Ilmarinen Mutual Pension Insurance Company

ilmarinen 05

Annual Report 2005

ILMARINEN

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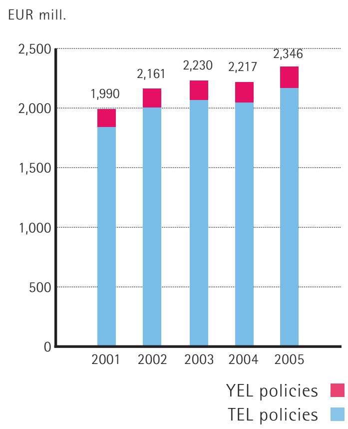
INDEX

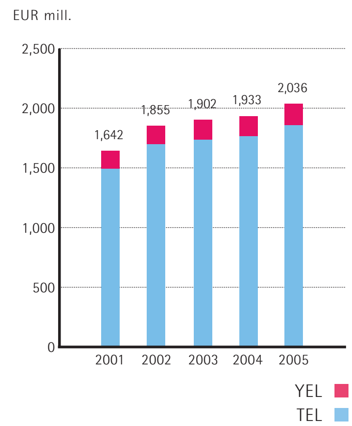
Key figures

	2005	Change, %	2004	2003	2002	2001
Premiums written, EUR mill.	**2,346.0**	**5.8**	2,217.3	2,229.6	2,160.9	1,989.6
Pensions paid out, EUR mill.	**2,035.8**	**5.3**	1,933.1	1,901.7	1,855.3	1,642.2
Aggregate operating expenses, EUR mill.	**87.6**	**-0,1**	87.7	79,4	70.6	60.6
Technical provisions, EUR mill.	**18,891.3**	**15.4**	16,375.6	15,275.0	13,863.5	13,519.6
Balance sheet total at current value, EUR mill.	**21,553.0**	**19.4**	18,050.5	16,475.0	14,933.6	14,737.5
Solvency capital, EUR mill.,	**5,090.1**	**41.5**	3,597.8	2,951.2	2,243.1	2,940.8
% of technical provisions	**32.0**		25.6	22.3	18.1	25.5
relative to solvency border	**2.5**		2.3	2.2	1.9	2.3
Investment, EUR mill.	**20,983.2**	**19.3**	17,635.6	15,985.5	14,520.6	14,331.6
Investment income at current value, %	**12.1**		7.8	8.7	-0.5	-1.2
Pension recipients	**243,775**	**1.8**	239,511	235,965	231,056	224,849
TEL policies	**31,386**	**-0.6**	31,572	31,927	31,689	31,982
Employees insured under TEL	**357,000**	**2.3**	349,000	364,000	359,000	351,000
YEL policies	**49,495**	**-02**	49,580	49,696	49,322	49,386
Permanent personnel, December 31	**541**	**-21.5**	689	649	618	595

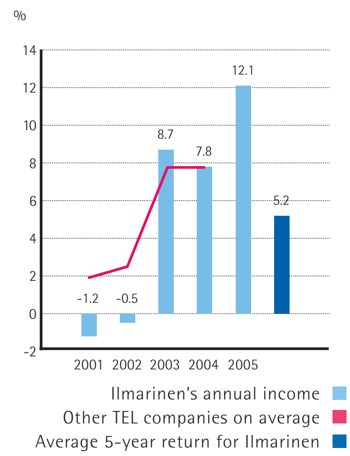
Premiums written



Benefits paid out



Net investment income,
at current value



President and CEO **Kari Puro**

“Ilmarinen’s financial and operational strength is a good basis for success in the future.”

Last year was among the best in Ilmarinen’s history

As a whole, 2005 was one of the best years in Ilmarinen’s history. Share prices rose significantly, and the return on the company’s investments rose to 12.1 per cent. The excellent returns increased the solvency capital, which serves as an investment risk buffer, to more than EUR 5 billion.

It is also gratifying that the number of employees insured by the company rose to 375,000 and the premiums written to EUR 2.3 billion. We paid pensions to a value of slightly more than two billion euro.

High return on investments

Ilmarinen has had the full benefit of the opportunities to increase equity investments offered by the solvency regulations created in 1997 ever since these were issued. The chosen return-oriented strategy was also followed in a determined manner through the poor equity performance years, which required perseverance and faith in the chosen line from the company’s Board of Directors. The poor years also proved that the solvency buffers function according to their purpose, absorbing the fluctuations in returns arising from higher risk investments.

Since 1997, Ilmarinen’s average annual investment return has been the highest in the employment pension companies, 7.5 per cent. Ilmarinen’s strong solvency provides the company with good preconditions for seeking competitive returns on investments in the future, as well.

Increasing client bonuses

Good returns on investments and solvency are not absolute values to an employment pension company. Their purpose is to secure future pensions and control the pressure to raise the employment pension contribution. Clients also benefit from good returns on investments, as employment pension companies reduce the TEL contributions of their corporate customers by client bonuses, the amount of which is based on the employment pension company’s solvency and success in investment activities.

In the years 1997-2005 Ilmarinen transferred a total of EUR 533 million to client bonuses, clearly more than any other pension company in the corresponding period, even in proportion to the company’s size. Thanks to the company’s good investment performance in

2005, the amount of funds that could be spent on client bonuses rose to EUR 78 million from the previous year's EUR 45 million.

Operations are made more efficient

Making operations more efficient is one of Ilmarinen's main aims, in addition to improving services. The amendments to the pension legislation and investments aiming at increasing efficiency have temporarily increased costs. However, last year the rise of costs stopped, and the operating expenses financed by expense loading were EUR 11.7 million lower than the expense loading component collected in connection with the insurance premium, while being less than EUR 7 million lower in the previous year.

The rise in the employment pension contribution is controlled

Improvements in Finnish employment pension cover are the result of the successful joint efforts of the government, the labour market organisations and the employment pension insurers. In international expert estimates and comparisons, Finland has been praised for achieving significant and long-term solutions for ensuring the financing of future pensions and for controlling the pressure to raise the employment pension contribution.

Last year it was examined whether the return level of employment pension funds could be improved and the rise of contribution level could be reduced further by increasing the share of equity investments in employment pension investments. The conclusions of the report, published in January 2006, propose measures by which the share of equity could be raised by about ten percentage points higher than currently. When this is implemented, it is estimated that this will control the pressure to raise the employment pension contribution by 1-2 percentage points in the long term.

Future prospects

Ilmarinen's result for the current year is mainly determined by the development of the investment markets. The year has begun positively, but another top year like the previous year is not to be expected. In the long term, Ilmarinen's success is connected to the success of the Finnish trade and industry. That is why we want to support the Finnish trade and industry by investing significantly in Finnish objects, while still taking care of the productiveness of these investments.

A significant step was taken in the development of the company's service network when Pohjola was sold to the OP Bank Group and Ilmarinen became OKO Bank's owner by a holding of about 10 per cent. Through this a long-term cooperation agreement was made, according to which the cooperative banks and OKO Bank also deal with the sale and customer service of Ilmarinen's employment pension services. In this way our customers receive a more comprehensive overall service and Ilmarinen has even better opportunities to develop competitive services and products for clients together with its cooperation partners.

It has been challenging but also rewarding to be involved in managing and developing the Finnish employment pension cover so that it will also provide cover for future generations. I thank Ilmarinen's employees and clients and all cooperation partners for the past 16 years during which I have been able to carry out this responsible and socially significant duty. I can confidently leave my work at the end of the year, when I will retire. Ilmarinen's financial position is strong and the company has expert and motivated personnel who can ensure that Ilmarinen will continue to be a pioneer in pension insurance even in the future.

Kari Puro

SERVICES

Pension services ⁎ Insurance services

Ilmarinen's mission, goals and values

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.

News year 2005

3 January Ilmarinen sold Pohjola's shares to Suomi Mutual Life Assurance Company as a result of which, Ilmarinen's holding in Pohjola decreased to less than 10 per cent and Suomi's holding rose to nearly 50 per cent.

7 January Ilmarinen, Suomi Mutual Life Assurance Company and Pohjola sold their entire holdings in Alma Media Corporation to the Swedish investment company Proventus Industrier AB.

17 January A new service for selfemployed persons was implemented in Ilmarinen's webservice. A self-employed person can assess, on the Web, how an additional payment or reduction of payment influences the pension contribution and earned income of the flexible year.

24 January Ilmarinen's Board of Directors elected Leif Fagernäs, Managing Director of the Confederation of Finnish Industries EK, as the new deputy chairman.

24 February Ilmarinen published its result for 2004. The share prices had continued their positive trend and boosted Ilmarinen to achieve a good financial performance once again. Solvency strengthened further.

14 March Ilmarinen sold its remaining 40 per cent holding in Aberdeen Property Investors Finland Oy to API Holding AB, and completed the outsourcing of its real estate management functions.

5 April Maija-Liisa Friman, President and CEO of Aspocomp Group Oyj, Arto Hiltunen, President and CEO of HOK-Elanto Oy, and Krister Olsson, Chairman of the Finnish Taxi Association, were appointed as new members of Ilmarinen's Supervisory Board.

28 April Graniittitalo, the business and office building in Kamppi, Helsinki owned by Ilmarinen, celebrated the progress of the change work to rooftop height.

27 June Ilmarinen and Palace signed a letter of intent on building a Life Style hotel right in Helsinki's city centre. The hotel of a hundred rooms will be clearly distinctive and will include a lot of individual and memorable details.

1 July According to a contract made in 2004, the portfolio transfer of Finnair's Pension Foundation was implemented, which meant that the pension cover for 8,700 Finnair employees was transferred to Ilmarinen on 1 July 2005.

25 August Ilmarinen published an interim report for the period 1 January-30 June 2005. The financial performance for the first half of the year was excellent. The reasons for the continued good return level were primarily the increase of equity weighting and the positive trend in the stock market.

30 August Ilmarinen and SATO Corporation signed a letter of intent on a transaction where SATO will buy 895 rental flats from Ilmarinen and 12,000 floor square metres of permitted residential building volume.

12 September Osuuspankkien Keskuspankki OKO (OKO Bank) acquired Pohjola's shares owned by Ilmarinen and Suomi Mutual Life Assurance Company, a total of 58.5 per cent. As a result of the transaction, the OP Bank Group, Ilmarinen and Pohjola form a strong and Finnish financial conglomerate.

22 September Finland Post Corporation announced its decision to transfer the arrangement of TEL (Employees' Pensions Act) pension cover for its personnel within Post's Pension Foundation to Ilmarinen. The portfolio transfer included the pension cover for approximately 20,000 employees and 6,800 pensioners.

28 September In cooperation with the University of Jyväskylä, UPM's Tervasaari unit and the consulting company Olorin Oy, Ilmarinen published the book Silent Knowledge Made Visible) about the identification and transfer of silent knowledge.

30 September A number of reforms were implemented in Ilmarinen's Web service for corporate customers improving the usability of the service on the basis of feedback from customers.

18 October Brokers selected Ilmarinen as the best employment pension company for a third time in a row. Ilmarinen was given the best points is all six areas studied: speed of service, solving of problems, expertise, innovation, quality of operations and attitude.

16 November The Ilmarinen prize for the Personnel Deed of the Year was awarded to the City of Vantaa for the Tuolin viemää (Gone with the Chair) DVD. Its aim was to produce courageous material inspiring discussion for the projects of the City involving well-being at work.

28 November The Board of Directors appointed new members. They were President and CEO Jukka Alho from Finland Post Corporation, President and CEO Jukka Hienonen from Finnair plc, President and CEO Arto Hiltunen from HOK-Elanto, and Chairman and CEO Antti Tanskanen from OP Bank Group Central Cooperative. The term of the new members started on 1 January 2006.

16 December Ilmarinen agreed on the building of a logistics centre for the Kaukohuolinta Group in the industrial area of Jussla in Tuusula.

Employment pension investment is renewed

Employment pension and the national economy

The employment pension contribution forms part of the labour costs. Many pension reforms have been instigated by the fact that these indirect salary costs cannot be increased to too high a level without becoming a burden on Finland's international competitiveness and employment. The pension reform that entered into force at the beginning of 2005 reduced the pressure to increase both the pension expenditure and the pension contribution by about five percentage points with respect to the payroll in the long term. Success with the target requires that people leave working life by retirement a few years later than they do currently. In the long term this is the most important means of controlling the increase of the employment pension contribution. The second most important mean is improving the return on investments.

Employment pension contribution and investment activities

At the end of 2005 the total amount of employment pension funds funded for future pensions in the private and public sector exceeded the level of EUR 100 billion. In relation to the gross national product, the figure represents approximately 66 per cent. In international comparison, the degree of funding related to Finnish statutory pensions is high and our country is well prepared for the payment of future pensions.

In the private sector the pension funds represent almost two annual payrolls.

One percentage point of additional return on these funds would deliver an amount for the accumulation of which almost two per cent of salaries would correspondingly have to be collected as the employment pension contribution. Therefore, investment returns have a great impact on the level of the employment pension contribution.

The previous reform in 1997

Nine years ago a reform was made in the rules of employment pension investment that aimed at improving the return on employment pension funds. Together with the good market development, the reform has increased the average return to a high level. In 1997-2005 the investment returns on the employment pension funds of the private sector have exceeded inflation on average by five and a half percentage points per year. The nominal average return in that time has been 7.3 per cent per year. At Ilmarinen, the average investment return has been even slightly better than this.

Therefore there is reason to say that the reform has worked well. In 2004, in relation to the accumulated good experiences, the employer and employee organisations asked their pension negotiation group to examine whether it would be possible to achieve even better results. In the extensive report published in January 2006, the conclusion was to recommend significant further measures to the previous reform. The aim is that all the legislative amendments will enter into force as of the beginning of 2007.

More risk-bearing capacity

Raising the return level of the employment pension investments requires that the risk level will be increased because risk-taking is paid for in investment activities.

Risk-bearing capacity can be increased by a number of different techniques. The most important issue of the proposed solution is that there will be a buffer built into each pension institution that behaves in the same way in all institutions. This buffer is part of the technical provisions, and its change is linked to the average return on the pension institutions', pension foundations' and pension funds' quoted equity investments.

In poor equity investment years the buffer is reduced and in good years it is increased. A rule is related to the technique that transfers funds from the increased buffer to the actual pension funds to ease the pressure to increase the employment pension contribution.

In addition, the risk-bearing capacity is strengthened by increasing the pension institutions' current risk buffers, the solvency capital, to some extent.

The share of equity investments is increasing

The new buffer is dimensioned so that it eliminates the effect of the variation of share prices on such a number of shares that corresponds to one-tenth of the whole investment portfolio. So it is to be expected that about ten percentage

More information on the investment examination is available at the address *www.tela.fi*

points more of the employment pension funds will be invested in equity than would have happened otherwise.

It has been assessed that the previous rules would have allowed keeping about 25 per cent of the pension funds in equity investments in the long term. In good stages of the economic cycle, the amount is naturally higher; equity represented 34 per cent of Ilmarinen's investments at the end of 2005. After the reform it is possible to keep on average about 35 per cent of the investments in equity even over the economic cycles. The share will naturally be even larger when the share prices are high.

It is clear that every pension company also aims at as good as possible a return with its other investments.

Effects on the development of the employment pension contribution

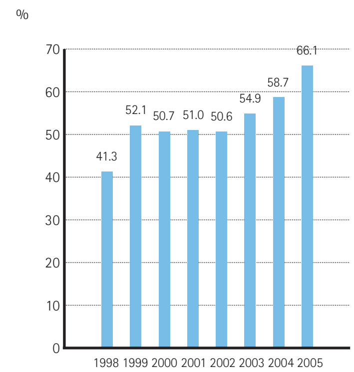
A technical change was also related to the investment reform, which slightly advances the effect of reducing the pressure on contributions of the investment returns. If the changes are enough to increase the average return by half a percentage point, the employment pension contribution will develop according to the attached figure in the next decades.

Investments in Finland

Three-quarters of the employment expenditure is financed on a pay-as-you-go basis by salary-based contributions collected annually. The greater the payroll, the smaller contribution percentage will be enough to collect the necessary funds annually. The second main aim of the investment examination was to chart whether employment pension insurers could invest more in Finland than currently and if this could achieve positive effects on the development of employment in Finland.

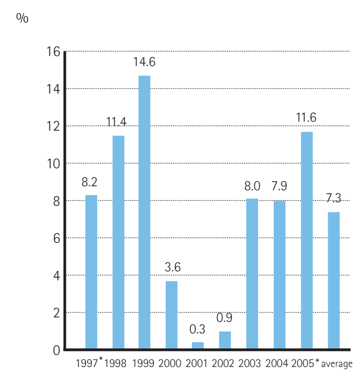
However, in this respect, finding concrete measures was more difficult than for increasing the risk-bearing capacity. On the other hand, these two subject matters in the investment report are not fully separate. When the risk investment opportunities of the pension investors are improved, part of the increase will be directed to Finland, both to listed companies and to starting companies at the beginning of their development. It is also noteworthy that at the moment the employment pension insurers already make significant investments in Finland. For example, 35 per cent of the equity investments in the private sector were made in Finland at the end of 2005.

Percentage of employment pension funds of GNP



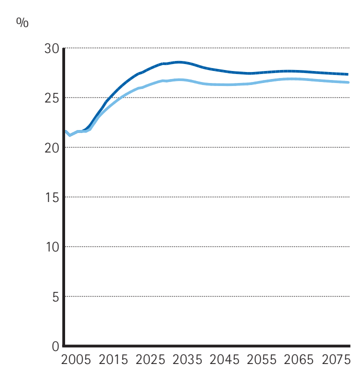
Source: The Finnish Pension Alliance TELA

Annual return of employment pension funds on capital employed



* Only contains information on the companies
Source: The Finnish Pension Alliance TELA

TyEL expenditure as % of payroll



Real return 3,5% under the current investment rules
Real return 4,0% under the current investment rules
Source: The Finnish Centre for Pensions

"Our customers appreciate smooth and easy business operations."

In the picture: **Harri Kangaskoski**
Ilmarinen's Customer Service

Services close at hand

Ilmarinen is responsible for the employment pension security of about 670,000 people in Finland. The company's market share of the premiums written at Finnish employment pension insurance companies is more than one third. Ilmarinen is the largest corporate insurer in Finland. The company's main services are insurance services, promotion of well-being at work, vocational rehabilitation, pension services, managing company pension funds, financing, and leasing office and commercial premises.

Developing services in cooperation

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.

The most important of Ilmarinen's partners is Pohjola. More than 70 per cent of insurance sales are generated through it. Ilmarinen's other non-life insurance partner, Pohjantähti, has increased its customer base, which has been seen in the doubling of the employment pension insurance portfolio insured through Pohjantähti in the past 10 years. The share of insurance brokers of Ilmarinen's premiums written is approximately 20 per cent.

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.

Customers wish to deal with their business on the Web more and more. For this reason, the services have been developed so that customers can deal with all matters related to their employment pension insurance on the Web at any time of the day. Ilmarinen now has more than 14,000 online corporate customers.

The OP Bank Group becomes the new partner

As a result of the corporate arrangement agreed in September, a strong and domestic financial conglomerate was born in Finland when OP Bank Group acquired Pohjola.

In that connection, Ilmarinen entered into an extensive cooperation agreement with the OP Bank Group, by means of which cooperative banks started to offer Ilmarinen's services. In turn, Ilmarinen's customers obtained a more comprehensive product and service range.

The strong market position of the OP Bank Group brings a significant amount of corporate and entrepreneur customer potential for Ilmarinen. It is also significant that the smoothly functioning cooperation with the long-term partner Pohjola is continuing and the strong expertise of its staff in insurance and employment pension matters continues to be at the disposal of Ilmarinen's customers.

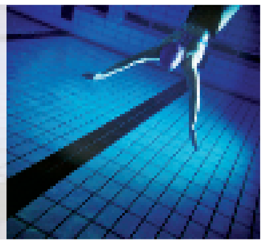
Ilmarinen continues to be an independent mutual company owned by its customers, but has a stronger competitive position. The local availability of services is very important as a choice criteria when medium-sized and small corporate customers, entrepreneurs and households decide on their insurance solutions.

New financing alternatives for companies

Ilmarinen has developed new financing alternatives for the needs of small and medium-sized corporate customers in particular. Together with bank and guarantor partners Ilmarinen also finances large and demanding projects related to investments and corporate arrangements. The processes related to the application and granting of loans have been arranged to be as smooth as possible for customers.

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.

MONDAY coffee break



TUESDAY swimming

WEDNESDAY culture

The best client bonuses in the industry

Employment pension companies reduce their corporate clients' TEL contributions by client bonuses, the amount of which is based on the employment pension company's solvency and financial success. Ilmarinen has set as its aim to be the most solvent employment pension company with the most competitive client bonuses in the industry. Thanks to its return-oriented investment operations, the company has succeeded in achieving these aims.

Ilmarinen has transferred a total of EUR 533 million to client bonuses in 1997-2005, more than any other pension company during the corresponding period. Thanks to the company's good investment performance in 2005, the amount of funds that could be spent on client bonuses rose to EUR 78 million from the previous year's EUR 45 million.

"In customer service and its development we aim to make our customers genuinely feel that they have chosen the right employment pension company. It is worthwhile being Ilmarinen's customer as we invest in the best service, efficient operations and competitive client bonuses."

SINI KIVIHUHTA, Senior Vice President, Client Relations

Good feedback from customers

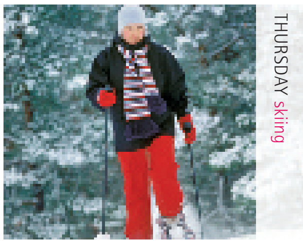
Listening to customers' opinions is of decisive importance for the development of services. In the satisfaction questionnaire conducted for major clients last year, our service, described as expert, fast and friendly, was singled out for praise. There was room for improvement in reporting practices. The average grade was very good.

Brokers selected Ilmarinen as the best employment pension company for the third time in a row. Ilmarinen was given the best points in all six areas studied: speed of service, problem-solving, expertise, innovation, quality of operations and attitude.

An online interview was conducted for smaller companies and entrepreneurs, where the views of the companies on the changes in the operating environment were requested, as well as feedback and suggestions for developing Ilmarinen's services. In the future, companies will see networking as the most important factor influencing their operations. As far as employment pension matters are concerned, they were hoping that these would be dealt with easily and effortlessly. In the past few years, the development at Ilmarinen has focused on easy-to-use online services.

Online business is increasing strongly

In 2005, the number of clients using the online service doubled. One-third of Ilmarinen's corporate customers already deal with their employment pension matters on the Internet. The services were expanded further last year. Ilmarinen was the first employment pen-



sion company to implement a real-time annual calculation service, by means of which a company can get a calculation of the final TEL contribution for the year fast using the Internet service. In the study, conducted towards the end of the year, Ilmarinen's Internet services received the average school grade, 8.5, from corporate clients.

Ilmarinen organises a lot of training and information events annually in different parts of the country. In 2005, the themes included the disability tariff class, changes due to the pension reforms, development of well-being at work and rehabilitation, among others. More than 2,000 visitors participated in the client events, TEL days and company-specific employment pension events organised by Ilmarinen last year.

Increasing market share

Last year Ilmarinen succeeded well in the sale of employment insurance policies. At the beginning of the current year, the company had approximately 30,000 insured employees more than at the end of 2004. This was significantly influenced by the fact that the Finland Post Group became Ilmarinen's insurance client. The sale of self-employed persons' pension insurance policies also increased slightly. However, in transfers from an employment pension insurance company to another, Ilmarinen remained slightly in the red.

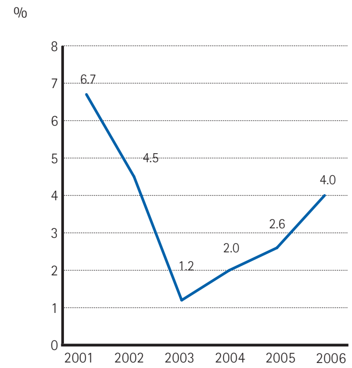
The OP Bank Group has the most extensive service network in the country, which brings additional power to Ilmarinen's client service and particularly to client acquisition in medium-sized and smaller companies.

Insurance is becoming simpler

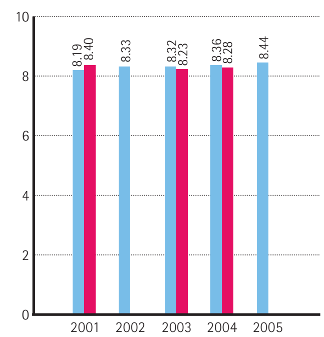
In 2005, preparations were made for the adoption of a "disability tariff class" in the determination of the insurance premium concerning the disability pensions of large companies. Ilmarinen calculated the disability tariff classes of its clients falling within the scope of the disability tariff class quickly, so the clients received advance information on their companies' disability tariff class for 2006 in good time.

The employment pension acts of the private sector will be combined into a single Employees' Pensions Act (TyEL) as of the beginning of 2007. With this reform, companies' employment pension insurance will be simplified. Ilmarinen has large-scale training, product development and information technology projects in progress, the aim of which is to guarantee a smooth transition to the new insurance practice for clients. The amendment to the legislation enables centralisation of employment pension matters, in which case it is easier for the company to obtain an overall picture of its employment pension costs and the services it needs.

Bonuses and rebates % of employer contribution under TEL

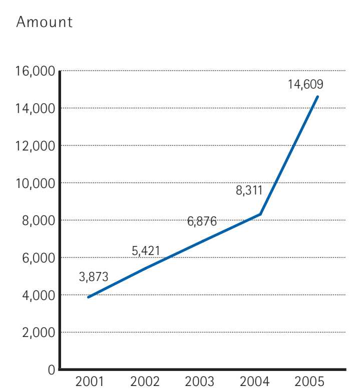


Policyholders' evaluation of Ilmarinen



Surveys of labour-market decision-makers by Taloustutkimus Oy
In-house TEL customer surveys

Web service agreements



MONDAY cleaning

TUESDAY together

WEDNESDAY at café

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

"Coping and continuing at work is more important than before when, due to the pension reform, employees are retiring later. On the other hand, the connection between well-being at work and a company's competitiveness and success has been proven. Therefore, we invest significantly in the promotion of well-being at work in our client companies and the related research activities."

TIMO ARO, Senior Vice President, Pension Services

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 arises depends not only on economic aspects but also 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. At the same time, it also has a positive effect on the company's productivity and competitiveness. Well-being at work is in the interest of both the employer and the employees.

Good health is an essential precondition for the ability to work. For this reason, companies should have a method of operation in situations where an employee's health deteriorates and the job must be changed to correspond to the employee's work conditions. A healthy, safe working environment is also a must.

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. The changes in working life may partly explain this development. The job satisfaction of aging employees and their continued work pose a new challenge.

Motivo: Promoting employees' welfare

In cooperation with its clients and experts, Ilmarinen has launched a workplace well-being service called Motivo. 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 service consists of material that 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 2005 Ilmarinen organized 12 seminars on welfare at work for persons responsible for operations, personnel and development in enterprises; almost 700 people attended these seminars.

"Ilmarinen's Motivo service helps customer companies to control the risk of disability and promotes ways to help people to stay longer in working life by developing well-being at work".

Ilmarinen also supports research on promotion and maintenance of well-being at work. In 2005 a study related to the definition, identification and transfer of silent knowledge was conducted in co-operation with the University of Jyväskylä, UPM's Tervasaari mill and Olorin Oy, which raised extensive interest due to its socially significant theme. On the basis of its results, a book to be used at workplaces and a workbook aiding practical applications were published.

Rehabilitation

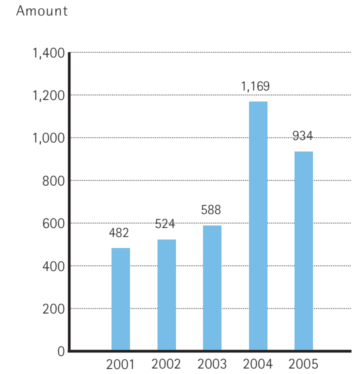
Ilmarinen can also support an employee who has to find a new workplace or occupation because of an illness that poses a threat to the employee's working capacity. The goal of the reform is to detect the potential threat of disability early enough to prevent it or at least to postpone its onset. A successful 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. Vocational rehabilitation benefits both the employer and the employee.

The number of applications concerning rehabilitation doubled in Ilmarinen in 2004 and the number of applications also remained on a high level in 2005. The number of people rehabilitated increased by 8 per cent. Ilmarinen has a team of about ten rehabilitation experts and a full-time medical expert for handling rehabilitation applications.

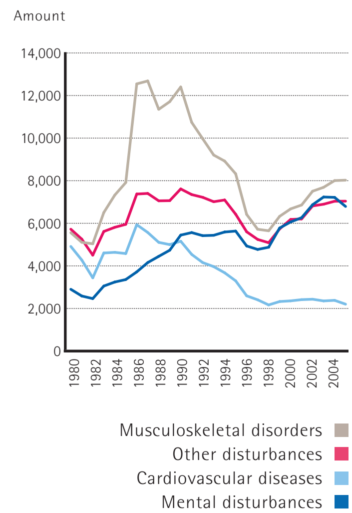
The Ilmarinen award: Incentive for human resources development

The 2004 Ilmarinen prize for Personnel Deed of the Year was awarded to the City of Vantaa by the Finnish Association for Human Resources (HENRY ry). The prize was awarded for a "Tuolin viemää" (Gone with the Chair) DVD. By producing it, the City of Vantaa has brought up the ability of an individual to cope in a positive way. Ilmarinen has agreed to continue the long-standing cooperation with HENRY 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 the 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



“We aim to make fair and prompt pension decisions.”

In the picture: **Heidi Mannio** and **Anneli Paalanen**
Ilmarinen’s Pension Service

Improving pension services

Ilmarinen's key operating principles include an ability to make fair, prompt decisions that 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.

The pension reform increases the need for information

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. 21,500 advance calculations on pension were sent to clients planning their pension last year. In addition to individually prepared advice responses, Ilmarinen sent information about pension cover to about 36,000 employees and more than 15,000 entrepreneurs. 38 events were organised providing detailed information on pension. The main themes were the effects of the pension reform and unemployment security.

Improving services

Web services have been implemented that can be used by clients to obtain information on their personal pension cover, even outside working hours. By using the service, employees and entrepreneurs insured at Ilmarinen can calculate estimates of the amount of their future old-age pension and order an advance calculation of their own old-age, part-time, disability or unemployment pension, among other things. Pensioners can check the information affecting the payment of their pension and change their address.

Through the new payment application, new pensions can be paid much sooner than before once a pension decision has been made by Ilmarinen. The application has also improved Ilmarinen's efficiency in other ways too, as a number of manual stages in the application handling process are now performed automatically.

In relation to the pension reform, there were more than three times the number of old-age pension applications being processed at the beginning of the year than previously. After the Act entered into force however, the applications could be processed smoothly and the fast processing times of applications could be maintained.

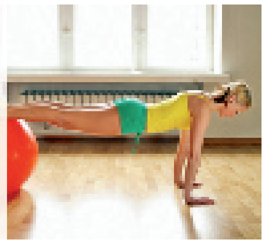
Developing expertise and information technology

The 'last-institution principle' has been 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.

MONDAY playing

TUESDAY fitness



WEDNESDAY relaxing

Return-oriented, responsible investments

"The excellent investment returns in the past few years have been based on, besides favourable market development, our return-oriented and long-range investment operations, for which the company's strong financial position has provided a good basis."

JUSSI LAITINEN, Senior Vice President, Investments

Because payment of pensions usually begins after several decades of accrual, investments made 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. In accordance with Ilmarinen's investment strategy, the risks related to our investments have been on average higher than for other pension institutions.

Expected long-term yield from investment assets in Ilmarinen's average targeted distribution, or basic allocation, is about 5.5% and average standard deviation about 6%.

Risk management takes many forms

Short-term fluctuations in securities markets can be significantly reduced through diversification.

Effective diversification requires not only diversification of types of asset but also geographical diversification. On the other hand, 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 future economic cycles. The investment strategy and the investment plan for the following year are both 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.

Ongoing procedural development

Ilmarinen's investment organization has two basic functions: to make investments according to the company's investment plan and to achieve a yield that exceeds the targeted basic allocation.

To achieve all these objectives, the advantages and disadvantages of each procedure must be weighed carefully. Ilmarinen's investment organization looks after 85% of the company's investments. In the case of tasks that require large human resources or a considerable

THURSDAY shopping

FRIDAY in the city

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

amount of special expertise, the work is outsourced. In these cases, investments are made almost exclusively through investments funds in emerging economies, fixed-income instruments with low credit ratings, private equity funds and hedge funds.

In 2005, the costs of Ilmarinen's own investment organization in relation to the assets were 0.04%.

An active ownership policy

Ilmarinen's ownership policy, which was approved by the Board of Directors in 1999 and updated at the end of 2004, describes the company's views on its administrative structures, dividend distribution policies and incentive schemes.

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 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 having to send representatives to the meetings.

Assessing social responsibility

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 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. 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.

An outside expert 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 achieve no change in the situation. In 2003-2004 the securities of four companies were removed from Ilmarinen's investment portfolio for ethical reasons, but last year we did not have to remove any securities. Forced labour and environmental offences were some of the grounds for removal. Ilmarinen's longstanding partner in assessing the social responsibility of investments is GES Investment Services, a Swedish company with over sixteen years of experience in the business.

MONDAY outdoors

TUESDAY refreshing

WEDNESDAY travelling

A 12% return on Ilmarinen's investments

2005 was a good year on the stock market. The return on the key equity markets in local currencies rose to 25-40 per cent. However, the return on the equity market of the United States remained less than five per cent. In the mining and metal industries the prices rose more significantly than in other industries, when the good financial development and production bottlenecks increased the prices of raw materials. The development was good in Finland, too; the share price rise settled around 35 per cent.

The return on European bond markets was 4.5 per cent in 2005. The best return was delivered by investments in bonds in developing economies and bonds linked to inflation. The most significant change in the foreign exchange markets was the strengthening of the United States dollar in relation to euro by about 13 per cent. The increases in interest rates by the United States' central bank increased the interest rate difference between the United States and Europe, as a result of which the dollar was strengthened.

The fast growth of the global economy, and that of the Chinese economy in particular, increased the prices of raw materials significantly. The wide raw material indexes rose by more than 20 per cent during the year, and the prices of energy and metals rose by more than 50 per cent.

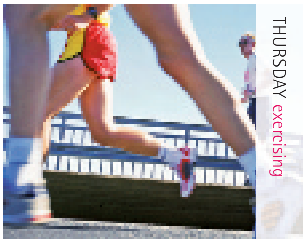
The development of European real estate markets was dominated by the investors' need to diversify their investments internationally. The return requirements for real estate decreased due to increased demand, and the prices of real estate rose. The prices of the shares of listed European real estate companies rose by more than 20 per cent in 2005. Increased activity in the listing and corporate acquisition markets boosted private equity funds to deliver a return of more than 40 per cent.

Ilmarinen increased equity investments

The expectations for 2005 were moderate with respect to economic growth and inflation. Shares were expected to deliver a better return than bonds and interest rates were expected to rise. However, long-term interest rates decreased in Europe. According to its view, Ilmarinen actively increased equity investments during the year. Their share was higher than in the basic allocation or the targeted breakdown. Including the share price rise and derivative positions, the average share of equity risk rose by about two percentage points from the previous year. At year-end the share of listed equity investments was

Ilmarinen's investments, 31 December, 2005

	Market value breakdown, EUR mill.	Risk breakdown, EUR mill.	ROCE, %	Volatility, %
Interest income	11,839	11,488	4.3	
Loan recievables	1,076	1,076	4.6	
Bonds	10,365	10,171	4.3	2.4
Other debt securities	398	241	4.5	
Equity	6,602	6,681	32.0	
Listed shares	6,231	6,310	31.6	8.1
Private equity investment	318	318	41.4	
Unlisted equity	53	53	30.1	
Real estate	2,204	2,204	5.6	
Direct real estate investments	2,067	2,067	4.7	
Real estate funds and joint investments	136	136	21.5	
Other investments	338	610	16.5	
Hedge funds	273	273	6.1	6.9
Commodity investments	31	304	-	
Other investments	34	34	-	
Investment total	**20,983**	**20,983**	**12.1**	**2.9**



”The good return on investments further strengthens Ilmarinen’s solvency and improves the reductions in TEL contributions.”

about 29.7 per cent of all investments.

The share of bonds of all investments was on average slightly lower than the level according to the basic allocation. The share of money market investments approximately followed the basic allocation.

Investments in real estate increased in 2005, but their relative share of all investments decreased due to the strong rise in share prices. The capital growth of the real estate portfolio was slight despite the decrease in return requirements, as rental levels in many office markets decreased further due to poor rental demand. The international diversification of real estate investments was continued through indirect real estate investments according to the company’s real estate investment strategy. The return on indirect real estate investments was 21.5 per cent. The loan portfolio of customer financing remained almost unaltered, even if its relative share of the investment portfolio decreased.

With the international diversification of investments the amount of foreign currency investments was almost EUR 3.3 billion at the end of 2005. About half of the foreign currency risk of these investments was hedged.

Solvency strengthens further

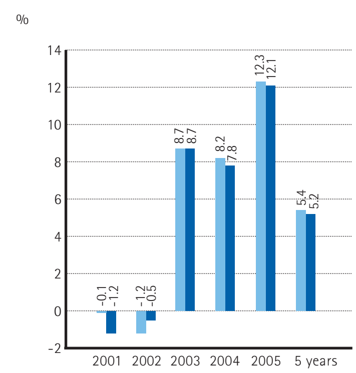
The return on Ilmarinen’s total investment assets in 2005 was 12.1 per cent. Return was excellent with regard to the expected average long-term return. The investment returns strengthen Ilmarinen’s solvency further and improve the company’s capacity to grant significant reductions in TEL contributions even in the future.

The return on listed equity investments was 31.6 per cent, bonds 4.3 per cent, real estate investments (including indirect investments) 5.6 per cent, customer financing 4.6 per cent and commodity investments 14.4 per cent. As an exception to the others, the return percentage on commodity investments has been calculated on risk capital. Foreign currency hedging is included in the above figures. As a separate item its impact on total return was -0.7 percentage points.

An official breakdown of the return on investments is presented on page 67.

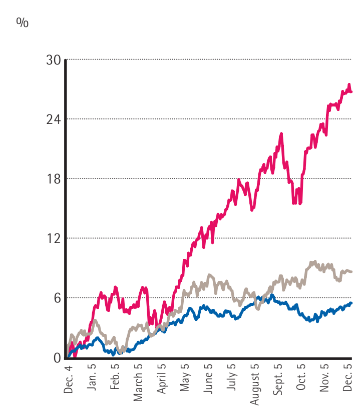
In relative terms, the total return on investment assets was slightly lower than the benchmark index defined for the year, as the company wished to keep the risk level slightly lower than in the basic allocation. In turn, the company succeeded well in short-term weightings of shares during the year. Fixed-income investments delivered a return according to the benchmark index. In turn, foreign currency hedging outperformed the benchmark index.

Comparison of investment income



Benchmark index
Ilmarinen

Market returns in 2005



Citygroup EMU Government
DJ STOXX 600
USD/EUR

Ilmarinen's financial standing is strong

Ilmarinen believes that its position as a statutory pension provider brings with it a special responsibility. An essential component of this is to ensure the stability of the company's financial standing and the management of related risks.

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.

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 Report on Operations 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 it is the uncertainty over the number and size of new pensions.

Risk management in Ilmarinen's underwriting business is based on 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. The employment pension companies' joint calculation bases specify the upper limit and, below it, the target zone of the equalization provision.

The aim has been to set the limits according to the need of the underwriting buffer. The inflow rate of disability pensions has decreased to one third of its previous level within the last few years. The change appears to be permanent, and therefore a decision has been made to decrease the equalisation provisions of employment pension companies. The disability premiums have already been kept below the estimated disability pension costs for several years, and in 2006 a special reduction will be granted on the contribution.

Investment risk management

The solvency rules for earnings-related pension insurers provide the framework for the 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.

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

Ilmarinen's result for 2005 and its com-

Profit at current value in 2005, EUR mill.

	Underwriting business	Other business	Investment	Loading profit	Total
Premiums written	443.6	1,814.3	3.3	84.8	2,346.0
Net investment income at current value			2,180.9		2,180.9
Claims paid	-418.7	-1,624.5	1.4		-2,041.8
Change in technical provisions	30.1	-179.2	-722.1		-871.2
Total operating expenses	-3.8		-9.4	-74.4	-87.6
Other income and expenses		-10.6	0.0	1.3	-9.3
Taxes			-2.0		-2.0
Profit at current value	**51.2**	**0.0**	**1,452.0**	**11.7**	**1,514.9**
Change in equalization provision					-50.8
Change in provision for future bonuses					-537.0
Change in difference between current and book values					-807.7
Change in accelerated depreciation					2.0
Transfers to bonuses and rebates					-78.0
Net income for the financial year in the profit and loss account					7.4

position, as well as the company's financial standing, are found in the attached tables: income statement and balance sheet at fair value. The overall result for 2005 was EUR 1,514.9 million, and the balance sheet at fair value was EUR 21,553.1 million. The key figures and analyses published in the official financial statements are found on pages 65-68.

Ilmarinen's underwriting result for 2005 was again in surplus, following the pattern of recent years, and amounted to EUR 51.2 million. At the end of the year, the company's equalisation provision was EUR 893.6 million, which is about two-thirds of the upper limit for the underwriting buffer, as set out in the calculation bases.

Ilmarinen's investment returns in 2005 were excellent. The result after deducting the return requirement of technical provisions was EUR 1,452 million.

At the end of 2005, Ilmarinen's solvency capital amounted to EUR 5,090.1 million. This was an increase of EUR 1,492.3 million on the previous year. Solvency capital was 32.0% (2004: 25.6%) of the technical provisions that define the basis of the solvency capital requirements, and was 2.5 (2.3) times the solvency border. For Ilmarinen's solvency capital to fall to the solvency border, share prices would have had to drop by about 50%, or the general rate of interest rise by about 2 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.

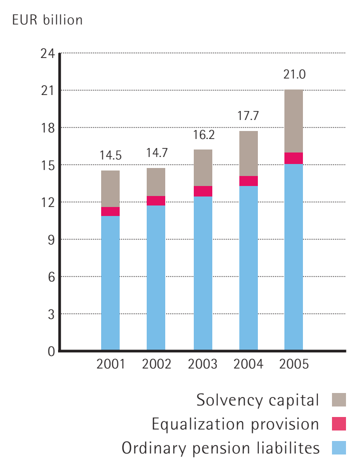
The technical provisions, equalization provision and solvency capital each serve to secure the pension provision. The pension assets covering them comprise almost all of the company's wealth. The technical provisions have been calculated prudently and must always be covered. Technical provisions increase 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 fluctuations in the underwriting and investment results. Ilmarinen's solvency is good and its risks have been controlled in relation to the extent of the solvency buffers.

Balance sheet at current value, 31 December, 2005, EUR mill.

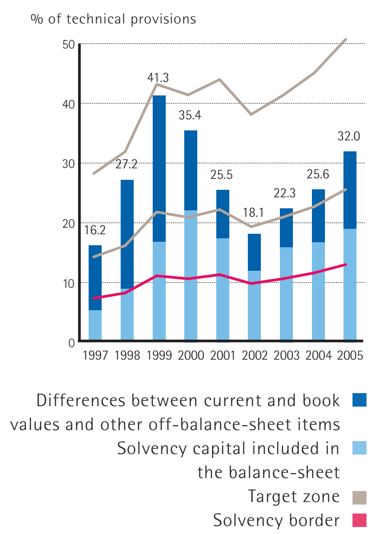
Assets		Liabilities	
Investment at current value	20,983.2	Capital and reserves after proposed distribution of profits	78.4
		Depreciation difference	15.5
Recievables	527.1	Depreciation between current and book value	2,081.3
Other assets	42.8	Provision for future bonuses	2,940.1
		Other solvency capital items	-25.1
		Solvency capital	**5,090.1**
		Equalization provision	893.6
		Capital base	**5,983.7**
		Provision for current bonuses (to client bonuses)	77.9
		Technical provisions[*)]	14,979.7
		Other creditors[**)]	511.7
Assets total	**21,553.1**	**Liabilities total**	**21,553.1**

[*)] Technical provisions excluding provisions for current and future bonuses and equalization provisions
[**)] Includes off-balance-sheet items deducted from the solvency capital, EUR 25.1 million, as well as the proposed distribution of profit, EUR 1.5 million.

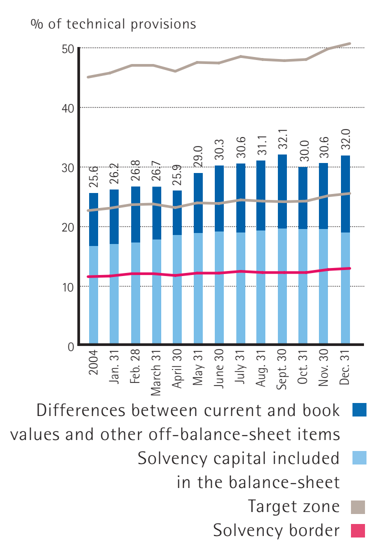
Ilmarinen's pension assets



Solvency, annual



Solvency, monthly



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. The company's social responsibility is guided not only by statutory values and obligations, but also by the principles of good governance, good insurance practice and Ilmarinen's ownership policy and risk management plan.

At Ilmarinen a nine-member corporate social responsibility committee, which includes experts from every one of the company's operating areas, acts as the coordinator of corporate social responsibility issues.

Responsibility for earnings-related pensions

Ilmarinen participates in a significant way in the development of the Finnish employment pension system and its long-term financing. In 2005, Ilmarinen's personnel were strongly involved in a development project concerning investment activities for employment pension funds, for example. The company strives to have an influence on future pensions being paid despite any changes in the operating environment and that the employment pension contributions remain at a reasonable level.

Ilmarinen promotes disability risk management by its customer companies and encourages their employees to cope and remain at work. The company's key operating principles include a fair and prompt issue of pension decisions and their clear communication. Surveys conducted annually monitor the success with targets, and in them Ilmarinen has succeeded better than its competitors on average.

On the basis of the need that emerged in service questionnaires for pension applicants, Ilmarinen has decided to establish a new national guidance and advice service for customers that have received a negative disability decision. The service includes an opportunity to discuss the grounds for a negative decision with experts and to survey the alternatives related to livelihood and continuing in working life. The activity will commence properly in 2006.

Satisfied clients

Ilmarinen's goal is to provide high-quality services for corporate clients, entrepreneurs and pension recipients. Good insurance practice is observed in all customer relations by the company and its partners.

Part of the financial gain from the company's business is distributed to clients in the form of client bonuses. Ilmarinen wants to participate, for its part, in improving the operating conditions for Finnish enterprises and employment in Finland by investing in employment pension funds in Finnish companies.

Surveys on customer satisfaction and Ilmarinen's corporate image are carried out annually, and the voice of customers is also heard through advisory boards, for example. The task of insurance customers, the insured and the advisory boards for pension matters is to deepen cooperation and interaction, contribute to raising development needs in insurance and pension cover matters and improve local considerations in decision-making.

At the beginning of the current year, Ilmarinen's Board of Directors decided, as the first of the employment pension companies, to establish an advisory board for pensioners, so that their point of view would be better considered in the company's operations.

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 the payment of future pensions, Ilmarinen seeks the best possible yield for the pension funds within the framework of our risk tolerance. Another aim is cost-efficient operations.

More details on page 17 of the Annual Report.

Improving the workplace community

The main principles of Ilmarinen's human resources policy are a good workplace community and management environment and valuing the individual. The company has been conducting internal studies on the management and its policies for more than thirty years and has used the results to improve its operations. According to the studies, Ilmarinen's personnel have always valued the company as a good employer, even if they have detected development targets.

Ilmarinen promotes equality in employment issues, providing equal career opportunities for both men and women of all ages, for instance. 80 per cent of immediate supervisors are women, about half of the middle management and top management, too. Employees are widely represented in 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.

Last year there were many on-going development projects. The technical tools and information systems taken into use in pension and insurance services, among others, required major changes to the operating methods and the learning of new things. The projects related to the integration of employment pensions acts continued. In addition to the mandatory application changes related to the amendments in legislation, the aim is also to streamline operating methods.

Training programmes are planned annually on the basis of the development needs of the company's business operations. About 40 per cent of last year's training days were used to study the new pension acts and a quarter to develop operations and improve information technology skills. All in all, five training days were arranged per Ilmarinen employee. More and more skills are increased by learning at work.

Job satisfaction at Ilmarinen is illustrated by the fact that the average length of employment at the company is about 14 years. The company has an employee turnover of 4.3%.

The main goals of Ilmarinen's personnel strategy 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.

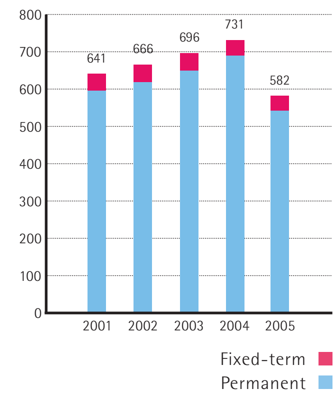
Ilmarinen will publish a Personnel Report in Finnish on the company's website, at www.ilmarinen.fi during week 13.

Environmental responsibility

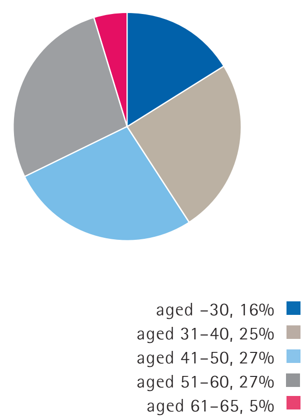
Because earnings-related pension insurance business consists of services and data processing, the environmental effects of Ilmarinen's own operations are very low. Nevertheless, the company pays careful attention to its own activities and the management of environmental issues related to its subcontractors.

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 the consumption of water and energy.

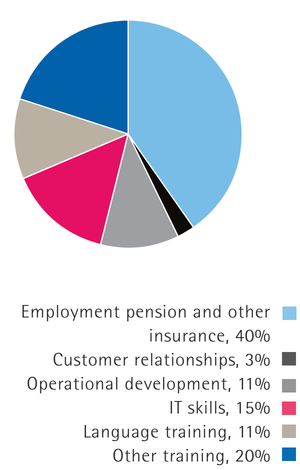
Trend in staff number



Staff age 2005



Personnel training 2005



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. 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 annual financial statements, as required under applicable insurance company legislation, and any other matters indicated on the meeting notice.

The 2005 Annual General Meeting was held on 5 April 2005 at Ilmarinen's headquarters. It addressed the matters required under Ilmarinen's Articles of Association and heard the President's review of 2004. The Annual General Meeting also changed the Ilmarinen's Articles of Association in a way that meant the vote number of policyholders and insured was increased. Now a TEL policyholder and insured will receive one additional vote for every 750 euro fully paid (previously 1,700). A YEL-policyholder will receive one additional vote for every fully paid 3,000 euro (previously 6,700). 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. Seven of the members are proposed by employers and seven proposed by employees.

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 2005. The Annual General Meeting of Ilmarinen's shareholders did not change 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 also has an appointment and compensation committee and an audit committee.

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 started on 1 January 2006, and ends in 2009. At the beginning of each calendar year, the Board of Directors elects a Chairman and two Deputy Chairmen from its membership.

In 2005, the Board met 12 times. The average meeting attendance rate of the Board members was 86 per cent. The Supervisory Board determined new fees for Board members on 28 November 2005. The Chairman of the Board is paid EUR 20,000, the Deputy Chairman EUR 15,000, regular Board members EUR 10,000, and deputy Board members EUR 6,500 per year. The Chairman's meeting fee is EUR 400, the Deputy Chairman's fee is EUR 375, while the Board members and deputy Board members are paid a fee of EUR 275 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, as well as an Executive Vice President who will stand in for the President and CEO as needed.

Ilmarinen's President and CEO is Kari Puro. The company's Deputy CEO is its Executive Vice President, Jaakko Tuomikoski.

Other organisational aspects and responsibilities

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. A business operation steering group supports the work of the Board of Directors. The steering group includes the CEO, and Senior Vice Presidents of Client Relations, Pension Services, Investment and Administration. The Executive Group is presented on page 28-29.

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.

Ilmarinen's chief executive officer was paid a total of EUR 472,468 in salary and incentives in 2005.

Corporate insiders

Ilmarinen has a set of insider guidelines, the current one being agreed by the Board on 2 February 2006. 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 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 236,722 for audit services, EUR 42,669 for tax advice and EUR 28,337 for other advisory services in the course of 2005, including VAT.

IN THE PICTURE, FROM LEFT:

Jukka Alho, Timo Parmasuo, Lauri Ihalainen, George Berner, Hannu Rautiainen, Arto Hiltunen, Leif Fagernäs, Risto Piekka and Antti Tanskanen

Supervisory Board, the Board of Directors and Inspectors

Supervisory board

Timo Peltola, Chairman
Bachelor of Science (Econ), due to resign in 2006

Antti Herlin, Deputy Chairman
Board Chairman of Kone Corporation, due to resign in 2007

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

Maija-Liisa Friman
President and CEO of Aspocomp Group Plc, due to resign in 2007

Pertti Hagren
Chief Steward of BEMIS Valkeakoski Oy, due to resign in 2007

Ilpo Jalasjoki
President and CEO of YIT Construction Ltd, due to resign in 2007

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 2007

Simo Leivo
Executive Director of the Financial Sector Union SUORA (Finland), due to resign in 2007

Juhani Maijala
Board Chairman of Lassila & Tikanoja plc, due to resign in 2006

Esko Mäkeläinen
Senior Executive Vice President and CFO of Stora Enso Oyj, due to resign in 2006

Markku Niskala
Secretary General, IFRC (International Federation of Red Cross and Red Crescent Sosieties), due to resign in 2007

Krister Olsson
Chairman of The Finnish Taxi Association, due to resign in 2007

Kirsti Piponius
Deputy Board Chairman of Sodexho Oy, due to resign in 2007

Veli-Matti Puutio
President of Osuuskauppa Arina, due to resign in 2007

Jarmo Rantanen
Mayor of Tampere, due to resign in 2006

Ilkka Rantasalo
Managing Director of StaffPoint Oy, due to resign in 2006

Markku Ruohonen
Managing Director of Raha-automaattiyhdistys (Finland's Slot Machine Association), due to resign in 2007

Timo Räty
President of the Finnish Transport Workers' Union (AKT), due to resign in 2006

Markku Rönkkö
Managing Director of Savon Voima Oyj, due to resign in 2007

Kalevi Vanhala
President of the Wood and Allied Workers' Union, due to resign in 2007

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
Managing Director of Unemployment Insurance Fund for Salaried Employees, due to resign in 2006

* * *

Board of Directors

The term of office of all Board members and deputy members will expire on December 31, 2009.

Hannu Syrjänen, Chairman
President and COO of SanomaWSOY
b. 1951, BSc (Econ.), LLM.

Leif Fagernäs, Deputy Chairman
Director General of Confederation of Finnish Industries, EK
b. 1947, LLM.

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

Seppo Junttila, Gretel Ramsay, Eino Halonen, Hannu Syrjänen and Jukka Hienonen

The Board of Directors of Ilmarinen 2006

Jukka Alho
President and CEO of Finland Post Corporation
b. 1952, Grad. Eng.

George Berner
Managing Director of Berner Corporation
b. 1948, Grad. Eng.

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

Jukka Hienonen
President and CEO of Finnair Plc
b. 1961, MBA

Arto Hiltunen
President and CEO of HOK-Elanto
b. 1958, BSc (Econ.)

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

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

Gretel Ramsay
Managing Director of Tammet Ltd
b. 1955, BSc (Econ.)
(until March 16, 2006)

Antti Tanskanen
Chairman and CEO of OP Bank Group
b. 1946, Ph.D. (Econ.)

Marja Usvasalo
President of Kalevala Koru Oy
b. 1947, MBA
(since March 17, 2006)

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

Antti Herlin
Arto Kajanto
Kirsti Piponius
Veli-Matti Puutio
Matti Viljanen
Marjatta Väisänen

Deputies

Ilpo Jalasjoki
Antti Lagerroos
Simo Leivo
Markku Niskala
Krister Olsson
Kalevi Vanhala

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

Jorma Eloranta
Liisa Joronen
Veikko Kuusakoski
Ilkka Rantasalo
Timo Räty
Erkki Varis

Deputies

Maija-Liisa Friman
Juhani Maijala
Esko Mäkeläinen
Markku Ruohonen
Markku Rönkkö
Matti Viialainen

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

Executive Group

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

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

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

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

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

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

Clients Relations

Major Clients and Broker Relations
Jani Mikkola

Arja Alasentie
Major Clients

Corporate Clients/Pohjola, A-Insurance
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

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

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

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

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

Pension Services

Seppo Kettunen
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

Administration

Olli-Veikko Kurvinen
Administration

Arja Savolainen
Personnel

Jukka Hirvinen
IT Management

Kristiina Hämäläinen
Operating Costs Accounting

Toni Äikäs
Business Planning and Research

Investments

Esko Torsti
Real Estate and Private Equity Funds, Customer Financing

Vesa Pohjankoski
Customer Financing and Client Relations

Jari Eskelinen
Fixed Income

Mikko Mursula
Equities

Mikael Simonsen
Allocation

Heidi Koskinen
Investment Administration

Internal Audit

Markku Alho

Finance and Actuarial Matters

Hillevi Mannonen
Actuarial Services

Pirjo Pohjankoski
Accounts and Bookkeeping

Advisory Committee for Insurance Clients

Hannu Isotalo, **chairman**

Timo Juvakoski, **deputy chairman**

Juha Ahvenniemi

Juha Edgren

Olli Eräkivi

Petri Heino

Irene Hämäläinen

Ari Impivaara

Lasse Johansson

Ilkka Jokinen

Jarkko Järvinen

Tapani Kaskeala

Aku Keltto

Jukka Kihlman

Seppo Kinkki

Matti Korkiatupa

Reijo Kärkkäinen

Pasi Lahtinen

Timo Laitinen

Ilkka Lantto

Johanna Lehtonen

Tuomas M. S. Lehtonen

Liisa Leiva

Jari Lemmetyinen

Pekka Lerkkanen

Matti Manner

Linnea Meder

Jari Mellas

Hannu Mikkonen

Simo Moisio

Ahti Myllys

Mikko Nevalainen

Jukka Niemi

Jukka-Pekka Nikula

Rauno Nurmi

Tuula Paalimäki

Tahvo Pekkinen

Katri Pietilä

Maaret Pönni

Matti Pörhö

Matti Pöyry

Taisto Riski

Seppo Saarelainen

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 and Pension Affairs

Advisory Committee for the Insured

Eila Ahonen

Erik Bussman

Seppo Fahlström

Anne Gärding

Kari Halminen

Arto Halonen

Juha Häkkinen

Jouko Isoviita

Isto Kaarnalehto

Markku Kankainen

Kari Koivisto

Jukka Korhonen

Lauri Korkeakoski

Paula Koskinen

Reija Koskinen

Kari Kähkönen

Hanna Laitila

Tarja Malén

Anneli Myllärinen

Esa Mäenpää

Juha Nevalainen

Maritta Niemelä

Esa Pitkälä

Seija Pyökeri

Pekka Rissanen

Reijo Ruppa

Raino Salmi

Eero Saloranta

Tarja Savolainen

Inkeri Seppälä

Anna-Liisa Toikka

Advisory Committee on Pension Affairs

Representatives of Employees

Eija-Sisko Huhtala

Erkki Rimpiläinen

Saana Siekkinen

Aleksei Solovjew

Representatives of Employer

Timo Höykinpuro

Hannu Rautiainen

Representatives of Ilmarinen

Timo Aro

Anne Koivula

Presenting Officers

Seppo Kettunen

Petri Järvinen

Ilkka Käppi

Mika Niskanen

Merja Mäkimattila

"Ilmarinen's investments delivered an excellent return."

In the picture: **Annika Seppänen, Teemu Virtanen** and **Esa Hanttu** Ilmarinen's Investments

Financial statements

REPORT ON OPERATIONS AND FINANCIAL STATEMENTS 2005

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 Report on Operations. The following notes were omitted:

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

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

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

Report on operations

Improvement in the economy

Favorable trends in both global and Finnish economies continued during 2005. Economic growth in Europe was modest, however at year-end, there were signs of recovery in export-led growth. The level of growth in production was good in the USA and Japan, and in developing economies very high on average. In Finland, the forest industry's long labor conflict caused a perceivable dip in annual growth figures but otherwise, the economic situation remained good. The total production in Finland increased by more than 2%. The economic improvement can be considered a good result, taking into account that oil prices continued their strong rise. Economies' sensitivity to oil prices has proven substantially less significant than during the oil crises of the 1970s. The rate of inflation was still one of the lowest in the Euro zone, being 1.0% in 2005, i.e. approximately one percentage point less than the average rate of inflation in countries belonging to the European Monetary Union.

The average unemployment rate of the year dropped to 8.4% which corresponds to the average level of the EU fairly accurately. The structural change of the economy has resulted in the loss of jobs, however, this has been compensated for by the creation of new jobs. The employment rate of the older population, considered important for both the national economy and the employee pension scheme, has risen notably.

Interest rates still remained very low. Share prices rose throughout the year, apart from a temporary drop in October. The overall trend turned out highly positive for investors. The falling trend in demand for office premises reversed, which resulted in an increase in utilization 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. The most important goal of the reform is to encourage people to continue working longer and to postpone retirement. The reform also includes a so-called life expectancy coefficient that adjusts the pension level to the average increase in life expectancy as of 2010. Retirement on old-age pension takes place flexibly between the ages of 63 and 68. Whether these changes will affect retirement trends in practice as expected naturally remains to be seen. However, the experience from the year 2005 has been positive. The opportunity provided by the new legislation to retire on old-age pension at the age of 63 without the abatement for early retirement required by the old pension laws has been used even less frequently than estimated at the planning stage.

In the longer run, 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 will further strengthen the financial durability of the employment pension system.

It was also agreed that the legislation governing the pension security of private-sector wage-earners will be unified. The Government proposal for a new Employees' Pensions Act (TyEL) was presented to Parliament in spring 2005, and parliamentary proceedings will probably be finished in early 2006. The Act will 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 it comprises the provisions on benefits that are currently 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 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). Among other things, this means that companies must enter pension expenses in their financial statements in a manner defined by IAS19. With regard to TEL insurance arranged by employment pension insurance companies, a change in the determination basis of disability pension premium ensures that the basic pension insurance in accordance with TEL is to be treated as a defined contribution plan in view of IFRS standards. The issue of applying IFRS to the accounts of employment pension insurance companies will be dealt with later when the IFRS standard for insurance industry is ready, which is expected to take several years.

In the autumn of 2005, Matti Louekoski, Deputy Governor of the Bank of Finland, submitted a preliminary report on the basis of his survey on development requirements for legislation concerning employment pension insurance companies. The most significant background factor of the survey was the ongoing reform of the Companies Act and the Insurance Companies Act. In his preliminary report, the administrator expresses a view that these Acts should also be used in the future as background legislation for the Employment Pension Insurance Companies Act (TVYL). In addition to legislative methods, he introduced several bills concerning, for example, the administration of employment pension companies. Proposals in circulation were greeted with contradiction. At year-end, Louekoski's commission was continued, covering the finishing of the changes of TVYL, as well as other issues concerning the field of employment pensions. As he submitted his report on the progress of the survey on February 17, 2006, he noted, for example, that the issues related to the administration of employment pension companies are solved by establishing an election committee linked to the Supervisory Board, which prepares for the election of members to the Supervisory Board and the Board of Directors and has equal representation from employers' and employees' organizations.

The key labor market organizations launched a survey on the investment of employment pension assets at the end of 2004. Its most important topics were such issues as whether the risk tolerance of employment pension institutions should be increased in such a manner that the share of equity investments could be increased in order to improve the return of investments, and whether such means can be found as to direct more investments towards Finnish assets in order to promote Finnish employment. The organizations agreed, on January 27, 2006, on measures to be taken on the basis of the survey. The required changes in legislation, as well as changes related to the legislative reform of employment pension institutions' regulations on covering technical provisions and on solvency, being prepared by the Ministry of Social Affairs and Health, will be carried out in 2006. In the long run, these changes are believed to relieve the upward pressure on employment pension contributions by 1 or 2 percentage points.

Results and solvency

In 2005, the number of persons insured by Ilmarinen increased by approximately 7,000 and the wage bill insured increased by 5% from the year before. Ilmarinen's underwriting business showed a surplus.

For investments and solvency, the trend was also a positive one. As a result, the company's net investment income at market values was 12.1% (7.8% in 2004). Solvency capital grew to EUR 5,090.1 million compared with EUR 3,597.8 million in 2004.

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 2.5 times its solvency border, compared with 2.3 in 2004. The company's solvency capital stood at 32.0% (25.6%) of the technical provisions used in solvency calculations and 63% (57%) 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 2005 was EUR 1,514.9 (698.5) million. The underwriting business showed a profit of EUR 51.2 (34.2) million, while the loading profit was EUR 11.7 (6.9) million. Net investment income at market values totaled EUR 2,173.6 (1,270.6) million. Together with other interest items, net investment income exceeded the EUR 722.1 (619.4) million interest credited to technical provisions by EUR 1,452.0 (657.4) million.

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 0.4 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 78.0

Report on operations

(45.0) million was earmarked for use as client bonuses. This was 0.76% (0.46%) of the total wage bill insured, and EUR 218 (129) 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 2005, the company had 31,386 (31,572) TEL policies, the number of policies thus declined by about 0.5% during the year. At the end of the year, TEL policies covered 357,000 (349,000) insured persons. On average, the number of persons covered by TEL increased by about 1% from the year before. The average number of persons covered by a TEL policy remained at about 11 in 2005.

The total wage bill insured with Ilmarinen under TEL was EUR 10,268.0 (9,766.9) million, which means an increase of 5.1% from the previous year.

At the end of the year, Ilmarinen had 49,495 (49,580) YEL policies. The average reported annual income was EUR 17,759 (17,157). It increased by about 3.5% from the previous year, thus slightly more than the wage coefficient to which YEL income has been tied since 2005 and which showed an increase of 2.8%. The average YEL income was significantly lower than the average earnings of TEL employees.

Ilmarinen's premiums written in 2005 totaled EUR 2,346.0 (2,217.3) million.

TEL premiums written totaled EUR 2,166.6 (2,046.8) million, an increase of 5.9% in the income from TEL contributions. The discounts granted on TEL contributions, or client bonuses, totaled EUR 41.6 (30.4) million in 2005. The key factor in the change in income from TEL contributions was a higher wage bill for persons insured.

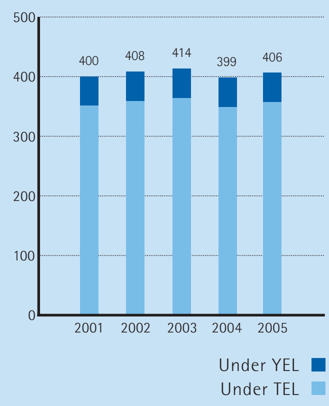
Premiums written in YEL policies in 2005 totaled EUR 179.4 (170.6) million, i.e. an increase of 5.2%.

Bad debts from unpaid TEL contributions amounted to EUR 6.9 (3.5) million, and from unpaid YEL contributions EUR 2.9 (4.0) 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.

In 2005 and 2006, portfolio transfers have an exceptionally great impact on the number of TEL employees insured with Ilmarinen and on the wage bill insured. In 2004, Finnair Plc decided to transfer the statutory pension insurance of its staff to Ilmarinen. The portfolio transfer was realized on July 1, 2005 and it increased the number of employees insured with Ilmarinen by more than 8,000. Finland Post Corporation decided to transfer the TEL liability of its staff to Ilmarinen on December 31, 2005, which increased the number of TEL employees insured with Ilmarinen by more than 21,000

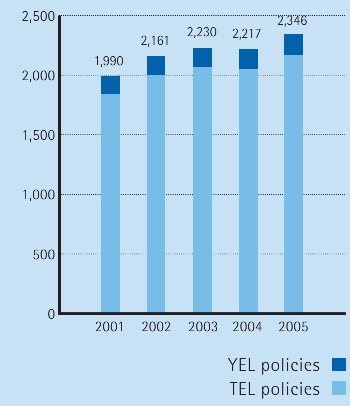
Number of people insured

In thousands



Premiums written

EUR mill.



Benefits paid out

EUR mill.

as of January 1, 2006. Due to the portfolio transfers, the number of persons insured under TEL at the beginning of 2006 was approximately 30,000, i.e. an increase of over 8% from the beginning of the previous year. The average number of persons covered by a TEL policy grew to about 12 at the beginning of 2006.

Sales of new TEL policies in 2005 will increase annual premiums by approximately EUR 168 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 10 million. The good result for sales was due to the portfolio transfer of Finland Post Corporation's pension foundation and the TEL sales that reached the targets set for them. Because of the timing of the portfolio transfers, the effect of the sales results of 2004 and 2005 will mainly be shown as late as in 2006, increasing Ilmarinen's market share from the year 2005.

Sales of pension insurance policies for entrepreneurs also exceeded the targets set for them. In terms of annual income from premiums, total sales were approximately EUR 15 million, with 5,000 new policies. The balance on transfer for YEL insurance showed a loss of 428 policies.

Pension expenditure by type of pension in 2005, EUR mill.

	TEL	YEL	Total	% of total expenditure
Old-age pensions	1,050.1	101.2	1,151.3	56.5
Early old-age pensions	134.5	15.5	150.0	7.4
Part-time pensions	28.9	7.8	36.7	1.8
Disability pensions	312.1	27.9	340.0	16.7
Individual early retirement pensions	24.5	1.8	26.3	1.3
Unemployment pensions	129.6	2.4	132.0	6.5
Survivors' pensions	177.6	21.9	199.5	9.8
Total	1,857.3	178.5	2,035.8	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, 2005

Benefits under basic coverage

Pension type	TEL	YEL	Total
Old-age pensions	118,295	15,833	134,128
Early old-age pensions	12,523	2,893	15,416
Part-time pensions	4,128	1,267	5,395
Disability pensions	33,748	4,522	38,270
Individual early retirement pensions	1,627	224	1,851
Unemployment pensions	9,997	276	10,273
Survivors' pensions	32,150	6,292	38,442
Total	212,468	31,307	243,775

Pension decisions in 2005

	2005	2004	Percentage change
Old-age pensions	5,783	3,062	88.9
Early old-age pensions	424	859	-50.6
Part-time pensions	931	530	75.7
Disability pensions	5,252	5,850	-10.2
Individual early retirement pensions	53	246	-78.5
Unemployment pensions	1,949	2,192	-11.1
Survivors' pensions	2,609	2,581	1.1
New pension decisions, total	17,001	15,320	11.0
All pension decisions, total	30,928	29,301	5.6

Contribution rate

The average TEL contribution confirmed for 2005 was 21.6%, i.e. 0.2 percentage points more than the previous year. The employee contribution was 4.6% (for persons aged over 53 5.8%) and the employer's contribution an average of 16.8%. 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 2.6% (2.0%) of the employer's contribution.

In 2006, the average TEL contribution will continue to be 21.6% of the wage. The employee contributes 4.3% (5.4% from 53 years of age) and the employer an average of 16.7%. Employers within the tariff premium system are given a maximum discount of 0.6 percentage points in order to reduce the equalization provision for disability pensions.

In 2005, the YEL contribution was 21.4% of the reported income confirmed under YEL for entrepreneurs aged under 54 and 22.6% for those aged over 53. In 2006, the corresponding percentages will be 20.8% and 21.9%.

Pensions and maintaining working capacity

In 2005, Ilmarinen paid out a total of EUR 2,035.8 (1,933.1) million in pensions.

Report on operations

At the end of the year, 243,775 pension recipients were with Ilmarinen, i.e. 1.8% more than a year earlier, when they totaled 239.511. At year-end, TEL pension recipients totaled 212,468 (208,966) and YEL pension recipients 31,307 (30,545).

Old-age pension was received by 61% of these pension recipients, and disability pension by 16%. Recipients of individual early retirement pension accounted for less than 1%. The proportion of unemployment pension recipients decreased again to 4% and that of part-time pension recipients to a little over 2%. Survivors' pension recipients accounted for around 16% off all pension recipients.

Ilmarinen made 30,928 pension decisions in 2005, i.e. about 6% more than in 2004. The number of new pension decisions increased by 11% and totaled 17,001. The most significant reason for this increase was the opportunity of several age cohorts to retire on old-age pension at the same time as a result of the pension reform. This caused an increase in old-age pension decisions and a further decrease in early old-age pensions. Due to the pension reform, individual early retirement pensions and unemployment pensions will be gradually abolished. The explanation for the increase in decisions concerning part-time pensions is the exceptionally low comparison figure of 2004 due to the rise in the age limit for part-time pensions.

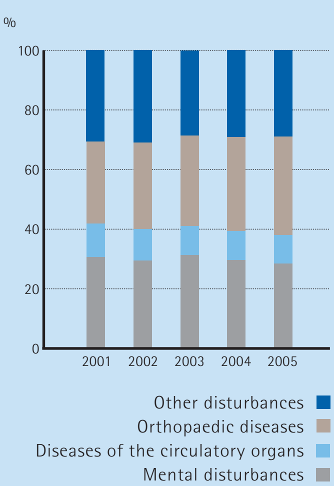
Ilmarinen measures the efficiency of its pension application processing in terms of average processing time per type of pension, and the quality of its pension decisions in terms of the permanence of the rulings at appellate level. In both of these measures, the company has succeeded better than the other pension institutions on average. Ilmarinen's pension decisions were changed by the Pension Appeals Board in 4.5% (7.6%) of cases and by the Insurance Court in 14.9% (14.3%) of cases.

Altogether, 21,499 (23,645) individual pension coverage reports were supplied in response to requests from clients.

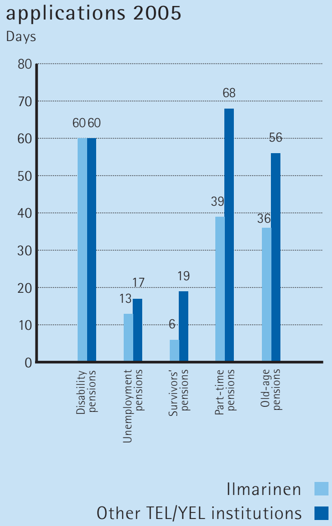
Ilmarinen's Motivo program supports client companies' efforts to maintain the working capacity of their personnel. Together with the other specialists in the field, the company organized 215 (232) sessions under this program.

Ilmarinen continued to support vocational rehabilitation in its client companies by offering advisory training in this area as well as counseling and expert help at the initial stage of rehabilitation planning, for both rehabilitees and client company personnel. During the actual rehabilitation period, the company pays benefits in accordance with employment pension legislation to ensure an adequate income for the rehabilitee and to reimburse the costs incurred during training. Ilmarinen paid out rehabilitation allowance or pension-related rehabilitation increment to 892 (823) insured

Disability pensions



Processing times for pension applications 2005



persons during vocational rehabilitation. The number of rehabilitees was up 8% (12%).

Underwriting business, technical provisions and portfolio transfers

Technical provisions at the end of 2005 totaled EUR 18,891.3 (16,375.6) million. In net terms, the provision for future bonuses, including portfolio transfers, grew by EUR 671.8 million, to a year-end total of EUR 2,940.1 (2,268.3) million. In other respects, technical provisions increased by 13.1%, of which portfolio transfers accounted for 6 percentage points.

In connection with the pension reform, the way in which liability for disability pensions is shared by pension institutions was changed. This change required that a new component be included in technical provisions as of December 31, 2005, i.e. a liability related to future disability pensions which accounts for about 2.9% of the wage bill. This part of the technical provisions was financed by reducing the provisions for pooled claims accordingly. Thus, in net terms, it did not increase technical provisions or cause an increase in the premiums of insurance under TEL.

The company posted an underwriting result of EUR 51.2 (34.2) million, or 0.5% of the total wage bill forming the basis for the insurance contributions. EUR 50.8 million was transferred to the equalization provision, which increased to EUR 893.6 million. The transfer to the equalization provision was EUR 0.4 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 4.75% until June 30, 2005 after which it was 5.5%. At the start of 2006 it increased to 6.0%.

Assets covering technical provisions totaled EUR 20,582.4 (17,416.9) million.

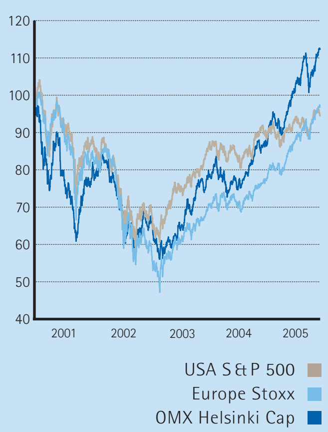
In 2005, the amount of the liability transferred from three TEL pension foundations (pension foundations of Finnair, Engel Group and Finland Post Corporation) was significant. Together with the adjustment items related to the portfolio transfers of the previous year, the total amount was EUR 936.4 million, of which provision for future bonuses accounted for EUR 99.4 million. In 2005, transfers of insurance portfolios to pension foundations, together with adjustment items related to the previous year, totaled EUR 5.8 million, of which provision for future bonuses accounted for EUR 0.6 million.

Investment

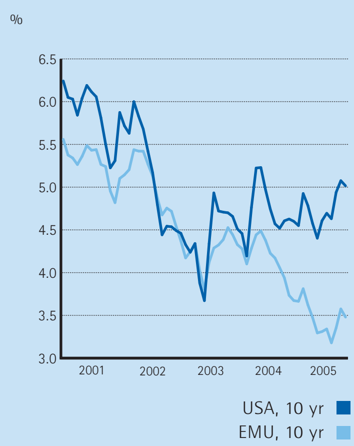
In the basic allocation, or target investment breakdown, adopted by the Board of Directors each year, the proportions for various types of investments are designed to maximize the overall yield expectation within the risk limits set by the Board. The principle behind the assessment of the risk limits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

At the end of 2005 the total market value of Ilmarinen's investments was EUR 20,983.2 million (17,635.6 million). Fixed-income investments – bonds, interest-rate funds and other financial market instruments – accounted for 51% (53%) of the

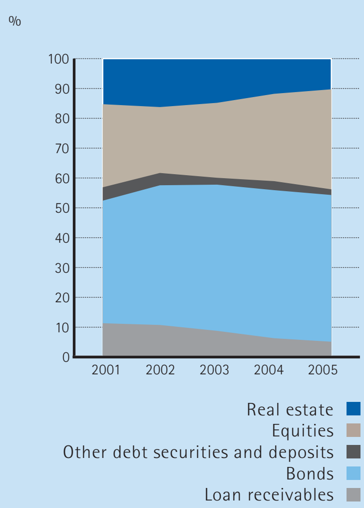
Stock market performance (Dec. 31, 2000=100)



Long-term interest rates



Structure of Ilmarinen's assets



company's investment assets. Equities ("Stocks and shares" in the balance sheet) excluding interest-rate or real estate funds, accounted for 34% (29%). Real estate investments accounted for 10% (12%), of which real estate funds accounted for 0.4% at the end of the year. Loan receivables stood at 5% (6%). These figures include the market value of derivatives which are used for hedging and modifying the allocation of investment assets.

Return on investments at market value was 12.1% (7.8%), corresponding to a real return of 11.1%. The average real annual return for the past five years has been 5.2% p.a., which corresponds to an average real annual return of 4.0%. From the beginning of 1997, when employment pension companies were given more opportunity to carry investment risk through a change in the terms set for their investment activities, the total return on Ilmarinen's investments on average at market value has been 7.5% per year, corresponding to a real return of 5.9% per year.

The year-end market capitalization of the fixed-income investment portfolio was EUR 10,715.8 (9,283.4) million, with government bonds accounting for EUR 6,184.6 (4,260.4) million – i.e. 57.7% (45.9%) of the total. The return on fixed-income investments at market values was 4.3% (6.5%). Debt securities accounted for EUR 398.3 (532.7) million, or about 3.7% (5.7%), and the return was 4.5% (1.4%). The remaining 38.6% 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'.

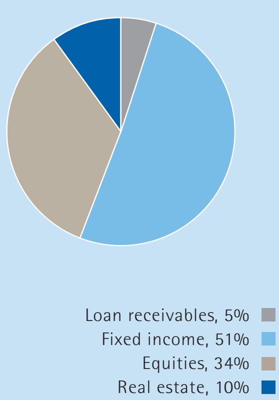
At the end of 2005 the average time-to-maturity of the bond portfolio was 4.7 (5.1) years.

The value of the equity portfolio increased in 2005 to EUR 7,036.0 (5,163.1) million as a result of the rise in share prices and net buying of equities. Domestic equities accounted for 37% (40%) of this, or about EUR 2,613.2 (2,046.6) million. Domestic equities investments accounted for 40% (40%) of the listed equities investments. The favorable development of the equity markets raised the return on Ilmarinen's equity investments calculated at market values to 30.7% (13.2%).

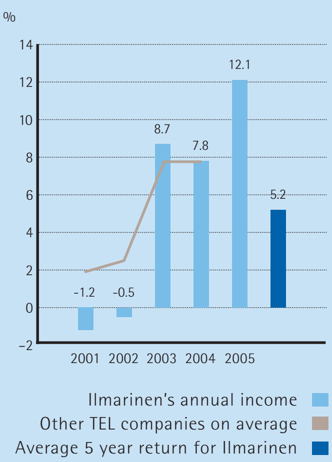
In early 2005 Ilmarinen sold the majority of its holding in Pohjola to Suomi Mutual. In the autumn of 2005 Ilmarinen sold the rest of its holding to OKO Bank (OKO Osuuspankkien Keskuspankki Oyj) and acquired 10% of OKO Bank's shares. At the end of the year the market value of Ilmarinen's holding in OKO was EUR 238.7 million. This represented 1.1% of Ilmarinen's total investment portfolio, and 3.4% of equity investments. The above-mentioned share transactions, and the significant co-operation agreement between Ilmarinen and OP

Breakdown of investment assets on Dec. 31, 2005

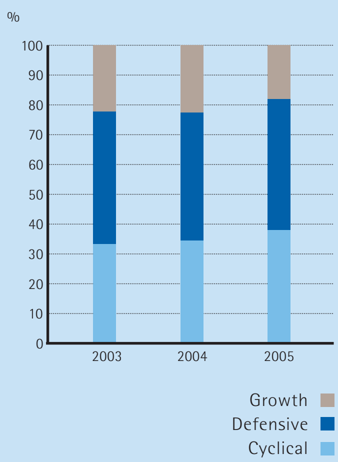
Total EUR 20,983.2 mill.



Net investment income, at current value



Breakdown of listed equity by business sector



Client loan portfolio, EUR mill.

	1995	2000	2005	Percentage return
TEL loans	2,550.0	1,269.1	534.9	4.4
Investment loans	426.4	305.2	541.0	5.0
Total (incl. interest accrued)	2,976.4	1,574.3	1,076.0	4.6
Of total portfolio, %	40	11	5	

Bank Group made at the same time, were based on an agreement signed on September 12, 2005.

Ilmarinen's equity portfolio also includes investments in venture capital funds and hedge funds, as well as investments in commodities, which the company has been increasing over the past few years. At the end of the year they accounted for about 2.8% (2.7%) of total investment assets. Private equity funds accounted for EUR 318.4 million of the total, hedge funds for EUR 261.9 million and investments in commodities for EUR 5.1 million. The return on capital employed in hedge funds totaled an average of 6.3% and of private equity funds 41.4%. The return on risk capital of investments in commodities accounted for 14.4%.

According to the ethical investment principles stated in Ilmarinen's ownership policy, the company has disposed of investments in four companies between the years 2003 and 2005.

Ilmarinen's real estate portfolio at year-end 2005 totaled EUR 2,155.4 (2,078.2) million. The change from the previous year was 3.7%. Real estates in direct ownership accounted for EUR 2,067.5 million. The most important real estate investments were properties acquired in connection with portfolio transfers, the most important being the Main Post Office building. In 2005 real estates were sold with a total value of EUR 124.5 million; the selling of part of the housing stock to SATO Oy was the most important sale.

Indirect international real estate funds investing continued. At the end of the year investments had been made in 9 funds with a total value of EUR 88 million. Indirect investments accounted for 4% of the real estate portfolio at year-end.

Despite the difficult market conditions for office property, the occupancy rate of property in Ilmarinen's direct ownership improved. The occupancy rate, excluding property under renovation, was 89.8% (85.5%) at year-end.

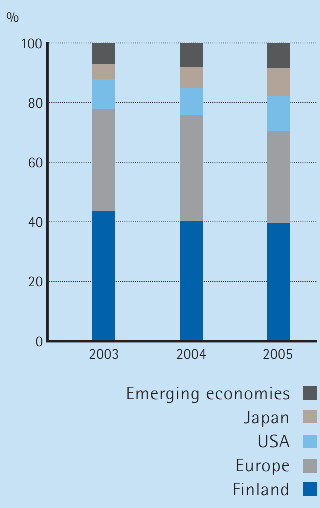
The total return on the company's real estate portfolio was 5.3%. The return on property in Ilmarinen's direct ownership was 4.7%. The decline in return was due to substantial renovation projects and relative high vacancy rate. The return on indirect real estate investments was 23.6%.

Loans granted to clients remained almost the same as in 2004. In 2005 new loans accounted for EUR 273.1 (142.8) million, and EUR 306.4 (430.9) million was repaid. The entire loan portfolio totaled EUR 1,076.0 (1,110.9) million at the end of the year, including accrued interest. The return on loan receivables was 4.6% (4.7%).

Risk management

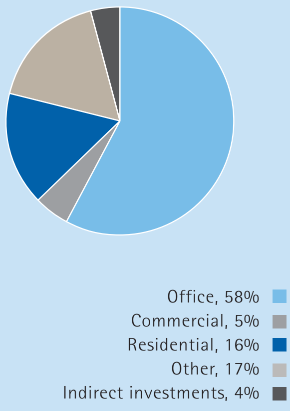
For Ilmarinen, the absolute priority in risk management is to safeguard the rights of the insured persons, pension recipients and policyholders. The aim of risk management is to prevent any

Geographical breakdown of listed equity (incl. funds)



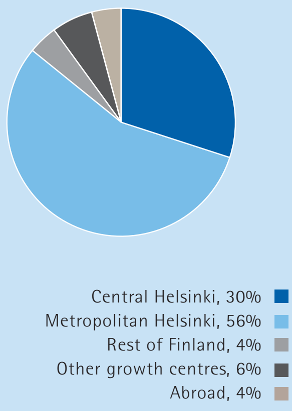
Real estate by purpose of use on Dec. 31, 2005

Total EUR 2,155.4 mill.



Real estate breakdown by location on Dec. 31, 2005

Total EUR 2,155.4 mill.



Report on operations

risks threatening the company from becoming reality, to minimize any damage or losses caused by them, and to 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 the calculation of insurance premiums and technical provisions. The calculation bases are common to all companies. 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 continuously monitors the compliance of investment activities with the investment plan and investment powers. Matching of investments and technical provisions is continuously monitored by the Asset Liability Management Group, whose members represent the Investment unit and the Finance and Actuarial Matters unit.

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. In practice, each unit is responsible for the implementation of risk management in its own operations. A supervisory auditor's report and internal auditing report are submitted to the Board of Directors each year. For the purposes of coordinating and developing risk management at the 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

Ilmarinen's development project related to the combination of pension laws into a single Act proceeded in 2005 with the planning and implementation of changes in the information systems. In connection with the change in legislation at the beginning of 2007, a new earnings information system shared by the employment pension companies, the Finnish Centre for Pensions and the pension institutions will be adopted and integrated into the IT services required by Ilmarinen's customer service and insurance processes. The development of the earnings information system project is being carried out by Arek Oy, a common service company, together with the information technology providers in charge of the implementation.

The supply of web services for corporate clients and employees insured with Ilmarinen was extended during the year. At year-end Ilmarinen was the first employment pension company to introduce a real-time annual calculation service available on the Internet. The entire insurance production and claims handling adopted electronic document processing and job queue controlling. The performance of the contact center system controlling telephone services and other new web-based services was improved, and the reliability of the technical platform was also improved in cooperation with system providers.

At the beginning of 2005 TietoIlmarinen, a joint IT service company owned by TietoEnator and Ilmarinen, started operations with a staff of more than 140 persons transferred from Ilmarinen. Project, maintenance and expert services based on new contracts and cooperation policies were supplied to Ilmarinen at a value of nearly EUR 20 million in 2005, as planned in advance. At the same time, measures to extend professional skills and to renew working methods in accordance with the company's three-year development program were implemented. Based on the first year's experience, the results of the cooperation are good and in line with the objectives.

In early 2005 the IT processing services of Ilmarinen, Pohjola and Suomi were transferred to WM-data as jointly agreed upon. During the development and change project, which lasted throughout the year, an operating environment of two parallel computer centers was realized in order to prepare for the contingency obligations stated in contingency and insurance legislation, and required for the continuity of services. The last stage of the project will be finished in early 2006.

Personnel

The average number of employees in Ilmarinen Group was 687 in 2005, as against 683 a year earlier. The parent company employed an average of 547 (683) persons. These average 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 number of people employed by the parent company Ilmarinen was 582 (731), of whom 541 (689) were permanent employees. The number of employees was reduced by the transfer of employees to TietoIlmarinen.

Operating expenses

Total operating expenses accounted for EUR 87.6 (87.7) – i.e. a decrease of 0.1% on the previous year. Investment charges totaled EUR 9.4 (9.2) million, equivalent to 0.04% 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, totaled EUR 3.8 (3.1) million. Other operating costs are financed using the expense loading component and were EUR 11.7 (6.9) million – i.e. 13.6% (8.4%) – below this.

Administration

On November 28, 2005 the Supervisory Board elected Jukka Alho, George Berner, Leif Fagernäs, Eino Halonen, Jukka Hienonen, Arto Hiltunen, Lauri Ihalainen, Seppo Junttila, Risto Piekka, Gretel Ramsay, Hannu Syrjänen and Antti Tanskanen to the Board of Directors for the next four-year term starting at the beginning of 2006. Timo Parmasuo, Hannu Rautiainen, Erkki Vuorenmaa and Eero Ylä-Soininmäki were elected deputy members of the Board. Martin Granholm, Eero Heliövaara, Jyrki Kiviharju and Kari Puro left the Board.

At its meeting on February 2, 2006 the Board of Directors re-elected Hannu Syrjänen as Chairman of the Board and Lauri Ihalainen and Leif Fagernäs as Deputy Chairmen. The Board's Nomination and Compensation Committee consists of Hannu Syrjänen, Leif Fagernäs and Lauri Ihalainen. The Audit Committee consists of George Berner, Seppo Junttila and Hannu Rautiainen.

The Group

The Ilmarinen Group comprises the parent company Ilmarinen and mostly real estate companies. 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 only owns 30%, of the shares. The total number of subsidiaries was 159.

In early 2005 the cross-ownership related to Pohjola Group plc was dismantled in such a way that Suomi bought the Ilmarinen guarantee shares owned by Pohjola and Ilmarinen bought 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.

Ilmarinen bought the guarantee shares in Pohjantähti Mutual Insurance Company owned by Suomi, after which Ilmarinen became the owner of Pohjantähti's entire guarantee capital. Ilmarinen has a participating interest in Pohjantähti.

Report on operations

Guarantee capital

Ilmarinen has EUR 22, 994, 653.31 in guarantee capital, divided into 13, 672 guarantee shares. On December 31, 2005 the owners of the guarantee capital and their shares were as follows:

	Guarantee shares	Ownership, %
Suomi Mutual Life Assurance Company	13,412	98.1
Pohjantähti Mutual Insurance Company	260	1.9
	13,672	100.0

Future prospects

Forecasts for the global economy in 2006 are somewhat ambiguous. Economic growth will probably remain decent, but risk factors related to economic development are increasing. One of the key risk factors is the price of oil. The global increase in prices of real estates can be considered a new risk factor as the return requirements have been reduced as a result of low interest rates. As a considerable part of real estate purchases are financed with liabilities, both the acceleration of economic growth and its slow-down create a risk to the value of real estates in their own way. Interest rates will begin to rise at some stage, and, despite positive stock market expectations, development similar to that in 2005 is not anticipated.

The positive trend in the stock 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 33.6% of the technical provisions used to calculate solvency. After January the trend has remained favorable and Ilmarinen's solvency has continued to rise.

The employment pension insurers' solvency framework has now been in use for nine 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, and the mechanism has worked as expected. 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 the 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 – a strategy that meets the goals set for the investment activities of employment pension institutions. In January 2006 the key labor market organizations agreed on revising the regulations for employment pension investments on the basis of a survey conducted between the years 2004 and 2005. As a result of these decisions, the proportion of equity investments in employment pension investments will continue to increase. In that case, Ilmarinen will focus even more on return-oriented investments. This does not increase the impact of fluctuations in equity markets on annual results, at least not substantially, because after the changes a part of the share price risk will be borne jointly.

The result in 2006 will depend to a great extent on what happens in the investment markets. Ilmarinen expects that its relative standing amongst the competition with its competitor companies over bonuses will remain good in the longer term.

The impact of the remarkably good sales results in 2004 and 2005 will not be fully shown until 2006, when Ilmarinen's market share will probably continue to increase compared with 2005. The company's strong financial position and the large-scale cooperation agreement entered into last autumn with the OP Bank Group provide a sound basis for favorable development in the future too.

Profit and loss account

EUR mill.	*Parent company* 2005	2004	*Group* 2005	2004
Technical account				
Premiums written	**2,346.0**	2,217.3	**2,346.0**	2,217.3
Investment Income	**2,236.3**	1,653.9	**2,227.5**	1,641.1
Claims incurred				
Claims paid	**–2,054.5**	–1,953.6	**–2,053.3**	–1,953.6
Change in provision for claims outstanding				
Total change	**–569.7**	–360.7	**–569.7**	–360.7
Portfolio transfers	**278.8**	1.2	**278.8**	1.2
Insurance portfolio transfers	**–3.0**	–0.5	**–3.0**	–0.5
	–293.9	–360.0	**–293.9**	–360.0
	–2,348.4	–2,313.6	**–2,347.2**	–2,313.6
Change in provision for unearned premiums				
Total change	**–1,945.9**	–739.9	**–1,945.9**	–739.9
Portfolio transfers	**657.6**	3.7	**657.6**	3.7
Insurance portfolio transfers	**–2.8**	–0.6	**–2.8**	–0.6
	–1,291.2	–736.9	**–1,291.2**	–736.9
Statutory charges	**–10.6**	–10.8	**–10.6**	–10.8
Operating expenses	**–55.7**	–54.0	**–54.1**	–54.0
Investment charges	**–868.3**	–729.6	**–865.6**	–728.2
Investment value adjustments	**–**	–0.7	**–**	–0.7
Other technical charges	**–**	0.7	**–**	0.7
Balance on technical charges	**8.1**	26.4	**4.6**	15.0
Non-technical account				
Balance on technical account	**8.1**	26.4	**4.6**	15.0
Other income	**1.3**	1.2	**1.4**	1.2
Other expenses	**–1.9**	–2.0	**–1.8**	–2.0
Profit on ordinary activities	**–2.0**	–20.7	**–2.6**	–14.3
Profit/loss on ordinary activities	**5.4**	4.9	**1.6**	–0.1
Appropriations				
Change in accelerated depreciation	**2.0**	1.5	**–**	–
	2.0	1.5	**–**	–
Minority interest	**–**	–	**–0.2**	0.6
Profit for the financial year	**7.4**	6.4	**1.4**	0.5

Balance sheet

EUR mill.	Parent company 2005	2004	Group 2005	2004
Assets				
Intangible assets				
Intangible rights	**4.3**	5.4	**4.4**	5.4
Other long-term expenditure	**0.0**	0.1	**0.0**	0.1
Prepayments	**0.5**	0.5	**0.5**	0.5
	4.8	6.0	**4.9**	6.0
Investments				
Real estate				
Real estate and shares in real estate	**1,355.0**	1,345.1	**1,838.7**	1,747.4
Loans to affiliated undertakings	**497.7**	422.6	**–**	–
Loans to participating interests	**8.3**	19.5	**8.3**	19.5
	1,861.0	1,787.2	**1,847.0**	1,767.0
Investments in affiliated undertakings and participating interests				
Interests in affiliated undertakings	**0.2**	0.0	**–**	–
Participating interests	**11.3**	312.6	**11.3**	311.9
Loans to participating interests	**20.6**	–	**20.6**	–
	32.0	312.6	**31.9**	311.9
Other investments				
Stocks and shares	**6,012.3**	4,564.6	**6,012.3**	4,566.0
Debt securities	**9,741.9**	8,172.2	**9,741.9**	8,172.2
Loans guaranteed by mortgages	**304.9**	264.5	**304.9**	264.5
Other loans	**739.1**	833.3	**739.1**	833.3
Deposits	**5.3**	192.5	**9.3**	192.5
	16,803.4	14,027.2	**16,807.5**	14,028.5
	18,696.5	16,127.0	**18,686.4**	16,107.4
Debtors				
Direct insurance debtors				
Policyholders	**55.7**	62.6	**55.7**	62.6
Other debtors				
Receivable from portfolio transfers	**–**	8.0	**–**	8.0
Other debtors	**438.9**	305.4	**434.9**	300.8
	438.9	313.4	**434.9**	308.8
	494.6	376.0	**490.6**	371.4
Other assets				
Tangible assets				
Machinery and equipment	**6.9**	9.2	**7.5**	9.2
Other tangible assets	**1.7**	1.7	**1.7**	1.7
	8.6	10.9	**9.2**	10.9
Cash at bank and in hand	**29.2**	47.7	**30.2**	50.2
	37.9	58.6	**39.4**	61.1
Prepayments and accrued income				
Interests and rents	**208.1**	185.0	**208.4**	185.3
Other	**29.9**	24.4	**30.2**	24.4
	238.0	209.4	**238.5**	209.6
Assets in total	**19,471.8**	16,776.9	**19,459.9**	16,755.5

Balance sheet

EUR mill.	Parent company 2005	2004	Group 2005	2004
Liabilities				
Capital and reserves				
Guarantee capital	**23.0**	23.0	**23.0**	23.0
Other reserves				
Funds and reserves under the Articles of Association	**49.5**	44.5	**49.5**	44.5
Other reserves	**–**	–	**0.6**	0.6
	49.5	44.5	**50.1**	45.1
Profit brought forward	**–**	–	**0.6**	6.4
Profit for the financial year	**7.4**	6.4	**1.4**	0.5
	79.9	73.8	**75.0**	75.0
Minority interest	**–**	–	**25.3**	25.1
Accumulated appropriations				
Depreciation difference	**15.5**	17.5	**–**	–
	15.5	17.5	**–**	–
Technical provisions				
Provision for unearned premiums	**13,064.3**	11,118.4	**13,064.3**	11,118.4
Provision for claims outstanding	**5,826.9**	5,257.2	**5,826.9**	5,257.2
	18,891.3	16,375.6	**18,891.3**	16,375.6
Creditors				
Direct insurance creditors	**38.7**	9.7	**38.7**	9.7
Loans from credit institutions	**–**	–	**1.0**	1.2
Other creditors	**350.7**	260.8	**330.8**	229.3
	389.4	270.5	**370.4**	240.1
Accruals and deferred income	**95.7**	39.5	**97.9**	39.7
Liabilites in total	**19,471.8**	16,776.9	**19,459.9**	16,755.5

Cash flow statement

EUR mill.	Parent company 2005	2004	Group 2005	2004
Cash flow from operating activities				
Profit (loss) from operating activities	**5.4**	4.9	**1.6**	-0.1
Adjustments				
Change in technical provisions	**2,515.7**	1,100.6	**2,515.7**	1,100.6
Write-downs and write-ups of investments	**–57.0**	40.8	**–59.1**	66.8
Planned depreciations	**15.1**	16.3	**51.5**	52.2
Other adjustments	**–898.6**	–322.7	**–900.0**	–333.3
Cash flow before changes in working capital	**1,580.5**	839.8	**1,609.7**	886.1
Change in working capital:				
Short-term non-interest-bearing trade receivables increase (–) / decrease (+)	**–147.3**	–0.4	**–148.1**	1.4
Short-term non-interest-bearing trade liabilities increase (+) / decrease (–)	**175.2**	104.5	**188.5**	112.4
Cash flow from operations before financial items and taxes	**1,608.4**	943.9	**1,650.1**	999.9
Direct taxes paid	**–2.0**	–20.7	**–2.6**	–14.3
Cash flow before exceptional items	**1,606.4**	923.1	**1,647.5**	985.6
Cash flow from operating activities	**1,606.4**	923.1	**1,647.5**	985.6
Cash flow from investments				
Placement in investments (excl. financial assets)	**–20,750.6**	–18,918.2	**–20,758.3**	–18,916.7
Capital gains on investments (excl. financial assets)	**19,127.8**	17,985.6	**19,094.1**	17,923.6
Investments and capital gains (net) related to intangible and tangible assets and other assets	**–0.8**	–4.8	**–1.9**	–4.8
Cash flow from investments	**–1,623.5**	–937.4	**–1,666.1**	–997.9
Cash flow from financing				
Dividends paid / interest in guarantee capital and other distribution of profits	**–1.4**	–2.0	**–1.4**	–2.0
Cash flow from financing	**–1.4**	–2.0	**–1.4**	–2.0
Change in financial assets	**–18.5**	–16.3	**–20.0**	–14.3
Financial assets at the start of the financial year	**47.7**	64.0	**50.2**	64.5
Financial assets at the end of the financial year	**29.2**	47.7	**30.2**	50.2
	–18.5	–16.3	**–20.0**	–14.3

Notes to the accounts

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's decree on the financial statements of insurance companies and related consolidated financial statements, the basis of calculation and regulations of the Ministry of Social Affairs and Health and with the regulations and guidelines of 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. Ilmarinen's subsidiaries are real estate companies, with the exception of a subsidiary 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 expenses 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.

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 the 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.

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, raw material and currency derivatives were used during the reporting year. Hedge accounting is used for derivatives only for the currency swaps, although some of the other 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. Any income/losses on

Notes to the accounts

Accounting principles

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 based 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 based 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, the remaining cost basis of investments, and the book value and fair value of investments and derivatives. 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, primarily using 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 and condition of the property, together with existing lease agreements and the current market rent level. 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 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. any 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 on 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.

Financial statements

Notes to the accounts

Notes to profit and loss account and balance sheet

EUR mill.	2005	2004
Specification of premiums written		
Direct insurance		
TEL basic coverage		
Employer contribution	**1,669.2**	1,592.2
Employee contribution	**492.9**	449.3
	2,162.0	2,041.5
TEL supplementary coverage	**7.6**	8.2
YEL minimum coverage	**179.3**	170.3
YEL supplementary coverage	**0.2**	0.3
	2,349.0	2,220.3
Transition contribution to the State Pension Fund	**–1.0**	–1.1
Reinsurance	**0.0**	0.0
Premiums written before reinsurers' share	**2,348.1**	2,219.2
Reinsurers	**–2.1**	–1.9
Premiums written	**2,346.0**	2,217.3
Items deducted from premiums written		
Credit loss on outstanding premiums		
TEL	**–6.9**	–3.5
YEL	**–2.9**	–4.0
	–9.7	–7.5

Specification of claims paid

Direct incurance		
Paid to pensioners		
TEL basic coverage	**1,901.1**	1,790.8
TEL supplementary coverage	**50.0**	49.5
YEL minimum coverage	**196.8**	189.4
YEL supplementary coverage	**1.1**	1.0
	2,148.9	2,030.6
Payments to/refunds from the provision for clearing of PAYG pensions		
TEL pensions	**–4.6**	–0.4
YEL pensions	**–3.7**	–3.3
Share of the unemployment insurance fund insurance contribution	**–89.2**	–76.0
YEL state share	**–15.6**	–17.9
	–113.1	–97.6
	2,035.8	1,933.0
Payments to/refunds from the provision for joint and several liability	**–**	–0.2
Claims management expenses	**16.8**	19.4
Working capacity maintenance costs	**3.8**	3.1
Claims before reinsures' share	**2,056.5**	1,955.4
Reinsures	**–2.0**	–1.8
Total claims paid	**2,054.5**	1,953.6

Notes to the accounts

Notes to profit and loss account and balance sheet

EUR mill.	Parent company 2005	Parent company 2004	Group 2005	Group 2004
Specification of net investment income				
Investment income				
Income from participating interests				
Share in associated undertakings' profit/loss	**–**	–	**–0.3**	65.5
Dividend income from other participating interests	**0.3**	45.6	**0.3**	0.4
Interest income from other participating interests	**1.3**	–	**1.3**	–
	1.6	45.6	**1.3**	65.9
Income from investment in real estate				
Interest income				
From affiliated companies	**14.0**	15.1	**–**	–
From other than affiliated companies	**5.3**	4.6	**5.4**	4.8
Other income				
From affiliated companies	**1.9**	0.8	**–**	–
From other than affiliated companies	**154.2**	169.7	**159.4**	174.8
	175.4	190.2	**164.8**	179.6
Income from other investments				
Dividend income from other than affiliated companies	**151.6**	117.1	**151.6**	117.1
Interest income				
From other than affiliated companies	**372.1**	353.6	**372.1**	353.6
Other income from other than affiliated companies	**433.0**	369.8	**433.0**	369.8
	956.7	840.5	**956.7**	840.5
Total	**1,133.6**	1,076.3	**1,122.9**	1,086.0
Value readjustments	**95.3**	80.3	**95.8**	54.1
Capital gains	**1,007.3**	497.3	**1,008.8**	501.0
Total	**2,236.3**	1,653.9	**2,227.5**	1,641.1
Investment charges				
Charges on real estate investment	**–117.5**	–104.4	**–81.4**	–68.3
Charges on other investments	**–576.4**	–334.1	**–576.3**	–334.1
Interest charges and other charges on liabilities				
To affiliated companies	**–0.4**	–0.4	**–**	–
To other than affiliated companies	**–18.2**	–5.1	**–18.2**	–5.2
	–18.6	–5.5	**–18.2**	–5.2
Total	**–712.5**	–444.1	**–675.9**	–407.6
Value adjustments and depreciation				
Value adjustments	**–38.2**	–120.4	**–36.7**	–120.1
Planned depreciation on buildings	**–10.8**	–11.2	**–46.8**	–47.1
	–49.1	–131.6	**–83.5**	–167.3
Capital loss	**–106.7**	–153.8	**–106.2**	–153.4
Total	**–868.3**	–729.6	**–865.6**	–728.2
Net investment income before unrealised gains and losses	**1,368.0**	924.4	**1,361.8**	912.9
Investment value adjustments	**–**	–0.7	**–**	–0.7
Net investment income in the profit and loss account	**1,368.0**	923.7	**1,361.8**	912.2

Notes to the accounts

Notes to profit and loss account and balance sheet

EUR mill.	Parent company 2005	Parent company 2004	Group 2005	Group 2004

Specification of operating expenses

EUR mill.	Parent company 2005	Parent company 2004	Group 2005	Group 2004
Total operating expenses by activity				
Claims paid				
Claims handling expenses	**16.8**	19.4	**15.7**	19.4
Working capacity maintenance costs	**3.8**	3.1	**3.7**	3.1
	20.7	22.5	**19.4**	22.5
Operating expenses				
Commissions, direct insurance	**0.5**	0.5	**0.5**	0.5
Other policy acquisition costs	**8.1**	9.4	**8.0**	9.4
Acquisition costs, total	**8.5**	9.9	**8.4**	9.9
Portfolio administration expenses	**29.4**	27.3	**28.3**	27.3
Administrative expenses	**17.7**	16.8	**17.4**	16.8
	55.7	54.0	**54.2**	54.0
Investment charges				
Costs on real estate investment	**1.8**	1.9	**2.2**	2.3
Other	**7.6**	7.2	**7.5**	7.2
	9.4	9.2	**9.6**	9.5
Other expenses	**1.9**	2.0	**1.8**	2.0
Total operating expenses	**87.6**	87.7	**85.0**	88.0

Specification of staff expenses and members of corporate organs

EUR mill.	Parent company 2005	Parent company 2004	Group 2005	Group 2004
Staff expenses				
Salaries and remunerations	**25.2**	30.9	**32.5**	30.9
Pension expenditure	**4.5**	5.5	**5.7**	5.5
Other social security expenses	**1.6**	1.8	**2.0**	1.8
Total	**31.2**	38.2	**40.2**	38.3
Salaries and remunerations to the management				
Managing director and deputies	**0.6**	0.6	**0.7**	0.6
Board members and deputy members	**0.2**	0.2	**0.2**	0.2
Members of Supervisory Board and deputy members	**0.1**	0.1	**0.1**	0.1
Total	**0.9**	0.8	**1.0**	0.8

Pension commitments for the benefit of the executive management

The retirement age for company executives is 65 years. Executives who entered the company's service prior to July 1, 1992 have the right to retire once they have reached the age of 60.

	Parent company 2005	Parent company 2004	Group 2005	Group 2004
Average staff number during the financial period	**547**	683	**687**	683

Investment

EUR mill.	Dec. 31, 2005 Remaining acquisition cost	Dec. 31, 2005 Book value	Dec. 31, 2005 Current value	Dec. 31, 2004 Remaining acquisition cost	Dec. 31, 2004 Book value	Dec. 31, 2004 Current value
Current value of investment and difference between current and book value, parent company						
Real estate investments						
Real estate	**419.1**	**426.4**	**525.8**	438.3	446.0	535.0
Shares in affiliated companies	**898.9**	**903.1**	**1,038.0**	860.4	873.0	1,021.8
Shares in participating interests	**8.0**	**8.0**	**8.8**	19.0	19.0	21.0
Other shares in real estate	**17.5**	**17.5**	**18.1**	7.2	7.2	7.8
Loans to affiliated companies	**497.7**	**497.7**	**497.7**	422.6	422.6	422.6
Loans to participating interests	**8.3**	**8.3**	**8.3**	19.5	19.5	19.5
Investments in participating interests						
Shares and holdings	**0.2**	**0.2**	**0.2**	0.0	0.0	0.0
Investment in affiliated companies						
Shares and holdings	**11.3**	**11.3**	**11.3**	312.6	312.6	312.6
Loan receivables	**20.6**	**20.6**	**20.6**	–	–	–
Other investments						
Shares and holdings	**6,010.7**	**6,012.3**	**7,629.9**	4,562.2	4,564.6	5,293.4
Debt securities	**9,741.9**	**9,741.9**	**9,925.1**	8,172.2	8,172.2	8,443.5
Loans guaranteed by mortgages	**304.9**	**304.9**	**304.9**	264.5	264.5	264.5
Other loan receivables	**739.1**	**739.1**	**739.1**	833.3	833.3	833.3
Deposits	**5.3**	**5.3**	**5.3**	192.5	192.5	192.5
	18,683.4	**18,696.5**	**20,733.0**	16,104.2	16,127.0	17,367.5
Remaining acquisition cost of debt securities includes the difference between the amount repayable at maturity and purchase price which has been released to interests income (+) or charged to interest income (–)			**–58.5**			–31.1
Book value comprises:						
Revaluations entered as income			**13.1**			22.7
Difference between current and book value			**2,036.5**			1,240.5
Current value of non-hedging derivatives and valuation items, parent company						
Other receivables						
Prepayments for option contracts		**78.4**	**85.7**		83.6	85.1
Other debts						
Prepayments on option contracts		**–8.1**	**–5.5**		–1.7	–1.3
Other prepayments and debts						
Future and forward contracts		**–39.4**	**–4.6**		0.2	31.4
		30.9	**75.7**		82.1	115.2
Difference between current and book value, total			**44.7**			33.1

Notes to the accounts

Notes to profit and loss account and balance sheet

Shares and holdings, parent company, Dec. 31, 2005

	Number of shares	*Percentage of shares/votes*	*Book value EUR mill.*	*Current value EUR mill.*
Shares in affiliated undertakings				
Tietollmarinen Oy	1,530	30.00 / 70.00	0.2	0.2
Participating interests				
Pohjantähti Mutual Insurance Company	120	100.00 / 18.69	10.2	10.2
Oy Porasto Ab	1,144	26.33	0.6	0.6
Mutual Life Assurance Company Suomi	3	100.00 / 0.00	0.5	0.5
Total			11.3	11.3
Other investments				
Shares and holdings				
Domestic Companies, listed				
Aldata Solution Oyj	6,616,800	9.81	12.0	12.0
Alma Media Corporation	2,404,562	3.22	14.7	18.3
Amer Sports Corporation	1,071,250	1.50	7.2	16.8
Atria Group plc	70,000	0.33 / 0.07	1.1	1.2
CapMan Plc	548,500	0.72 / 0.37	1.4	1.6
Cargotec Corporation	465,280	0.73 / 0.31	3.7	13.4
Citycon Oyj	1,144,000	0.84	1.7	3.6
Componenta Corporation	257,600	2.68	1.5	1.5
Comptel Corporation	683,591	0.64	1.1	1.1
Efore Plc	400,000	0.99	0.7	0.7
Elcoteq SE	120,000	0.39 / 0.10	2.0	2.4
Elektrobit Group Plc	2,103,140	1.63	3.9	3.9
Elisa Corporation	2,595,163	1.56	40.6	40.6
Exel plc	839,400	7.30	2.8	10.9
Finnair Plc	344,200	0.40	2.8	4.1
Finnlines Plc	2,208,300	5.43	26.3	31.8
Fiskars Corporation	488,990	0.63 / 0.10	4.5	4.7
Fortum Corporation	10,946,100	1.25	98.3	173.4
F-Secure Corporation	337,150	0.22	0.6	0.7
HK Ruokatalo Group Oyj	90,000	0.26 / 0.07	0.9	0.9
Huhtamäki Oyj	3,539,120	3.41	36.5	49.2
Ilkka-Yhtymä Oyj	250,560	1.92 / 2.3	1.3	2.9
Jaakko Pöyry Group Oyj	190,000	1.31	4.6	6.1
KCI Konecranes Plc	91,365	0.63	2.5	3.8
Kemira Oyj	843,900	0.68	6.2	11.4
Kemira Grow-How Oyj	365,320	0.64	2.0	2.2
Kesko Corporation	1,165,400	1.21 / 0.30	17.8	27.8
Kone Corporation	1,266,560	0.99 / 0.42	20.5	42.3
Kyro Corporation	624,400	0.79	1.6	2.5
Larox Corporation	329,700	3.55 / 0.66	1.2	2.0
Lassila & Tikanoja plc	2,768,400	7.21	15.6	41.0
Lemminkäinen Corporation	80,000	0.47	1.5	2.4
Oyj Leo Longlife Plc	151,425	2.29 / 0.61	0.6	0.7
Lännen Tehtaat plc	153,800	2.43	1.8	2.8
Martela Oyj	335,400	8.07 / 2.14	2.4	2.4
Metso Corporation	2,545,728	1.80	41.5	58.9
M-real Corporation	8,562,541	2.61 / 7.43	36.2	36.2
Neste Oil Corporation	3,465,800	1.35	63.2	82.8

Shares and holdings, parent company, Dec. 31, 2005

	Number of shares	*Percentage of shares/votes*	*Book value EUR mill.*	*Current value EUR mill.*
Nokia Corporation	14,950,489	0.34	217.7	230.8
Nokian Tyres plc	2,614,200	2.16	9.7	27.8
Okmetic Oyj	449,300	2.66	0.8	0.8
OKO Osuuspankkien Keskuspankki Oyj	20,191,400	10.04 / 5.35	203.7	238.7
Olvi plc	219,424	4.23 / 0.96	1.8	4.6
Orion Corporation	1,752,890	1.26 / 2.62	19.3	27.4
Outokumpu Oyj	4,498,836	2.48	49.8	56.5
Perlos Corporation	1,533,080	2.90	13.7	13.7
PKC Group Oyj	55,000	0.31	0.6	0.6
Raisio plc	1,016,966	0.62 / 0.12	2.3	2.3
Ramirent Plc	50,000	0.19	0.8	1.2
Rapala VMC Corporation	330,001	0.86	1.9	2.0
Rautaruukki Corporation	439,000	0.32	5.8	9.0
Sampo plc	7,320,255	1.28 / 1.27	76.3	107.6
SanomaWSOY Corporation	4,489,056	2.86 / 3.05	52.0	89.3
Satama Interactive Plc	1,900,000	4.74	1.9	2.0
Scanfil plc	580,000	0.96	2.5	2.5
SSH Communications Security Corp	483,450	1.71	0.6	0.6
Stockmann plc	514,850	0.95 / 0.19	7.8	16.7
Stora Enso Oyj	8,559,390	1.05 / 1.66	96.5	98.0
Suominen Corporation	1,911,552	8.06	6.1	6.1
Tamfelt Corp.	2,047,823	7.43 / 4.59	16.6	16.7
Teleste Corporation	840,350	4.85	6.3	6.3
Tietoenator Corporation	1,214,640	1.54	31.1	37.4
Tulikivi Corporation	515,595	5.66 / 1.69	2.2	4.2
UPM-Kymmene Corporation	10,688,466	2.04	148.0	177.0
Uponor Corporation	1,805,600	2.43	14.6	32.4
Vacon Plc	70,500	0.46	0.9	1.2
Vaisala Corporation	1,058,429	5.99 / 1.28	25.4	25.4
Wärtsilä Corporation	537,430	0.57 / 0.32	8.5	13.4
YIT Corporation	1,667,000	2.67	8.6	60.2
Bank of Åland Plc	23,000	0.21 / 0.02	0.5	0.6
Other			2.9	3.2
Total			**1,521.8**	**2,036.9**
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	10.00	0.7	0.7
Northern Power Company Ltd.	1,500,000	4.37	82.0	82.0
PRT-Forest Oy	6,000	10.02	3.6	3.6
Sato Corporation	361,562	16.45	21.7	21.7
Suomen Terveystalo Oyj	3,556,522	7.67	7.7	7.7
Tornator Timberland Oy	3,750,000	7.50	6.0	6.0
Garantia Insurance Company Ltd	8,264	13.77	5.7	5.7
VVO group Plc	951,520	15.83	22.3	22.3
Other			2.5	2.5
Total			**167.8**	**167.8**

Notes to the accounts

Notes to profit and loss account and balance sheet

Shares and holdings, parent company, Dec. 31, 2005

	Book value EUR mill.	Current value EUR mill.
Foreign companies, listed		
Austria		
Wienerberger Ag	9.4	10.1
Belgium		
Dexia	8.8	9.5
Interbrew NPV	13.3	17.8
Canada		
Nortel Networks Corp Co	2.5	2.5
Denmark		
Danisco A/S	3.5	5.6
Den Danske Bank A/S	15.5	19.6
Novo Nordisk A/S	8.9	9.9
Estonia		
Tallink Group Ltd	3.2	12.9
Tallinna Vesi AS	2.9	3.9
France		
Air Liquide SA	2.8	3.4
Alcatel SA	6.2	6.2
Atos Origin SA	5.6	6.3
BNP Paribas SA	35.4	45.4
Carrefour SA	7.9	7.9
Credit Agricole SA	14.2	17.5
Danone Group SA	10.9	13.2
Electricite De France	9.8	9.8
France Telecom	4.7	4.7
Gaz de France	8.2	8.2
Lafarge SA	18.2	18.2
Publicis Groupe	3.5	4.0
Sanofi SA	15.4	17.5
Suez SA	1.5	4.4
TF1 Television Francaise	6.6	6.6
TotalFinaElf SA	40.1	50.9
Vivendi Universal SA	6.8	6.9
Other	0.0	0.0
Germany		
Allianz AG	39.7	40.9
Bayer AG	7.0	7.0
Deutsche Bank AG	25.2	25.8
E.On AG	11.0	13.3
SAP AG	11.2	11.2
Schering AG	16.8	18.3
Siemens AG	20.4	21.0
Stada Arzneimittel AG	14.2	14.2
Great Britain		
Alliance Unichem Plc	2.6	4.2
Arm Holdings Plc	5.0	8.1
Astra Zeneca Group Plc	6.0	6.4
Barclays Plc	7.3	9.4
Bodycote International Plc	7.9	15.1
Boots Group Plc	9.4	9.4
BP Plc	46.7	59.3
Cadbury Schweppes Plc	8.6	13.0
Diageo Plc ordinary	15.5	18.0
DSG International Plc	4.1	4.3
Gallaher Group Plc	9.0	12.0
GlaxoSmithKline Plc	41.1	43.2
HSBC Holding Plc	32.5	38.3
Intertek Group Plc	11.2	11.2
Rank Group Plc	9.5	10.7
Reckitt Benckiser Plc	8.9	15.5
Rexam Plc	2.9	3.5
Rio Tinto Plc	17.2	19.3
Royal Bank of Scotland Group Plc	17.8	18.2
Royal Dutch Shell	52.7	57.1
Severn Trent Plc	12.2	16.6
Smith & Nephew Plc	10.8	11.7
Tesco Plc	6.5	8.2
United Utilities Plc	11.9	14.9
William Hill Plc	12.5	12.5
Vodafone Group Plc	17.7	17.7
Ireland		
Bank of Ireland Plc	3.8	4.6
Grafton group Plc	3.3	9.9
Italy		
Enel S.p.A	22.9	22.9
ENI S.p.A	45.0	48.4
Snam Rete Gas S.p.A	5.1	5.1
Terna S.p.A	16.7	16.7
Japan		
Canon Inc	9.9	9.9
Mitsubishi UFJ Financial Group Inc	10.1	10.6
Mitzuho Financial Group Inc	7.6	8.4
Sumitomo Mitsui Financial Group Inc	7.5	8.4
Netherlands		
ABN Amro Holding N.V.	6.0	6.6
Akzo Nobel N.V.	10.9	14.9
Fugro N.V.	14.4	19.7
Heijmans N.V.	7.1	11.7
Heineken N.V.	12.8	12.9
Koninklijke DSM N.V.	9.3	15.2
Norway		
Norske Skogsindustrier ASA	19.3	21.6
Orkla ASA	6.8	11.6
Telenor ASA	4.2	5.7
Spain		
Altadis SA	9.8	11.5
Iberdrola S.A.	12.1	15.1
Red Electrica de Espana	1.5	2.8
Telefonica S.A.	5.4	6.1
Sweden		
Capio AB	2.1	4.7
Ericsson LM AB	6.8	6.9
Föreningssparbanken AB	13.1	16.1
Getinge AB	16.5	17.2
Nobia AB	8.9	13.6
Nordea Bank AB	56.5	63.2
Skandinaviska Enskilda Banken AB	7.2	8.6

Shares and holdings, parent company, Dec. 31, 2005

	Book value EUR mill.	Current value EUR mill.
Svenska Handelsbanken AB	14.1	16.7
TeliaSonera AB	23.1	25.5
Switzerland		
Kuehne & Nagel International AG -Reg	2.7	10.7
Nestle SA	27.7	34.0
Novartis AG	52.0	59.2
Roche Holdings SA	18.7	30.3
STMicroelectronics N.V.	11.7	11.7
UBS AG	30.1	37.0
United States		
Altera Corporation	4.4	4.7
Avaya Inc.	4.6	4.6
Cisco Systems, Inc.	5.4	5.4
Computer Associates International, Inc.	3.0	4.1
Dell Inc.	2.4	2.4
Eli Lilly & Company	17.1	19.2
Hewlett-Packard Company	7.1	8.2
Intel Corporation	5.5	6.2
Johnson & Johnson	10.2	10.2
Medtronic, Inc.	12.2	15.2
Microsoft Corporation	1.6	1.7
Monsanto Company	0.5	2.2
Motorola, Inc.	9.1	12.7
Pfizer, Inc.	13.8	14.2
Symantec Corporation	5.3	6.2
Tellabs, Inc.	5.1	5.1
Time Warner Inc.	4.3	4.5
Walt Disney Company	4.9	5.0
Wyeth	8.7	9.1
Total	**1,467.2**	**1,729.2**

If Ilmarinen owns 0.005% or less of the company's shares or voting rights, it will be shown as zero.

Foreign companies, non-listed

	Book value EUR mill.	Current value EUR mill.
United States		
Other	0.3	0.3

Fixed-income funds

	Book value EUR mill.	Current value EUR mill.
ABN Amro Global Emerging Markets Bond Fund (USD) I	34.7	55.8
AXA IM US Short Duration High Yield $ A-class	68.9	76.8
CitiBond USD High Yield Fund	41.3	47.8
Evli European High Yield B	15.7	19.8
Goldman Sach Global High Yield Portfolio Class I	114.1	134.6
ING (L) Renta Fund – Emerging Markets Dept (LOCAL C) CAP. –P–	66.6	77.8
ING International (II) / Emerging Markets Dept (USD) C	31.0	44.4
Julius Baer Local Emerging Bond Fund	37.2	39.3
Pohjola Obligaatio B	50.0	55.5
Pohjola Vaihtovelkakirjalaina B	10.0	11.7
T.Rowe Global high Yield Bond Fund	31.4	36.8
Total	**500.8**	**600.2**

Equity funds

	Book value EUR mill.	Current value EUR mill.
Aberdeen Asia Pacific Fund	40.4	56.7
Aberdeen Asian Smaller Companies Fund	30.6	42.2
Aberdeen Int. Plc - China Opportunities Fund	25.1	45.4
ABN Amro Latin America Equity Fund	26.5	41.0
AIG Japan Small Companies Fund plc - Class Y	29.1	44.0
Alfred Berg Russia	4.7	32.2
Alfred Berg Small Cap B	6.0	10.2
AXA Pan-European Small Cap Alpha Fund	30.0	48.4
AXA Rosenberg Japan Small Cap Alpha Fund	30.1	37.6
CAF Asian Growth Fund s.I	25.5	33.4
CAF Emerging Markets Institutional Fund	62.2	120.7
Carnegie Fund - Medical Sub-Fund 1A	47.0	58.2
Carnegie Global Health Care Fund	24.7	33.2
DCF Baltic States Cap. Fund	3.7	14.9
East Capital Balkan Fund	20.2	27.3
East Capital Bering Ukraine Fund	5.0	5.6
Evli Greater Russia B	10.0	11.4
FIM Fenno	9.0	16.7
Health Care Select Sector SPDR ETF Fund	27.6	29.0
IndEXchange DJ STOXX 600 Insurance ETF	130.8	145.3
JP Morgan Fleming Funds Europe Small Cap Fund s.A	30.6	46.1
OMXH25 indeksiosuus	187.2	221.0
OP-Suomi Kasvu	6.0	11.0
PF Small Cap Europe	28.2	48.0
Pohjola Finland Value B	14.0	22.9
Pohjola US 500 Plus B	14.0	17.2
Russel Japan Equity Fund A Accum	159.3	219.7
Russell Emerging Equity Fund A	57.1	82.3
SISF Japanese Equity I	72.8	88.8
SPDR Trust series 1 ETF	346.4	346.4
T Rowe Price US Structured Research Equity Fund	84.9	100.7
TSE TOPIX ETF	93.8	129.3
Total	**1,682.6**	**2,187.0**

Real estate funds

	Book value EUR mill.	Current value EUR mill.
Easy ETF EPRA Eurozone	14.5	20.8
Icecapital European Property Fund B	20.2	28.3
Carlyle Europe Real Estate Partners II, L.P.	1.6	1.6
European Office Income Venture	7.3	7.3
European Property Investors, LP	9.1	9.1
Logistis II	5.2	5.2
Pradera European Retail Fund	6.7	7.7
Rockspring German Retail Box Fund	7.6	7.6
Other	0.3	0.3

Notes to the accounts

Notes to profit and loss account and balance sheet

Shares and holdings, parent company, Dec. 31, 2005

	Book value EUR mill.	Current value EUR mill.
Private equity funds *)		
Access Capital LP	8.5	8.5
Advent Private Equity Fund III D	3.8	3.8
Alpha Private Equity Fund IV	7.8	10.4
Apax Europe V - D, L.P.	17.0	22.4
Apax Europe VI - D, L.P.	10.1	10.1
Apax France VI	3.4	3.7
Arcadia Beteiligungen BT GmbH & Co. KG	2.6	2.6
Atlas Venture VI	1.6	1.6
Axa Secondary Fund II	4.3	9.1
Baltic Investment Fund III L.P	2.2	2.2
Baltic Rim Fund Limited	2.6	2.6
BC European Capital VII	8.8	8.8
BC European Capital VIII	0.6	0.6
Bio Fund Ventures II Ky	2.6	2.6
Bio Fund Ventures II Jatkosijoitusrahasto Ky	0.6	0.6
Bridgepoint Europe II B	13.0	14.1
Bridgepoint Europe III	1.5	1.5
Capman Equity VII B L.P.	6.0	6.0
Coller International Partners IV-FD, L.P.	4.6	7.6
Doughty Hanson & Co IV, Limited Partnership 4	6.5	6.5
DSC IV UK No 1 L.P.	3.6	4.2
Eqvitec Teknologiarahasto I Ky	1.0	1.3
Eqvitec Teknologiarahasto II Ky	6.4	6.4
European Strategic Partners	18.3	19.8
Fenno Rahasto Ky	1.8	1.8
Finnmezzanine Rahasto I Ky	1.4	1.4
Finnmezzanine Rahasto II B	1.7	1.7
Finnventure Rahasto IV	2.4	3.0
Finnventure Rahasto V Ky	5.5	10.5
Gilde Buy-Out Fund II	3.7	5.6
GrowHow I Ky	1.1	1.1
HarbourVest Partners VI-Buyout Partnership Fund LP	3.5	3.9
HarbourVest Partners VI-Partnership Fund L.P.	6.5	6.5
Industri Kapital 1997 L.P. II	3.2	3.3
Industri Kapital 2000 L.P. I	11.7	14.5
KKR European Fund II, LP	1.8	1.8
LGV 4 Private Equity Fund Limited Partnership	3.3	3.3
MB Equity Fund II	1.6	4.6
MB Equity Fund III Ky	5.0	21.9
MB Mezzanine Fund II	0.6	0.6
MediaTel Capital	1.5	1.5
Nordic Capital III Limited	0.5	0.7
Nordic Capital IV Limited	2.5	2.5
Nordic Capital V	13.5	13.5
Nordic Mezzanine Fund No. 1 L.P.	0.7	1.8
Permira Europe II LP2	9.8	10.5
Permira Europe III LP	8.3	9.0
Promotion Capital I Ky	1.4	1.4
Proventure & Partners Scottish Limited Partnership	2.5	2.5
Proventure Managed The First European Fund Inv L.P	7.5	7.5
Seedcap Ky	0.9	0.9
Sention Kasvurahasto KY	0.8	0.8
SFK99- Rahasto Ky	1.1	1.1
Sponsor Fund I	0.6	0.6
Sponsor Fund II	2.3	4.9
Teknoventure II Ky	0.6	0.6
The Third Cinven Fund Limited Partnership	12.6	13.5
Other	2.8	2.9
Total	**261.9**	**318.4**
Other funds		
Absolute Alpha Fund PCC Ltd Diversified Euro	23.1	27.8
BGI Global Ascent Fund	9.8	9.8
Blackstone Global Park Avenue Fund, L.P.	13.3	15.8
Bluecrest Capital Int'l Ltd, Class F Euro	10.0	10.0
Centennier Ltd	9.6	9.6
CSFB Sapic II	3.9	4.0
CSFB Sapic-98 hedge fund-of-funds	10.1	14.0
D.E Shaw Composite International Fund s. New Issue	9.9	10.3
DRD FUND	23.1	72.5
EGS-SUP Fund	20.0	49.4
Futuris Fund	4.9	6.1
Goldman Sachs Global Alpha Fund	10.0	10.7
Green Way Limited - Class B fund-of-funds	4.6	6.1
Ice Capital Currency Alpha	10.0	10.1
IPM Global Currency Fund	19.7	23.2
JP Morgan Multi-Strategy Fund Ltd s. A	19.3	22.4
Nektar	10.2	12.4
Och Ziff Europe Overseas Fund Ltd	10.0	12.1
Pohjola Raaka-aine B	5.0	6.5
RMF Absolute Return Strategies I Ltd.	26.0	29.3
RMF Inv. Strategies Limited VV1 Top 20 class II	15.0	16.6
SDB Fund	30.1	78.6
Solon Capital, Ltd	39.9	44.9
Total	**337.5**	**502.3**
Total	**6,012.3**	**7,629.9**

*) Real estate funds are not included.
The book value of shares and holdings listed here exceed EUR 500,000.
The shares loaned have not been deducted.

EUR mill.	2005	2004

Open securities agreements

Securities loaned

Number	**3,627,898**	3,806,866
Remaining acquisition costs	**41.3**	35.8
Current value	**59.1**	50.1

Securities borrowed

Number	**–**	140,000
Current value	**–**	13.6

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

Loans

Loans itemised by type of collateral

Loans guaranteed by mortgages	**304.9**	264.5
Other loans		
Banks guarantee	**257.8**	313.4
Guarantee insurances	**221.0**	288.7
Other	**41.5**	50.8
Unsecured loans to		
banks and financing companies	**100.5**	127.1
insurance companies	**–**	22.6
other	**118.4**	30.8
Remaining acquisition cost, total	**1,043.9**	1,097.8

Total premium loans by balance sheet item, parent company

Loans guaranteed by mortgages	**21.3**	32.0
Loans to participating interests	**20.6**	5.3
Other loans	**486.0**	663.7
Remaining acquisition cost, total	**527.8**	701.0

Notes to the accounts

Notes to profit and loss account and balance sheet

EUR mill.	*Parent company* 2005	2004	*Group* 2005	2004

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	**44.5**	41.0	**44.5**	41.0
Transfer from previous year's profit	**5.0**	4.3	**5.0**	4.3
Revaluation reversed	**–**	–0.8	**–**	–0.8
Other reserves	**–**	–	**0.6**	0.6
	49.5	44.5	**50.1**	45.1
Profit brought forward				
Jan. 1	**6.4**	5.5	**6.9**	11.9
Distributed interest paid on guarantee capital	**–1.3**	–1.2	**–1.3**	–1.2
Donations	**–0.1**	–0.1	**–0.1**	–0.1
Transfer to reserves under the Articles of Association	**–5.0**	–4.3	**–5.0**	–4.3
	–	–	**0.6**	6.4
Profit for the financial year	**7.4**	6.4	**1.4**	0.5
	79.9	73.8	**75.0**	75.0

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	**1.4**	1.3	**1.4**	1.3
Policyholders' share	**55.5**	49.5	**50.6**	50.7
Total	**79.9**	73.8	**75.0**	75.0

Main principles of the Articles of Association governing guarantee shares:

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

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

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

Distributable profits:

Profit for the year	**7.4**	6.4	**1.4**	0.5
+ Other funds				
Reserves under the Articles of Assocation	**49.5**	44.5	**49.5**	44.5
+ Profit brought forward	**–**	–	**0.6**	6.4
– Amount of appropriations entered under capital and reserves	**–**	–	**–19.0**	–21.6
Distributable profits, total	**56.9**	50.8	**32.4**	29.8

EUR mill.	2005	2004
Specification of technical provisions		
Provision for unearned premiums		
Future pensions	**10,046.3**	8,805.1
Provision for future bonuses	**2,940.1**	2,268.3
Provision for current bonuses	**77.9**	45.0
Total	**13,064.3**	11,118.4
Provision for claims outstanding		
New pension awards	**4,933.4**	4,414.4
Equalisation provision	**893.6**	842.8
Total	**5,826.9**	5,257.2
Total technical provisions	**18,891.3**	16,375.6
Security and financial commitments, parent company		
As security for own debts		
Mortgaged as security for rents	**0.7**	0.8
Assets pledged as security for derivative contracts	**105.1**	111.8
Assets pledged as security for equities lending	**51.6**	52.3
Assets pledged as security for potential liabilities for damage	**0.0**	–
Off-balance-sheet commitments and liabilities		
Investment commitments		
Private equity funds	**371.8**	258.6
Other	**9.5**	9.5
Derivative contracts		
Hedging		
Current derivatives		
Currency swaps		
Open, underlying instrument	**16.8**	–
current value	**–0.3**	–
Non-hedging		
Interest derivatives		
Future and forward contracts		
Open, underlying instrument	**–459.9**	186.8
current value	**0.0**	0.0
Option contracts		
Open, bought, underlying instrument	**–**	150.0
current value	**–**	0.0
Open, written, underlying instrument	**–**	–
current value	**–**	–
Current derivates		
Forward contracts		
Open, underlying instrument	**1,574.7**	1,130.5
current value	**–7.8**	27.8
Closed, current value	**1.0**	0.3

Notes to the accounts

Notes to profit and loss account and balance sheet

EUR mill.	2005	2004
Option contracts		
Open, bought, underlying 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	**67.0**	285.0
current value	**3.6**	3.3
Option contrancts		
Open, bought, underlying instrument	**128.5**	513.8
current value	**85.7**	82.9
Open, written, underlying instrument	**–356.2**	31.7
current value	**–5.5**	–1.3
Other derivative contracts		
Future and forward contracts		
Open, underlying instrument	**271.3**	–
current value	**–1.4**	–

Profit on closed and mature derivatives is recognised 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.

Amount of joint liability
Pertaining to VAT group registration, the company is, together with the other members of the taxable group, jointly and severally liable for the value-added tax imposed on the group. The VAT group controlled by Pohjola Group plc was dissolved on 1 November 2005, and from that date onwards all companies that belonged to the group joined the VAT group group controlled by Osuuspankkikeskus Osk.

Obligation to refund of VAT allowances	**11.0**	14.3
Other financial commitments	**2.6**	2.2

Solvency capital

Capital and reserves after proposed distribution of profits	**78.4**	72.5
Accumulated appropriations	**15.5**	17.5
Difference between current value and book value of assets	**2,081.3**	1,273.6
Provision for future bonuses	**2,940.1**	2,268.3
Other items	**–25.1**	–34.0
	5,090.1	3,597.8
Solvency capital requirement under chapter 17 of the Employee Pension Insurance Companies Act (TVYL)	**1,346.9**	1,056.9
The equalisation provision for years with heavy losses is included in the technical provisions	**893.6**	842.8

Notes to the accounts

Key figures and analyses

EUR mill.	2005	2004	2003	2002	2001

Key figures in brief

Premiums written, EUR mill.	**2,346.0**	2,217.3	2,229.6	2,160.9	1,989.6
Pension and other payments made, EUR mill. [1]	**2,033.8**	1,931.1	1,899.8	1,853.3	1,640.0
Net investment income at current value, EUR mill.	**2,173.6**	1,270.6	1,278.5	−60.2	−179.7
ROCE, %	**12.1**	7.8	8.7	−0.5	−1.2
Turnover, EUR mill.	**3,727.1**	3,151.6	3,404.3	2,282.6	2,342.8
Total operating expenses, EUR mill.	**87.6**	87.7	79.4	70.6	60.6
Total operating expenses, % of turnover	**2.3**	2.8	2.3,	3.1	2.6
Total operating expenses less investment management charges and working capacity maintenance costs, % of TEL wage bill and reported incomes under YEL	**0.7**	0.7	0.6	0.6	0.5
Total profit, EUR mill.	**1,514.9**	698.5	818.3	−591.2	−690.7
Technical provisions, EUR mill.	**18,891.3**	16,375.6	15,275.0	13,863.5	13,519.6
Solvency capital, EUR mill.	**5,090.1**	3,597.8	2,951.2	2,243.1	2,940.8
% of technical provisions [2]	**32.0**	25.6	22.3	18.1	25.5
relative to solvency border	**2.52**	2.27	2.16	1.90	2.32
Equalisation provision, EUR mill.	**893.6**	842.8	814.6	779.2	726.8
Pension assets, EUR mill. [3]	**20,972.5**	17,649.2	16,181.0	14,650.0	14,455.1
Transfer to bonuses and rebates, % of TEL wage bill	**0.76**	0.46	0.33	0.20	0.45
TEL wage bill, EUR mill.	**10,268.0**	9,766.9	9,879.4	9,631.0	8,922.6
Reported incomes under YEL, EUR mill.	**879.0**	850.7	812.4	780.6	763.3
TEL policyholders	**31,386**	31,572	31,927	31,689	31,982
Employees insured under TEL	**357,000**	349,000	364,000	359,000	351,000
YEL policyholders	**49,495**	49,580	49,696	49,322	49,386
Pension recipients	**243,775**	239,511	235,965	231,056	224,849

[1] Payments made and recorded in the income statement, without management charges and work capacity maintenance expenses
[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.

Sources of profits					
Underwriting result	**51.2**	34.2	38.5	53.1	72.6
Investment result at current value	**1,452.0**	657.4	770.7	−654.0	−775.8
+ Net investment income at current value + other interest items [1]	**2,174.1**	1,276.8	1,281.1	−57.0	−179.0
– Yield requirement on technical provisions	**−722.1**	−619.4	−510.4	−597.0	−596.8
Loading profit	**11.7**	6.9	9.1	9.7	12.5
Profits, total	**1,514.9**	698.5	818.3	−591.2	−690.7
Disposal of profits					
Increase/decrease solvency (+/–)	**1,436.9**	653.5	785.3	−634.5	−731.1
Equalisation provision (+/–)	**50.8**	28.2	35.4	52.4	72.6
Solvency capital (+/–)	**1,386.1**	625.3	749.9	−686.9	−803.7
Change in provision for future bonuses	**573.0**	252.8	623.7	−548.0	−336.4
Change in difference between current and book values	**807.7**	367.6	119.5	−149.9	−477.6
Change in accumulated appropriations	**−2.0**	−1.5	1.2	5.1	5.2
Profit for the financial year	**7.4**	6.4	5.5	5.9	5.1
Transfer to bonuses and rebates	**78.0**	45.0	33.0	19.0	40.4
To augment the provision for current bonuses [2]				24.3	
Total	**1,514.9**	698.5	818.3	−591.2	−690.7

[1] Includes interest items in the profit and loss account which are not entered as income from investment
[2] On Dec. 31, 2005, EUR 15.3 million of the transfer to augment the provision for current bonuses remained unamortised

Notes to the accounts

Key figures and analyses

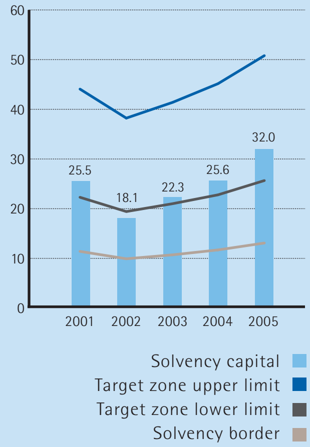
	2005	2004	2003	2002	2001

Solvency, %

Solvency capital and limits (% of the technical provisions used in calculating the solvency border)

	2005	2004	2003	2002	2001
Solvency border	**12.7**	11.3	10.3	9.5	11.0
Target zone lower limit	**25.4**	22.5	20.7	19.1	22.0
Target zone upper limit	**50.8**	45.1	41.3	38.1	44.0
Solvency capital	**32.0**	25.6	22.3	18.1	25.5

Solvency
% of technical provisions



Breakdown of investment (current value)

	2005		2004		2003		2002		2001	
	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%
Loan receivables [1]	**1,076.0**	**5.1**	1,110.9	6.3	1,403.0	8.8	1,559.7	10.7	1,623.6	11.3
Bonds [1] [2]	**10,317.5**	**49.2**	8,750.7	49.6	7,831.5	49.0	6,797.9	46.8	5,886.4	41.1
incl. fixed-income funds	**596.6**	**2.8**	478.3	2.7	261.3	1.6	55.0	0.4		
Other debt securities and deposits [1] [2] [3]	**398.3**	**1.9**	532.7	3.0	367.8	2.3	600.2	4.1	641.4	4.5
Shares	**7,036.0**	**33.5**	5,163.1	29.3	4,016.6	25.1	3,205.8	22.1	3,992.0	27.9
Real estate [4]	**2,155.4**	**10.3**	2,078.2	11.8	2,366.6	14.8	2,356.9	16.2	2,188.2	15.3
incl. investment funds and joint ventures	**87.9**	**0.4**	78.2	0.4						
Investment, total	**20,983.2**	**100.0**	17,635.6	100.0	15,985.5	100.0	14,520.6	100.0	14,331.6	100.0
Modified duration for bond portfolio	**4.65**		5.11		4.65		4.90		4.43	

[1] Accrued interest included

[2] From the fixed-income funds, long-term fixed-income funds are included in bonds and short-term fixed-income funds in other debt securities and deposits

[3] Including deposits classified as investments on the balance sheet

[4] Including the investment fund shares of and investments in comparable joint ventures that invest in real estate and real estate undertakings

Notes to the accounts

Key figures and analyses

Breakdown of investment income and investment result

EUR mill.	2005	2004	2003	2002	2001
Cash income	**419.1**	611.5	635.5	675.1	755.1
Loan receivables	**46.5**	56.8	65.6	71.5	75.9
Bonds	**288.7**	247.6	279.9	318.2	303.7
Other debt securities and deposits	**29.7**	9.8	9.3	18.9	18.8
Shares	**–1.2**	219.0	176.9	165.6	289.8
Real estate	**59.6**	87.5	112.9	108.4	71.1
Other					
Unallocated income, charges and operating expenses	**–4.2**	–9.3	–9.1	–7.5	–4.3
Changes in book value [1]	**946.8**	291.4	523.5	–585.4	–457.2
Shares	**745.8**	143.0	350.9	–673.8	–479.9
Bonds	**164.9**	118.3	169.7	102.0	28.5
Real estate	**36.3**	30.4	2.6	–13.2	–5.5
Other	**–0.2**	–0.3	0.2	–0.4	–0.3
Net investment income at book value	**1,366.0**	902.9	1,159.0	89.6	297.9
Change in difference between current and book value [2]	**807.7**	367.6	119.5	–149.9	–477.6
Shares	**899.6**	282.2	248.3	–357.1	–575.9
Bonds	**–87.1**	125.6	–133.7	171.1	11.3
Real estate	**–4.8**	–40.2	4.9	37.3	85.7
Other	**0.0**	–0.0	–0.1	–1.3	1.3
Net investment income at current value	**2,173.6**	1,270.6	1,278.5	–60.2	–179.7
Other interest items [3]	**0.5**	6.3	2.6	3.2	0.7
Yield requirement on technical provisions	**–722.1**	–619.4	–510.4	–597.0	–596.8
Investment result at book value	**644.3**	289.8	651.2	–504.1	–298.2
Investment result at current value	**1,452.0**	657.4	770.7	–654.0	–775.8
The proportion of derivatives in the net income investments	**–190.7**	20.8	86.7	34.5	4.1

[1] Capital gains and losses plus other changes in book values
[2] Changes in value not included in the balance sheet
[3] Includes interest items in the profit and loss account which are not entered as income from investment

Notes to the accounts

Key figures and analyses

Net investment income at current value, January 1–December 31, 2005

	Current value [1] EUR mill. 2005	Capital employed [2] EUR mill. 2005	ROCE, % 2005	ROCE, % 2004	ROCE, % 2003	ROCE, % 2002	ROCE, % 2001
Loan receivables	**46.3**	**1,007.6**	**4.6**	4.7	4.6	4.7	4.8
Bonds [3]	**389.5**	**9,077.7**	**4.3**	7.0	5.1	9.5	5.8
incl. fixed-income funds	**23.0**	**531.3**	**4.3**	11.9	21.9	12.4	
Other debt securities and deposits [3]	**29.7**	**656.3**	**4.5**	1.4	1.8	3.6	4.5
Shares	**1,604.7**	**5,224.9**	**30.7**	13.2	22.1	–21.8	–17.2
Real estate [4]	**107.7**	**2,028.6**	**5.3**	4.0	5.2	5.6	7.4
incl. investment funds and joint ventures	**16.5**	**70.0**	**23.6**	30.3			
Investment, total	**2,177.9**	**17,995.1**	**12.1**	7.9	8.8	–0.4	–1.2
Unallocated income, charges and operating expenses	**–4.2**	**17,997.2**	**0.0**	–0.1	–0.1	–0.1	0.0
Net investment income, total	**2,173.6**	**17,997.2**	**12.1**	7.8	8.7	–0.5	–1.2

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 the difference between purchases/costs and sales/revenues
2) Capital employed = Market value at the beginning of the reporting period + cash flows time-weighted daily/monthly
3) Including income from fixed-income funds appearing in the statistics under the investment type at issue
4) Including income from investment funds and joint ventures appearing in statistics under real estate investments

Loading profit, EUR mill.

Loading profit, EUR mill.	2005	2004	2003	2002	2001
Expense loading components	**84.2**	80.5	75.7	68.6	63.3
Function-specific operating expenses [1]	**–74.4**	–75.4	–68.6	–61.1	–52.6
Other income	**1.8**	1.7	2.1	2.2	1.7
Loading profit	**11.7**	6.9	9.1	9.7	12.5
Operating expenses of loaned income, % [2]	**86.4**	91.6	88.3	86.3	81.0

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 the appropriate performance of the company's statutory responsibilities, the realisation of the vision stated in the company's operating plan for the next few years, the achievement of the main goals for the next few years and the 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 materialising, minimise the financial and other loss arising from any risks that may have materialised, safeguard the continuity of the company's operations and help the company benefit from the 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 the costs of risk management measures against the potential costs of materialised 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. The following account is limited to basic TEL employment insurance, because the volume of other insurance types is of minor importance (the technical provisions of basic TEL insurance represent 98 per cent of the company's total technical provisions). The underwriting business in question is divided into business under the responsibility of the company itself and business under the joint responsibility of pension institutions. The financially most significant risks concern the uncertainty related to mortality and the inceptions of disability and unemployment pensions and the amount of credit losses from insurance premiums. These risks are managed by choosing insurance premiums and calculation bases.

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 an individual company. In Ilmarinen's insurance portfolio, this risk is minor. If the technical provisions according to the calculation bases prove generally insufficient, the calculation bases must be changed and the technical provisions must be supplemented. However, the supplementation does not pose a risk to an individual pension institution;

according to the Employees' Pensions Act, the pension institutions pay for the supplementation jointly and the cost is channelled into the employment pension contribution for the following years.

The company prepares for fluctuations in the result from the underwriting business under the company's responsibility by means of a buffer, the equalisation reserve included in the technical provisions for this purpose. The equalisation reserve has a lower and upper limit dimensioned according to insurance risks and a target zone defined between these limits. At the end of 2005, Ilmarinen's equalisation reserve was approximately 69 per cent of its upper limit and close to the upper limit of the target zone.

The aim of the risk management for the underwriting business is to ensure the prudence of the calculation bases according to the requirements of the law, for which the actuary of the company is responsible. In the case of the underwriting business under the company's responsibility, safeguarding prudence is based on monitoring the trends in the equalisation reserve, other analyses and reports concerning the underwriting business required by the authorities or considered necessary by the actuary and prognoses on the development of the company's underwriting business. This requires the development and maintenance of prognostic models and analysis methods.

In employment pension insurance, uncertainty factors related to the pension expenditure under the joint responsibility of the pension institutions and their financing (the system of joint liability) must be taken into account, in addition to the underwriting business under the responsibility of the company itself. The unfunded pension expenditure (pension expenditure for which the pension institutions are jointly liable) are under joint responsibility, for which the share of the pensions being paid is financed by an annually-collected part of the TEL contribution, the premium for joint liability. In 2005, the pension expenditure for which the pension institutions are jointly liable represented approximately 78 per cent of Ilmarinen's basic TEL pension expenses, and the premium for joint liability represented approximately 77 per cent of the total premiums written of basic TEL insurance. The provision for joint liability included in the technical provisions of each pension institution serves as a buffer for the underwriting business under the joint responsibility of the pension institutions. In 2005, Ilmarinen's provision for joint liability corresponded to the expenditure for which the pension institutions are jointly liable of about 7 months.

The joint liability pensions and the premiums written for joint liability are pooled between all pension institutions, so these pensions do not pose a pension-institution-specific risk. With regard to this, the common risk of the pension institutions is posed by the deterioration of the ratio between the pension expenditure in question and the payroll of the private sector with respect to the assumptions used in the setting of insurance premiums. Because the life expectancy coefficient included in the pension system from 2010 eliminates the main part of the risk related to life expectancy, the unexpected increase of index increases related to real earnings due to increased inflation or the work contribution proving to be smaller than expected due to demographic factors or unemployment may lead to the materialisation of risk. The law requires that the premium for joint liability be dimensioned so that it is sufficient with respect to the jointly paid expenses. In this case, the risk for pensions paid for jointly is channelled towards the payers of employment pension contributions.

The company's technical provisions (excluding the provision for future bonuses) are estimated to increase by about 7 per cent annually during the next few years. 65 per cent of the technical provisions are of a duration of more than 10 years and 40 per cent of a duration of more than 20 years. The technical provisions must be covered at all times. There was a total of 20,582 million of assets suitable for covering the technical provisions on the basis of legislation and lower regulations, which exceeded the amount of technical provisions to be covered by 9 per cent. In the long term, investments must deliver a return that is at least as high as the technical interest rate.

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 are 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 risk.

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 on investments. 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.

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. Rules have been defined for the calculation of the solvency border that are binding on all companies through the Decree. 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 and they are taken into account accordingly. The following table describes the division of Ilmarinen's investments into solvency groups on December 31, 2005 in accordance with the Decree on solvency. The expected yield and volatility presented in the table also comply with the Decree.

Group	Yield exceeding the technical interest rate, percentage points	Volatility, %	Total amount of investments, EUR mill.
I	0.1	1.0	321
II	0.6	3.5	7,245
III	0.6	4.4	2,761
IV	3.7	8.2	1,299
V	3.7	15.0	1,750
VI	6.2	21.4	5,510
VII	6.2	29.9	1,841
Total			20,726

On December 31, 2005, the solvency border according to the investment breakdown was 12.7 per cent of the technical provisions used in the solvency calculations. With the solvency rate at 32.0 per cent, Ilmarinen's solvency position was 2.52 times that of the solvency border.

Composition of the investment portfolio

Ilmarinen's investment portfolio has been optimised based on expected yield from the various investment classes, fluctuations in yield 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 yield over an economic cycle without the company having to alter the composition of the investment portfolio before the end of the cycle for solvency reasons. The risk level of the investment portfolio is chosen on the basis of an investment market simulation model developed in the company.

In the optimisation, the following expected long-term yield 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 %	17.5 %
Bonds	5.1 %	4.2 %
Real estate	6.0 %	11.0 %

The expected yield from the 2005 allocation, based on optimisation, was 6.3 per cent and volatility was 5.6 per cent. In this "basic allocation", the weightings of the main assets (weighting of more than 10 per cent) were as follows: Listed shares 24.0 per cent, bonds 46.0 per cent, direct real estate investments 13 per cent, loan receivables 7.0 per cent and other asset classes 10 per cent. In addition to the basic allocation weighting, 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, 2005

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)	
Share		Share	
Finland	40 %	AAA	69 %
Europe	31 %	AA	11 %
USA	12 %	A	10 %
Japan	9 %	BBB or lower	9 %*
Others	9 %	Not rated	1 %

* the share of fixed-income funds is 6 percentage points

A breakdown of the loan portfolio by collateral is presented in the notes to the accounts under "Loan receivables".

Breakdown of real estate by use	
Residential	16 %
Office	56 %
Commercial	5 %
Hotel	5 %
Warehouse	4 %
Others	7 %

The occupancy rate for real estate (locations under renovation excluded) was 89.8 per cent.

Market risk

Market risk is formed by the daily changes in 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 measured 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 attached table illustrates the effects of market changes on Ilmarinen's solvency:

	Changes in interest rates −1% point	Changes in share prices +10 %	Fair value of real estate +10 %
Effect on			
– solvency capital (EUR mill.)	468.5	653.9	205.5
– solvency position	0.28	0.21	0.11
– return (% point)	2.7	3.8	1.2
– solvency ratio (% point)	2.9	4.1	1.3

In the case of investments at the end of the year, there was a 2.5 per cent possibility that the value of the investments could drop by at least EUR 388 million within one month, constituting a value at risk (VAR) of 1.9 per cent of the amount of investments and 7.6 per cent of the solvency capital at the end of the year. If such a risk had actually materialised, the solvency capital would have dropped to 29.5 per cent 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 the technical provisions, but the company has also taken actions of its own to prevent them. The largest concentration of risks with regard to all investments of various types in a single organisation, excluding governments, accounted for 2.1% of the investment assets in Ilmarinen's 2005 financial statements.

Counterparty risk

Counterparty risks related to bonds are managed through analyses of the issuers' credit ratings and by restricting both 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 direct 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 counterparty-specific market risk simulations. Counterparty risks related to non-standard derivatives are also managed by using international standard agreements approved by the International Swaps and Derivatives Association (ISDA) with all parties.

Liquidity risk

In an employment pension insurance company, liquidity risks in relation to the liabilities of the company are easily managed, as estimates of the amount of future pension expenditures are quite accurate and more than 84 per cent of the assets consist of liquid investments in securities. Short-term liquidity risks based on poor convertibility of investment instruments are managed by making the company's won investments proportional to their average daily turnover in the market by investment object.

Derivatives

The equity risk incurred from equity derivatives stood at EUR 78.7 million at year-end, increasing the equity risks related to the company's investments by 0.4 percentage points. Fixed-income derivatives were used to shorten the average maturity of fixed-income investments by 0.09 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 aim is that the operation of each unit is carefully performed, maintains a high quality and is 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 separate 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 that could jeopardise the company's performance, management or safety.

Management of operational risks has been taken care of by ensuring personnel's expertise and employing a range of means related to information technology and operating methods, such as backup systems and backup communication connections, the use of benchmark data and monitoring systems.

In order to ensure a lack of disturbances in Ilmarinen's operations in normal and exceptional conditions, the company goes through plans that ensure the continuity of operations. The critical functions to be ensured have been chosen from the critical functions nominated in the 2005 Insurance Industry Preparedness Guideline. The schedule required in the preparedness guideline in the case of preparedness for exceptional conditions is taken into account in the maintenance of the continuity plans.

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. In its investment plan the Board of Directors annually goes through the management of the most significant risks concerning investment operations and defines the risk level to be adopted. Similar matters are dealt with in the risk management plan of the Board of Directors in the case of other significant risks to the company's business operations. The Board of Directors has an audit committee that assists the whole Board of Directors in supervision tasks that concern the company's financial reporting, risks and internal supervision system and the work of the internal inspector and auditors.

The Supervisory Board is responsible for supervising the corporate governance actions undertaken by the company's Board of Directors and 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 organisation's work in achieving its aims by providing 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 Ilmarinen's 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 included in the 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. When monitoring, the group takes into account the requirements set for the underwriting business and proposes changes to the risk level of the basic allocation, if necessary.

The chosen operative risk level (including derivatives) and the company's solvency situation 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 on investment operations used for the 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 sufficiently frequent real-time reporting, regular matching routines and the organisational 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 2005 was 6.125% and the guarantee capital interest EUR 1,408,422.52.

The amount of retained consolidated non-restricted capital and reserves according to the financial statements on December 31, 2005 was EUR 32.4 million. The retained non-restricted capital and reserves of the parent company stood at EUR 56,868,750.15, with profit for the financial year accounting for EUR 7,398,511.72.

The Board of Directors proposes that EUR 1,408,422.52 be paid as interest on guarantee capital for 2005 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	55,410,327.63
Capital and reserves, total	78,404,980.94

Helsinki, February 28, 2006

Hannu Syrjänen

Lauri Ihalainen	Leif Fagernäs	Jukka Alho
George Berner	Eino Halonen	Jukka Hienonen
Arto Hiltunen	Seppo Junttila	Risto Piekka
Gretel Ramsay	Antti Tanskanen	

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, 2005. 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, 15 March, 2006

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 2006 Annual General Meeting:

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

Helsinki, March 16, 2006
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 into groups on the basis of prudence. There are statutory provisions stipulating the maximum proportion of technical provisions covered by each group.

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 on 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 + net income of investment activities in accounting + other income.

Valuation gains/losses

The difference between the current value and the 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 2005, this so-called technical rate of interest was an average of 5.125%.

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 30 company pension funds. Pension benefits are independent of the managing institutions. 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. The disability pension is pre-funded when the pension benefits start, except when the person's work input has been small in the years preceding retirement. Unemployment pensions are also 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 a 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 2005, employee pension fund assets totalled EUR 103 billion, which represented roughly 66% 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 and the 3% discount rate is used each year to augment pre-funded old-age pensions. At the beginning of 2006 this technical rate of interest is 6.0%.

Premiums written

In 2006, the total TEL contribution averages 21.6% of earnings. The employee contributes 4.3% (5.4% from 53 years of age) and the employer an average of 16.7%. Small and medium-sized employers are also granted a maximum discount of 0.6 percentage points to reduce the equalization provision relating to disability pensions. The total contribution is expected to rise by five or six 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 pensions is determined by the premium category, which depends on the disability expenditure. For large employers, the TEL contribution for unemployment pensions is determined by an experience rating. 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 7). As of 2010, growing average life expectancies will affect the size of new pensions, 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 6, 2006 at the following address: Ilmarinen Mutual Pension Insurance Company, Porkkalankatu 1, Helsinki, Finland.

Interim report

Ilmarinen will publish an interim report in August 2006.

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.

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