Ilmarinen Mutual Pension Insurance Company

ilmari

Annual Report 2004

ILMARINEN

Index

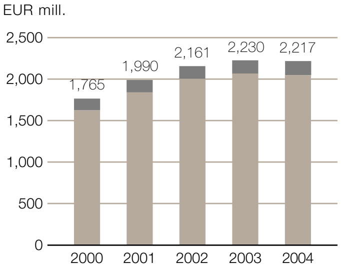
Ilmarinen's mission is to safeguard the statutory pension provision of employees and self-employed persons.

KEY FIGURES

	2004	Change, %	2003	2002	2001	2000
Premiums written, EUR mill.	2,217.3	–0.6	2,229.6	2,160.9	1,989.6	1,764.8
Pensions paid out, EUR mill. [1]	1,933.1	1.7	1,901.7	1,855.3	1,642.2	1,481.7
Aggregate operating expenses, EUR mill.	87.7	10.5	79.4	70.6	60.6	56.7
Technical provisions, EUR mill.	16,375.6	7.2	15,275.0	13,863.5	13,519.6	12,954.5
Balance sheet total at current value, EUR mill.	18,050.5	9.6	16,475.0	14,933.6	14,737.5	14,685.4
Solvency capital, EUR mill.	3,597.8	21.9	2,951.2	2,243.1	2,940.8	3,749.3
% of technical provisions	25.6		22.3	18.1	25.5	35.4
relative to solvency border	2.3		2.2	1.9	2.3	3.4
Investment, EUR mill.	17,635.6	10.3	15,985.5	14,520.6	14,331.6	14,249.1
Investment income at current value, %	7.8		8.7	–0.5	–1.2	2.8
Pension recipients	239,511	1.5	235,965	231,056	224,849	218,932
TEL policies	31,572	–1.1	31,927	31,689	31,982	32,351
Employees insured under TEL	349,000	–4.1	364,000	359,000	351,000	335,000
YEL policies	49,580	–0.2	49,696	49,322	49,386	49,938
Personnel, December 31	731	5.0	696	666	641	603

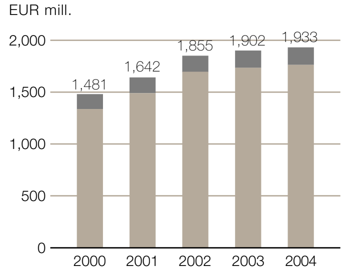
[1] Includes the pay-as-you-go component.

Premiums written



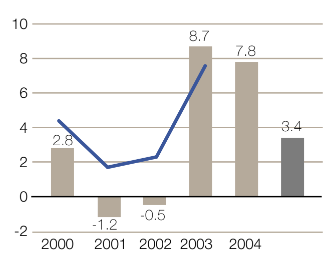
YEL policies
TEL policies

Benefits paid out



YEL
TEL

Net investment income, at current value



Ilmarinen's annual income
Other TEL companies on average
Average 5-year return for Ilmarinen

A good year for Ilmarinen

Ilmarinen's results for 2004 were based on favourable trends in the Finnish and the global economy.

The excellent sales figures for new insurance policies were the best Ilmarinen has had for years. However, the amount of premiums written remained at the 2003 level due to the loss of a major client and stood at EUR 2.22 billion. Pensions paid stood at EUR 1.93 billion.

The positive trends in the equity market brought Ilmarinen an investment result of 7.8%. This strengthened the company's solvency even further, increasing solvency capital – the solvency buffer for investments – by EUR 650 million to EUR 3.6 billion. Client bonus transfers rose to EUR 45 million.

'As pioneers, we are also responsible for the entire Finnish pension security system.

JOINT EFFORTS IN EMPLOYMENT PENSION SECURITY

Improvements in Finnish employment pension cover are the result of the joint efforts of the government, the labour market organizations and the pension institutions. In 1997, new solvency regulations were issued for employment pension investments and the risk-taking potential of employment pension insurance companies. The higher a company's solvency, the more return-oriented its investment policy can be.

Ilmarinen has had the full benefit of the opportunities offered by the solvency regulations ever since these were issued. Average annual investment result over the past eight years has been 6.9%, in spite of three years of poor equity performance during that time. The solvency buffers have worked as planned against the fluctuations in investment returns as investment risks have increased.

One of the issues currently looked into is whether it might be possible to allow even greater risk-taking for employment pension companies without jeopardizing the pension cover. Another major question is whether increasing investments in Finnish companies might improve employment trends and boost Finnish business.

The first stage of the pension reform which took effect at the beginning of 2005 is the result of a long and carefully managed process and an excellent example of solid Finnish cooperation. Where all parties have an important common goal, solutions can be found for even the most difficult issues. The second stage of the reform will become effective in 2007, when the various Acts on private-sector pensions are combined into a single Employees' Pensions Act.

IMPROVING SERVICES AND EFFICIENCY

Ilmarinen's goal is to be a pioneer in pension insurance affairs. The reason for this particular goal is that we want to achieve customer satisfaction and gain a competitive edge. To reach our goal, our energy is focused on customer services, efficiency and client bonuses.

As pioneers, we are also responsible for the entire Finnish pension security system. Ilmarinen's representatives have been engaged in the work of a number of committees and task forces to improve employment pension security and the pension security sector for as long as the employment pension system has been in place.

In recent years, we have developed our online services in particular. We are constantly developing our operations and services as well, to ensure that our customers get the best possible overall service.

To improve our efficiency, we have invested in digital document handling and electronic archiving and streamlined our operating procedures. The recent changes in pension laws have also required unusually extensive development projects and more can be expected in the next few years, as well.

All these projects have temporarily increased Ilmarinen's expenditure and personnel, but they are also bound to improve our efficiency significantly.

FUTURE PROSPECTS

The company's financial result for 2005 will be largely determined by trends in the investment market. The investment market has had a positive start for 2005, but there are some uncertainty factors in the global economy that may have an effect on the company's result.

When the new Employees' Pensions Act comes into force in 2007, the Etera Mutual Pension Insurance Company (former the LEL Employment Pension Fund) will lose its special status and become a competitor for Ilmarinen and other employment pension insurance companies.

However, we believe Ilmarinen has every chance of success even where competition takes a new turn. We take excellent care of our customers, make determined efforts to improve our services and offer the highest level of client bonuses. Our results-oriented investment policy and strong solvency will ensure that we can offer competitive client bonuses in the future as well.

Ilmarinen's work is responsible and socially important. I would like to take this opportunity to thank each and every Ilmarinen employee for their valuable input for the good of the company and our customers. I would also like to thank our customers and partners for their confidence in Ilmarinen.

Ilmarinen in brief

Our mission

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

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

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

Our goals

Ilmarinen's goal is to be a front-runner in the pension insurance business that shows profitable growth and has a responsible long-term approach to investments.

Over the next few years, development of our business operations will focus on providing the best services for our customers, improving our operational efficiency and maintaining our superiority in the business through strong solvency and the most competitive bonuses.

Our values

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

Our values are:

- Responsibility for earnings-related pension provision

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

- Satisfied clients

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

- A constantly improving workplace community

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

- Profitable operations

Together we can achieve results to be proud of.

Services

Pension services

Insurance services

EVENTS IN 2004

Jan. 19 Ilmarinen's Board of Directors elects Hannu Syrjänen, Managing Director of SanomaWSOY Corporation, as the new Chairman.

Feb. 26 Ilmarinen publishes its results for 2003. The positive performance is largely based on the rising equity markets in the spring and stronger solvency.

Feb. 27 Pohjola, Suomi and Ilmarinen publish their new model for business operations, which is intended to enhance the competitiveness and operating efficiency of the three companies.

April 26 Ilmarinen and TietoEnator Corporation announce their entry into negotiations for establishing a joint enterprise that will produce IT services for Ilmarinen.

May 3 Ilmarinen becomes VVO's largest owner through a transaction with the real-estate company Eka Real Estate Development Ltd.

May 5 Ilmarinen introduces its revamped website, which has undergone a complete overhaul. The website provides an online service channel for the company's clients for an even easier way of using services related to their employment pensions.

May 6 Ilmarinen sells nine of its office properties to the British company Doughty Hanson & Co Real Estate Fund. This is the largest sale ever of Finnish real estate to a foreign buyer.

May 17 Ilmarinen launches a new electronic document management system to speed up customer service and improve its quality.

May 19 On the basis of a survey conducted by the Finnish Insurance Brokers Association, Finnish insurance brokers select Ilmarinen as the best employment insurance company for the second time in a row.

Aug. 26 Ilmarinen publishes its interim report for January 1-June 6, 2004. The company's solvency remains high; so does investment income, as in the corresponding period in 2003.

Aug. 31 Ilmarinen sells some of its real estate, located in the Helsinki metropolitan area and consisting mostly of office space, to Polar Real Estate Ltd for EUR 63 million.

Sep. 1 Ilmarinen selects TietoEnator as its strategic partner in information technology, agreeing on establishing a joint enterprise with TietoEnator. In accordance with the agreement, the new company begins operations in January 1, 2005.

Oct. 13 Ilmarinen participates in the employment pension institutions' joint information campaign on the pension reform. The campaign lasts for one week, keeping the phone lines of Ilmarinen's customer services extremely busy.

Oct. 28 Ilmarinen holds a topping-out party for its new office and production building at the VTI Technologies Oy site in Martinlaakso, Vantaa.

Nov. 3 The Ilmarinen Award is presented to Nokian Tyres plc for the campaign on initiatives related to equality at the workplace.

Nov. 4 The renovation project on the Ympyrätalo building owned by Ilmarinen is completed. At the time of its launch, the project was the largest single building project in Finland.

Dec. 10 New online services are opened for enterprises. Ilmarinen expands its range of web pages on pension services and insurance services for corporate clients to provide an even more comprehensive service for corporate clients.

Dec. 13 Ilmarinen wins the award for the best European pension investor at the European Silver Awards 2004 in the Best Industry-Wide Pension Fund category.

Finnish earnings-related pension system meets today's challenges

The overall reform of earnings-related pensions is advancing as planned. The first stage of the process, implemented at the beginning of 2005, consists of extensive harmonization of the various pension benefits covered by several separate Acts. Next, in 2007, the various Acts on employees' pensions will be combined into a single Act. The aim of this reform is to respond to the demands of society, population trends and the needs of the national economy.

PENSION COVER REFORM

The purpose of the pension reforms implemented at the beginning of the year is to encourage people to stay at work longer.

Employees can now retire on old-age pensions at the age of 63-68 without their pensions being reduced by the abatement for early retirement stipulated in the previous pension laws. Furthermore, an amendment to the Employment Contracts Act forbids dismissal of an employee under 68-year-old on the basis of his or her age. Staying at work for as long as possible is a financially wise choice as your earnings-related pension increases by 4.5% of your pay per year between the ages of 63 and 68.

Accrual of pension begins at the age of 18 along with payment of employment pension contributions. Integration of pensions, which used to set for the earnings-related pension a maximum limit of 60% of the highest pensionable pay calculated for each employment relationship has now been abolished; accordingly, all gainful employment now increases the amount of the future pension.

Naturally, the choice between staying at work and retiring from working life is not based on mere changes in pension benefits. Other important factors are the availability of work, the ability to work and the desire to stay at work. The system for payment of disability pensions will be changed on the basis of new accounting standards as of the beginning of 2006, but every effort will be made to ensure that maintaining their employees' working ability will remain profitable for employers.

The various stakeholders in Finnish society are all keen on improving working life in Finland, in line with the goals of helping employees cope at work and maintain their working ability.

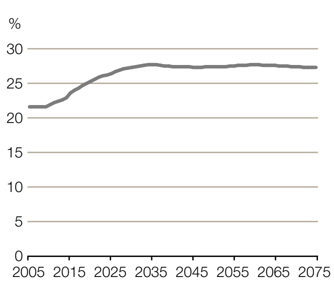
A SINGLE ACT ON PENSIONS IN 2007

There are currently several Acts in force on earnings-related pensions in Finland, each providing a slightly different, but basically fairly consistent employment pension security for different groups of employees. At the beginning of 2007, the Acts on earnings-related pensions of private-sector employees (TEL, LEL and TaEL) will be combined into a single Employees' Pensions Act. This will mean more streamlined practices in earnings-related pension coverage for both employers and pension institutions.

THE COST OF EARNINGS-RELATED PENSION

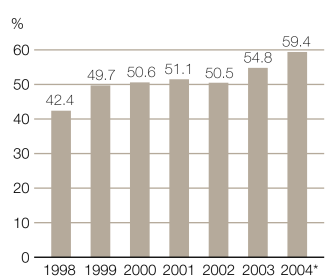
In 2005, the TEL payment paid by the employer will remain at the same aver-

TyEL expenditure as % of payroll, 2005-2075



Source: The Finnish Pension Alliance TELA

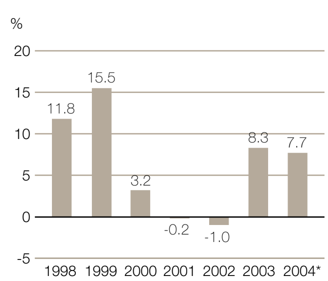
Percentage of employment pension funds of GNP



* Preliminary estimate for 2004

Source: The Finnish Pension Alliance TELA

Annual return of employment pension funds on capital employed



* Preliminary estimate for 2004

Source: The Finnish Pension Alliance TELA age level of 16.8% as in 2004. The employment pension contribution for employees under 53 will also remain at 4.6%. The employment pension contribution of employees over 53, on the other hand, rises to 5.8%, which is based on the accelerated accrual of pension for over-53-year-olds, as part of the pension reform. This increase will be used to finance about one third of the accelerated accrual.

The Finnish Centre for Pensions draws up long-term forecasts of trends in employment pension expenditure and contributions. According to the latest forecast, extending to 2075, employment pension contributions will rise by five or six percentage points over the next thirty years and then settle down around 27-28%.

IS IT POSSIBLE TO ACQUIRE PENSION COVER AT LOWER COST?

The most important way to curb the rise in pension costs is to postpone retirement, which is also the aim of the 2005 pension reform.

Another important aspect is the return on investments made with pension employment funds. The greater the income from these funds, the lower the pressure to increase employment pension contributions.

However, investments are not always a straightforward business. Too much prudence will keep return low, which means that employment pension contributions will have to be raised. To obtain real income from investments, we must also accept a higher risk and invest in shares, for instance, and be prepared for fluctuations in their value and yield. Too high a risk level, however, may result in a series of heavy investment losses, again putting pressure on employment pension contributions.

> The most important way to curb the rise in pension costs is to postpone retirement.

When the regulations for employment pension investments were revised eight years ago, one of the aims was to increase pension insurance institutions' investment income by allowing risks within specific limits. Since then, Ilmarinen has obtained an average annual return of 6.9% on its investments, with a real return of 5.3% on average. The average real return for all employment pension funds on the private and public sectors has been slightly lower but nevertheless around five percentage points. In other words, income has clearly exceeded the expected 3.5% real income applied by the Finnish Centre for Pensions to its forecasts for pension contributions.

During 2005, the employment pension insurance sector and the labour market organizations will carry out joint studies on whether the level of investment income could be raised even higher by allowing greater risks for pension insurance companies without jeopardizing pension security – a matter well worth looking into, as investment returns have a considerable impact on the trends in pension contributions.

Another issue that will be studied is whether employment rates could be improved by making more investments in Finnish companies. By international standards, advance funding of earnings-related pensions in Finland is at a high level, but the majority of pension expenditure is still financed through employment pension contributions paid during the year. In terms of the pension contributions, the greater the work input in Finland, the better the impact on pension contributions. However, spreading investment risks is one of the main tools of risk control in investment activities, which is why the potential for investing in a single national economy are rather limited.

ILMARINEN'S CONTRIBUTION TO THE DEVELOPMENT OF THE EMPLOYMENT PENSION SECTOR

Employment pension companies have a great deal of practical knowledge and experience of both the implementation of pension security and the needs and opportunities for developing the employment pension system. Ilmarinen has a tradition of making its expertise available for developing the employment pension system. Our greatest priority – our responsibility for employment pensions – is at its most tangible when Ilmarinen cooperates with labour market organizations and other stakeholders in developing Finnish employment pension security and its long-term funding.

A wide variety of services close at hand

Ilmarinen's main services are pension services, insurance services, promotion of well-being at work, vocational rehabilitation, managing company pension funds, employment pension information service, financing, and leasing office and commercial premises.

DEVELOPMENT OF SERVICES ACCORDING TO CUSTOMERS' NEEDS

Ilmarinen is in charge of the pension cover of about 32,000 TEL customers and 49,000 entrepreneurs and pays pensions to almost 240,000 pension recipients. In all, the company is responsible for the employment pension security of about 640,000 people in Finland. The company's market share of the premiums written at Finnish employment pension insurance companies is more than one third.

Customer satisfaction is one of Ilmarinen's key values, supported by the goal of providing the best possible service for our customers, as described in the operating plan for the next few years. Keeping our customers happy and providing the best service, as well as improving our efficiency, are fundamental elements in Ilmarinen's development programmes.

The starting-point for developing Ilmarinen's services centres on the needs of employers and employees, not forgetting pension recipients. Customer satisfaction is an important indicator of success and is monitored constantly at Ilmarinen. Other indicators of the quality of Ilmarinen's services are the promptness, authenticity and accessibility of the services.

SERVICES CLOSE AT HAND

Ilmarinen's network of services covers all parts of Finland, with branches providing customers with services related to all insurance matters. Our service channels and partners in sales and customer relations are Pohjola, Pohjola's subsidiary A-Insurance, Pohjantähti and insurance brokers. Savings banks, too, act as sales partners. Through its extensive network, Ilmarinen can reach its clients easily.

JOINT SERVICE FOR CUSTOMERS

The most important of Ilmarinen's partners is Pohjola, which is the main channel for Ilmarinen's insurance sales. Cooperation with insurance brokers has also increased considerably, and brokers now deal with about 20% of Ilmarinen's TEL clients. Last year, insurance brokers voted Ilmarinen the best employment pension company for the second time in a row.

Together with its partners, Ilmarinen has drawn up service models and procedures to ensure the availability of the range of employment pension services required by its clients and to secure regular customer contacts. Ilmarinen also has an extensive training programme in place to develop and maintain its partners' expertise in employment pension issues on a regular basis.

GROWING DEMAND FOR ON-LINE SERVICES

There is an increasing demand for electronic services, which is prompted by the same trend in public-sector organizations in particular. As customers are getting more and more accustomed to using electronic services such as those provided by banks, anywhere at any time, they will expect employment pension services to be online for 24 hours a day, too.

The overhaul and improvement of Ilmarinen's online services is progressing according to plan. In 2003, the work focused on services for TEL clients and corporate clients; in 2004, the emphasis was on pension services for entrepreneurs. Today, customers can have a full range of online services related to their pension insurance policies at all hours. Ilmarinen now has more than 9,000 online customers.

The company's website was completely overhauled during 2004. To make access to online services as smooth and easy as possible, the site is now a service portal where information on pension and insurance services is offered in a user-friendly manner. The demand for information has clearly increased as the 2005 pension reform took effect. Furthermore, the information offered through the pension advice service and in written material on pensions and insurance policies is always up to date.

Ilmarinen's most important services and the main events related to them are described in more detail on pages 10-15 of the Annual Report.

Kai Tirkkonen/GORILLA

"Ilmarinen offers companies a range of financing alternatives for investments and corporate reorganizations.

Aiming at high levels of service and customer satisfaction

Ilmarinen wants to offer its customers the best possible service, which means listening to customers' wishes and improving our operations continuously. According to customer surveys, major companies most appreciate Ilmarinen's expertise and the wide range of services the company provides, while smaller enterprises are keen on the speed and simplicity of dealing with Ilmarinen. These are also the starting-points for Ilmarinen's development targets.

WIDE INTEREST IN THE PENSION REFORM

Because the pension reform has increased customers' need for information on pensions, Ilmarinen arranged a total of 13 regional seminars on employment pensions, which were attended by more than a thousand representatives of our corporate clients. Several seminars were also arranged for entrepreneurs on employment matters, women's entrepreneurship and change of generation within enterprises, for instance, as well as the pension reform itself. Ilmarinen also contributed to the compilation of a manual on change of generation within enterprises; the manual was launched in August at a seminar arranged by Ilmarinen for entrepreneurs.

THE HIGHEST LEVEL OF CLIENT BONUSES IN THE BUSINESS

Client bonuses, or reductions to TEL contributions, granted by Ilmarinen are still at the highest level in the business. Thanks to the company's good performance in 2004, the amount of funds that could be spent on client bonuses rose to EUR 45 million from the previous year's EUR 33 million. Ilmarinen's performance was based on successful investments and the company's excellent solvency. While the differences between pension insurance companies are now smaller than in previous years, we feel certain that our results-oriented investment strategy will continue to guarantee competitive reductions in the size of pension contributions.

Ilmarinen's insurance policy sales last year were excellent. The sales result consists of the result from transfer business, or competition between pension insurance companies, and the sales of employment pension insurance policies, which includes portfolio transfers from pension foundations. Premiums written through sales of new TEL insurance policies in 2004 stood at EUR 117 million, which was almost double the target figure for the year. One important reason for this was the transfer of Finnair from a pension foundation to Ilmarinen. Thanks to the excellent sales figures for new TEL and YEL insurance policies, total sales were better than they had been for years, despite the EUR 13 million loss in the transfer business.

IMPROVEMENTS IN SERVICES

In May, Ilmarinen launched its completely revamped Internet website www.ilmarinen.fi. In online services, corporate clients and entrepreneurs could deal

'We are determined to offer our clients the best employment pension service, which is why we carry out annual surveys on our customers' satisfaction with our operations and services. Once again, we received consistently high marks, but there is no reason why we cannot do even better.'

SINI KIVIHUHTA, Senior Vice President, Client Relations with all matters related to their pension insurance policies on the Internet. In March, electronic invoicing was extended to YEL clients; as of December, customers have been able to get an estimate of their individual old-age pension through the online pension service. At the beginning of 2005, a calculator for flexible payments was launched for entrepreneurs, which can be used to calculate the effect of increasing or reducing the size of contributions on the earnings for the year. Because the use of online services is continuously increasing, services must be improved in the future, as well.

To improve call centre services, Ilmarinen established a new customer service call centre last year, which helps to direct incoming calls to the right experts more flexibly than before. Other services are also being improved. An ongoing project on developing service models and procedures is aimed at providing the best possible overall service for Ilmarinen's customers.

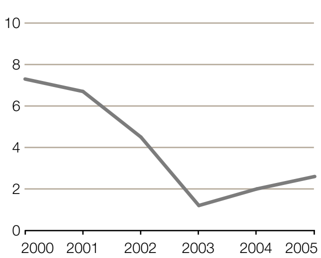
SIMPLIFICATION OF EMPLOYMENT PENSION INSURANCE COVER

The laws on private-sector pension insurance will be combined into a single Employees' Pensions Act (TyEL) at the beginning of 2007, which will simplify the employment pension insurance system considerably. However, before the Act comes into force, employment pension institutions will have to prepare for the considerable changes it will bring to insurance practices and IT applications.

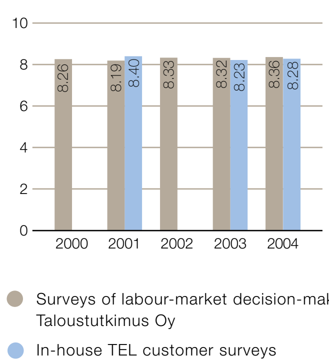
In 2004, Ilmarinen launched a series of extensive training, product development and IT projects to ensure that the company will maintain its position as a pioneer in the Finnish pension insurance business.

> Ilmarinen's strong solvency and results-oriented investment policy are the basis for the best client bonuses in the industry.

Bonuses and rebates
% of employer contribution under TEL



Policyholders' evaluation of Ilmarinen



Promoting well-being at work is in everybody's interest

The goal of the pension reform is to raise the average age of retirement by 2-3 years. For companies, this poses considerable challenges as they seek to improve the working atmosphere and welfare at workplaces. Whether a person stays at work longer or chooses to retire as soon as the opportunity rises depends not only on economic aspects but on the quality of working life, the person's well-being at work and his or her willingness to work.

Strengthening the workforce's well-being at work involves, above all, systematic and extensive development of the work itself and the workplace community. Another aim is to have a positive effect on the company's productivity and competitiveness, as well. Well-being at work is in the interest of both the employer and the employees.

Because good health is a key requirement for coping at work, every company should have an appropriate procedure in place for situations where an employee's work needs to be adapted to his or her ability to work. A healthy, safe working environment is also a must.

If a person's work ability collapses, it may be due to an illness but it can also be caused by problems related to the workplace community or the lack of skills required for the work. In particular, depression and related disorders are an increasingly common reason for granting disability pensions on grounds of mental health, which is perhaps partly explained by the fact that business operations and maintaining their competitiveness have placed entirely new kinds of demands on employees' skills. Other possible reasons may include problems arising from adjusting to new management cultures or from ageing.

> Ilmarinen's Motivo service supports corporate clients in managing risks related to staff disability.

MOTIVO: PROMOTING EMPLOYEES' WELFARE

In cooperation with its clients and experts, Ilmarinen has launched a workplace well-being service called Motivo, which offers the company's own expertise to corporate clients interested in improving their employees' motivation, skills and welfare. Created for operational planning, implementation and assessment of personnel management, the model helps companies to put their personnel development programmes into practice at the workplace.

The starting-points for the service are the client's current operations and plans for the future. The service consists of material which provides guidelines for planning the operations and for training and consultation sessions supporting the implementation of the client's development programme. Ilmarinen also offers an Internet application for putting plans into operation.

In 2004, Ilmarinen organized 12 seminars on welfare at work for persons responsible for operations, personnel and development in enterprises; more than 600 people attended these seminars. There were also two seminars for management, focusing on well-being at work as a success factor and perception of diversity as an important resource.

Ilmarinen also supports research on promotion and maintenance of well-being at work; one of the studies currently under way focuses on how tacit knowledge can be defined, identified and transferred. Another study deals with assessing intensified measures related to occupational health care and health care advice based on specific symptoms and the effect of such measures on the costs of sick leave and pensions.

MORE EMPHASIS ON VOCATIONAL REHABILITATION

The 2004 rehabilitation reform places great emphasis on the priority of vocational rehabilitation over retirement on a disability pension. The goal of the reform is to detect the potential threat of disability soon enough to prevent it or at least to postpone its onset. Ways of ensuring this include closer cooperation between workplaces, vocational health care providers and pension institutions.

Before the reform, granting benefits for vocational rehabilitation under employment pension laws used to be at the sole discretion of the pension institutions. The new Act gives an applicant the right to appeal a rehabilitation decision made by a pension institution. However, the right of appeal does not apply to rehabilitation plans or payment of the cost of a single rehabilitation measure.

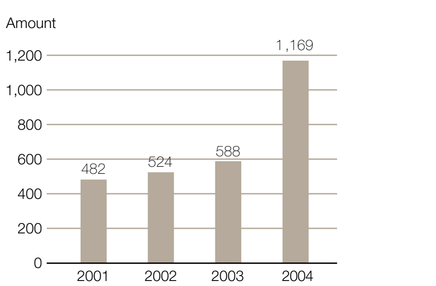
Ilmarinen can also support an employee who has to find a new workplace or occupation because of an illness that poses a threat to the employee's working capacity. Vocational rehabilitation benefits both the employer and the employee. A successful rehabilitation programme gives the employee an opportunity to remain at work in spite of his or her illness, while the employer saves pension costs and can retain the employee's skills and expertise within the company. From the employers' point of view, offering rehabilitation to an employee is always a better alternative than letting the person retire on a disability pension.

Ilmarinen received nearly twice as many pension applications as the previous year. In 2004, the company paid rehabilitation allowance during vocational rehabilitation or a rehabilitation increment on a pension to 823 insured persons. The number of rehabilitees increased 12% on the previous year. Ilmarinen has a team of about ten rehabilitation experts and a full-time medical expert for handling rehabilitation applications.

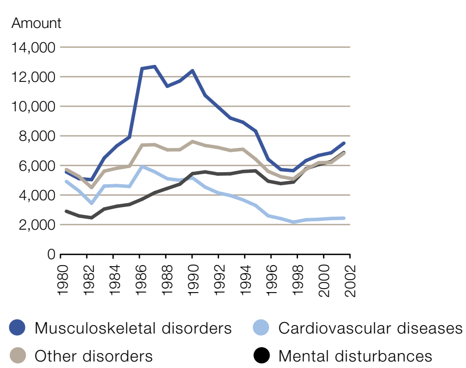
THE ILMARINEN AWARD: INCENTIVE FOR HUMAN RESOURCES DEVELOPMENT

The 2004 Ilmarinen prize for Personnel Deed of the Year was awarded to Nokian Tyres by the Finnish Association for Human Resources (HENRY ry) for their campaign on finding initiatives that promote equality at the workplace. Ilmarinen has agreed with HENRY to continue the long-standing cooperation for developing good personnel management practices and well-being at Finnish workplaces. The Ilmarinen Award is used as an incentive to increase the efficiency of personnel and draw people's attention to systematic improvement of well-being at workplaces and employees' skills and expertise. Ilmarinen hopes that the organization receiving the award will set an example for other Finnish workplaces.

Rehabilitation applications via Ilmarinen



Grounds for granting disability pensions in Finland



Improving pension services

Because pension decisions have a huge effect on people's lives, the responsibility for the decisions is considerable. Ilmarinen's key operating principles include an ability to make fair, prompt decisions which are communicated to the applicant in as clear a form as possible.

Successful compliance with this principle is monitored in a number of ways. Ilmarinen conducts annual surveys on the clarity of pension decisions and measures the promptness of decision-making and the permanence of the rulings at the appellate level. Traditionally, Ilmarinen has exceeded these goals better than its competitors on average.

INCREASED DEMAND FOR INFORMATION TO CUSTOMERS

The great pension reform of 2005 has also changed the grounds for determining and calculating the size of pensions and made them more consistent. The main achievements of the reform are a flexible retirement age of 63-68 years, raised age limits for early retirement, new accrual percentages and a gradual removal of certain types of pension.

The reform of earnings-related pensions in particular has created an increased need for advice and information among clients. There was a more than 20% rise from the previous year in calls made to Ilmarinen's Pension Information Service, which the company had prepared for by improving the operation of the call centre.

The number of presentation meetings with individual corporate clients on the subject of pensions rose to 84 from the previous year's 43, with the effects of the pension reform and unemployment security as the main themes. Ilmarinen sent written material about the pension reform to customers and participated in joint information campaigns organized by the employment pension sector.

IMPROVEMENTS TO PENSION SERVICES

Ilmarinen has created a range of online services for customers who wish to keep track of their own pension situations and search for any necessary information. Employees whose pension security is covered by Ilmarinen can order preliminary estimates of their old-age pensions through the Internet and check that their previous employment relationships have been correctly included in the calculations. They can also use a pension calculator to establish how remaining at work for a specific length of time after the age of 63 will affect the size of their pension. The pension calculator has in fact proved the most popular of Ilmarinen's online services.

Thanks to the new payment application adopted at the beginning of 2004, new pensions can be paid much sooner than before once a pension decision has been made by Ilmarinen.

The new application has improved Ilmarinen's efficiency in other ways, too, as a number of manual stages in the application handling process are now performed automatically. Other improvements were also made to the process and pace of handling applications, without needing to increase the number of personnel.

DEVELOPMENT OF OPERATIONS AND TECHNOLOGY

In 2004, the 'last-institution principle' was extended to cover employment in the public sector as well. This simplifies matters for pension applicants, as their applications are handled and pensions paid by their last pension institution. A survey of processing times taken by the various pension institutions showed that Ilmarinen performed the new tasks very well.

The major changes in pension legislation and the various new IT applications pose a considerable challenge to the skills of Ilmarinen personnel, so the company places considerable emphasis on related training.

'The digital processing and electronic filing of documents began last year, improving our services and increasing the efficiency of our operations. The work is based on the most efficient IT solution and on promoting teamwork and effective implementation of best practices.'

TIMO ARO, Senior Vice President, Pension Services

David Trood/GORILLA

Ilmarinen's key operating principles include the ability to issue fair and prompt pension decisions.

Return-oriented, responsible investments

Because payment of pensions usually begins after several decades of accrual, investments by earnings-related pension funds are aimed at maximum long-term returns. The average risk level is therefore kept as high as possible with regard to the solvency capital, or the investment risk buffer. Investment history has shown that risk-taking brings a higher yield for long-term investments than risk avoidance. Investment risk is increased by equity investments, for instance, or investments in developing economies or in companies with a low credit rating. In accordance with Ilmarinen's investment strategy, the risks related to our investments are higher than for other pension institutions on average.

Expected long-term yield from investment assets in Ilmarinen's average targeted distribution, or basic allocation, is about 7%.

REDUCING THE RISK LEVEL THROUGH DIVERSIFICATION

In an optimal investment portfolio, the risk level cannot be raised simply by increasing the proportion of a single type of investment. Diversification is an important way of weathering short-term fluctuations. Effective diversification requires not only diversification of types of asset but also geographical diversification. On the other hand, the foreign-currency risk related to diversification can be limited in a highly cost-effective manner.

Ilmarinen's investment strategy is based on long-term planning that extends beyond several coming economic cycles. The investment strategy and the investment plan for the following year are approved annually by the Board of Directors. The investment plan sets out the weighting of different types of investment and the main policies and goals for the different asset classes. At the same time, approval is also given to the decision-making powers related to acceptable deviations from basic allocations and the benchmarks defined for each type of investment at different levels of the organization.

The expected long-term standard deviation for Ilmarinen's investment assets in the basic allocation is about 6%.

COST-EFFECTIVE MANAGEMENT OF INVESTMENT ACTIVITIES

The overall result of investment activities is also affected by the costs of managing the investments assets. Ilmarinen's investment organization has two basic functions: to make investments according to the company's investment plan and to aim at yield which exceeds the targeted basic allocation. Another important aspect is an impeccable system of risk management. To achieve all these objectives, the pros and cons of each procedure must be weighed carefully.

Ilmarinen's investment organization looks after 85% of the company's investments. The work is outsourced in the case of tasks that would otherwise require large human resources or a considerable amount of special expertise. In these cases, investments are made almost exclusively through investments

'Our strong financial position allows us to develop our long-term investment activities and pursue the maximum long-term return on investments.'

JUSSI LAITINEN, Senior Vice President, Investments funds in emerging economies, fixed-income instruments with low credit ratings, private equity funds and hedge funds. In 2004, the costs of Ilmarinen's own investment organization in relation to the assets were 0.05%.

AN ACTIVE OWNERSHIP POLICY

Ilmarinen's ownership policy, which was approved by the Board of Directors and updated at the end of 2004, describes the company's views on the administrative structures, dividend distribution policies and incentive systems. The ownership policy can be viewed at www.ilmarinen.fi.

In the company's view, an active ownership policy can have a positive impact on the value of Ilmarinen's investments and reduce the related investment risks. In practice, an active approach is taken by participating in shareholders' meetings, maintaining contacts with the management and cooperating with the other shareholders when necessary. In addition, Ilmarinen monitors and analyses trends in corporate governance and incentive systems and is actively involved in public debate on these issues.

Thanks to an electronic voting system, Ilmarinen can vote at shareholders' meetings held abroad without actually sending representatives to the meetings.

RESPONSIBLE INVESTMENT ACTIVITIES

In accordance with Ilmarinen's ownership policy, the investments it makes should not only be profitable but also socially responsible and ethically sustainable. Ilmarinen expects the companies it invests in to follow the principles of sustainable development. In practice, this means that the company should operate in accordance with the relevant international and local legislation and should, for instance, have undertaken the necessary environmental investment required for its operations. Treatment of personnel must also be appropriate and must respect human rights.

In evaluating potential companies to invest in, Ilmarinen adopts a positive approach, meaning that we do not directly exclude any particular sector but select companies in each sector from among those that operate in accordance with sustainable development principles. The assumption is that such companies also manage their financial obligations better and more transparently, on average, which reduces the investment risk. This, in turn, decreases the required return for the company in question and also permits an above-average valuation level.

Positive valuation can be applied directly to Ilmarinen's direct investments in securities. Investment funds are selected as targets largely on the basis of the responsibility of their asset managers' activities and the transparency of their operations.

To assess the social responsibility of investments, Ilmarinen uses the services of an outside expert (specialized manager), who analyses Ilmarinen's equity and bond portfolio twice a year. The equities and bonds of companies who contravene these principles can be removed from the portfolio if further reports and discussions with the company bring no change in the situation. In 2004, a security related to one company was removed from the portfolio; in 2003, securities of three companies. Forced labour and environmental offences were some of the grounds for removal. For three years now, Ilmarinen's partner in assessing the social responsibility of investments has been GES Investment Services, a Swedish company with 15 years experience in the business.

> In Ilmarinen's view, an active ownership policy can have a positive impact on the values of our assets and reduce investment risk.

An 8% return on investments

Return on Finnish government bonds reached over 7% in the bond market in 2004, where loans to emerging market and high yield bonds achieved the highest return, as in 2003, with a return of over 10% on both.

Return on the key equity markets in local currencies was 10-12%; however, in the US, for instance, return on the equity market in euros was less than 3%. Because of the modest performance of Nokia shares in the equity market, return on the HEX general index remained poor, while return on the HEX portfolio index, with dividends included, rose to a remarkable 21.4%. The energy and metal industries benefited considerably from rising oil prices and the growing demand in China, and the overall increase in economic activity gave a boost to the financial services sector. Accordingly, share prices in each of these markets rose sharply.

Most of the return on equity and fixed-income markets was gained during the second half of the year as the US presidential election and falling oil prices encouraged investors to take more risks.

In Europe, investments in the real estate market reflected investors' desire to increase the proportion of real estate investments in their portfolios and to diversify them against the related risks. This increase in demand reduced requirements for a high return. The prices of shares of listed European real estate companies rose more than 30% last year.

An upswing in listing and corporate acquisition markets gave private equity funds their long-awaited opportunity to realize investments.

All major currencies grew weaker against the euro, most importantly the US dollar by 7%.

ILMARINEN INCREASED INVESTMENTS IN SHARES AND SOLD REAL ESTATE

The year 2004 was expected to bring fair economic growth and moderate inflation, as well as a continued rise in share prices and an upturn in interest rates. In accordance with these forecasts, Ilmarinen mostly increased the equity risk actively during the year, following on average the basic allocation (i.e. the targeted breakdown) of investments. Taking into account the rise in share prices and increase in the various derivative positions, the equity risk rose about four percentage points from the previous year; at the end of 2004, listed equity investments accounted for slightly more than one quarter. On these pages, the investment breakdowns and returns are presented according to internal risk ratings.

While bonds as a percentage of Ilmarinen investments corresponded to the basic allocation level on average, the overweighting of money market investments and the shortness of the bond portfolio brought the average interest-rate risk to a level that was clearly lower than the basic allocation would have required.

The percentages of real estate investments and customer financing of Ilmarinen investments declined due to sales of real estate and premature repayments of credits. Low vacancy rates re-

Breakdown of investment assets*

	Dec. 31, 2003 %	Dec. 31, 2004 %	Basic allocation 2004 %
Bonds	47.6	47.2	43.6
Listed shares	21.6	25.3	23.1
Real estate	14.9	12.1	16.0
Customer financing	8.7	6.3	9.0
Money market investments	2.2	1.8	1.0
Other investments	5.0	7.3	7.3
Total	100.0	100.0	100.0

* Based on internal risk ratings; includes derivatives

sulted in depreciation of real estate values by EUR 34.6 million at the end of 2004. Through its indirect investments in real estate, Ilmarinen has become a pioneer in internationalizing Finnish real estate investments, which at the end of 2004 stood at a total of EUR 150 million. In line with the company's real estate strategy, diversification of real estate risks will continue through increased indirect ownership both in Finland and abroad.

Further diversification of risks involved in equity, fixed-income and hedge fund investments brought the total amount of foreign currency investments to nearly EUR 2.5 billion by the end of the year. Half of this risk was hedged, with the highest degree of hedging, about 80%, in the US dollar.

SOLVENCY REMAINS STRONG THROUGH THE SOUND RETURN ON INVESTMENTS

Return on Ilmarinen's total investment assets in 2004 was 7.8%.

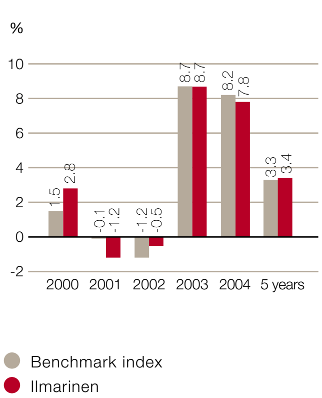
Return remained good with regard to the expected average long-term return. Good return on investments for a second year in a row will keep Ilmarinen's solvency strong and improve the company's capacity to grant significant reductions in TEL premiums in the future, as well.

Return on listed equity investments was 14.4%, bonds 7.3%, real estate investments (including indirect investments) 4.2%, and customer financing 4.7%. Foreign currency hedging is included in these figures; as a separate item, however, it improved the total return on investments by 0.5 percentage points. An official breakdown of investment income is presented on page 67.

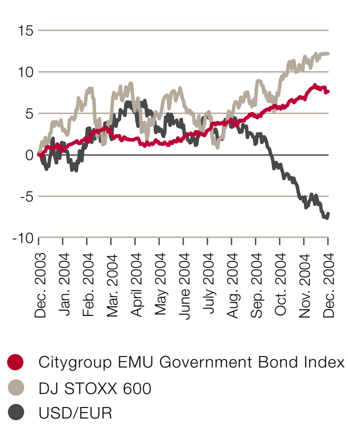
In terms of percentages, total return on investments remained slightly behind the benchmark index set for 2004. This was explained by the underweighting of real estate investments and customer financing with regard to the basic allocation on the one hand and by the underweighting of the interest-rate risk on the other, both factors increasing the percentage of money market investments – and the related risk - in the investment assets. Return on equity investments and foreign currency hedging exceeded the benchmark index.

> Good return on investments will keep Ilmarinen's solvency strong and improve the company's capacity to grant significant reductions in TEL premiums.

Comparison of investment return



Market returns in 2004



Financial standing and risk management

Earnings-related pension insurance is a major component of the Finnish social welfare system. For this reason, Ilmarinen believes that its position as a statutory pension provider brings with it a special responsibility.

Assessment of the company's financial standing entails not only an analysis of the annual and long-term financial performance but also an assessment of the sufficiency of the solvency buffers in relation to the company's liabilities and risks.

Ilmarinen's strong solvency capital is sufficient to withstand the fluctuations inherent in the investment markets.

To ensure goals are achieved and a strong financial standing maintained, the company pursues an appropriate risk management strategy. This is described in more detail on pages 41-42 of the Board of Directors' report and pages 68-71 of the Notes to the Financial Statements.

RISK MANAGEMENT IN THE UNDERWRITING BUSINESS

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

Risk management in Ilmarinen's underwriting business is based on the calculation bases meeting the prudence requirements of the law, with which the insurance contribution and technical provisions are calculated, and on the company's own actuarial analyses. The tariffs are common for all earnings-related pension companies, and the law states that a company may not refuse to grant a pension policy that has been legitimately applied for. Ilmarinen's insurance portfolio is so large that the use of reinsurance is not justifiable financially.

Fluctuations in the annual result of the underwriting business are allowed for by maintaining a buffer (equalization provision) in the technical provisions, accrued from the underwriting business surpluses of earlier years.

Ilmarinen's underwriting result for 2004 was again in surplus, following the pattern of recent years, and amounted to EUR 34.2 million. This further strengthened the equalization provision, which is about two-thirds of the upper limit for the underwriting buffer, as set out in the calculation bases. The equalization provisions for earnings-related pension insurers are generally at a high level, which is why their growth has been restricted by reducing the disability component of the insurance contribution.

INVESTMENT RISK MANAGEMENT

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

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

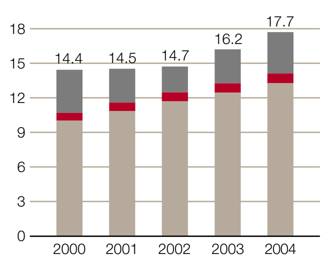
ILMARINEN'S FINANCIAL STANDING

At the end of 2004, Ilmarinen's solvency capital amounted to EUR 3,597.8 million. This was an increase of EUR 646.6 million on the previous year. Solvency capital was 25.6% (2003: 22.3%) of the technical provisions that define the basis of the solvency capital requirements, and was 2.3 (2.2) times the solvency border. For Ilmarinen's solvency capital to fall to the solvency border, share prices would have had to drop by about 45% or the general rate of interest rise by about 4.3 percentage points.

The company's strong solvency capital is sufficient to withstand the fluctuations inherent in the investment markets and thus allows Ilmarinen to pursue a long-term, return-oriented investment strategy, in which equities comprise a large proportion of the targeted investment distribution. A sensitivity analysis of the company's investment portfolio is given on pages 68-71.

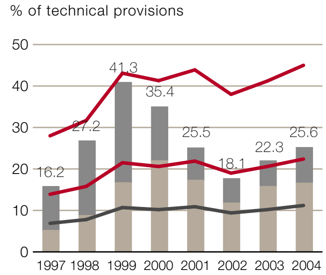
The technical provisions, equalization provision and solvency capital each serve to secure the pension provision. The pension assets covering them comprise almost all of the company's wealth. The technical provisions have been calculated prudently and must always be covered. Technical provisions increase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

Ilmarinen's pension assets



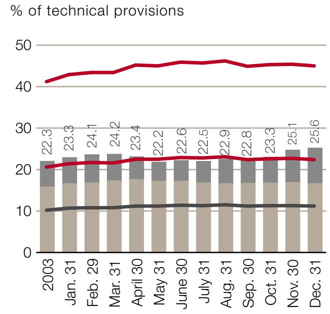
- Solvency capital
- Equalization provision
- Technical provisions

Solvency, annual



- Differences between current and book values and other off-balance-sheet items
- Solvency capital included in the balance sheet
- Target zone
- Solvency border

Solvency, monthly 2004



- Differences between current and book values and other off-balance-sheet items
- Solvency capital included in the balance sheet
- Target zone
- Solvency border

Corporate social responsibility

Ilmarinen's task as a pension insurance company is to provide statutory earnings-related pension cover and manage assets to cover future pensions. Social responsibility is an inseparable part of the company's operations.

During 2004, experts from all Ilmarinen's organizations carried out a broad survey to provide a basis for developing the company's social responsibility reporting system and identifying and prioritizing economic, social and environmental responsibilities. In addition, Ilmarinen's practices, targets, follow-up procedures and indicators were examined with the help of the GRI model, which is widely used for reporting social responsibility issues.

Ilmarinen's corporate values support the principles of social responsibility and have become an integral part of the company's everyday business. The company's social responsibility is guided not only by statutory values and obligations but by the principles of good governance, good insurance practice and Ilmarinen's ownership policy and risk management plan.

RESPONSIBILITY FOR EARNINGS-RELATED PENSIONS

Cooperating with labour market organizations and other stakeholders, Ilmarinen contributes to developing the Finnish employment pension system and the related long-term funding to ensure that future pensions can be safeguarded regardless of any changes in the operating environment.

Ilmarinen uses every means available to keep employment pension contributions at a reasonable level and maintain the competitiveness of the Finnish economy.

Employees' disability risks have considerable economic effects on enterprises, which is why Ilmarinen promotes disability risk management by its corporate clients and encourages their employees to cope and remain at work, through its Motivo service for welfare at workplaces and through occupational rehabilitation.

Ilmarinen's key operating principles include a fair and prompt issue of pension decisions and their clear communication. Our success in this is measured on the basis of annual surveys. In all three respects – fairness, promptness and clarity – Ilmarinen has outdone its competitors' average performance.

PROFITABLE OPERATIONS

Ilmarinen aims to achieve good results through goal-oriented management, performance assessment and reward systems. The goals set out in the corporate scorecard are consistent with the company's values.

Our economic responsibility is based on our social obligation to ensure the pension system's sustainability. To guarantee payment of future pensions, Ilmarinen seeks the best possible yield for the pension funds within the framework of our risk tolerance. Successful investment activities strengthen the company's solvency and are reflected in the amount paid as client bonuses.

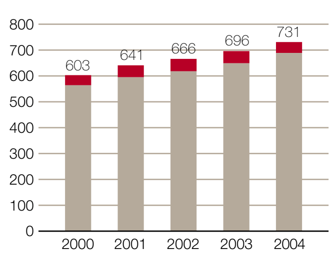
In its investment activities, Ilmarinen observes the active ownership policy approved by the Board of Directors in 1999 and ethical guidelines for investments. This work has increased gradually along the principle of continuous improvement. Last year, the company appointed a social responsibility analyst to work for investment operations.

Ilmarinen's ownership policy and pursuit of ethically sound investments are discussed in more detail on page 17 of the Annual Report and at www.ilmarinen.fi, where the company's ownership policy can also be viewed.

SATISFIED CLIENTS

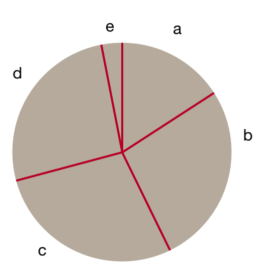
Providing high-quality services for cor-

Trend in staff number



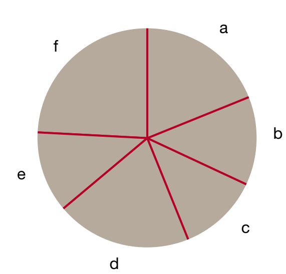
Fixed-term
Permanent

Staff age 2004



a. Aged -30, 16%
b. Aged 31-40, 27%
c. Aged 41-50, 28%
d. Aged 51-60, 26%
e. Aged 61-65, 3%

Personnel training 2004



a. Employment pension and other insurance, 19%
b. Customer relationships, 13%
c. Operational development, 12%
d. IT skills, 20%
e. Language training, 12%
f. Other training, 24%

porate clients, entrepreneurs and pension recipients is an important part of Ilmarinen's social responsibility. Part of the financial gain from the company's business is distributed to clients in the form of client bonuses. Ilmarinen wants to support the operating conditions for Finnish enterprises and employment in Finland by investing employment pension funds in Finnish companies and financing their operations.

Surveys on customer satisfaction and Ilmarinen's corporate image are carried out annually by Ilmarinen itself and external organizations. Over the next few years, Ilmarinen will place special emphasis on developing its services and improving customer relations in accordance with its objectives, aiming at providing the best possible service based on customers' needs. Good insurance practice is observed in all customer relations by Ilmarinen and its partners.

IMPROVING WORKPLACE COMMUNITY

Ilmarinen's personnel are of key importance to the company's success, and their views and opinions about the workplace are highly valued. The company has been conducting internal studies on the management and its policies for more than thirty years and used the results to improve its operations. According to these studies, Ilmarinen emplvoyees have always considered the company a good employer.

Ilmarinen promotes equality in employment issues, providing equal career opportunities for both men and women of all ages, for instance. Women account for 75% of supervisors and 43% of department managers. Employees are widely represented on the various bodies within the company and, therefore, have a considerable say in the company's operations. Equal opportunities are also reflected in salaries: women's salaries are slightly higher than men's in the pay categories, while men's salaries are higher in positions above pay categories.

Ilmarinen is developing its operations in a number of ways. There were several ongoing, highly challenging projects last year, involving major changes in policies and acquisition of new skills, as new technical tools and IT applications were introduced in pension and insurance services, TietoIlmarinen was established and the client relations unit went through significant organizational changes. Ilmarinen personnel have been actively included in these projects from the beginning and the changes have been implemented in cooperation with the personnel. Ilmarinen has also focused on systematic tailored training and open, continuous communication.

Development of employees' skills is ensured through extensive training. Training programmes are planned annually on the basis of the company's business operations. One third of last year's training days focused on acquiring and maintaining computer skills. At the beginning of 2005, the Finnish employment pension system went through the greatest legislative changes ever which is why introduction to the new legislation took up one fifth of the training days. All in all, seven training days were arranged per Ilmarinen employee.

Job satisfaction at Ilmarinen is quite high, which is illustrated by the fact that the average length of employment at the company is about 12 years. The company has an employee turnover of 3.7%.

During 2004, Ilmarinen adopted a new personnel strategy, where the main goals were ensuring people's expertise, developing customer service attitudes, increasing efficiency and flexibility and updating operating policies and procedures. Other major goals were maintaining employees' working ability and a good atmosphere at the workplace.

> Ilmarinen's human resources accounts are published at the same time as the annual report.

ENVIRONMENTAL RESPONSIBILITY

Because earnings-related pension insurance business consists of services and data processing, the environmental effects of Ilmarinen's own operations are very low. Nevertheless, the company pays careful attention to its own activities and the management of environmental issues related to its subcontractors.

Environmental responsibility is an integral part of Ilmarinen's real estate investments. The company actively promotes environmentally sound operating models and environmentally sound construction in the real estate business. Ilmarinen's partners are required to comply with the principles of environmental responsibility and life-cycle thinking, which affect the choices of materials, technical solutions, waste management and consumption of water and energy.

Corporate governance and control

GENERAL

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

The governance and control of employment pension insurance companies are subject to the Companies Act, the Insurance Companies Act, the Act on Employment Pension Insurance Companies, and each company's Articles of Association. Ilmarinen also principally complies with the corporate governance recommendation issued jointly by the Helsinki Stock Exchange, the Finnish Central Chamber of Commerce and the Finnish Confederation of Industry and Employers (Confederation of Finnish Industries as of 1 January 2005). Legislative provisions require employment pension insurance companies to deviate from this recommendation in some respects.

SHAREHOLDERS' MEETING

Ultimate corporate control rests with the Annual General Meeting of Ilmarinen's shareholders. Shareholders can exercise their voting power at Annual General Meetings in person or through authorised representatives.

The Annual General Meeting deals with matters relating to the adoption of annual financial statements, distribution of profits and the granting of release from liability to the Board of Directors and CEO, as required under applicable insurance company legislation, and any other matters indicated on the meeting notice.

The 2004 Annual General Meeting was held on 1 April 2004 at Ilmarinen's headquarters. It addressed the matters required under Ilmarinen's Articles of Association and heard the President's review of 2003. All decisions were passed unanimously.

SUPERVISORY BOARD

Under the Act on Employment Pension Insurance Companies, Ilmarinen is required to have a supervisory board whose duties are based on applicable law and the company's Articles of Association. Ilmarinen's Supervisory Board is responsible for supervising the corporate governance actions undertaken by the company's Board of Directors and President and CEO. The Supervisory Board also discharges its supervisory duties by selecting some of its members to review the company's pension solution and investment operations. The Supervisory Board has passed guidelines for the review of pension solution and investment operations.

The Supervisory Board issues a statement on the company's annual report to the Annual General Meeting. It also establishes the principles by which the company's investment plan is to be prepared, decides on the fees payable to the members and deputy members of the Board of Directors and the reimbursement of their travel expenses, and elects the members of the Board of Directors. The Supervisory Board may also provide the Board of Directors with instructions on any far-reaching issues or important matters of principle.

The Supervisory Board consists of 28 members elected at the Annual General Meeting for a term of two years. At least one-half of these members will be chosen from persons nominated by central labour market organisations representing employers and employees so that the candidates of both employer and employee organisations are equally represented.

One-half of the members of the Supervisory Board are elected each year. The Supervisory Board elects a Chairman and two Deputy Chairmen from its membership for each calendar year.

The Supervisory Board met twice in 2004. The Annual General Meeting of Ilmarinen's shareholders held on 1 April 2004 approved new fees for the members of the Supervisor Board. The Chairman of the Supervisory Board is paid a fee of EUR 3,000 per annum, while the Deputy Chairman and other Board members are paid EUR 2,000 per year. The Chairman's meeting fee and review fee are EUR 350 per board meeting. The members' meeting fee and review fee are EUR 300 per board meeting. The members of the Supervisory Board are presented on page 26.

BOARD OF DIRECTORS

The Board of Directors directs and organises the administration of the company. The key duties of Ilmarinen's Board of Directors consist of decisions regarding the strategy of the company, the preparation of an annual investment and risk management plan, and the preparation of matters addressed at the company's Annual General Meeting.

The Board's appointment and compensation committee and audit committee begin their work at the start of 2005. The duties of the appointment and compensation committee consist of the preparation of senior management appointments, terms of employment and compensation matters, and establishing the principles of the overall corporate incentive system. The audit committee, in turn, assists the

Board of Directors in overseeing financial reporting, risk management, internal control systems and audit matters.

The Supervisory Board elects 12 members and four deputy members to the Board of Directors for a term of four years. At least one-half of the members and deputy members of the Board of Directors will be elected from persons nominated by central labour market organisations representing employers and employees so that the candidates of both the employer and employee organisations are equally represented.

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

At the beginning of each calendar year, the Board of Directors elects a Chairman and two Deputy Chairmen from its membership. In 2004, the Board met 10 times. The average meeting attendance rate of the Board members was 85 per cent. The Supervisory Board determined new fees for Board members on 30 November 2004. The Chairman of the Board is paid EUR 1,050 per month, the Deputy Chairman EUR 850, regular Board members EUR 750, and deputy Board members EUR 520 per month. The Chairman's meeting fee is EUR 360, while the Vice Chairman and Board members are paid a fee of EUR 260 per meeting. The members of the Board of Directors are presented on pages 26-27.

PRESIDENT AND CEO, DEPUTY CEO AND EXECUTIVE VICE PRESIDENT

The Board of Directors appoints the company's President and CEO, and also an Executive Vice President who will stand in for the President and CEO as needed.

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

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

OTHER ORGANISATIONAL ASPECTS AND RESPONSIBILITIES

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

The company's Executive Group meets regularly for the purpose of assisting the President and CEO in his decision-making. The Executive Group takes part in the preparation of solutions that affect all of Ilmarinen, and in guiding and monitoring their implementation. The Executive Group is presented on page 28.

MANAGEMENT REMUNERATION AND RETIREMENT AGE

Ilmarinen operates a Board-approved incentive system that covers all employees. Employees are paid a bonus tied to their monthly salary on the basis of how well the company has met its targets. Line and departmental bonuses are paid on the basis of related performance targets. Bonuses paid to managers, department heads and other key personnel are based on their performance in relation to personal targets. The maximum bonus is normally equivalent to one month's salary.

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

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

Ilmarinen's chief executive officer was paid a total of EUR 465,222 in salary and incentives in 2004.

CORPORATE INSIDERS

Ilmarinen's Board has approved a set of insider guidelines based on the standard recommended by the Federation of Finnish Insurance Companies. The purpose of these guidelines is to promote public confidence in the investment operations of Ilmarinen. Persons who by virtue of their position or duties have regular access to inside information are considered permanent insiders. These insider guidelines also apply to temporary insiders who may receive inside information on a specific project. The objective is to increase awareness of insider regulations and to prevent any violations, including inadvertent ones.

RISK MANAGEMENT AND CONTROL SYSTEMS

Details of Ilmarinen's risk management and supervision arrangements are given on pages 20-21 and 68-71. Auditors and the Supervisory Board members selected annually to examine the company's pension solution and investment operations are listed on page 27.

Ilmarinen paid its auditors PriceWaterhouseCoopers Ltd a total of EUR 282,140 for audit services, EUR 93,659 for tax advice and EUR 22,922 for other advisory services in the course of 2004, including VAT.

Supervisory Board and the Board of Directors

SUPERVISORY BOARD

TIMO PELTOLA, Chairman
CEO of Huhtamäki Oyj, due to resign in 2006

ANTTI HERLIN, Deputy Chairman
Board Chairman of Kone Corporation,
due to resign in 2005

MATTI VILJANEN, Deputy Chairman
President of The Union of Professional Engineers in Finland IL, due to resign in 2006

JORMA ELORANTA, President and CEO of Metso Corporation, due to resign in 2006

PERTTI HAGREN, Chief Steward of BEMIS Valkeakoski Oy, due to resign in 2005

ILPO JALASJOKI, President of YIT Construction Ltd, due to resign in 2005

LIISA JORONEN, Board Chairman of SOL Palvelut Oy, due to resign in 2006

ARTO KAJANTO, Board Chairman of Aina Group Oyj, due to resign in 2006

VEIKKO KUUSAKOSKI, Board Chairman of Kuusakoski Group Oy, due to resign in 2006

ANTTI LAGERROOS, President and CEO of Finnlines Plc, due to resign in 2005

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

JUHO LIPSANEN, President and CEO of Alma Media Corporation, due to resign in 2005

JUHANI MAIJALA, Board Chairman of Lassila & Tikanoja plc, due to resign in 2006

ESKO MÄKELÄINEN, CFO of Stora Enso Oyj, due to resign in 2006

YRJÖ MÄKINEN, Taxi driver, The Finnish Taxi Association, due to resign in 2005

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

KIRSTI PIPONIUS, Deputy Board Chairman of Sodexho Oy, due to resign in 2005

VELI-MATTI PUUTIO, President of Osuuskauppa Arina, due to resign in 2005

JARMO RANTANEN, Mayor of Tampere, due to resign in 2006

ILKKA RANTASALO, Managing Director of Staff-Point Oy, due to resign in 2006

MARKKU RUOHONEN, Managing Director, Raha-automaattiyhdistys (Finland's Slot Machine Association), due to resign in 2005

TIMO RÄTY, President of the Finnish Transport Workers' Union AKT, due to resign in 2006

MARKKU RÖNKKÖ, Managing Director of Atro Group, due to resign in 2005

PEKKA SALOJÄRVI, Board Chairman of Garamond Oy (Gummerus), due to resign in 2005

KALEVI VANHALA, President of the Wood and Allied Workers' Union, due to resign in 2005

ERKKI VARIS, Managing Director of Oy Metsä-Botnia Ab, due to resign in 2006

MATTI VIIALAINEN, Deputy Director of the Central Organization of Finnish Trade Unions SAK, due to resign in 2006

MARJATTA VÄISÄNEN, Development Manager of the Union of Salaried Employees TU, due to resign in 2006

BOARD OF DIRECTORS

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

HANNU SYRJÄNEN, Chairman
President and COO of SanomaWSOY,
b. 1951, BSc (Econ), LLM.

LEIF FAGERNÄS, Deputy Chairman
Director General, Confederation of Finnish Industries EK, b. 1943, LLM.

LAURI IHALAINEN, Deputy Chairman
President of the Central Organization of Finnish Trade Unions SAK, b. 1947

GEORGE BERNER, Managing Director of Berner Corporation, b. 1948, Grad. Eng.

MARTIN GRANHOLM, Board Chairman of VR-Group Ltd, b. 1946, Grad. Eng., DEng (hc).

EINO HALONEN, President and CEO of Suomi Mutual Life Assurance Company, b. 1949, BSc (Econ).

EERO HELIÖVAARA, President and CEO of Pohjola Group plc, b. 1956, Grad. Eng., MBA.

SEPPO JUNTTILA, General Secretary of the Finnish Confederation of Salaried Employees STTK, b. 1947, Process Technician.

JYRKI KIVIHARJU, Director of the Bank Employers' Association, b. 1945, LLM.

RISTO PIEKKA, President of the Confederation of Unions for Academic Professionals AKAVA, b. 1948, MPolSc.

BOARD OF DIRECTORS 2005


FROM LEFT: Gretel Ramsay, Eero Heliövaara, Erkki Vuorenmaa, George Berner, Leif Fagernäs, Hannu Syrjänen, Seppo Junttila, Kari Puro, Jyrki Kiviharju and Risto Piekka

Inspectors

KARI PURO, President and CEO of Ilmarinen Mutual Pension Insurance Company, b. 1941, MD and DCh, BPolSc.

GRETEL RAMSAY, Managing Director of Tammet Ltd, b. 1955, BSc (Econ).

Deputy members

TIMO PARMASUO, Board Chairman of Meconet Ltd, b. 1950, ME.

HANNU RAUTIAINEN, Solicitor of the Confederation of Confederation of Finnish Industries EK, b. 1952, LLM, BSc (Econ).

ERKKI VUORENMAA, President of the Metalworkers' Union, b. 1947

EERO YLÄ-SOININMÄKI, CEO of Pohjantähti Mutual Insurance Company, b. 1952, Grad. Eng.

INSPECTORS OF PENSION DECISION OPERATIONS

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

Members

Juhani Maijala

Esko Mäkeläinen

Markku Ruohonen

Markku Rönkkö

Pekka Salojärvi

Matti Viialainen

Deputies

Antti Herlin

Arto Kajanto

Kirsti Piponius

Veli-Matti Puutio

Matti Viljanen

Marjatta Väisänen

INSPECTORS OF INVESTMENT OPERATIONS

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

Members

Ilpo Jalasjoki

Antti Lagerroos

Simo Leivo

Juho Lipsanen

Yrjö Mäkinen

Kalevi Vanhala

Deputies

Jorma Eloranta

Liisa Joronen

Veikko Kuusakoski

Jarmo Rantanen

Timo Räty

Erkki Varis

Auditors

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

Sirkku Valkjärvi, APA,
PricewaterhouseCoopers Oy

Deputy auditors

Sari Airola, APA,
PricewaterhouseCoopers Oy

Marja-Terttu Sotka, APA,
PricewaterhouseCoopers Oy

Eino Halonen, Timo Parmasuo, Hannu Rautiainen, Martin Granholm,
Eero Ylä-Soininmäki and Lauri Ihalainen

Executive Group

FROM LEFT: Kari Puro, Jaakko Tuomikoski, Sini Kivihuhta, Timo Aro

KARI PURO
President and CEO
b. 1941, MD and DCh, BPolSc.
He has worked for Ilmarinen since 1990

JAAKKO TUOMIKOSKI
Deputy CEO
b. 1950, MA, FASF
He has worked for Ilmarinen since 1981

SINI KIVIHUHTA
Senior Vice President, Client Relations
b. 1959, LLM.
She has worked for Ilmarinen since 1983

TIMO ARO
Senior Vice President, Pension Services
b. 1955, MD and DCh, MSc.
He has worked for Ilmarinen since 1994

FROM LEFT: Jussi Laitinen, Kristiina Hämäläinen, Juhani Karjasilta, Pirkko Auvinen

JUSSI LAITINEN
Senior Vice President, Investments
b. 1956, MBA, BSc (Econ).
He has worked for Ilmarinen since 2001

KRISTIINA HÄMÄLÄINEN
Senior Vice President, Personnel and Administration
b. 1948, BSc (Econ).
She has worked for Ilmarinen since 1974

JUHANI KARJASILTA
Senior Vice President, Information Techology
b. 1959, Grad. Eng.
He has worked for Ilmarinen since 2002

PIRKKO AUVINEN
Senior Vice President, Legal Matters
b. 1950, LLM.
She has worked for Ilmarinen since 1974

FROM LEFT: Hillevi Mannonen, Satu Mehtälä, Simo Mattinen

HILLEVI MANNONEN
Chief Actuary
b. 1958, BA, FASF
She has worked for Ilmarinen since 1997

SATU MEHTÄLÄ
Senior Vice President, Corporate Communications
b. 1960, MBA.
She has worked for Ilmarinen since 2001

SIMO MATTINEN
Personnel representative
b. 1962, post-secondary degree in business administration and commerce.
He has worked for Ilmarinen since 1984

OTHER MANAGEMENT, MARCH 1, 2005

CLIENT RELATIONS

Major Clients and Broker Relations
Juha Elovirta

Arja Alasentie
Major Clients

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

Kirsti Koponen
Business Services

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

Client Services and Development
Irmeli Kesonen

Paula Ojala-Ruuth
Client Services

Juha Junnelin
Insurance Services

Markku Riikonen
(acting) Marja-Liisa Alanne
Collection and Payments

Minna Hakkarainen
Development Services

Special Services
Tiina Nurmi
(acting) Markku Riikonen

Maarit Wilén
Supplementary Insurance and Pension Foundation Services

PENSION SERVICES

Risto Ali-Penttilä
Employer Pension Services

Tarja Hurskainen
Pension Benefits

Anne Koivula
Disability Pension and Rehabilitation Decisions

Eeva-Liisa Rahikainen
Pension Payments

Chief Medical Officer Seppo Kettunen
Medical Adviser Pertti Heikman
Medical Adviser Petri Järvinen
Medical Adviser Heikki Katila
Medical Adviser Antti Sorva
Medical Adviser Seppo Vainionpää
Insurance Medical Specialist Unit

PERSONNEL AND ADMINISTRATION

Arja Savolainen
Personnel

Olli-Veikko Kurvinen
Administration

Seija Rönnholm
Operating Costs Accounting

INVESTMENTS

Jari Puhakka
Equities and Fixed Income

Jari Eskelinen
Fixed Income

Mikko Mursula
Equities

Mikael Simonsen
Allocation

Timo Kankuri
Real Estate and Private Equity Funds

Vesa Pohjankoski
Customer Financing and Client Relations

Heidi Koskinen
Investment Administration

INTERNAL AUDIT

Markku Alho

FINANCE AND ACTUARIAL MATTERS

Hillevi Mannonen
Actuarial Services

Pirjo Pohjankoski
Accounts and Bookkeeping

INFORMATION TECHNOLOGY

Jukka Hirvinen
IT Management

CORPORATE COMMUNICATIONS

Ulla Pihlajamäki

BUSINESS PLANNING AND RESEARCH

Toni Äikäs

Advisory Committee for Insurance Clients

Hannu Isotalo, **chairman**

Reijo Kärkkäinen, **deputy chairman**

Juha Ahvenniemi

Juha Edgren

Olli Eräkivi

Petri Heino

Irene Hämäläinen

Ari Impivaara

Lasse Johansson

Ilkka Jokinen

Timo Juvakoski

Jarkko Järvinen

Tapani Kaskeala

Aku Keltto

Jukka Kihlman

Seppo Kinkki

Matti Korkiatupa

Pasi Lahtinen

Timo Laitinen

Ilkka Lantto

Johanna Lehtonen

Tuomas M. S. Lehtonen

Liisa Leiva

Pekka Lerkkanen

Matti Manner

Linnea Meder

Jari Mellas

Hannu Mikkonen

Simo Moisio

Ahti Myllys

Mikko Nevalainen

Jukka Niemi

Jukka-Pekka Nikula

Krister Olsson

Tuula Paalimäki

Tahvo Pekkinen

Katri Pietilä

Maaret Pönni

Matti Pörhö

Matti Pöyry

Taisto Riski

Veli Saarenheimo

Pekka Sahamies

Ossi Saksman

Ari Sandberg

Erik Sjöberg

Magnus Sjöblom

Janne Skogberg

Aimo Takala

Kari Tarkiainen

Olli Tasala

Pentti Tiainen

Reijo Tuomela

Ilkka Tuominen

Marja Usvasalo

Seppo Vekka

Harry Viiala

Jorma Vähärautio

Leena Välimäki

Ritva Välimäki

Christian Österberg

Advisory Committee for the Insured

Eila Ahonen
Erik Bussman
Seppo Fahlström
Anne Gärding
Kari Halminen
Arto Halonen
Marja Helander
Juha Häkkinen
Jouko Isoviita
Isto Kaarnalehto
Markku Kankainen
Kari Koivisto
Jukka Korhonen
Lauri Korkeakoski
Paula Koskinen
Reija Kultanen
Kari Kähkönen
Tarja Malén
Anneli Myllärinen
Esa Mäenpää
Juha Nevalainen
Maritta Niemelä
Pirkko Penttilä
Esa Pitkälä
Seija Pyökeri
Pekka Rissanen
Reijo Ruppa
Eero Saloranta
Tarja Savolainen
Inkeri Seppälä
Päivi Suksi, Handelsbanken
Anna-Liisa Toikka

Advisory Committee on Pension Affairs

REPRESENTATIVES OF EMPLOYEES

Eija-Sisko Huhtala
Kaija Kallinen
Erkki Rimpiläinen
Aleksei Solovjew

REPRESENTATIVES OF EMPLOYER

Timo Höykinpuro
Hannu Rautiainen

REPRESENTATIVES OF ILMARINEN

Timo Aro, chairman
Anne Koivula, deputy chairman

PRESENTING OFFICERS

Seppo Kettunen
Petri Järvinen
Ilkka Käppi
Mika Niskanen
Merja Mäkimattila

David Trood/GORILLA

‘Ilmarinen makes determined efforts to increase the company’s transparency.

Financial statements 2004

Part of the notes to the official financial statements have been omitted since they are almost identical in both the parent company and the Group, or they are otherwise of minor importance, or because the same information is apparent from the Board of Directors' report.
The following notes were omitted:
- statement of source and application of funds
- investment in real estate
- specification of investment in affiliated undertakings and participating interests
- changes in tangible and intangible assets
- specification of receivables
- inner-circle loans
- specification of debts other than technical provisions
- notes to consolidated accounts excluding specification of net investment income, operating expenses and capital and reserves plus specification of costs of staff members and corporate organs.

Two diagrams showing the structure of Ilmarinen's real estate stock have been added to the Board of Directors' report.

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

The concepts and terms used in the financial statements are explained in the guide for readers on pages 74-75.

Board of Directors' report

IMPROVEMENT IN THE ECONOMY

2004 was a year of favourable trends in both the global and Finnish economies. Regionally, growth was slowest within the euro zone, apparently peaking in the early months of 2004; in some of the greatest economies of the euro zone, growth almost came to a standstill towards the end of the year. In Finland, on the other hand, industrial production in particular at the end of the year was much higher than the year before. Total production in Finland increased by more than three percent, a good result, considering that demand for exports was subdued by an ever stronger euro against the dollar and rising oil prices began to erode the profitability of businesses and increased the consumer prices for oil-based goods. The unemployment rate dropped to a little under 9%; the employment rate, on the other hand, has not met the targets set by the government.

The effect of higher oil prices on rising inflation were counterbalanced by certain one-off reductions in indirect taxes, which is why consumer prices in Finland at the end of the year were a mere 0.4% higher than at the beginning of the year. Accordingly, the rate of inflation in Finland was the lowest in the euro zone, rising slightly towards the end of the year.

Interest rates, however, have not turned upwards as expected. Trends in share prices were fairly unsteady, but the overall trend turned out positive for investors. Demand for office premises continued to fall, which resulted in an increase in vacancy rates.

DEVELOPMENT OF THE EMPLOYMENT PENSION SYSTEM

The agreements concluded by the social partners, namely employers and trade unions, in 2001 and 2002 sought to harmonize and simplify the criteria for determining earnings-related pensions in the private sector. Most of the changes introduced came into effect on January 1, 2005. Similar changes were made in earnings-related pensions in the public sector, as well.

The changes relating to pension entitlement, determination of pensions and vocational rehabilitation are aimed at encouraging people to retire later and to cope at work for a longer period before retiring. Whether these changes will affect retirement trends in practice as expected remains to be seen. In 2005, people born in three consecutive years will simultaneously have the opportunity to retire on old-age pension at the age of 63 without the abatement for early retirement required by the old pension laws. This has caused a temporary increase in applications for old-age pensions.

In the longer run, however, these changes will relieve the upward pressure (by several percentage points) on pension expenditure and employment pension contributions vis-à-vis the total wage bill and further strengthen the financial capacity of the employment pension system.

It was also agreed that the legislation governing the pension security of private-sector wage-earners will be later harmonized. The Government proposal for a new Employees' Pensions Act (TyEL) will be presented to Parliament in spring 2005. The Act should repeal the current Employees' Pensions Act (TEL), the Temporary Employees' Pensions Act (LEL) and the Pensions Act for Performing Artists and Certain Groups of Employees (TaEL). The Act is intended to come into effect at the beginning of 2007, and will comprise the provisions on benefits that today are found in a number of separate Acts, as well as an entirely new set of provisions on employment pension insurance for both permanent and temporary employers. With the new law, the special status of Etera Mutual Pension Insurance Company will be removed and the company will compete with the TEL institutions for the same clientele as are currently insured under the pension laws mentioned above and the Self-Employed Persons' Pensions Act.

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

As of 2005, public companies within the euro zone must draw up their consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). Accordingly, companies must enter pension expenses in a manner defined by IAS19, a standard where expenses from disability pensions are spread differently from the Finnish accounting practice. The earlier practice of spreading would have resulted in very large imputed liabilities in companies' financial statements drawn up in accordance with the IFRS, even in cases where the companies would have provided for their employees' pension security by taking out employment pension insurance at employment pension companies. With regard to TEL insurance policies, this problem was solved by replacing the traditional system of experience rating in disability pension premiums with a system of tariff categories based on the extent of disability risk. While this change will not come into effect until 2006, it will solve the problem with IFRS financial statements from 2005 onwards as regards insured Tel policies.

For public insurance companies, the transition to the IFRS will entail the application of IFRS4 on insurance contracts, for instance. IFRS4 was the first step in the project on how insurance contracts should be dealt with in accounting. The issue of applying the IFRS to the accounts of employment pension insurance companies will be dealt with when the second stage of the project is completed, which is expected in 2008 at the earliest.

RESULTS AND SOLVENCY

In 2004, the number of persons insured by Ilmarinen was lower than in the previous year since one of our major clients transferred its employment pension insurance policies to another company. Accordingly, the wage bill insured was also slightly smaller. Ilmarinen's underwriting business showed a surplus.

For investments and solvency, the trend in 2004 was a positive one. As a result, the company's net investment income at market values was 7.8% (8.7% in 2003). Solvency capital grew to EUR 3,597.8 million compared with EUR 2,951.2 million in 2003.

The monitoring limits on an earnings-related pension company's solvency capital depend on the risk content of its investment portfolio. Ilmarinen's solvency capital at the end of the year was 2.3 times its solvency border, compared with 2.2 in 2003. The company's solvency capital stood at 25.6% (2003: 22.3%) of the technical provisions used in solvency calculations and 57% (54%) of the upper limit of the solvency capital target zone.

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

The overall result for 2004 was EUR 698.5 (818.3) million. The underwriting business showed a profit of EUR 34.2 (38.5) million, while the loading profit was EUR 6.9 (9.1) million. Net investment income at market values totalled EUR 1,270.6 (1,278.5) million. Together with other interest items, net investment income exceeded the EUR 619.4 (510.4) million interest credited to technical provisions by EUR 657.4 (770.7) million.

Ilmarinen's solvency, its high proportion of equity investment and the high long-term expected return mean that, overall, it has a larger than average fluctuation in its annual results. Performance over the five-year period included two particularly difficult years from 2000-2002, as a result of which the period remained significantly below the long-term expectation.

The profit from the underwriting business will be transferred to the equalization provision according to the actuarial principles confirmed by the Ministry of Social Affairs and Health, except for EUR 6.0 million, the amount by which the equalization provision for the TEL supplementary pension insurance would otherwise have exceeded its upper limit.

The amount available for discounts to be granted on TEL contributions, or client bonuses, is determined by the company's solvency capital and solvency position. A total of EUR 45.0 (33.0) million was earmarked for use as client bonuses. This was 0.46% (0.33%) of the total wage bill insured, and EUR 129 (91) per employment relationship insured with Ilmarinen.

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

POLICIES AND INCOME FROM PREMIUMS

At the end of 2004, the company had 31,572 (31,927) TEL policies, covering 349,000 (364,000) insured persons. The number of policies thus declined by about 1% and the number of persons insured by 4.1%. The average number of persons covered by a TEL policy remained at about 11.

The total wage bill insured with Ilmarinen under TEL was EUR 9,766.9 (9,879.4) million, bringing the estimate for the wage bill used as the basis for the financial statements down by 1.1% from the previous year. According to estimates, Ilmarinen's market share calculated on the total wage bill insured under TEL has dropped by 1.3 percentage points from the 2003 figure of about 34.1, which is mainly due to the departure of one of our major clients. Our

Board of Directors' report

market share had been growing for several years until 2004.

At the end of 2004, Ilmarinen had 49,580 (49,696) YEL policies. The average reported annual income was EUR 17,157 (16,559) which is about 3.6% above the 2004 figures and slightly higher than the increase of 2.28% in the TEL index. The average YEL income was significantly lower than the average earnings of TEL employees.

Ilmarinen's premiums written in 2004 totalled EUR 2,217.3 (2,229.6) million.

TEL premiums written in 2004 totalled EUR 2,046.8 (2,063.3) million, a decline of 0.8% in the income from TEL contributions. The discounts granted on TEL contributions, or client bonuses, totalled EUR 30.4 (19.4) million in 2004. Key factors in the change in the income from TEL contributions were a lower wage bill for persons insured and an increase in client bonuses.

Premiums written in YEL policies in 2004 totalled EUR 170.6 (166.3) million, i.e. an increase of 2.6%.

Bad debts from unpaid TEL contributions came to EUR 3.5 (5.4) million, and from unpaid YEL contributions EUR 4.0 (3.5) million. As a company, Ilmarinen did not incur any losses from YEL contributions, however, because in the YEL system the government compensates for any contributions that have not been paid by policyholders.

Sales of new TEL policies in 2004 will increase annual premiums by approximately EUR 117 million. Total sales showed a particularly good result for the year under review despite the fact that the transfer of TEL insurance policies to other employment pension insurance companies showed a loss of about EUR 13 million. The good result for sales was achieved by acquiring a major foundation as a TEL insurance client and by TEL sales that reached the targets set for them.

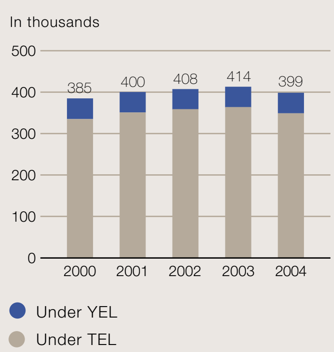
Sales of pension insurance policies for entrepreneurs also reached the targets set for them in 2004. In terms of annual income from premiums, total sales were EUR 14 million, with 4,700 new policies. The balance on transfer for YEL insurance showed a loss of 500 policies.

CONTRIBUTION RATE

The average TEL contribution confirmed for 2004 was 21.4% (21.4%). The employee contribution was 4.6 percentage points of this and the employer's contribution an average of 16.8 percentage points. The contribution rate payable by the employer varies from policy to policy, and also depends on the client bonuses granted by the company in question. Ilmarinen's client bonuses averaged 2.0% (1.2%) of the employer's contribution. In 2005, the average TEL contribution will continue to be 21.6% of the wage. The increase is wholly due to the fact that, as part of the pensions reform, the contribution rate for employees aged over 53 will rise to 5.8%.

In 2004, the YEL contribution was 21.4% of the reported income confirmed under YEL. The YEL premiums for entrepreneurs aged under 54 will remain at 21.4% in 2005, while the premiums for

Number of people insured



Premiums written

Benefits paid out

PENSION EXPENDITURE BY TYPE OF PENSION IN 2004, EUR MILL.

	TEL	YEL	Total	% of total expenditure
Old age pensions	955.8	92.4	1,048.2	54.2
Early old-age pension	124.9	14.8	139.7	7.2
Part-time pensions	33.4	8.5	41.9	2.2
Disability pensions	303.4	27.3	330.7	17.1
Individual early retirement pensions	32.6	2.4	35.0	1.8
Unemployment pensions	141.7	2.5	144.2	7.5
Survivors' pensions	172.1	21.3	193.4	10.0
Total	1,763.9	169.2	1,933.1	100.0

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

NUMBER OF PENSION RECIPIENTS, DECEMBER 31, 2004

Benefits under basic coverage

Pension type	TEL	YEL	Total
Old age pensions	112,772	14,946	127,718
Early old-age pension	12,061	2,833	14,894
Part-time pensions	4,628	1,345	5,973
Disability pensions	34,117	4,596	38,713
Individual early retirement pensions	2,200	302	2,502
Unemployment pensions	11,608	318	11,926
Survivors' pensions	31,580	6,205	37,785
Total	208,966	30,545	239,511

NEW PENSION DECISIONS, DECEMBER 31, 2004

	2004	2003	Percentage change
Old age pensions	3,062	2,892	5.9
Early old-age pension	859	1,157	– 25.8
Part-time pensions	530	1,286	– 58.8
Disability pensions	5,850	6,883	– 15.0
Individual early retirement pensions	246	522	– 52.9
Unemployment pensions	2,192	2,728	– 19.6
Survivors' pensions	2,581	2,559	0.9
Total	15,320	18,027	– 15.0

entrepreneurs over 53 will rise to 22.6%, in line with the rise in contribution rates for TEL employees over 53.

PENSIONS AND MAINTAINING WORKING CAPACITY

In 2003, Ilmarinen paid out altogether EUR 1,933.1 (1,901.7) million in pensions.

At the end of the year, 239,511 pension recipients were with Ilmarinen, i.e. 1.5% more than a year earlier, when they totalled 235.965. At year end, TEL pension recipients totalled 208,966 (205,807) and YEL pension recipients 30,545 (30,158).

Old-age pension was received by 60% of these pension recipients, and disability pension by 16%. Recipients of individual early retirement pension accounted for 1%. The proportion of unemployment pension recipients decreased to 5%, while survivors' pension recipients accounted for around 16%. The increase in the number of part-time pensions turned downwards, with the number of recipients falling to 2.5% of all pension recipients.

Ilmarinen made 15,320 new pension decisions in 2004, i.e. 15% less than in 2003. There were several reasons for this decline. In a number of cases, the pensions reform had made a transfer to early old-age pension unprofitable, which is also why the number of new part-time pensions was only half the number in 2003. On the other hand, there is a seemingly 15% decline in decisions concerning disability pensions. In 2004, the 'last-institution principle' was extended to apply to the public sector as well. Accordingly, one part of the disability pension decisions that would otherwise have been issued by Ilmarinen were issued by other pension institutions. Had there been no such change, the number of decisions on disability pensions would have increased by approximately 5%.

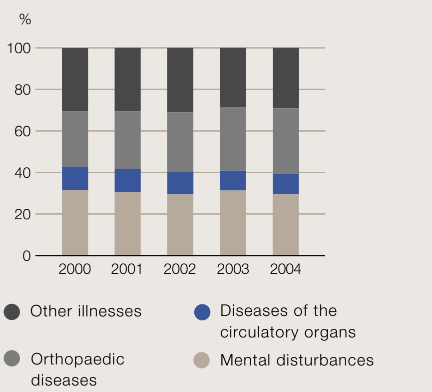
Ilmarinen measures the efficiency of its pension application processing in terms of average processing time per type of pension, and the quality of its pension decisions in terms of the permanence of the rulings at appellate level. In both these measures, the company has succeeded better than the other pension companies on average. Ilmarinen's pension decisions were changed by the Pension Appeals Board in 7.6% (5.3%) of cases and by the Insurance Court in 14.3% (18.9%) of the cases.

Altogether 23,645 (26,500) individual pension coverage reports were supplied in 2004 in response to requests from clients.

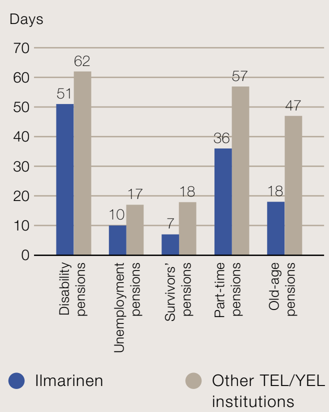
Ilmarinen's Motivo programme supports client companies' efforts to maintain the working capacity of their personnel. Together with the other specialists in the field, Ilmarinen organized 232 (217) sessions under this programme.

Ilmarinen continued to support vocational rehabilitation in its client companies by offering advisory training in this area as well as counselling and expert help at the initial stage of rehabilitation planning, for both rehabilitees and client

Disability pensions granted by Ilmarinen



Processing times for pension applications, 2004



company personnel. During the actual rehabilitation period, Ilmarinen pays benefits in accordance with the employment pension legislation to ensure an adequate income for the rehabilitee and to reimburse the costs incurred during training. In 2004, Ilmarinen paid out rehabilitation allowance or pension-related rehabilitation increment to 823 (733) insured persons during vocational rehabilitation. The number of rehabilitees was up 12% (10%).

UNDERWRITING BUSINESS, TECHNICAL PROVISIONS AND PORTFOLIO TRANSFERS

Technical provisions at the end of 2004 totalled EUR 16,375.6 (15,275.0) million. In net terms, the provision for future bonuses, including portfolio transfers, grew by EUR 253.2 million, to a year-end total of EUR 2,268.3 (2,015,1) million. In other respects, technical provisions increased by 6.4%. The company posted an underwriting result of EUR 34.2 (38.5) million, or 0.4% of the total wage bill forming the basis for the insurance contributions. EUR 28.2 million was transferred to the equalization provision, which increased to EUR 842.8 million. The transfer to the equalization provision was EUR 6.0 million less than the technical underwriting result, as the equalization provision for the TEL supplementary pension insurance reached its upper limit. The technical rate of interest that regulates the percentage of investment income to be transferred to technical provisions was 4.5% until June 30, 2004 after which it was 5%. At the start of 2005 it decreased to 4.75%.

Assets covering technical provisions totalled EUR 17,416.9 (16,034.7) million.

In 2004 portfolio transfers were made from one TEL pension foundation, totalling EUR 5.5 million, of which provision for future bonuses accounted for EUR 0.6 million.

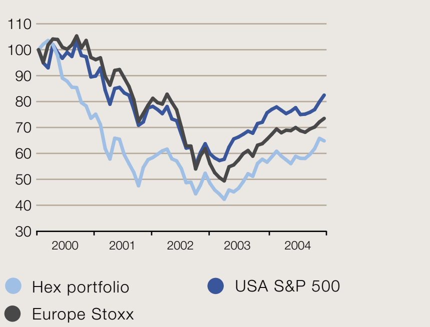
Ilmarinen had one transfer of funds to a pension foundation in 2004. The total amount of the liability and solvency capital involved was EUR 1.1 million and the number of persons insured 247.

INVESTMENT

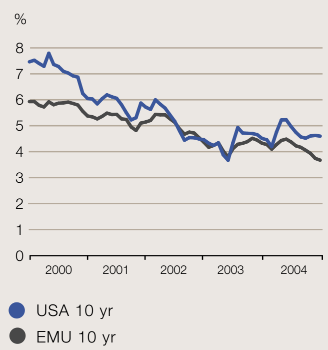
In the basic allocation, or target investment breakdown, adopted by the Board of Directors each year, the various types of investments are designed to maximize the overall yield expectation within the risk limits set by the Board. The principle behind the assessment of the risk limits is the company's average solvency across economic cycles.

At the end of 2004, the total market value of Ilmarinen's investments was EUR 17,635.6 million (15,985.5 million). Fixed-income investments – bonds, interest-rate funds and other financial market instruments – accounted for 53% (51%) of the company's investment assets. Equities ("Stocks and shares" in the balance sheet) excluding interest-rate or real-estate funds, accounted for 29% (25%). Real-estate investments accounted for 12% (15%), of which real-estate funds accounted for 0.4% at the end of

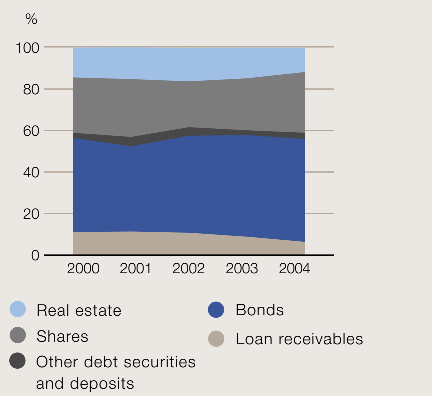
Stock market performance
(Dec. 31, 1999=100)



Long-term interest rates



Structure of Ilmarinen's investment assets



Board of Directors' report

the year. Loan receivables stood at 6% (9%). These figures include the market value of derivatives. Share, currency and interest-rate derivatives are used both for hedging and for modifying the allocation of investment assets.

Return on investments at market value was 7.8%, corresponding to a 7.6% real return. Return on the investment portfolio in 2003 had been 8.7%. Average real annual return at market value for the past five years has been 3.4% p.a., which corresponds to an average real annual return of 1.7%. From the beginning of 1997, when employment pension companies were given more opportunity to take investment risks through a change in the terms set for their investment activities, total return on Ilmarinen's investments on average at market value has been 6.9% per year, corresponding to a real return of 5.3% per year.

The year-end market capitalization of the fixed-income investment portfolio was EUR 9,283.4 (8,199.3) million, with government bonds accounting for EUR 4,260.4 (4,452.5) million, i.e. 45.9% (54.3%) of the total. The return on fixed-income investments at market values was 6.5% (4.9%). Debt securities accounted for EUR 532.7 (367.8) million, or about 5.7% (4.5%) and the return was 1.4% (1.8%). The remaining 48.4% were corporate bonds, loans to developing economies and investments in fixed-income funds. Most corporate bonds had high credit ratings. The breakdown of credit ratings is presented in the notes to the financial statements, under 'Risk Management'.

At the end of 2004, the average term-to-maturity of the fixed-income portfolio was 4.8 (4.2) years.

The value of the equity portfolio increased in 2004 to EUR 5,163.1 (4,016.6) million as a result of the rise in share prices and net buying of equities. Foreign equities accounted for 60% (58%) of this or about EUR 3,116.5 (2,317.4) million. The favourable development of the equity markets raised the return on Ilmarinen's equity investments calculated at market values to 13.2% (22.1%).

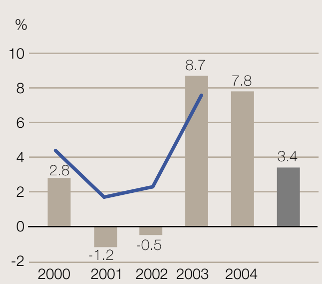
At the end of the year, the market capitalization of Ilmarinen's holding in Pohjola was EUR 305.3 million. This represented 1.7% (1.7%) of Ilmarinen's total investment portfolio, and 5.9% (6.9%) of equity investments. Most of the company's Pohjola holding was sold to Suomi after the period under review. Average annual return on the Pohjola holding throughout Ilmarinen's ownership, from the end of 1999 to the end of 2004, was 7.5%, which was 11.2 percentage points higher than the return under the HEX portfolio return index.

Ilmarinen's equity portfolio also includes investments in venture capital funds and hedge funds, which the company has been increasing over the past few years. At the end of 2004, they accounted for about 2.7% (2.2%) of total investment assets. Venture capital funds accounted for EUR 248.9 million of the total and hedge funds for EUR 230.6 million. The return on the hedge funds to-

Breakdown of investment assets on Dec. 31, 2004
Total EUR 17,635.6 mill.

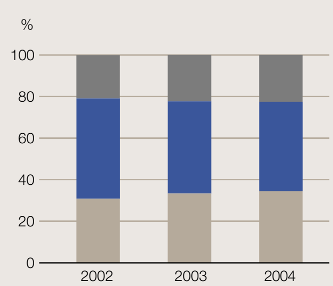
a. Customer financing, 6%
b. Equity, 29%
c. Fixed income, 53%
d. Real estate, 12%

Net investment income, at current value



Ilmarinen's annual income
Other TEL companies on average
Average 5-year return for Ilmarinen

Breakdown of equity portfolio by business sector



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

CLIENT LOAN PORTFOLIO, EUR MILL.

	1994	1999	2004	Percentage return
TEL loans	2,684.9	1,456.8	710.2	4.4
Investment loans	510.3	234.0	400.6	5.2
Total (incl. interest accrued)	3,195.2	1,690.8	1 110.9	4.7
Of total portfolio, %	55	13	6	

talled an average of 4.9% and on venture capital funds 10.6% in 2004.

In 2004, the Board of Directors updated Ilmarinen's ownership policy, which had originally been adopted and published in 1999 and which addresses corporate governance issues such as corporate structures, dividend policies and incentive systems in companies owned by Ilmarinen. In line with the ethical investment principles stated in the ownership policy, the company disposed of investments in one (3) company.

Ilmarinen's real estate portfolio at year-end totalled EUR 2,078.2 (2,366.6) million. The most significant of the sales reducing the real-estate portfolio was the sale of shopping centres owned by Ilmarinen to the Doughty Hanson & Co real-estate fund.

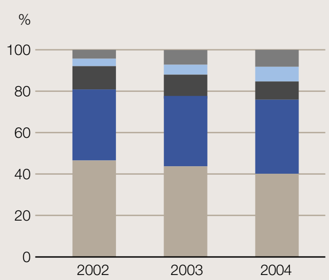
Total return on direct real-estate investments at market value was 3.7% (5.2%); with real-estate funds included, 4.0% (5.2%). The decline in annual return was due to several ongoing renovation projects and depreciation in the market value of some properties. Market values were depreciated by EUR 34.6 million, mostly for office property, where rents have been declining. The occupancy rate for Ilmarinen real estate (excl. property under renovation) at year end was 85.5% (91.7%).

Loans granted to clients decreased by 20.8% in 2004. In 2004, new loans accounted for EUR 142.8 (108.1) million, and EUR 430.9 (262.0) million was repaid. The entire loan portfolio totalled EUR 1,110.9 (1,403.0) million at the end of the year, including accrued interest. The return on loan receivables was 4.7% (4.6%).

RISK MANAGEMENT

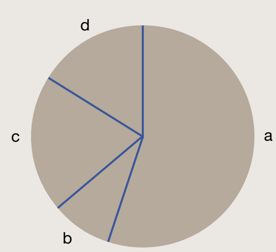
For Ilmarinen, the absolute priority in risk management is to safeguard the rights of the persons insured, pension recipients and policyholders. The aim of risk man-

Geographical breakdown
of listed shares



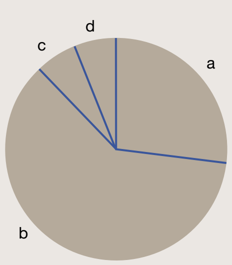
- Developing economies
- Japan
- USA
- Europe
- Finland

Real estate by use
on Dec. 31, 2004
Total EUR 2,000.1 mill.



a. Office, 55%
b. Commercial, 9%
c. Residential, 20%
d. Other, 16%

Real estate by location
on Dec. 31, 2004
Total EUR 2,000.1 mill.



a. Central Helsinki, 27%
b. Metropolitan Helsinki, 61%
c. Rest of Finland, 6%
d. Other growth centres, 6%

agement is to prevent any risks threatening the company from becoming reality, minimize any damage or losses caused by them, and secure the continuity of the company's operations. A further aim is to help the company to make its business, particularly investment activities, benefit from the opportunities offered by controlled risk taking.

The principle for financing employment pensions is based on partial advance funding. The division of each type of pension into a part that an individual pension institution is responsible for and a part that is the joint responsibility of all pension institutions is defined in the Employees' Pensions Act. The risk relating to pensions that are the joint responsibility of the pension institutions is borne by future payers of employment pension contributions.

With regard to pensions that are Ilmarinen's responsibility, the risk management of the underwriting business is based on calculation bases that meet the statutory prudence requirements and have been confirmed by the Ministry of Social Affairs and Health, and on the company's own actuarial analyses. The calculation bases confirmed by the Ministry must be applied to calculation of insurance premiums and technical provisions. Ilmarinen does not use reinsurance for the risk management of its underwriting business because the substantial size of its insurance portfolio makes the management of such risks as part of the company's own liability economically more attractive.

The requirements concerning the quality and quantity of assets covering technical provisions are laid down in the legislation. The assets are calculated at their market value. A 3% discount rate is used for calculation of technical provisions, and the yield which corresponds to the difference between the technical interest rate and the discount rate, is transferred to old-age pension funds every year. The investment risk relating to the company's assets covering technical provisions and the yield requirement is borne by Ilmarinen.

The solvency regulations that apply to earnings-related pension insurance companies form the framework for the risk management of Ilmarinen's investment activities. The Board of Directors decides the overall risk level to be observed within the limits of these regulations and determines the powers granted to each organizational level with regard to investment activities. The Board monitors the compliance of investment activities with the investment plan and investment powers continuously.

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

Risk management is described in more detail in the Notes to the Financial Statements.

INFORMATION TECHNOLOGY

The changes in the information systems required for 2005 by the pensions reform and the second stage of the pension payments system were completed according to plan at the end of 2004. The planning of customer service and insurance processes under Ilmarinen's overall project related to the combination of pension laws into a single Act was launched in the autumn, which will be followed by a specification of changes in the information systems in 2005. With a view to the new Act on pensions, employment pension companies, the Central Pension Security Institute and the pension institutions are building a new earnings information system. The project is being carried out by Arek Oy. Ilmarinen had a significant role in the operation and steering of Arek Oy, providing expert advice and joining the company's Board of Directors. The implementation project was launched at the end of the year in three parallel sub-projects carried out by three suppliers of information technology services.

New web services for corporate clients were introduced in late spring. At the same time, Ilmarinen's website was completely overhauled, with the services transferred to a new operating platform. The supply of web services was extended in the autumn with services for self-employed persons. The company also introduced a software package for workflow and document management to serve insurance production and some areas of claims handling, as well, and adopted electronic document processing and work induction. A new technical platform was built for management of telephone services and a contact centre system based on a software package was established. All these projects served Ilmarinen's strategic aims of providing customers with the best services and making its operations more efficient.

To develop its internal IT services, and based on market and supplier analyses, Ilmarinen sent out an invitation to tender for a joint operation to two suppliers of IT services. After examining both tenders, the company signed a letter of intent for a joint venture with TietoEnator. The business was transferred to TietoIlmarinen, the new joint service company owned by TietoEnator and Ilmarinen, at the end of the year, and TietoIlmarinen began operations at the beginning of 2005 with a staff of about 150, most of whom came from Ilmarinen. The goal with this arrangement is to offer a broader supply of services, improve service reliability and productivity and enhance cost efficiency.

The IT processing services of Pohjola, Ilmarinen and Suomi were transferred to WM-data at the beginning of 2005 after competitive tender action.

PERSONNEL

Ilmarinen employed an average of 683 people in 2004, as against 651 a year earlier. These figures are based on the average number of people in the company's employment at the end of each month. At year-end the total was 731 (696) of whom 42 (47) were fixed-term employees. A total of 142 persons were transferred to TietoIlmarinen, which began operations at the beginning of 2005.

Changes relating to pension legislation reform, IT projects and promotion of the company's competitiveness will increase the need for personnel training significantly in the next few years. In 2004 the training given was an average of 7 (7) days per person.

OPERATING EXPENSES

Total operating expenses accounted for EUR 87.7 (79.4), i.e. an increase of 10.5% on the previous year. Investment charges totalled EUR 9.2 (8.5) million, equivalent to 0.05% of the total amount of investment. These charges are financed using the return on investments. Working capacity maintenance costs, which are financed using the administrative component for these purposes in the insurance premium, totalled EUR 3.1 (2.3) million. Other operating costs are financed using the expense loading component and were EUR 6.9 (9.1) million, i.e. 8.4% (11.7%), below this.

ADMINISTRATION

On November 30, 2004, the Supervisory Board accepted Johannes Koroma's resignation from the Board of Directors and replaced him with Leif Fagernäs for the remainder of Mr Koroma's term of office up to the end of 2005. At its meeting on January 24, 2005 the Board of Directors re-elected Harri Syrjänen as Chairman of the Board and Lauri Ihalainen and Leif Fagernäs as Deputy Chairmen. The Board decided to set up two new Committees: a Nomination and Compensation Committee and an Audit Committee. Both began work at the beginning of 2005. The Nomination and Compensation Committee consists of Hannu Syrjänen, Leif Fagernäs and Lauri Ihalainen. The Audit Committee consists of George Berner, Seppo Junttila and Jyrki Kiviharju.

THE GROUP

The Ilmarinen Group comprises the parent company Ilmarinen and mostly real-estate companies. The most important associated company is Pohjola Group plc. TietoIlmarinen is part of the Group on the basis of Ilmarinen's voting share which comprises 70% of all votes relating to TietoIlmarinen shares, although Ilmarinen owns only 30%, of the shares. The total number of subsidiaries was 172.

In spring 2004, Suomi Mutual Life Assurance Company and Pohjola Group plc decided on a new arrangement of their life assurance business. Pohjola established a new subsidiary, Pohjola Life Insurance Company Ltd, to which part of Suomi's life assurance stock was transferred on January 1, 2005. At the same time, the companies agreed on sales

Board of Directors' report

and purchase options relating to Pohjola shares; on January 3, 2005, Ilmarinen sold Suomi a considerable part of its Pohjola holdings. Suomi thus now has a 49.64% holding in Pohjola and Ilmarinen a 9.24% holding. Because of the sale, Pohjola is no longer an Ilmarinen associated company.

Because of the above arrangement, Pohjola is once again actively engaged in both life and non-life insurance, with Suomi as its main owner. It was also agreed that any Pohjola cross-ownership would be dismantled by Suomi buying the Ilmarinen guarantee shares owned by Pohjola and Ilmarinen buying the Suomi guarantee shares owned by Pohjola. Both transactions took place on January 3, 2005, making Suomi a company in which Ilmarinen has a participating interest.

GUARANTEE CAPITAL

Ilmarinen has EUR 22,994,653.31 in guarantee capital, divided into 13,672 guarantee shares. On December 31, 2004 the owners of the guarantee capital and their shares were as follows:

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

After purchasing the Ilmarinen guarantee capital owned by the Pohjola Group on January 3, 2005, Suomi now owns 13,412 guarantee capital shares, or 98.1% of all guarantee capital shares.

FUTURE PROSPECTS

Forecasts for the global economy in 2005 are favourable, although growth figures are not expected to reach the levels attained in 2004. The main uncertainties affecting economic forecasts are the trends in oil prices and the weakening of the US dollar, which is why prospects were considered less favourable at the end of 2004.

The sales profit and the result in the transfer business in 2004 will increase Ilmarinen's net market share in 2005 compared with 2004. Furthermore, the positive trend in the equity market has continued to strengthen the company's solvency since the end of the year. At the end of January, solvency capital had risen to 26.2% of the technical provisions used to calculate solvency, and the trend remains favourable.

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

The framework of current solvency regulations already allows Ilmarinen to make consistent long-term investments for high yield over weak economic cycles, as well. A considerable part of the investments can thus be made in domestic and foreign shares in the future, too, a strategy which meets the goals set for the investment activities of employment pension institutions. During 2005, it will be examined whether it is necessary or feasible to increase the proportion of equity investments in employment pension investments on the whole to a significantly higher level. If such decisions are made, Ilmarinen will focus even more on return-oriented investments, which will mean that fluctuations in equity markets in particular will have an even more pronounced impact on annual results. At the same time, an enquiry into the need and opportunities for increasing investment by employment pension funds in Finnish enterprises will take place.

The result in 2005 will depend to a great extent on what happens in the investment markets. Ilmarinen expects that its relative standing amongst the competition over bonuses with its competitor companies will remain good in the longer term.

Profit and loss account

EUR mill.	Parent company 2004	Parent company 2003	Group 2004	Group 2003
TECHNICAL ACCOUNT				
Premiums written	2,217.3	2,229.6	2,217.3	2,229.6
Investment income	1,653.9	1,610.9	1,641.1	1,598.4
Claims incurred				
Claims paid	–1,953.6	–1,918.8	–1,953.6	–1,918.8
Change in provision for claims outstanding				
Total change	–360.7	–390.7	–360.7	–390.7
Portfolio transfers	1.2	5.0	1.2	5.0
Insurance portfolio transfers	–0.5	–	–0.5	–
	–360.0	–385.6	–360.0	–385.6
	–2,313.6	–2,304.5	–2,313.6	–2,304.5
Change in provision for unearned premiums				
Total change	–739.9	–1,020.8	–739.9	–1,020.8
Portfolio transfers	3.7	4.3	3.7	4.3
Insurance portfolio transfers	–0.6	–	–0.6	–
	–736.9	–1,016.5	–736.9	–1,016.5
Statutory charges	–10.8	–8.4	–10.8	–8.4
Operating expenses	–54.0	–49.9	–54.0	–49.9
Investment charges	–729.6	–448.7	–728.2	–441.9
Investment value adjustments	–0.7	–	–0.7	–
Other technical charges	0.7	–1.9	0.7	–1.9
Balance on technical charges	26.4	10.7	15.0	5.0
NON-TECHNICAL ACCOUNT				
Balance on technical account	26.4	10.7	15.0	5.0
Other income	1.2	1.3	1.2	1.3
Other expenses	–2.0	–2.0	–2.0	–2.0
Profit on ordinary activities	–20.7	–3.2	–14.3	–3.2
Profit/loss on ordinary activities	4.9	6.8	–0.1	1.1
Appropriations				
Change in accelerated depreciation	1.5	–1.2	–	–
	1.5	–1.2	–	–
Minority interest	–	–	0.6	1.0
Profit for the financial year	6.4	5.5	0.5	2.1

Balance sheet

EUR mill.	Parent company 2004	Parent company 2003	Group 2004	Group 2003
ASSETS				
Intangible assets				
Intangible rights	5.4	2.9	5.4	2.9
Other long-term expenditure	0.1	0.1	0.1	0.1
Prepayments	0.5	2.6	0.5	2.6
	6.0	5.6	6.0	5.6
Investments				
Real estate				
Real estate and shares in real estate	1,345.1	1,601.8	1,747.4	2,075.3
Loans to affiliated undertakings	422.6	501.0	–	–
Loans to participating interests	19.5	20.6	19.5	20.6
	1,787.2	2,123.4	1,767.0	2,095.9
Investments in affiliated undertakings and participating interests				
Interests in affiliated undertakings	0.0	–	–	–
Participating interests	312.6	285.6	311.9	285.2
	312.6	285.6	311.9	285.2
Other investments				
Stocks and shares	4,564.6	3,496.5	4,566.0	3,497.9
Debt securities	8,172.2	7,488.0	8,172.2	7,488.0
Loans guaranteed by mortgages	264.5	237.0	264.5	237.0
Other loans	833.3	1,149.0	833.3	1,149.0
Deposits	192.5	123.2	192.5	123.2
Other investments	–	0.1	–	0.1
	14,027.2	12,493.8	14,028.5	12,495.2
	16,127.0	14,902.9	16,107.4	14,876.2
Debtors				
Direct insurance deptors				
Policyholders	62.6	68.0	62.6	68.0
Other deptors				
Receivable from portfolio transfers	8.0	17.2	8.0	17.2
Other deptors	305.4	241.9	300.8	239.3
	313.4	259.1	308.8	256.4
	376.0	327.0	371.4	324.4
Other assets				
Tangible assets				
Machinery and equipment	9.2	9.8	9.2	9.8
Other tangible assets	1.7	1.7	1.7	1.7
	10.9	11.5	10.9	11.5
Cash at bank and in hand	47.7	64.0	50.2	64.5
	58.6	75.6	61.1	76.0
Prepayments and accrued income				
Interests and rents	185.0	205.2	185.3	205.3
Other	24.4	52.7	24.4	52.8
	209.4	257.9	209.6	258.1
ASSETS IN TOTAL	16,776.9	15,569.0	16,755.5	15,540.4

EUR mill.	Parent company 2004	Parent company 2003	Group 2004	Group 2003
LIABILITIES				
Capital and reserves				
Guarantee capital	23.0	23.0	23.0	23.0
Other reserves				
Funds and reserves under the Articles of Association	44.5	41.0	44.5	41.0
Other reserves	–	–	0.6	0.6
	44.5	41.0	45.1	41.5
Profit brought forward	–	–	6.4	9.8
Profit for the financial year	6.4	5.5	0.5	2.1
	73.8	69.5	75.0	76.5
Minority interest	–	–	25.1	21.5
Accumulated appropriations				
Depreciation difference	17.5	19.0	–	–
	17.5	19.0	–	–
Technical provisions				
Provision for unearned premiums	11,118.4	10,378.5	11,118.4	10,378.5
Provision for claims outstanding	5,257.2	4,896.5	5,257.2	4,896.5
	16,375.6	15,275.0	16,375.6	15,275.0
Creditors				
Direct insurance creditors	9.7	7.5	9.7	7.5
Other creditors	260.8	188.2	230.4	149.8
	270.5	195.7	240.1	157.3
Accruals and deferred income	39.5	9.9	39.7	10.2
LIABILITES IN TOTAL	16,776.9	15,569.0	16,755.5	15,540.4

Notes to the financial statements

Accounting principles

Ilmarinen's financial statements are prepared in accordance with the Accounting Act, the Companies Act, the Insurance Companies Act, and the Act on Employment Pension Insurance Companies. Ilmarinen's financial statements also comply with the Ministry of Social Affairs and Health decree on the financial statements of insurance companies and related consolidated financial statements, and with the regulations and guidelines the Insurance Supervision Authority.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover the parent company and all subsidiaries in which the parent company, directly or indirectly, controls more than one-half of the voting rights. All of Ilmarinen's subsidiaries are real estate companies, with the exception of a subsidiary founded during the 2005 reporting year that provides IT services to Ilmarinen.

The consolidated financial statements are drawn up by combining the income statements, balance sheets and notes of the parent company with those of its subsidiaries and eliminating inter-company receivables and payables, revenues and expenses, profit distributions and equity ownerships. Subsidiaries acquired during the year are consolidated as of their acquisition date, and companies sold during the year are consolidated up to their date of sale. Minority interests are segregated from net income and from capital and reserves.

Inter-company equity ownership is eliminated based on the purchase method. Consolidation goodwill is allocated to the assets of subsidiaries and expensed in accordance with their respective amortisation schedules.

Write-downs, related reversals and write-ups relating to real estate subsidiary shares have been reversed in the consolidated financial statements. In the consolidated balance sheet, the corresponding entries are allocated to the real estate holdings of subsidiaries at fair value.

Associated undertakings, i.e. undertakings in which the Ilmarinen Group holds 20% to 50% of the voting rights, are included in the consolidated financial statements using the equity method.

However, holdings in housing and real estate companies are not consolidated. Since the expenses for these companies are covered by shareholders, the effect of this on consolidated net income and distributable reserves is not significant.

The consolidated income statement includes the Group's equity in the income of associated undertakings. In the consolidated balance sheet, the Group's share of an associated undertaking's cumulative income since acquisition is added to or deducted from the cost of the associated undertaking. Equity in the associated company Pohjola-Yhtymä Plc is reported at the same value on the consolidated statements as on the parent company's statements.

BOOK VALUE OF INVESTMENTS

Buildings and structures are shown in the balance sheet at the lower of cost less scheduled depreciation or fair value. The cost basis of assets includes purchase-related variable costs. Shares in real estate entities and land and water areas are shown in the balance sheet at the lower of cost or fair value. The values of some real estate investments have been written up in previous years. Scheduled depreciation is also deducted from the written-up portion of buildings, if recognised as income.

Other shares and equity interests classified as investment assets are shown in the balance sheet at the lower of cost or fair value. The book value of some shares has been written up in previous years.

Debt securities are reported at the lower of cost or market. However, any changes in value caused by fluctuations in interest rates are not reported. The difference between the amount repayable at maturity and the purchase price of debt securities is recognised as interest income or deducted from interest income over the remaining life of instruments. The offsetting entry is an increase or a decrease in the cost of the instrument in question.

The cost basis of assets is based on asset class averages.

The shares of Pohjola Group plc are shown in the balance sheet at their fair value on 31 December 2004 because it is below their cost, with the exception of shares sold to Mutual Life Insurance Company Suomi in January 2005, which are reported in the balance sheet at net realisable value.

Shares and equity interests regarded as fixed assets are reported in the balance sheet at cost less permanent value impairments. The cost basis of assets is calculated using the FIFO method.

Investments regarded as receivables are reported in the balance sheet at the lower of nominal value or fair value.

Previously recorded write-downs on investments are reversed through the income statement in cases where the fair value of investments has risen.

Equity, fixed-income and currency derivatives were used during the reporting year. Hedge accounting is not used for derivatives, although some derivatives do provide effective hedges. All currency derivatives that constituted effective hedges are treated as hedges for solvency and coverage purposes. Derivative contracts are valued individually for balance sheet purposes at the lower of cost or fair value, with the exception of option strategies made up of offsetting purchased and written options, which are assigned an overall value. Any income/losses on closed and mature derivatives positions are recognised in full.

Year-end information on securities lent or borrowed under lending agreements is given in the notes to the financial statements. Lent securities are included in the balance sheet. Borrowed securities have been sold forward and selling proceeds are reported in the balance sheet as a current liability at the higher of the selling price or the market price on the balance sheet date. All loans are collateralised.

BOOK VALUE OF ASSETS OTHER THAN INVESTMENTS

Intangible assets and equipment are reported in the balance sheet at cost less accumulated scheduled depreciation. The cost basis of assets includes purchase and manufacturing-related variable costs.

Premiums receivable and other receivables are reported in the balance sheet at the lower of nominal value or their likely realisable value.

SCHEDULED DEPRECIATION

Depreciation follows a predefined depreciation schedule. Scheduled depreciation on buildings and structures is calculated on the cost of individual buildings and on recognised write-ups. Depreciation is based on the estimated useful life of buildings and the straight-line method. Depreciation periods for new buildings and structures are as follows:

Residential and office buildings	50 years
Hotels, commercial and industrial properties	40 years
Power plants	70 years
Building components	10 years
Other assets	Business Taxation Act
Write-ups	same as buildings

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

Scheduled amortisation on intangible assets and equipment has been calculated on the mean cost of specified groups of assets. Amortisation is based on the estimated useful life of asset groups and the straight-line method. The amortisation periods are as follows:

Intangible rights (user licences for software)	5 years
Other capitalised expenditures	5 years
Vehicles and computer hardware	5 years
Other equipment	10 years

WRITE-UP OF INVESTMENTS

The book values of land and water areas, buildings and securities can be written up. Write-ups of assets classified as investments are reported in the income statement, and write-ups of items classified as fixed assets are entered in the revaluation reserve. If a write-up proves unfounded, a related loss is recognised in the income statement or the revaluation reserve is adjusted accordingly.

Write-ups on buildings are expensed in accordance with the applicable depreciation schedule.

FAIR VALUE OF INVESTMENTS AND VALUATION DIFFERENCES

The notes to the financial statements itemise the remaining cost basis, book value and fair value of investments and derivatives reported in the balance sheet. The difference between the first two values consists of write-ups, while the difference between the latter two indicates valuation differences not reflected in the balance sheet.

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

The year's last bid quotation, or in the absence of this the last trading price, is used as the fair value of listed shares. The last available fund unit value calculated by the management company is taken as the market value of investment fund units. Private equity funds are valued at the management company's estimate of fair value or, if unavailable, at

Notes to the financial statements

Accounting principles

cost. The fair value of other shares and equity interests is their likely realisable value, the remaining cost basis or their net asset value.

The fair value of debt securities is calculated using market quotations from banks. In the absence of such quotes, they are valued at cost.

The market price or the likely realisable value is used as the fair value of derivative contracts.

Receivables are valued at the lower of nominal value or net realisable value.

TECHNICAL PROVISIONS

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

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

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

The provision for claims outstanding also incorporates an equalisation provision, the purpose of which is to balance random fluctuations during years where contributions fail to meet total payouts.

NET INCOME FOR THE FINANCIAL YEAR AND CAPITAL AND RESERVES

The calculation principles confirmed by the Ministry of Social Affairs and Health specify the allocation of authorised pension insurance companies' earnings between changes in the equalisation provision, provisions for future and current bonuses, and reported net income.

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

SOLVENCY CAPITAL

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

The riskiness of investment operations affects the required amount of solvency capital. These requirements are based on various limits related to solvency capital, i.e. the solvency threshold and the upper and lower limits of the target zone. Different rules regarding the allocation of earnings apply between these limits.

Solvency capital is presented in the notes to the financial statements.

Any change in the difference between fair and book values compared to the previous year, i.e. change in valuation differences, forms part of the overall result for the financial year and is shown as a change in solvency capital.

DEFERRED TAX LIABILITIES AND ASSETS

Taxes for the accounting period and previous accounting periods are recognised in the income statement on an accrual basis.

Discretionary provisions and accelerated depreciation and amortisation are included in capital and reserves in the consolidated balance sheet, after deduction for minority interest; changes in these items are included in the reported consolidated net income for the financial year.

Ilmarinen does not include deferred tax liabilities and assets in the parent company's balance sheet or in the consolidated balance sheet, and does not deduct deferred tax liabilities from the company's solvency capital because the realisation of these liabilities and receivables cannot be considered likely in relation to the financial statements or consolidated financial statements of an insurance company engaged in the statutory earnings-based pension insurance business.

NON-EURO ITEMS

Transactions in foreign currencies have been reported at the rate quoted on the day of the transaction. Receivables and liabilities denominated in foreign currencies that are not settled at the end of the financial year and the fair values of investments are translated into Finnish currency at the rate quoted by the European Central Bank on the balance sheet date. Foreign exchange gains or losses arising during the financial year and at year-end are recognised as adjustments to related income and charges, or as investment income and charges if such gains or losses pertain to financing transactions.

FUNCTION-SPECIFIC OPERATING EXPENSES AND DEPRECIATION AND AMORTISATION

Operating expenses and depreciation and amortisation on equipment and capitalised expenditures are reported as function-specific items in the income statement. Expenses related to claims administration and the maintenance of employees' capacity for work are included in claims paid, and expenses related to investment management are treated as investment expenses. Only expenses related to the origination and administration of policies and administrative overhead charges are presented as operating expenses. Expenses incurred in other activities are defined as other expenses. Scheduled depreciation on buildings is reported as an investment expense.

PENSION ARRANGEMENTS FOR STAFF

The employment pensions of personnel and members of the Board of Directors and the Supervisory Board are covered through TEL insurance. Pensions paid during the year under review have been expensed on an accrual basis.

KEY FIGURES AND ANALYSES

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

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

The ratio of net income from investments at fair value to capital employed is calculated separately for each type and also on the total investment portfolio, taking into account the weighting of cash flows on a daily or monthly basis. The Modified Dietz formula is used for calculation purposes, where the capital employed is calculated by taking the market value at the start of the period and adding to it each period's cash flows, weighted by the relative time remaining from the transaction date or middle of the transaction month to the end of the period.

Notes to the accounts

Notes to the profit and loss account and balance sheet

EUR mill.	2004	2003
SPECIFICATION OF PREMIUMS WRITTEN		
Direct insurance		
TEL basic coverage		
Employer contribution	1,592.2	1,607.6
Employee contribution	449.3	454.5
	2,041.5	2,062.1
TEL supplementary coverage	8.2	8.8
YEL minimum coverage	170.3	166.0
YEL supplementary coverage	0.3	0.3
	2,220.2	2,237.2
Transition contribution to the State Pension Fund	−1.1	−5.3
Reinsurance	0.0	0.1
Premiums written before reinsurers' share	2,219.2	2,232.0
Reinsurers	−1.9	−2.4
Premiums written	2,217.3	2,229.6
Items deducted from premiums written		
Credit loss on outstanding premiums		
TEL	−3.5	−5.4
YEL	−4.0	−3.5
	−7.5	−8.8

EUR mill.	2004	2003
SPECIFICATION OF CLAIMS PAID		
Direct incurance		
Paid to pensioners		
TEL basic coverage	1,790.8	1,706.2
TEL supplementary coverage	49.5	48.9
YEL minimum coverage	189.4	183.8
YEL supplementary coverage	1.0	0.9
	2,030.6	1,939.8
Payments to/refunds from the provision for clearing of PAYG pensions		
TEL pensions	−76.4	−20.5
YEL pensions	−21.2	−17.6
	−97.6	−38.1
Payments to/refunds from the provision for joint and several liability	−0.2	0.3
	1,932.9	1,902.0
Claims management expenses	19.4	16.7
Working capacity maintenance costs	3.1	2.3
Claims berofe reinsures' share	1,955.4	1,921.0
Reinsures	−1.8	−2.2
Total claims paid	1,953.6	1,918.8

EUR mill.	Parent Company 2004	Parent Company 2003	Group 2004	Group 2003
SPECIFICATION OF NET INVESTMENT INCOME				
Investment income				
Income from participating interests				
Share in associated undertakings' profit	–	–	65.5	108.1
Dividend income from other participating interests	45.6	26.6	0.4	0.3
	45.6	26.6	65.9	108.5
Income from investment in real estate				
Interest income				
From affiliated companies	15.1	17.3	–	–
From other than affiliated companies	4.6	5.7	4.8	5.9
Other income				
From affiliated companies	0.8	0.8	–	–
From other than affiliated companies	169.7	201.4	174.8	207.7
	190.2	225.2	179.6	213.6
Income from other investments				
Dividend income from other than affiliated companies	117.1	94.1	117.1	94.2
Interest income				
From affiliated companies	–	0.0	–	–
From other than affiliated companies	353.6	367.9	353.6	367.9
Other income from other than affiliated companies	369.8	203.9	369.8	203.9
	840.5	666.0	840.5	666.0
Total	1,076.3	917.8	1,086.0	988.1
Value readjustments	80.3	263.7	54.1	180.5
Capital gains	497.3	429.5	501.0	429.7
Total	1,653.9	1,610.9	1,641.1	1,598.4
Investment charges				
Charges on real estate investment	–104.4	–113.8	–68.3	–67.6
Charges on other investments	–334.1	–162.5	–334.1	–162.5
Interest charges and other charges on liabilities				
To affiliated companies	–0.4	–0.5	–	–
To other than affiliated companies	–5.1	–2.2	–5.2	–2.3
	–5.5	–2.7	–5.2	–2.3
Total	–444.1	–279.1	–407.6	–232.4
Value adjustments and depreciation				
Value adjustments	–120.4	–67.6	–120.1	–66.8
Planned depreciation on buildings	–11.2	–11.4	–47.1	–52.0
	–131.6	–79.0	–167.3	–118.8
Capital loss	–153.8	–90.7	–153.4	–90.7
Total	–729.6	–448.7	–728.2	–441.9
Net investment income before unrealized gains and losses	924.4	1,162.2	912.9	1,156.5
Investment value adjustments	–0.7	–	–0.7	–
Net investment income in the profit and loss account	923.7	1,162.2	912.2	1,156.5

Notes to the accounts

Notes to the profit and loss account and balance sheet

INVESTMENT	Dec. 31, 2004			Dec. 31, 2003		
EUR mill.	Remaining acquisition cost	Book value	Current value	Remaining acquisition cost	Book value	Current value
CURRENT VALUE OF INVESTMENT AND DIFFERENCE BETWEEN CURRENT AND BOOK VALUE, PARENT COMPANY						
Real estate investments						
Real estate	438.3	446.0	535.0	458.5	474.6	569.1
Shares in affiliated companies	860.3	873.0	1,021.8	1,061.6	1,074.2	1,251.3
Shares in participating interests	19.0	19.0	21.0	45.0	45.0	53.5
Other shares in real estate	7.2	7.2	7.8	7.5	7.5	8.2
Acquisition costs pertaining to lease of real estate	–	–	–	0.4	0.4	0.4
Loans to affiliated companies	422.6	422.6	422.6	501.0	501.0	501.0
Loans to participating interests	19.5	19.5	19.5	20.6	20.6	20.6
Investment in affiliated companies						
Shares and holdings	0.0	0.0	0.0	–	–	–
Investments in participating interests						
Shares and holdings	312.6	312.6	312.6	285.6	285.6	285.6
Other investments						
Shares and holdings	4,562.2	4,564.6	5,293.4	3,493.5	3,496.5	3,939.3
Dept securities	8,172.2	8,172.2	8,443.5	7,488.0	7,488.0	7,632.4
Loans quaranteed by mortgages	264.5	264.5	264.5	237.0	237.0	237.0
Other loan receivables	833.3	833.3	833.3	1,149.0	1,149.0	1,149.0
Deposits	192.5	192.5	192.5	123.2	123.2	123.2
Other investments	–	–	–	0.1	0.1	0.1
	16,104.2	16,127.0	17,367.5	14,871.2	14,902.9	15,770.7
Remaining acquisition cost of debt securities includes that difference between the amount repayable at maturity and purchase price which has been released to interests income (+) or charged to interest income (–)		–31.1			–20.8	
income from index-linked loans		0.0	–31.1		0.0	–20.8
Book value comprises:						
Revaluations entered as income			22.7			31.7
Difference between current and book value			**1,240.5**			**867.8**
CURRENT VALUE OF NON-HEDGING DERIVATIVES AND VALUATION ITEMS, PARENT COMPANY						
Other receivables						
Prepayments for option contracts	83.6	83.6	85.1	17.5	17.5	20.0
Other debts						
Prepayments on option contracts	–1.7	–1.7	–1.3	–3.7	–3.7	–2.5
Other prepayments and debts						
Future and forward contracts	0.2	0.2	31.4	0.2	0.2	34.6
	82.1	82.1	115.2	14.0	14.0	52.1
Difference between current and book value, total			**33.1**			**38.2**

SHARES AND HOLDINGS, PARENT COMPANY, DEC. 31, 2004

	Number of shares	Percentage of shares/votes	Book value EUR mill.	Current value EUR mill.
Shares in affiliated undertakings				
Tietollmarinen Oy	30	30,00 / 70,00	0,0	0,0
Participating interests				
Aberdeen Property Investors Finland Oy	20,000	40.00	0.2	0.2
Eltete TPM Ltd.	300	30.00	1.7	1.7
Pohjantähti Mutual Incurance Company	60	50.00 / 0.00	5.1	5.1
Pohjola Group plc	39,389,730	25.72	305.3	305.3
Oy Porasto Ab	1,045	24.05	0.3	0.3
Total			**312.6**	**312.6**
Other investments				
Shares and holdings				
Domestic Companies, listed				
Aldata Solution Oyj	5,190,500	7.70	5.8	5.8
Alma Media Corporation	1,929,544	3.06 / 3.66	10.0	21.8
Amer Group plc	1,121,250	1.57	7.5	14.4
Citycon Oyj	2,620,000	2.26	3.9	6.3
Componenta Coproration	457,600	4.76	2.4	2.4
Comptel Corporation	774,025	0.72	1.4	1.4
Elektrobit Group Plc.	6,115,700	0.95	3.4	3.4
Elisa Corporation	2,552,860	1.80	30.3	30.3
Exel Oyj	419,700	7.60	2.8	9.7
Finnlines Plc	1,608,000	4.02	18.0	20.5
Fortum Corporation	11,779,200	1.36	71.4	160.3
Huhtamäki Oyj	2,965,820	2.87	28.7	35.0
Ilkka-Yhtymä Oyj	250,560	1.92 / 2.3	1.3	1.9
Jaakko Pöyry Group Oyj	30,000	0.22	0.7	0.7
KCI Konecranes Plc	571,600	3.99	15.8	18.6
Kemira GrowHow Oyj	401,124	0.70	2.1	2.3
Kemira Oyj	1,804,500	1.45	13.1	18.4
Kesko Corporation	758,500	0.81 / 0.20	9.4	13.6
Kone Corporation	465,280	0.73 / 0.31	10.5	26.5
Kyro Corporation	624,400	0.79	1.6	2.6
Larox Corporation	329,700	3.56 / 0.66	1.2	1.5
Lassila & Tikanoja plc	2,798,400	7.34	15.8	36.7
Leo Longlife Plc	151,425	2.29 / 0.61	0.6	0.7
Lännen Tehtaat plc	153,800	2.43	1.8	1.8
Martela Oyj	335,400	8.07 / 2.14	2.1	2.1
Metso Corporation	2,896,478	2.13	30.8	33.8
M-real Corporation	8,962,541	2.73 / 7.47	41.6	41.6
Nokia Oyj	11,081,739	0.24	128.5	128.5
Nokian Tyres plc	347,660	3.20	7.6	38.9

Notes to the accounts

Notes to the profit and loss account and balance sheet

SHARES AND HOLDINGS, PARENT COMPANY, DEC. 31, 2004

	Number of shares	Percentage of shares/votes	Book value EUR mill.	Current value EUR mill.
Okmetic Oyj	449,300	2.66	1.1	1.1
OKO Osuuspankkien Keskuspankki Oyj	391,200	0.40 / 0.21	3.7	4.1
Olvi plc	219,424	4.39 / 0.97	1.8	2.9
Orion Corporation	1,970,440	1.46 / 3.16	20.5	23.5
Outokumpu Oyj	2,892,436	1.60	30.1	37.9
Perlos Corporation	1,533,080	2.89	17.9	18.0
Sampo plc	6,733,255	1.19 / 1.18	56.4	68.3
SanomaWSOY Corporation	5,425,426	3.54 / 3.22	36.0	93.0
Scanfil plc	1,450,000	2.39	6.7	6.7
SSH Communications Security Corp	483,450	1.72	0.6	0.6
Stockmann plc	661,350	1.24 / 0.24	8.6	14.0
Stora Enso Oyj	7,034,290	0.84 / 1.57	78.2	79.0
Suominen Corporation	1,911,552	8.06	6.8	7.7
Tamfelt Corp.	2,327,823	8.51 / 4.72	18.5	18.5
Teleste Corporation	840,350	4.85	5.1	5.1
Tietoenator Corporation	1,212,540	1.46	27.9	28.4
Tulikivi Corporation	515,595	5.66 / 1.69	2.2	3.3
UPM-Kymmene Corporation	10,600,566	2.02	120.2	173.2
Uponor Oyj	2,033,400	2.72	16.4	28.0
Vaisala Corporation	1,185,429	6.78 / 1.44	21.5	21.5
Wärtsilä Corporation	192,930	0.21 / 0.06	1.5	3.0
YIT Corporation	2,057,000	3.36	10.6	37.8
Other			1.1	1.1
Total			**963.4**	**1,357.8**
Domestic companies, non-listed				
Arek Oy	1,260,000	18.00	1.3	1.3
Fingrid Oyj	350	10.53 / 4.68	11.8	11.8
Kuopion Puhelin Oyj	11,202	1.97 / 1.31	2.6	2.6
Medivire Oy	38,150 [1)]	10.00	0.7	0.7
Pohjolan Voima Oy	1,500,000	4.35	82.0	82.0
Sato Corporation	361,562	16.45	21.7	21.7
Suomen Terveystalo Oyj	1,600,000	3.79	3.2	3.2
Tornator Timberland Oy	3,750,000	7.50	6.0	6.0
Garantia Insurance Company	8,144	13.57	5.7	5.7
VVO-yhtymä Oyj	951,520	15.83	22.3	22.3
YH-Group Ltd.	5,728	6.56	0.9	0.9
Other			1.7	1.7
Total			**159.7**	**159.7**

[1)] 10,900 of the shares were subscribed with a new issue. Increase in share capital not registered by Dec. 31, 2004.

SHARES AND HOLDINGS, PARENT COMPANY, DEC. 31, 2004

	Book value EUR mill.	Current value EUR mill.
Foreign companies, listed		
Belgium		
Dexia	6.8	8.0
Electrabel SA	11.3	13.8
Fortis	4.5	5.1
Bermuda		
Accenture Ltd.	5.4	7.1
Denmark		
Danisco A/S	3.5	3.9
ISS A/S	5.8	5.8
Novo Nordisk A/S	6.2	6.8
France		
L'Air Liquide SA	9.8	10.2
Alcatel SA	6.7	6.7
Atos Origin SA	8.3	8.5
BNP Paribas SA	25.7	27.1
Danone Group	17.9	17.9
Elior	7.2	8.4
Lagardere S.C.A.	18.8	20.1
Publicis Groupe	8.0	8.0
Sanofi SA	13.9	13.9
TF1 Television Française	4.3	4.3
TotalFinaElf SA	38.6	38.6
Germany		
Adidas-Salomon AG	8.5	10.7
Bayer AG	11.6	11.6
E.On AG	36.5	42.2
Heidelberger Druckmaschinen	6.5	8.5
Schering AG	5.0	6.8
Stada Arzneimittel AG	6.9	8.2
Great Britain		
Alliance Unichem Plc	8.8	12.9
Allied Domecq Plc	4.5	7.0
Arm Holdings Plc	5.0	7.2
Astra Zeneca Group Plc	7.6	7.6
Barclays Plc	7.3	8.7
Bodycote International Plc	7.9	10.8
Boots Group Plc	9.9	9.9
BP Plc	46.7	47.2
Cadbury Schweppes Plc	11.8	15.2
Diageo Plc	20.7	20.7
Gallaher Group Plc	9.7	11.4
GlaxoSmithKline Plc	31.5	31.5
HBOS Plc	16.8	18.9
HSBC Holding Plc	25.5	28.9
Imperial Tobacco Group Plc	6.8	7.4
Lloyds TSB Group Plc	9.7	10.1
Misys Plc	2.5	2.5
National Grid Transco Plc	20.7	24.2
Reckitt Benckiser Plc	12.8	17.7
Rexam Plc	7.4	7.8
Royal Bank of Scotland Group Plc	9.6	9.6
Severn Trent Plc	4.8	6.8
Tesco Plc	6.5	7.7
United Utilities Plc	9.3	11.1
Vodafone Group Plc	17.4	17.4
Ireland		
Bank of Ireland	10.7	12.3
Grafton Group Plc	4.7	11.7
Italy		
Enel S.p.A	16.1	17.4
ENI S.p.A	46.6	50.9
Snam Rete Gas S.p.A	4.6	6.3
Terna S.p.A	16.2	17.9
Netherlands		
Akzo Nobel N.V.	10.9	11.9
DSM N.V.	7.4	8.6
Fugro N.V	8.5	11.2
Heijmans N.V.	7.1	7.8
Heineken N.V.	5.7	5.7
Hunter Douglas N.V.	6.0	6.1
Koninklijke Philips Electronics N.V	14.3	14.3
Royal Dutch Petroleum Company	38.3	38.3
TPG N.V.	5.6	5.6
Vedior N.V.	7.3	7.6
VNU N.V.	8.8	8.8
Norway		
Norske Skogsindustrier ASA	14.4	17.0
Orkla ASA	12.5	14.6
Telenor ASA	8.5	9.2
Spain		
Altadis S.A.	10.5	14.3
Banco Popular Espanol S.A.	10.8	11.9
Banco Santander Central Hispano S.A.	7.8	7.8
Red Electrica de Espana	3.9	4.4
Telefonica S.A.	5.5	6.5
Sweden		
Alfa Laval AB	8.7	8.7
Capio AB	11.9	15.4
Cardo AB	5.2	5.3
Ericsson LM AB	7.9	7.9
Föreningssparbanken AB	12.7	14.8
Getinge AB	5.6	5.6
Nobia AB	8.7	13.1
Nordea Bank AB	34.9	45.4
Skanska AB	11.3	15.1
Swedish Match AB	13.8	14.0
Svenska Handelsbanken AB	5.8	6.8
TeliaSonera AB	50.7	55.8

Notes to the accounts

Notes to the profit and loss account and balance sheet

SHARES AND HOLDINGS, PARENT COMPANY, DEC. 31, 2004

	Book value EUR mill.	Current value EUR mill.
Switzerland		
Kuehne & Nagel International AG	3.0	8.0
Nestle SA	25.6	26.2
Novartis AG	27.9	27.9
Roche Holdings SA Genusscheine	27.0	29.1
STMicroelectronics N.V.	11.0	11.0
The Swatch Group AG	9.4	10.0
UBS AG	20.4	21.3
United States		
3Com Corporation	0.9	0.9
Avaya Inc.	11.5	11.5
Bank of America Corporation	5.2	5.2
Boston Scientific Corporation	9.7	9.7
Cisco Systems. Inc.	15.7	15.7
Citigroup, Inc.	14.9	14.9
Citrix Systems, Inc.	3.4	3.4
Computer Associates International, Inc.	8.2	10.8
Dell Computer Corporation	3.8	3.8
Electronic Data Systems Corporation	4.1	4.1
Hewlett-Packard Company	21.8	22.1
Intel Corporation	15.0	15.0
International Business Machines Corporation	20.4	20.4
Medtronic, Inc.	18.7	18.7
Microsoft Corporation	5.4	5.4
Monsanto Company	0.5	1.4
Motorola, Inc.	3.7	3.7
Oracle Corporation	8.8	8.8
Pfizer, Inc.	6.4	6.4
Texas Instruments Incorporated	8.3	8.3
Time Warner Inc.	14.1	14.3
Unisys Corporation	7.4	7.4
The Walt Disney Company	4.9	5.7
Watson Pharmaceuticals. Inc.	3.9	3.9
Veritas Software Corporation	5.3	7.7
Wyeth	13.5	13.5
Other	0.5	0.5
Total	**1,428.9**	**1,574.5**
Foreign companies, non-listed		
Estonia		
Tallink	4.4	6.2

Holding percentage in foreign companies 0.000002-3.272724%. Holding higher than 1%: Bodycote International Plc 1.47%, Capio AB 2.20%, Fugro N.V. 1.17%, Heijmans N.V. 1.44%, Nobia AB 1.86% and Tallink 3.27%.

	Book value EUR mill.	Current value EUR mill.
Fixed-income funds		
ABN Amro Global Emerging Markets Bond Fund	34.7	41.6
AXA IM US Short Duration High Yield $ A-class	64.7	64.7
Citibond US High Yield Fund	40.0	40.0
Evli European High Yield B	15.7	18.7
Goldman Sach Global High Yield Fund	114.7	116.6
ING (L) Renta Fund – Emerging Markets Debt (LOCAL C) CAP. -P-	35.1	36.1
ING International (II) / Emerging Markets Debt (USD) C	31.0	33.5
Pohjola Obligaatio B	50.0	52.9
Pohjola Vaihtovelkakirjalaina B	10.0	10.7
SISF Emerging Markets Debt I	32.8	32.8
T.Rowe Global high Yield Bond Fund	30.7	30.7
Total	**459.4**	**478.1**
Equity funds		
Aberdeen International Fund Plc – China Opportunities Fund	24.6	34.6
ABN Amro Funds – Eastern Europe Equity Fund	12.7	25.7
ABN Amro Funds – Global Emerging Markets Equity Fund	63.0	75.8
AIG Japan Small Companies Fund	28.7	28.7
Alfred Berg Russia	6.6	22.5
Alfred Berg Small Cap B	6.0	8.0
AXA Rosenberg Pan European Small Cap Alpha Fund	25.0	30.4
CAF Asian Growth Fund s.I	35.3	35.3
CAF Emerging Markets Institutional Fund	62.2	74.6
Carnegie Fund – Medical Sub-Fund	28.7	28.7
Carnegie Global Health Care Fund	9.7	9.7
DCF Baltic States Cap. Fund	5.5	14.5
FIM Fenno	9.0	12.8
HEX25 ETF	79.5	88.9
IndEXchange DJ STOXX 600 Insurance ETF	60.6	64.4
IShares DJ STOXX 50 ETF	39.9	39.9
JP Morgan Fleming Funds Europe Small Cap Fund s.A	20.3	23.3
JP Morgan Fleming Funds Japanese Equity Fund s.A	61.0	61.0
OP-Suomi Kasvu	6.0	8.6
Pictet Funds – Small Cap Europe	18.2	24.9
Pohjola Finland Value B	14.0	18.0
Pohjola US 500 Plus B	14.0	14.3
Schroder International Selection Fund – Japanese Equity Class I	63.2	63.2
Schroder International Selection Fund – Pasific Equity Class I	58.4	58.4

SHARES AND HOLDINGS, PARENT COMPANY, DEC. 31, 2004

	Book value EUR mill.	Current value EUR mill.
T Rowe Price US Structured Research		
Equity Fund	73.7	73.7
TSE Topix ETF	145.3	145.3
Other	0.1	0.1
Total	**971.0**	**1,085.4**
Real estate funds		
EasyETF EPRA Eurozone	30.0	35.0
ICECAPITAL European Property	30.0	33.9
European Office Income Venture	1.2	1.2
European Property Investors, LP	2.0	2.2
Logistis II	2.5	2.5
Pradera European Retail Fund	3.1	3.3
Total	**68.8**	**78.2**
Private equity funds		
Access Capital LP	8.0	8.0
Advent Private Equity Fund III D	3.2	3.2
Alpha Private Equity Fund IV	9.0	9.0
Apax Europe V – D, L.P.	16.2	16.2
Apax France VI	2.4	2.4
Arcadia Beteiligungen BT GmbH & Co. KG	2.7	2.7
Atlas Venture VI	0.9	0.9
Axa Secondary Fund II	6.2	8.1
Baltic Investment Fund III L.P	1.0	1.0
BC European Capital VII	8.1	8.1
Bio Fund Ventures I Ky	0.6	0.6
Bio Fund Ventures II Ky	2.9	2.9
Bridgepoint Europe II B	9.8	9.9
Capman Equity VII B L.P.	3.7	3.7
Coller International Partners IV-FD, L.P.	3.1	4.0
Duke Street Capital IV UK No 1 L.P.	5.0	5.6
Eqvitec Teknologiarahasto I Ky	1.9	1.9
Eqvitec Teknologiarahasto II Ky	4.8	4.8
European Strategic Partners	16.9	16.9
Euroventures; Baltic Rim Fund Limited	2.5	2.5
Fenno Rahasto Ky	3.0	3.4
Finnmezzanine Rahasto I Ky	1.0	1.0
Finnmezzanine Rahasto II B Ky	2.5	2.7
Finnventure Rahasto IV Ky	3.5	3.5
Finnventure Rahasto V Ky	6.8	9.8
Forenvia Venture I	0.5	0.5
Gilde Buy-Out Fund II	3.4	4.2
GrowHow I Ky	0.6	0.6
Hambro European Ventures HEV III UK No 2 L.P.	0.6	1.8
HarbourVest Partners		
VI-Buyout Partnership Fund LP	2.3	2.3
HarbourVest Partners VI-Partnership Fund L.P.	4.4	4.4
Industri Kapital 1997 L.P. II	4.0	4.4

	Book value EUR mill.	Current value EUR mill.
Industri Kapital 2000 L.P. I	13.9	15.5
LGV 4 Private Equity Fund Limited Partnership	1.8	1.8
MB Equity Fund II Ky	2.6	4.7
MB Equity Fund III Ky	3.7	5.2
MB Mezzanine Fund II Ky	1.0	1.0
MediaTel Capital	1.8	1.8
Nordic Capital III Limited	3.1	3.2
Nordic Capital IV Limited	5.9	6.1
Nordic Capital V Limited	6.8	6.8
Nordic Mezzanine Fund No. 1 L.P.	1.5	2.4
Permira Europe II LP2	12.2	12.2
Permira Europe III LP	5.5	5.5
Promotion Capital I Ky	1.3	1.3
Proventure & Partners Scottish		
Limited Partnership	2.4	2.4
Proventure Managed The First European		
Fund Inv L.P	5.5	5.5
Seedcap Ky	0.9	0.9
Sention Kasvurahasto Ky	0.7	0.7
SFK 99- Rahasto Ky	1.7	1.7
Sponsor Fund I Ky	1.2	2.3
Sponsor Fund II Ky	2.3	2.3
The Third Cinven Fund Limited Partnership	11.2	11.3
Other	2.6	3.1
Total	**231.3**	**248.9**
Other funds		
Absolute Alpha Fund PCC Ltd Diversified Euro	23.1	26.1
Blackstone Global Park Avenue Fund, L.P.	13.1	13.1
CSFB Sapic-98 hedge fund-of-funds	10.1	13.2
Deephaven Market Neutral Fund Ltd	7.3	7.3
DKR International Relative Value Fund Plus B	7.8	7.8
DRD FUND	23.0	32.0
EGS-SUP Fund	20.0	24.9
Futuris Fund	4.9	5.4
Green Way Limited - Class B fund-of-funds	4.6	5.8
JP Morgan Multi-Strategy Fund Ltd s. A	18.3	18.3
Nektar	10.2	11.6
Pacific Atlantic Hedged Strategies. SPC	30.0	31.0
RMF Absolute Return Strategies I Ltd.	23.7	23.7
RMF Inv. Strategies Limited VV1 Top 20 class II	15.0	15.3
SDB Fund	30.1	32.5
Solon Capital, Ltd	36.6	36.6
Total	**277.7**	**304.6**
Total	**4,564.6**	**5,293.4**

The book value of shares and holdings listed here exceed EUR 500,000. The shares loaned have not been deducted.

Notes to the accounts

Notes to the profit and loss account and balance sheet

EUR mill.	2004	2003
OPEN SECURITIES AGREEMENTS		
Securities loaned		
Number	3,806,866	4,459,970
Remaining acquisition costs	35.8	39.3
Current value	50.1	48.6
Securities borrowed		
Number	140,000	10,000
Current value	13.6	1.0

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

	2004	2003
LOANS		
Loans itemized by type of collateral		
Loans guaranteed by mortgages	264.5	237.0
Other loans		
Bank guarantees	313.4	406.1
Guarantee insurances	288.7	396.5
Other	50.8	136.3
Unsecured loans to		
banks and financing companies	127.1	169.2
insurance companies	22.6	22.0
other	30.8	18.9
Remaining acquisition cost, total	1,097.8	1,386.0
Total premium loans by balance sheet item, parent company		
Loans guaranteed by mortgages	32.0	39.4
Loans to participating interests	5.3	3.3
Other loans	663.7	870.7
Remaining acquisition cost, total	701.0	913.4

EUR mill.	Parent company 2004	Parent company 2003	Group 2004	Group 2003
SPECIFICATION OF OPERATING EXPENSES				
Total operating expenses by activity				
Claims paid				
Claims handling expenses	19.4	16.7	19.4	16.7
Working capacity maintenance costs	3.1	2.3	3.1	2.3
	22.5	19.0	22.5	19.0
Operating expenses				
Commissions, direct insurance	0.5	0.4	0.5	0.4
Other policy acquisition costs	9.4	9.0	9.4	9.0
Acquisition costs, total	9.9	9.3	9.9	9.3
Portfolio administration expenses	27.3	25.7	27.3	25.7
Administrative expenses	16.8	14.8	16.8	14.8
	54.0	49.9	54.0	49.9
Investment charges				
Costs on real estate investment	1.9	1.8	2.3	2.2
Other	7.2	6.7	7.2	6.7
	9.2	8.5	9.5	8.8
Other expenses	2.0	2.0	2.0	2.0
Total operating expenses	87.7	79.4	88.0	79.8

EUR mill.	Parent company 2004	Parent company 2003	Group 2004	Group 2003
SPECIFICATION OF STAFF EXPENSES AND MEMBERS OF CORPORATE ORGANS				
Staff expenses				
Salaries and remunerations	30.9	27.4	30.9	27.4
Pension expenditure	5.5	5.1	5.5	5.1
Other social security expenses	1.8	1.6	1.8	1.6
Total	38.2	34.1	38.3	34.1
Salaries and remunerations to the management				
Managing director and deputies	0.6	0.5	0.6	0.5
Board members and deputy members	0.2	0.2	0.2	0.2
Members of Supervisory Board and deputy members	0.1	0.1	0.1	0.1
Total	0.8	0.8	0.8	0.8
Pension commitments for the benefit of the executive management				
The retirement age for company executives is 65 years. Executives who have entered the company's service prior to July 1, 1992 have the right to retire once they have reached the age of 60.				
Average staff number during the financial period	683	651*	683	651*

* Adjusted to correspond with new calculating procedures

Notes to the accounts

Notes to the profit and loss account and balance sheet

EUR mill.	2004	2003
SPECIFICATION OF TECHNICAL PROVISIONS		
Provision for unearned premiums		
Future pensions	8,805.1	8,330.0
Provision for future bonuses	2,268.3	2,015.1
Provision for current bonuses	45.0	33.4
Total	11,118.4	10,378.5
Provision for claims outstanding		
New pension awards	4,414.4	4,082.0
Equalization provision	842.8	814.6
Total	5,257.2	4,896.5
Total technical provisions	16,375.6	15,275.0
Bonuses and rebates		
Provision for current bonuses, Jan. 1	33.4	20.2
Bonuses paid during the financial year	–33.4	–19.8
Transfer to the provision for current bonuses	45.0	33.0
Provision for current bonuses, Dec. 31	45.0	33.4
SECURITY AND FINANCIAL COMMITMENTS, PARENT COMPANY		
As security for own debts		
Mortgaged as security for rents	0.8	0.8
Assets pledged as security for derivative contracts	111.8	132.0
Assets pledged as security for equities lending	52.3	10.5
Off-balance-sheet commitments and liabilities		
Investment commitments		
Private equity funds	258.6	234.3
Other	9.5	10.9
Derivative contracts		
Non-hedging		
Interest derivatives		
Future and forward contracts		
Open, underlying instrument	186.8	296.5
current value	0.0	–2.1
Option contracts		
Open, bought, underlying instrument	150.0	–
current value	0.0	–
Open, written, underlying instrument	–	200.0
current value	–	–2.3
Current derivates		
Forward contracts		
Open, underlying instrument	1,130.5	752.1
current value	27.8	32.7
Closed, current value	0.3	1.9

EUR mill.	2004	2003
SECURITY AND FINANCIAL COMMITMENTS, PARENT COMPANY		
Option contracts		
Open, bought, underlyind instrument	117.5	–
current value	2.2	–
Open, written, underlying instrument	58.7	–
current value	0.0	–
Equity derivatives		
Future and forward contracts		
Open, underlying instrument	285.0	118.4
current value	3.3	64.6
Option contracts		
Open, bought, underlyind instrument	513.8	1,347.1
current value	82.9	20.0
Open, written, underlying instrument	31.7	5.3
current value	–1.3	–0.2

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

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

	2004	2003
Amount of joint liability The company belongs to the Pohjola Group plc tax liability group. The tax liability group members are jointly liable for the group's value added tax. At the end of the year the group's tax debt comprised the taxes to be paid for November-December. The deferred tax liabilities were included in the group's other companies' balance sheets	0.0	0.2
Obligation to refund of VAT allowances	14.3	10.9
Other financial commitments	2.2	1.3

SOLVENCY CAPITAL

	2004	2003
Capital and reserves after proposed distribution on profits	72.5	67.5
Accumulated appropriations	17.5	19.0
Difference between current value and book value of assets	1,273.6	906.0
Provision for future bonuses	2,268.3	2,015.1
Other items	–34.0	–56.3
	3,597.8	2,951.2
Solvency capital requirement under chapter 17 of the Employee Pension Insurance Companies Act (TVYL)	1,056.9	910.3
The equalization provision for years with heavy losses is included in the technical provisions	842.8	814.6
Solvency ratio, % realized solvency capital/technical provision used in solvency calculations	25.6	22.3
Solvency border, %	11.3	10.3

Notes to the accounts

Notes to the profit and loss account and balance sheet

	Parent company		Group	
EUR mill.	2004	2003	2004	2003
SPECIFICATION OF CAPITAL AND RESERVES				
Capital and reserves				
Guarantee capital	**23.0**	23.0	**23.0**	23.0
Other reserves				
Reserves under the Articles of Association				
Jan. 1	**41.0**	35.7	**41.0**	35.7
Transfer from previous year's profit	**4.3**	5.2	**4.3**	5.2
Revaluation reversed	**– 0.8**	–	**– 0.8**	–
Other reserves	**–**	–	**0.6**	0.6
	44.5	41.0	**45.1**	41.5
Profit brought forward				
Jan. 1	**5.5**	5.9	**11.9**	15.8
Distributed interest paid on guarantee capital	**– 1.2**	– 0.7	**– 1.2**	– 0.7
Donations	**– 0.1**	– 0.1	**– 0.1**	– 0.1
Transfer to reserves under the Articles of Association	**– 4.3**	– 5.2	**– 4.3**	– 5.2
	–	–	**6.4**	9.8
Profit for the financial year	**6.4**	5.5	**0.5**	2.1
	73.8	69.5	**75.0**	76.5
Breakdown of capital and reserves after proposed distribution of profits:				
Owners of guarantee shares				
Guarantee capital	**23.0**	23.0	**23.0**	23.0
Proposed distribution of profits to owners of guarantee capital	**1.3**	2.0	**1.3**	2.0
Policyholders' share	**49.5**	44.5	**50.7**	51.5
Total	**73.8**	69.5	**75.0**	76.5

Main principles of the Articles of Association governing guarantee shares:

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

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

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

Distributable profits:

	Parent company 2004	Parent company 2003	Group 2004	Group 2003
Profit for the year	**6.4**	5.5	**0.5**	2.1
+ Other reserves				
Reserves under the Articles of Association	**44.5**	41.0	**44.5**	41.0
+ Profit brought forward	**–**	–	**6.4**	9.8
– Amount of appropriations entered under capital and reserves	**–**	–	**– 21.6**	– 23.3
Distributable profits, total	**50.8**	46.5	**29.8**	29.6

Notes to the accounts

Key figures and analyses

KEY FIGURES IN BRIEF

	2004	2003	2002	2001	2000
Premiums written, EUR mill.	**2,217.3**	2,229.6	2,160.9	1,989.6	1,764.8
Pensions paid, EUR mill. [1]	**2,030.6**	1,939.8	1,829.8	1,701.4	1,504.8
Net investment income at current value, EUR mill.	**1,270.6**	1,278.5	–60.2	–179.7	371.1
ROCE, %	**7.8**	8.7	–0.5	–1.2	2.8
Turnover, EUR mill.	**3,881.9**	3,853.1	3,434.0	3,333.7	3,646.0
Total operating expenses, EUR mill.	**87.7**	79.4	70.6	60.6	56.7
% of turnover	**2.3**	2.1	2.1	1.8	1.6
Total operating expenses less investment management charges and working capacity maintenance costs % of TEL wage bill and reported incomes under YEL	**0.7**	0.6	0.6	0.5	0.6
Total profit, EUR mill.	**698.5**	818.3	–591.2	–690.7	–54.1
Technical provisions, EUR mill.	**16,375.6**	15,275.0	13,863.5	13,519.6	12,954.5
Solvency capital, EUR mill.	**3,597.8**	2,951.2	2,243.1	2,940.8	3,749.3
% of technical provisions [2]	**25.6**	22.3	18.1	25.5	35.4
relative to solvency border	**2.27**	2.16	1.90	2.32	3.42
Equalization provision, EUR mill.	**842.8**	814.6	779.2	726.8	654.2
Pension assets, EUR mill. [3]	**17,649.2**	16,181.0	14,650.0	14,455.1	14,367.6
Transfer to bonuses and rebates, % of TEL wage bill	**0.46**	0.33	0.20	0.45	1.05
TEL wage bill, EUR mill.	**9,766.9**	9,879.4	9,631.0	8,922.6	8,025.2
Reported incomes under YEL, EUR mill.	**850.7**	812.4	780.6	763.3	727.3
TEL policyholders	**31,572**	31,927	31,689	31,982	32,351
Employees insured under TEL	**349,000**	364,000	359,000	351,000	335,000
YEL policyholders	**49,580**	49,696	49,322	49,386	49,938
Pension recipients	**239,511**	235,965	231,056	224,849	218,932

[1] Pensions and claims paid to pension recipients
[2] The ratio was computed as a percentage of the technical provisions used in calculating the solvency border
[3] Technical provisions + differences between current and book value

PERFORMANCE ANALYSIS, EUR MILL.

	2004	2003	2002	2001	2000
Sources of profits					
Underwriting result	**34.2**	38.5	53.1	72.6	58.4
Investment result at current value	**657.4**	770.7	–654.0	–775.8	–119.8
+ Net investment income at current value + other interest items [1]	**1,276.8**	1,281.1	–57.0	–179.0	386.6
– Yield requirement on technical provisions	**–619.4**	–510.4	–597.0	–596.8	–506.4
Loading profit	**6.9**	9.1	9.7	12.5	7.4
Profits, total	**698.5**	818.3	–591.2	–690.7	–54.1
Disposal of profits					
Increase/decrease solvency (+/–)	**653.5**	785.3	–634.5	–731.1	–138.2
Equalization provision (+/–)	**28.2**	35.4	52.4	72.6	58.4
Solvency capital (+/–)	**625.3**	749.9	–686.9	–803.7	–196.6
Change in provision for future bonuses	**252.8**	623.7	–548.0	–336.4	789.7
Change in difference between current and book values	**367.6**	119.5	–149.9	–477.6	–919.8
Change in accumulated appropriations	**–1.5**	1.2	5.1	5.2	–71.3
Profit for the financial year	**6.4**	5.5	5.9	5.1	4.8
Transfer to bonuses and rebates	**45.0**	33.0	19.0	40.4	84.1
To augment the provision for current bonuses [2]			24.3		
Total	**698.5**	818.3	–591.2	–690.7	–54.1

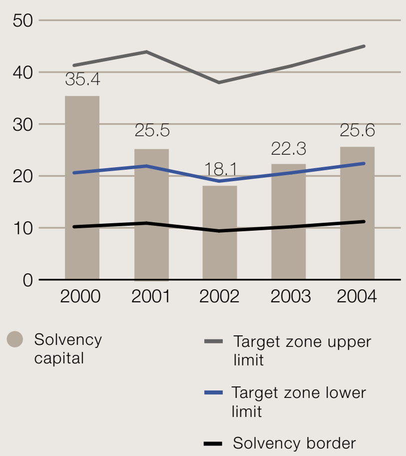
[1] Includes interest items in the profit and loss account which are not entered as income from investment.
[2] On Dec. 31, 2004, EUR 18.4 million of the transfer to augment the provision for current bonuses remained unamortized.

Notes to the accounts

Key figures and analyses

	2004	2003	2002	2001	2000
SOLVENCY, %					
Solvency capital and limits (% of the technical provisions used in calculating the solvency border)					
Solvency border	**11.3**	10.3	9.5	11.0	10.3
Target zone lower limit	**22.5**	20.7	19.1	22.0	20.7
Target zone upper limit	**45.1**	41.3	38.1	44.0	41.4
Solvency capital	**25.6**	22.3	18.1	25.5	35.4

Solvency
% of technical provisions



	2004 EUR mill.	2004 %	2003 EUR mill.	2003 %	2002 EUR mill.	2002 %	2001 EUR mill.	2001 %	2000 EUR mill.	2000 %
BREAKDOWN OF INVESTMENT (current value)										
Loan receivables [1]	**1,110.9**	**6.3**	1,403.0	8.8	1,559.7	10.7	1,623.6	11.3	1,574.2	11.0
Bonds [1]	**8,272.4**	**46.9**	7,570.2	47.4	6,742.9	46.4	5,886.4	41.1	6,469.5	45.4
incl. fixed-income funds	**8,750.7**	**49.6**	7,831.5	49.0	6,797.9	46.8				
Other debt securities and deposits [1]	**532.7**	**3.0**	367.8	2.3	600.2	4.1	641.4	4.5	349.7	2.5
Shares	**5,719.5**	**32.4**	4,277.9	26.8	3,260.8	22.5	3,992.0	27.9	3,805.7	26.7
excl. fixed-income and real estate funds	**5,163.1**	**29.3**	4,016.6	25.1	3,205.8	22.1				
Real estate	**2,000.1**	**11.3**	2,366.6	14.8	2,356.9	16.2	2,188.2	15.3	2,050.0	14.4
incl. real estate funds	**2,078.2**	**11.8**								
Investment, total	**17,635.6**	**100.0**	15,985.5	100.0	14,520.6	100.0	14,331.6	100.0	14,249.1	100.0

[1] Accrued interest included.

The figures for 2003 and 2004 include derivatives at market value.

EUR mill.	2004	2003	2002	2001	2000
BREAKDOWN OF INVESTMENT INCOME AND INVESTMENT RESULT					
Cash income	611.5	635.5	675.1	755.1	806.4
Loan receivables	56.8	65.6	71.5	75.9	72.1
Bonds	247.6	279.9	318.2	303.7	293.4
Other debt securities and deposits	9.8	9.3	18.9	18.8	25.2
Shares	219.0	176.9	165.6	289.8	345.7
Real estate	87.5	112.9	108.4	71.1	76.9
Other					
Unallocated income, charges and operating expenses	–9.3	–9.1	–7.5	–4.3	–6.8
Changes in book value [1]	291.4	523.5	–585.4	–457.2	484.5
Shares	143.0	350.9	–673.8	–479.9	511.6
Bonds	118.3	169.7	102.0	28.5	–22.0
Real estate	30.4	2.6	–13.2	–5.5	–5.1
Other	–0.3	0.2	–0.4	–0.3	0.0
Net investment income at book value	902.9	1,159.0	89.6	297.9	1,290.9
Change in difference between current and book value	367.6	119.5	–149.9	–477.6	–919.8
Shares	282.2	248.3	–357.1	–575.9	–1,071.5
Bonds	125.6	–133.7	171.1	11.3	106.4
Real estate	–40.2	4.9	37.3	85.7	45.1
Other	0.0	–0.1	–1.3	1.3	0.2
Net investment income at current value	1,270.6	1,278.5	–60.2	–179.7	371.1
Other interest items [2]	6.3	2.6	3.2	0.7	15.5
Yield requirement on technical provisions	–619.4	–510.4	–597.0	–596.8	–506.4
Investment result at book value	289.8	651.2	–504.1	–298.2	800.0
Investment result at current value	657.4	770.7	–654.0	–775.8	–119.8

[1] Capital gains and losses plus other changes in book values.
[2] Includes interest items in the profit and loss account shich are not entered as income from investment.

NET INVESTMENT INCOME AT CURRENT VALUE, JANUARY 1-DECEMBER 31, 2004

	Current value [1] EUR mill. 2004	Capital employed [2] EUR mill. 2004	ROCE, % 2004	ROCE, % 2003	ROCE, % 2002	ROCE, % 2001	ROCE, % 2000
Loan receivables	56.6	1,209.5	4.7	4.6	4.7	4.8	4.6
Bonds	491.6	7,308.5	6.7	4.6	9.5	5.8	6.5
incl. fixed-income funds	538.0	7,699.4	7.0	5.1	9.5		
Other debt securities and deposits	9.8	698.3	1.4	1.8	3.6	4.5	4.0
Shares	644.3	4,865.9	13.2	22.1	–21.5	–17.2	–5.4
excl. fixed-income and real estate funds	589.1	4,446.2	13.2	22.1	–21.8		
Real estate	77.6	2,117.4	3.7	5.2	5.6	7.4	7.8
incl. real estate funds	86.4	2,146.1	4.0				
Investment, total	1,279.8	16,199.6	7.9	8.8	–0.4	–1.2	2.8
Unallocated income, charges and operating expenses	–9.3	16,204.2	–0.1	–0.1	–0.1	0.0	0.0
Net investment income, total	1,270.6	16,204.2	7.8	8.7	–0.5	–1.2	2.8

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

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

Notes to the accounts

Key figures and analyses

EUR mill.	2004	2003	2002	2001	2000
LOADING PROFIT					
Expense loading components	**80.5**	75.7	68.6	63.3	54.1
Function-specific operating expenses [1]	**–75.4**	–68.6	–61.1	–52.6	–48.5
Other income	**1.7**	2.1	2.2	1.7	1.7
Loading profit	**6.9**	9.1	9.7	12.5	7.4
Operating expenses of load income, % [2]	**92**	88	86	81	87

[1] Excluding investment charges and working capacity maintenance costs.

[2] (operating expenses + other expenses) / expense loading components + other income)

Risk management

Risk management focuses particularly on risks that may affect appropriate performance of the company's statutory responsibilities, achievement of the main goals for the next few years and key areas of development of the business. This requires identification and assessment of significant risk factors.

The purpose of risk management is to prevent risks identified as threats to the company from materializing, minimize the financial and other loss arising from any risks that may have materialized, safeguard the continuity of the company's operations and help the company benefit from opportunities offered by different business models without taking inappropriate risks. Another aim is to set limits for risk-taking in a way that will leave the company enough room for manoeuvre if a controlled rise in the risk level could increase the company's profitability. Risk management also includes comparison of costs of risk management measures against the potential costs of materialized risks and thus ensures cost-effectiveness.

RISKS OF THE UNDERWRITING BUSINESS

In the underwriting business, the risks are related to the sufficiency of premiums and technical provisions, where uncertainty related to life expectancies, the inceptions of pensions and the amount of claims play an important part. In addition to the company's own underwriting business, the risks in employment pension insurance include uncertainty factors related to the amount and financing of pension expenditure which all pension institutions are jointly responsible for (pay-as-you-go pool). These risks are managed by choosing the right calculation bases for the premiums and technical provisions. Because the calculation bases are common to all employment pension insurance companies, deviation from the average insurance portfolio in an unfavourable direction poses a risk for individual companies. For Ilmarinen, however, no such deviations are related to the insurance portfolio. Fluctuations in the result from the company's underwriting business are buffered with the equalization provision, which is included in the technical provisions. In the underwriting business at the joint responsibility of pension institutions, the buffer is the provision for pooled claims included in the technical provisions.

With regard to risks in the underwriting business, the aim of risk management is to meet the statutory prudence requirements for calculation bases through actuarial analyses. Safeguarding the prudence requirements is based on monitoring the trends in the equalization provision with regard to the company's own underwriting business, analyses and reports of the underwriting business required by the authorities or the actuary and prognoses concerning the underwriting business. This requires the development and maintenance of prognostic models and appropriate methods of analysis.

Over the next few years, the technical provisions (provision for future bonuses excluded) are estimated to increase by 7% a year. 74% of the technical provisions have a duration of more than 5 years and 38% a duration of more than 20 years. Technical provisions must be covered at all times. In the long term, investment income must at least correspond to the technical rate of interest.

RISKS IN INVESTMENT ACTIVITIES

Because employment pension insurance companies must maintain their ability to pay current and future pensions under their responsibility, investment activities must be safe and profitable. Profitable investment requires exposure to investment risks, which are limited to safeguard the prudence requirements. Market risks arising from fluctuations in economic cycles in the financial market is managed both through complying with the regulations on solvency capital and ensuring sufficient diversification of the investment portfolio. Other risks from investment activities that are managed are counter-party risk, liquidity risk and derivative risks.

The solvency mechanism used by employment pension insurance companies

Employment pension insurance companies, pension funds and pension foundations conduct their investment operations independently, yet under a common set of solvency regulations. Risks related to investment activities are prepared for by maintaining the solvency capital, which consists of the difference between the company's assets and liabilities. The most important items in the solvency capital are the company's equity, provision for future bonuses and valuation gains/losses. If investment income exceeds the interest to be credited on technical provisions, the difference will increase the solvency capital. In the opposite case, the solvency capital is reduced by the amount of the difference.

The statutory minimum amount of solvency capital, the solvency border and other monitoring limits depend on the extent of the company's risk-taking and the differences between the compositions of investment assets of pension institutions. High-risk investments require more solvency capital. The basic quantity used in the solvency requirements is the solvency border. The lower limit for the solvency capital target zone is double the solvency border and the upper limit quadruple. The rules on calculating the solvency border are binding on all companies. In the calculations, the assets are divided into seven risk groups according to the expected yield and risk levels. The estimated correlations between incomes from different investment types are based on historical figures. The following table describes the division of Ilmarinen's investments into solvency groups on December 31, 2004 in accordance with the Decree on solvency. The expected yield and volatility presented in the table also comply with the Decree.

	Yield exceeding the technical interest rate (percentage points)	Volatility %	Total amount of investments EUR 1,000
Group 1	0.1	1.0	506,451
Group 2	0.6	3.5	6,154,906
Group 3	0.6	4.4	2,561,837
Group 4	3.7	8.2	1,151,343
Group 5	3.7	15.0	1,612,795
Group 6	6.2	21.4	4,324,863
Group 7	6.2	29.9	1,084,314
Total			17,396,508

On December 31, 2004, the solvency border for the investment breakdown was 11.3% of the technical provisions used in solvency calculations. With the solvency capital at 25.6%, Ilmarinen's solvency was 2.27 times the solvency border.

Composition of the investment portfolio

Optimization of Ilmarinen's investment portfolio is based on expected yield from the various investment classes, fluctuations in return and dependencies between asset classes. The calculations allow a maximum 5% likelihood of a reduction of solvency capital to the solvency border within two years. This would be an acceptable drop from a level of solvency capital where allocation of investments can give optimal return over an economic cycle without the company having to alter the composition of the investment portfolio before the end of the cycle. The risk level of the investment portfolio is chosen on the basis of the company's own investment market simulation model.

In the optimization, the following expected long-term return and volatility rates have been applied to the main assets (weighting of more than 10%); these are considered to reflect the current situation in the investment market more accurately than the assumptions of 1999, which form the basis for solvency requirements:

	Expected yield	Volatility
Listed shares	9.0%	19.4%
Bonds	5.2%	3.2%
Real estate	6.0%	12.8%

The expected yield from the 2004 allocation based on optimization was 6.45%; volatility was 5.91%. In this basic allocation, the weighting of the main assets (weighting of more than 10%) was 23.1% for shares, 43.6% for bonds and 16%

Notes to the accounts

Risk management

for real estate. In addition to the basic allocation, there are benchmark indexes for securities (shares, bonds and cash investments). Investment risks are managed both absolutely and with regard to benchmark indexes.

Investment portfolio on December 31, 2004

A breakdown of investments into main asset classes and the income from these investments are presented in the notes to the accounts under 'Key figures and analyses'.

Breakdown of listed share investments		Breakdown of credit rating of bonds (fixed-income funds included)	
Finland	40%	AAA	64%
Europe	36%	AA	18%
USA	9%	A	6%
Japan	7%	BBB or lower	12%*
Others	8%	Not rated	1%

* Fixed-income funds: 5 percentage points

A breakdown of loans by collateral is presented in the notes to the accounts under 'Loan receivables'.

Breakdown of real estate by use	
Residential	20%
Office	55%
Commercial	8%
Warehouse	6%
Others	11%

The occupancy rate for Ilmarinen's real estate (locations under renovation excluded) was 85.5%.

Market risk

Market risk is formed by the daily changes of prices and values in the financial market. For Ilmarinen's investment assets, this contains equity risks, interest-rate risks, real estate risks, currency risks, commodity risks, volatility risks and credit risks. Market risk is assessed with the RiskMetrics® risk management software and managed by monitoring the maximum loss at a certain probability (VAR, value at risk) and analysing the financial effects of various risk scenarios.

The table illustrates the effect of market changes on Ilmarinen's solvency:

	Changes in share prices +25%	Changes in interest rates -1% point	Changes in market value of real estate +10%
Effect on			
- solvency capital (EUR mill.)	796.0	353.3	200.0
- solvency position	0.32	0.27	0.13
- return (%)	4.9	2.2	1.2
- solvency ratio (%)	5.7	2.5	1.4

In the case of investments at the turn of the year, for instance, there was a 2.5% possibility that the value of the investments could drop by at least EUR 410 million within one month, constituting a value at risk (VAR) of 2.3% of the amount of investments and 11.4% of the solvency capital at the turn of the year. If such a risk had actually materialized, the solvency capital would have dropped to 22.7% of the technical provisions.

Investments outside the euro zone pose a currency risk. As a rule, the currency risk of fixed-income investments is controlled using derivatives. For equity investments, the hedging policy is more active.

Risk concentrations

Risk concentrations are basically prevented by the regulations on assets covering technical provisions, but the company has also taken action of its own to prevent them. The largest concentration of risks with regard to all investments of various types in a single organization, excluding governments, accounted for 2.7% of the investment assets in the 2004 financial statements.

Counterparty risks

Counterparty risks related to bonds are managed through analyses of the issuers' credit ratings and by restricting the total amount of investments in bonds of specific credit ratings and the percentage of bonds issued by a single issuer.

The primary means of managing credit risks in lending are company analyses and keeping the lending in proportion to companies' future solvency. The use of collateral is another means.

The counterparty risks related to OTC derivatives are managed both in accordance with risk reporting under regulations issued by the authorities and through more detailed market risk simulations focusing on the counterparties. In the case of non-standard derivatives, counterparty risks are also managed by using international standard agreements approved by the International Swaps and Derivatives Association (ISDA) with all parties.

Liquidity risks

In an employment pension insurance company, liquidity risks related to liabilities of the company are easily managed as estimates on the amount of future pension expenditures are quite accurate and more than 70% of the assets consist of liquid investments in securities.

In the case of short-term liquidity risks based on poor convertibility of investment instruments, the company makes investments in relation to their average daily turnover in the market.

Derivatives

The equity risk incurred from equity derivatives stood at EUR 336.3 million at the end of the year, increasing the equity risks related to the company's investments by 1.9%. Fixed-income derivatives were used to shorten the average maturity of fixed-income investments by 0.05 years.

OPERATIONAL RISKS

Management of most of the risks from the company's operations is carried out as part of the normal management of the operations of the business units, with the head of each unit being in charge of the risk management. The operation of each unit must be carefully performed, maintain a high quality and be economical and efficient. The most important risk factors related to the operations have been charted and identified and they are managed under the company's risk management operations.

The most serious operational risks affecting the company's core responsibilities are errors and disturbances that could prevent the correct calculation or timely payment of pensions or correct determination or collection of premiums and contributions. This includes disturbances in the network environment which could jeopardize the company's performance, management or safety.

Management of operational risks has been taken care of by ensuring the personnel's expertise and employing a range of technical and procedural operating methods such as backup systems, communication logs, benchmark data and monitoring systems.

RISK MANAGEMENT PROCESSES

The overall responsibility for ensuring that the company has a functioning control and risk management system in place lies with the Board of Directors and the President and CEO. The plans concerning risk management for investment activities and the risk level to be adopted for each year are laid out in the annual investment plan drawn up by the Board of Directors; similar plans are described in the risk management plan with regard to other significant risks to the company's operations.

The Supervisory Board supervises administration of the company by the Board of Directors and the President and CEO. Supervision of decision-making on pensions and investment operations is carried out on behalf of the Supervisory Board by inspectors appointed by the Supervisory Board from among its members.

In accordance with the general principles of internal auditing, internal auditing at Ilmarinen consists of independent, objective evaluation, checking and consultancy, with the aim of creating added value for the company and improving its operations. Internal auditing supports the organization's work in achieving its aims and provides a systematic approach to the evaluation and development of the efficiency of risk management, supervision, management and administrative processes. In addition to internal auditing, the effectiveness of the internal control system and the adequacy of the risk management operations are evaluated by supervisory auditing. At the same time, the auditors evaluate the effectiveness of the internal audit system and the relevance of its results to their own work.

A risk management committee consisting of representatives from the various business units is responsible for coordinating, developing and monitoring the company's risk management system. The committee's work is also part of the internal audit system for general management of the company. The committee supports the business units in their work to improve operating methods that comply with good risk management practice.

The Board of Directors approves the powers for operational investment activities granted annually in conjunction with the investment plan. Within the investments powers, management may deviate from the weightings defined for the asset classes under the basic allocation.

The extent of the risk related to the basic allocation is monitored by the Asset Management Group, whose members represent the Investments unit and the Finance and Actuarial Matters unit. The committee monitors compliance with the requirements set for underwriting business and proposes changes in the risk level of the basic allocation, if necessary.

The chosen operative risk level (including derivatives) and the company's solvency are evaluated at the weekly meetings of the risk management committee of the Investments unit, where the Finance and Actuarial Matters unit is also represented.

Once a month, the Board of Directors is presented with a report used for supervision of the company's compliance with the risk-taking limits laid down in the investment plan and achievement of the goals of investment operations. The company's solvency is monitored on a monthly basis by the financial administration department; if necessary, information on the company's solvency position on any given day is almost immediately available. The correctness of the information is ensured by frequent real-time reporting, regular matching routines and the organizational separation of decision-making on investments and reporting. The securities portfolio is matched regularly with the Accounts and Bookkeeping unit and external custodians. The pricing of securities and decision-making on valuations are carried out independently of the portfolio management. Fraud and misconduct risks are prevented by avoiding dangerous combinations of tasks, issuing internal instructions, granting written powers and continuously monitoring the trading. Payment operations are separated from decision-making on investments.

Proposal by the Board of Directors for distribution of profits

In accordance with the Articles of Association, the amount of interest paid on the guarantee capital equals the technical rate of interest plus one percentage point. Calculated in this way, the return in 2004 was 5.75% and the guarantee capital interest EUR 1,322,192.57.

The amount of retained consolidated non-restricted capital and reserves according to the financial statements on December 31, 2004 was EUR 29.8 million. The retained non-restricted capital and reserves of the parent company stood at EUR 50,842,431.00, with profit for the financial year accounting for EUR 6,371,877.96.

The Board of Directors proposes that EUR 1,322,192.57 be paid as interest on guarantee capital for 2004 and that EUR 50,000,00 be set aside for use at the Board's discretion for generally beneficial purposes. If the Board proposal is adopted, the company's capital and reserves will stand as follows:

Restricted capital and reserves	
Guarantee capital	22,994,653.31
Non-restricted capital and reserves	
Contingency fund	49,470,238.43
Capital and reserves, total	72,464,891.74

Helsinki, February 23, 2005

Hannu Syrjänen

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

Auditors' Report

To the Annual General Meeting of Ilmarinen Mutual Pension Insurance Company

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

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

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

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

Helsinki, 9 March 2005
PricewaterhouseCoopers Oy, Authorised Public Accountants
Juha Wahlroos, Authorised Public Accountant   Sirkku Valkjärvi, Authorised Public Accountant

Statement by the Supervisory Board

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

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

The membership term of the Supervisory Board members listed below will expire at the 2005 Annual General Meeting:

Pertti Hagren
Antti Herlin
Ilpo Jalasjoki
Antti Lagerroos
Simo Leivo
Juho Lipsanen
Yrjö Mäkinen
Markku Niskala
Kirsti Piponius
Veli-Matti Puutio
Markku Ruohonen
Markku Rönkkö
Pekka Salojärvi
Kalevi Vanhala

Helsinki, March 10, 2005
On behalf of the Supervisory Board
Timo Peltola, Chairman

A guide for readers

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

ASSETS COVERING TECHNICAL PROVISIONS

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

CLIENT BONUSES

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

EQUALIZATION PROVISION

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

EXPENSE LOADING COMPONENT

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

INVESTMENT RESULT

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

LOADING PROFIT

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

OPERATIONAL EFFICIENCY

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

PROVISION FOR CURRENT BONUSES

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

PROVISION FOR FUTURE BONUSES

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

SOLVENCY BORDER

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

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

SOLVENCY CAPITAL

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

SOLVENCY CAPITAL TARGET ZONE

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

STATUTORY CHARGES

The costs incurred by an insurance institution in financing the operations of the Finnish Centre for Pensions (the central body of the Finnish statutory earnings-related pension scheme).

TECHNICAL PROVISIONS

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

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

TECHNICAL PROVISIONS TO BE COVERED

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

TECHNICAL UNDERWRITING RESULT, NET

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

TURNOVER

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

VALUATION GAINS/LOSSES

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

YIELD REQUIREMENT ON TECHNICAL PROVISIONS

The yield requirement on technical provisions is the interest to be credited on technical provisions. It is calculated using the employment pension companies' joint calculation bases. In 2004, this so-called technical rate of interest was an average of 4.75%.

Finland's statutory earnings-based pension system

PENSION BENEFITS

The statutory earnings-based pension is the most important benefit provided by the Finnish pension system. It is a defined benefit pension with a target level of roughly 60% of career earnings for full years of service.

COVERAGE

The statutory earnings-based pension system applies to all employees and all self-employed persons. Employment-related pensions are governed by a number of laws. The most important of these laws is the Employees' Pensions Act (TEL), which covers just over 50% of the employed labour force.

ADMINISTRATION AND SUPERVISION

The Finnish earning-based pension system is a decentralized system. TEL pension coverage is managed by six pension insurance companies (including Ilmarinen), eight industry-wide pension funds and 36 company pension funds. Pension benefits are independent of the managing institution. The managing institutions are supervised by the Insurance Supervision Authority.

FUNDING

TEL pensions are partially funded in advance. The funding of each type of pension is defined by law and the degree of funding does not depend on the pension institution. For employees under 55 years of age, the pre-funded portion of their old-age pension is increased each year by 0.5% of the employee's earnings. In the case of disability pensions and unemployment pensions, 80% is pre-funded when the pension benefits start, except for pensions that are based on paid-up policies only. The pre-funded parts of old-age pensions are augmented on an annual basis (see technical provisions below). In all, the funding rate is approximately one quarter.

The remaining three quarters, including all index adjustments, is financed on pay-as-you-go basis and pooled between all TEL institutions.

Arrangements under other Finnish pension laws, including those affecting the public sector, also involve advance funding to varying degrees. At the end of 2004, employee pension fund assets totalled EUR 88 billion, which represented roughly 59% of Finland's GDP.

TECHNICAL PROVISIONS

Technical provisions are based on principles approved by the Ministry of Social Affairs and Health that cover all TEL institutions.

At the individual level technical provisions equal the discounted present value of pre-funded pension obligations. A 3% discount rate is used and the present value calculation also takes into account life expectancy, disability incidence and the likelihood of re-employment after recovery from disability. In addition to these individually calculated provisions, technical provisions also include an IBNR reserve and an equalization provision.

The common calculation principles also include a higher interest rate, the so-called technical rate of interest, which may be changed twice a year. The difference between this technical rate of interest (4.75% on 1 January 2005) and the 3% discount rate is used each year to augment pre-funded old-age pensions.

CONTRIBUTIONS

In 2005, the total TEL contribution averages 21.6% of earnings. The employee contributes 4.6% (5.8 per cent from 53 years of age) and the employer an average of 16.8%. The total contribution is expected to rise some 5 to 6 percentage points in the next 30 years. This increase will be borne equally by employers and employees.

An employer with its own TEL pension fund bears the full related insurance and investment risk. For employers that have their TEL insurance with a pension insurance company, these risks are transferred to the insurer against the payment of TEL contributions. For large employers, the TEL contribution for disability and unemployment pensions is determined by an experience rating. As of 2006, disability pension experience ratings will be replaced by a graduated rate model that operates much like a bonus system. TEL pensions handled through insurance arrangements are treated as defined contribution plans under IFRS.

Estimates of future pension costs can be based on long-term contribution level forecasts (see page 6). Growing average life expectancies will affect the size of new pensions under current legislation, which will largely eliminate the effect of longer life expectancies on future contribution levels.

INVESTMENT ACTIVITIES

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

GUARANTEE SCHEME

If a pension institution becomes insolvent, its pension obligations are covered under a statutory joint liability system and any shortfall will be financed through higher future employer and employee contributions.

Annual General Meeting

Ilmarinen's Annual General Meeting will take place at 10.00 a.m. on April 5, 2005 at the following address: Ilmarinen Mutual Pension Insurance Company, Porkkalankatu 1, Helsinki, Finland.

Interim report

Ilmarinen will publish an interim report in August 2005.

Additional information on the Internet

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

Design: Kreab Oy
Photographs: Pertti Nisonen and Gorilla
Cover: MultiArt Gloss 350g/m^2
Inside: MultiArt Silk 130g/m^2 ja G-print 80g/m^2
Printed in Nomini

inen

Ilmarinen Mutual Pension Insurance Company

Street address: Porkkalankatu 1, Helsinki, Finland
Mailing address: 00018 Ilmarinen
Telephone: Nat. 010 284 11, Int. +358 10 284 11
Fax: Nat. 010 284 3445, Int. +358 10 284 3445
www.ilmarinen.fi