual General Meeting concerning financial statements, consolidated financial statements and the auditors' report
- To confirm the principles of the company's investment plan annually
- To decide on any major reductions or expansions in the company's operations and on major organisational changes, and
- To advise the Board of Directors in matters of great importance.

The Supervisory Board convened twice in 2004. On average 70 per cent of the members participated in the meetings. According to a decision of the Annual General Meeting, the annual fees paid to the members of the Supervisory Board were: Chairman € 3,000, Deputy Chairmen € 1,800, and members € 1,200. Meeting fee was € 260 per meeting.

Labour Committee of the Supervisory Board

The Supervisory Board is assisted by an annually elected Labour Committee that comprises of the Chairman of the Supervisory Board, two Deputy Chairmen and four other members. Two of the members of the Labour Committee shall represent employer organisations and two shall represent employee organisations. The tasks of the Labour Committee include:

- To make a proposal on appointing freely elected members and deputy members of the Board of Directors
- To make a proposal on appointing the Chairman and Deputy Chairmen of the Board of Directors and the Supervisory Board
- To make a proposal on remuneration to the Chairmen, members and deputy members of the Board of Directors
- To review the Board of Directors' proposal on the principles for drawing up the company's investment plan and to make a proposal on confirming them.

Board of Directors

Pension Fennia Board of Directors comprises of ten ordinary members and four deputy members. The Supervisory Board elects the members and deputy members of the Board of Directors for three years at a time so that a maximum of four ordinary members resign annually. Three ordinary members and one deputy member of the Board of Directors are elected from among candidates suggested by major employer organisations and three ordinary members and one deputy member from among those suggested by major employee organisations. The Supervisory Board elects the Chairman of the Board of Directors and two deputy Chairmen for one calendar year at a time.

According to the law, members of the Board of Directors must be people with a good reputation who have sufficient knowledge of the employment pension insurance business. There must also be sufficient knowledge of investment operations in the Board of Directors.

The Board of Directors convenes by invitation of the Chairman usually once a month and constitutes a quorum when more than half of the members are present.

In its meeting on 25 August 2004, Pension Fennia Board of Directors founded the Appointment and Remuneration Committee and Audit Committee and determined the duties of the committees. In the same meeting the Board of Directors approved an operating procedure for itself which describes the practical work of the Board of Directors and gives instructions for that. In addition to the duties of the Board of Directors, the operating procedure describes the meeting practices of the Board of Directors, tasks and compositions of the committees, and the reports and reviews to be handled in the meetings of the Board of Directors.

The Board of Directors shall manage the company with professional skill and according to cautious business principles together with the Managing Director. The Board of Directors' general task is to take care of the company's administration and appropriate arrangement of operations. In principle, the Board of Directors is responsible for all the tasks that are not directed to other operational elements of the company or that do not belong to the authority of other operational elements due to their nature.

The Articles of Association and the operating procedure of the Board of Directors list the tasks of the Board of Directors in addition to those mentioned above. These include:

- To appoint and give notice to the Managing Director and Deputy Managing Director, Actuary, directors and deputy directors
- To decide on convening the shareholders' general meeting
- To decide on the company's goals and strategy
- To decide on the general structure of the company's organisation, unless the Supervisory Board has the power of decision
- To draw up the financial statements
- To make a proposal to the Supervisory Board on the principles for drawing up the company's investment plan
- To decide on the company's investment plan and the power of decision related thereto
- To decide on the company's investment operations for the part that has not been delegated
- To approve the risk management plan concerning all operations of the company
- To assess annually whether the company's internal supervision is appropriately arranged
- To decide on reward systems of the personnel
- To decide on confirming the rules of the company's consultative committees, election of members and remuneration to the members.

The Board of Directors evaluates its own operations and ways of working once a year with the goal to develop and improve the work of the Board of Directors.

Pension Fennia Board of Directors convened ten times in 2004. On average 93 per cent of the members participated in the meetings. In accordance with a decision by the Supervisory Board, the annual remuneration to members not employed by the company was as follows: Chairman € 11,000, Deputy Chairmen € 7,000, ordinary members € 6,000 and deputy members € 3,000. Meeting fee was € 300 per meeting.

Committees of the Board of Directors

Appointment and Remuneration Committee

The Appointment and Remuneration Committee and Audit Committee make proposals to the Board of Directors on tasks ordered for them. The committees do not have power of decision.

The Appointment and Remuneration Committee is formed by the Chairman and Deputy Chairmen of the Board of Directors. The task of the committee is to appoint the Managing Director and his deputy and to prepare, plan and develop the remuneration and appointment issues of directors appointed by the Board of Directors. The proposals of the Appointment and Remuneration Committee are decided on by the Board of Directors.

Audit Committee

The Audit Committee comprises of three members of the Board of Directors elected from among themselves; one of them is elected from the members representing employer organisations and one from members representing employee organisations and one from other members of the Board of Directors. The Board of Directors appoints the Chairman of the committee. The task of the Audit Committee is to monitor the company's financial situation, financial reporting, the sufficiency and appropriateness of internal supervision and risk management, and to handle the plans and reports of internal control. The committee reports to the Board of Directors.

Management

Managing Director and his deputy

The Managing Director and his deputy are appointed by the Board of Directors. The Managing Director takes care of the company's current administration according to the advice and instructions by the Board of Directors. The Managing Director's deputy acts as the Managing Director, when the Managing Director is prevented from attending to his duties.

Executive Group and Investment Committee

The Executive Group that consists of directors appointed by the Board of Directors and a personnel representative assist the Managing Director in the company's operative management and planning of operations. The Executive Group participates in preparing for the Board of Directors, for example, the issues related to the company's strategy, budgeting and organisation.

The Investment Committee handles the important investment issues to be decided on by the Managing Director and the proposals on investments and the investment to be decided on by the Board of Directors.

Insider administration

Pension Fennia follows instructions on insider trading approved by the Pension Fennia Board of Directors. The instructions on insider trading are based on the recommendations of the Federation of Finnish Insurance Companies. In drawing up the instructions of the Federation of Finnish Insurance Companies, the instructions on insider trading of the Helsinki Exchanges and the Finnish Association of Securities Dealers and stipulations of the Financial Supervision were taken into account.

Pension Fennia's instructions on insider trading include instructions for temporary and project-specific insiders, organising of insider administration, and the methods to be used. Pension Fennia's permanent insiders include all the persons who act directly with investment operations, as well as the persons who, according to their job description, have an opportunity to receive insider information regularly.

The instructions on insider trading explain e.g. the prohibition to abuse insider information, and they also set a prohibition of short-term trading.

Pension Fennia's insider register is maintained by the company's Legal Affairs function.

Board of Directors 1 January 2005

Chairman:

Eero Lehti [1]

Born 1944, Master of Social Sciences

Chairman of the Board

Taloustutkimus Oy

Chairman of the Board of Fennia, Chairman of the Board of Fennia Life, Chairman of the Federation of Finnish Enterprises, member of the Supervisory Board of OKO Bank Group, member of the Economic Council, member of the Board of the National Technology Agency of Finland TEKES, member of the European Economic and Social Committee

Membership began on 1 July 1998

Term ends on 31 December 2006

Deputy Chairmen:

Pertti Parmanne [1]

Born 1946, Master of Social Sciences

Director, Central Organization of Finnish Trade Unions

Chairman of the Board of Social Insurance Institute, Deputy Chairman of the Board of the Unemployment Insurance Fund, Chairman of the Labour Institute for Economic Research, member of the economic committee of the Evangelical Lutheran Church

Membership began on 1 July 1998

Term ends on 31 December 2006

Seppo Riski [1]

Born 1943, Master of Laws, Senior Lawyer

Director, Confederation of Finnish Industries EK

Member of the Representatives of the Finnish Centre for Pensions, member of the ILO Consultative Committee, member of the Supervisory Board of the Education Payments Fund, member of the Council for Labour Affairs, Chairman of the Board of the Unemployment Insurance Fund.

Deputy member from 1998 – 2003

Ordinary member as of 1 January 2004

Terms ends on 31 December 2006

Representatives of the employer organisations:

Ernst Gylfe

Born 1944, Engineer

Chairman of the Board, Helsingin Villakehräämö Oy

Member of the Board of Fennia, Deputy Chairman of the Board of Julius Tallberg-Kiinteistöt Oyj

Membership began on 1 January 2004

Term ends on 31 December 2006

Heikki Ropponen [2]

Born 1948, Master of Laws, M.Sc. (Econ. & Bus. Adm.)

Deputy Managing Director, Federation of Finnish Trade

Member of the Representatives of the Finnish Centre for Pensions, Chairman of Helsingin Kauppiaitten yhdistys association, member of the training board of the Finnish Employers' Management Development Institute, member of the Supervisory Board of the Education Payments Fund, member of the representative committee of Lifim Ltd

Membership began on 1 July 1998

Term ends on 31 December 2005

Representatives of the employee organisations:

Ilkka Joenpalo

Born 1945, grammar school, technical school

Chairman, Union of Salaried Employees TU

Member of the Town Council of Forssa, Deputy Chairman of the Finnish Confederation of Salaried Employees, member of the Board of Nordic Metal, member of the Board of European Metal, member of the Board of the Unemployment Fund of Industrial Employees, member of the Board of PAY

Membership began on 1 July 1998

Term ends on 31 December 2005

Heikki Kauppi [2]

Born 1955, M.Sc. (Eng.)

Director, the Finnish Association of Graduate Engineers TEK

Deputy Chairman of the Board of the Confederation of Unions for Academic Professionals in Finland, Deputy Chairman of the Board of YTN, deputy member of the Board of POHTO

Membership began on 1 July 1998

Term ends on 31 December 2005

Other members of the Board of Directors:

Lasse Heiniö

Born 1951, Master of Science, Fellow of the Actuarial Society of Finland

Managing Director, Pension Fennia Mutual Insurance Company

Member of the Board of the Finnish Pension Alliance TELA, member of the Board of Fennia Life

Membership began on 1 June 2001

Term ends on 31 December 2007

Olavi Nieminen [2]

Born 1952, Optician

Managing Director, Oy Finnsusp Ab

Chairman of the Labour Market Committee of the Federation of Finnish Enterprises, Chairman of the Board of Suomen Optisen Alan Tiedotuskeskus

Membership began on 1 July 1998

Term ends on 31 December 2007

Pekka Sairanen

Born 1957, M.Sc. (Econ. & Bus. Adm.)

Managing Director, Domus Yhtiöt Oy

Member of the Board of the Confederation of Finnish Industries EK, member of Enterprise Policy Group, member of the Board of Family Business Network Finland, Deputy Chairman of Rakennustuoteteollisuus RTT, Chairman of Puusepänteollisuus ry

Membership began on 1 July 1998

Term ends on 31 December 2005

Deputy members:

Tarkko Jousi
Born 1947, Licentiate of Laws, Senior Lawyer
Deputy Managing Director, Pension Fennia Mutual Insurance Company
Membership began on 1 January 2002
Term ends on 31 December 2007

Hannu Ketola
Born 1947, Master of Social Sciences
Managing Director, Fennia Mutual Insurance Company
Member of the Board of Fennia Life, deputy member of the Board of Fennia
Membership began on 1 January 2003
Term ends on 31 December 2006

Rauno Mattila
Born 1946, Electronics Technician
Trafotek Oy
Member of the Board of Fennia, member of the Board of the Confederation of Finnish Industries EK, member of the Board of the Confederation of Finnish Industry and Employers, Deputy Chairman of the Board of Technology Industries of Finland, member of the Supervisory Board of Finpro
Membership began on 1 January 2004
Term ends on 31 December 2006

Timo Vallittu
Born 1953, elementary school
Chairman, Chemical Workers' Union
Member of the Representatives of the Finnish Centre for Pensions, member of the Supervisory Board of OP Bank Group
Membership began on 1 January 2004
Term ends on 31 December 2006

1) Member of Appointment and Remuneration Committee

2) Member of Audit Committee

Management 1 January 2005

Lasse Heiniö (1, (2
Managing Director
Born 1951, Master of Science,
Fellow of the Actuarial Society of Finland
Member of the Board of Pension Fennia, deputy member of the Board of Fennia, member of the Board of Fennia Life, member of the Board of the Finnish Pension Alliance TELA

Tarkko Jousi (1, (2
Deputy Managing Director, Managing Director's deputy
Born 1947, Licentiate of Laws, Senior Lawyer
Strategic partnerships, corporate administration, legal affairs, communication and planning
Deputy member of the Board of Pension Fennia

Matti Carpén (1
Director
Born 1960, Master of Science (Eng.)
Customer sector: Customer and Partner Relations, Customer Services, Marketing, Electronic Channels and Services

Eeva Grannenfelt (1, (2
Director
Born 1958, Master of Science (Econ. & Bus.Adm.), CEFA.
Investment: Capital Markets
Deputy member of the Board of Pension Fennia, member of the Consultative Committee of Investment Affairs of the Finnish Pension Alliance TELA.

Irmeli Heino (1, (2
Director
Born 1951, Master of Science
Insurance Technique, Controller Operations; Financial Services

Helvi Leinonen (1
Director
Born 1945, Master of Science
Pension sector: Pension Services, Pension Counselling

Timo Stenius (1, (2
Director
Born 1956, Master of Science (Eng.)
Investment: Customer Finance and Real Estates

Jukka Vainio (1
Director
Born 1946, Master of Social Sciences
IT Services and Development, Personnel and Internal Services
Deputy chairman of the Board of Oy ESY Ab.

1) Member of the Executive Group 2) Member of the Investment Committee

Consultant Physicians:

Seppo Mattila
Medical Director
D.Med.Sc., Specialist in Internal Medicine, special qualifications in insurance medicine

Hans Fredriksson
Consultant Physician
D.Med.Sc., Specialist in Occupational Health Care and Psychiatry, special qualifications in insurance medicine

Timo Honkanen
Consultant Physician
Lic.Med., Specialist in Internal Medicine, special qualifications in insurance medicine

Tapio Ropponen
Consultant Physician
Lic.Med., M.Soc.Sc., Occupational Health Care Doctor, special qualifications in insurance medicine

Supervisory Board 1 January 2005

Chairman:
Markku Koskenniemi, born 1942
Chairman of the Board
Tammerneon Oy

Deputy Chairmen:
Harri Kainulainen, born 1947
Managing Director
Local Insurance Mutual Company

Eino Rajamäki, born 1939
Chairman of the Board
Seinäjoen Varaosakeskus Oy

Representatives of employer organisations:
Lars Gästgivars, born 1946
Oy Vallonia Ab

Tapio Liinamaa, born 1945
Managing Director
Härmän Kuntokeskus ry

Seppo Matikainen, born 1947
Managing Director
WM-data Oy

Arto Pohto, born 1956
Managing Director
Finn-Power Oy

Hannu Riihelä, born 1947
Special Advisor
Eiri Oy

Jukka Tikka, born 1953
Managing Director
Länsi-Savo Oy

Kalevi Vuorisalo, born 1945
Managing Director
Teknikum Oy

Representatives of employee organisations:
Sirpa Järvinen, born 1948
Digital printing employee
Metrix Tähtityöt Oy

Markku Markkula, born 1950
Director
TKK Dipoli

Håkan Nystrand, born 1955
Chairman
METO – Forestry Experts' Association

Tuovi Orpana, born 1954
Director
Unemployment Fund of Industrial Employees

Matti Putkonen, born 1950
Communication Manager
The Finnish Metalworkers' Union

Marjaana Valkonen, born 1952
Director
Central Organization of Finnish Trade Unions, International Department

Anssi Vuorio, born 1965
1st deputy Chairman
Service Union United PAM

Other members of the Supervisory Board:
Heimo Aho, born 1949
Chairman of the Board
SKS-tekniikka Oy

Kaj Ericsson, born 1943
Managing Director
Harry Schaumans Stiftelse

Tauno Jalonen, born 1945
Managing Director
Suomen Yrittäjien Sypoint Oy

Pentti Jussila, born 1949
Managing Director
Kuljetusliike Ilmari Lehtonen Oy

Tapio Juusela, born 1947
Managing Director
RTK-Palvelu Oy

Mirja-Leena Kullberg, born 1962
Brand Manager
Nanso Oy

Lasse Murto, born 1943
Managing Director
A-Clinic Foundation

Heikki Rinta-Rahko, born 1949
Managing Director
Kurikan Keskus-Optiikka Ky

Lasse Savonen, born 1951
Managing Director
AstraZeneca Oy

Mikael Silvennoinen, born 1956
President
OP Bank Group

Antti Tiitola, born 1967
Managing Director
LIDL Suomi Ky

Advisory Boards 1 January 2005

PENSIONS ADVISORY BOARD

Chairman:
Jukka Vainio
Director
Pension Fennia

Deputy Chairman:
Seppo Mattila
Medical Director
Pension Fennia
Specialist member

Jesper Eiskonen
Master of Laws
Finnish Confederation of Salaried Employees

Ralf Forsèn
Master of Laws
The Finnish Association of Graduate Engineers TEK

Raimo Kärnä
Industrial Safety Officer
The Finnish Metalworkers' Union

Mikko Räsänen
Senior Advisor
Employers' Confederation of Services industries in Finland

Hannu Saimanen
Director
Wood and Allied Workers' Unemployment Fund

Markus Äimälä
Master of Laws
The Confederation of Finnish Industries EK

THE CONSULTATIVE COMMITTEE OF THE INSURED

Chairman:
Esa Ikkelä
Project Manager
Are Oy

Deputy Chairman:
Arvi Tuomarmäki
Electrician
Hella Lighting Finland Oy

Senja Hakola
Airworthiness Engineer
Blue1 Oy

Sinikka Hyyppä
Warehouse employee
Kokkolan Halpa-Halli Oy

Helena Joenkoski
Product assembler
Kemppi Oy

Toivo Juntunen
Purchasing Manager
Kemppi Oy

Saija Kaven
Ward nurse
Vantaan Vinkki

Minna Kettunen
Saleswoman, shop steward
H&M Hennes & Mauritz Oy

Lassi Tapio Kirjavainen
Stonework employee
Tulikivi Corporation

Maija Levonpää
Woodwork employee
Domus Yhtiöt Oy

Jouko Malinen
Senior Systems Analyst
WM-data Oy

Jukka Mandelin
Personnel advisor
Kemppi Oy

Marja Mielonen
Dressmaker
Pola Oy

Heli Mäkinen
Baker
Primulan Leipomot Oy

Kirsi Palvanen
Payroll calculator
Foxconn Oy

Raimo Rautanen
Lorry driver
Suomen Kiitoautot Oy

Seppo Rosendahl
Supervisor
Uusimaa Oy

Tom Roth
Planner
Suomen Turistiauto Oy

Helena Saarinen
Printing plant employee
Libris Oy

Kauko Kalervo Sarha
Social therapist
A-Clinic Turku

CONSULTATIVE COMMITTEE OF MAJOR ACCOUNTS

Chairman:
Juhani Enkovaara
Managing Director
Eho Oy

Deputy Chairman:
Antti Aho
Managing Director
Helsingin Lääkärikeskus Oy

Martti Ala-Härkönen
Director
WM-data Oy

Göran Cedercreutz
Managing Director
Viktor Ek Oy Ab

Rabbe Grönblom
Chairman of the Board
Kotipizza Oyj

Jarmo Halonen
Managing Director
Elecster Oyj

Björn Hartman
Managing Director
Oy C.J. Hartman Ab

Reijo Jokela
Managing Director
Suomen Broiler Oy

Tuomo Järvinen
Chairman of the Board
Esski Oy

Erkki Kaijasilta
Managing Director
T-Drill Oy

Jouko Karttunen
Managing Director
Tiliaktiiva Oy

Jyrki Kaskinen
Managing Director
Raskone Oy

Esko Keskinen
Director
Technology Industries of Finland

Björn Kolster
Chairman of the Board
Oy Kolster Ab

Juha Kumara
Managing Director
Töölön Matkatoimisto Oy

Heikki Lamminaho
Managing Director
Are Oy

David Lindström
Deputy Managing Director
Blue1 Oy

Ulla Matsi-Koistinen
Financial Director
Taloustutkimus Oy

Esko Miikkulainen
Managing Director
Salon Seudun Puhelin Oy

Martti Paunu
Managing Director
Väinö Paunu Oy

Kauko Piiroinen
Financial Counsellor
OVL Tekniikka Oy

Vesa Pollari
Managing Director
Selecta Oy

Markku Pulliainen
Managing Director
Exel Logistics Oy

Raimo Puustinen
Managing Director
Pohjois-Karjalan Kirjapaino Oyj

Lauri Ranki
Managing Director
Dunlop Hiflex Oy

Olavi Rantala
Managing Director
Hella Lighting Finland Oy

Juha Rostedt
Managing Director
Canncolor Oy

Irmeli Rytkönen
Managing Director
Gigantti Oy

Klaus Saarikallio
Managing Director
Normek Oy

J. Pentti Siikarla
Managing Director
Yrittäjien Oikeussuoja Oy

Kaj Ström
Managing Director
Oy Motoral Ab

Seppo Suuriniemi
Managing Director
Vammalan Konepaja Oy

Esko Torssonen
Managing Director
Suomen Kiitoautot Oy

Juha Valkamo
Managing Director
Oy Primula Ab

Olli Vilppunen
Managing Director
LSK Electrics Oy

Pension Fennia

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