

REPORT AND FINANCIAL STATEMENTS 2006

REPORT 2006

Economic development

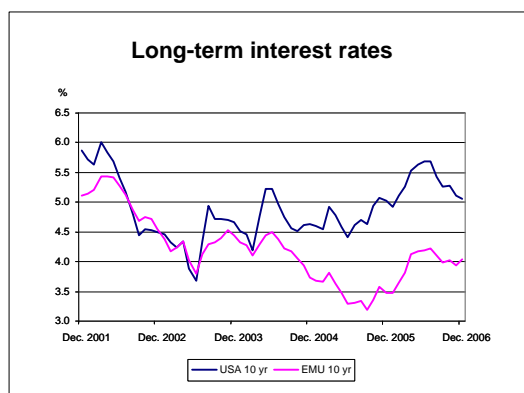
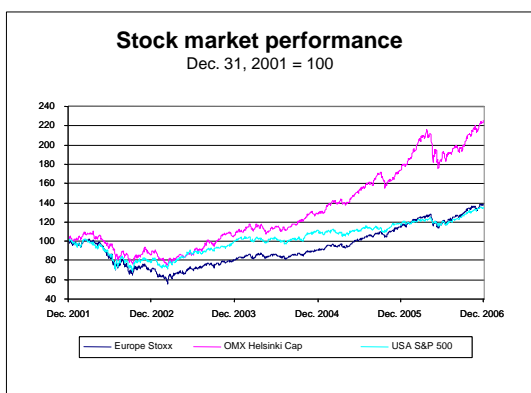
In 2006, both the global and the Finnish economies performed better than anticipated. In Finland, total production grew by more than five percent, which could largely be attributed to export demand and investment growth. Meanwhile, the European economic growth rate settled at approximately three percent. Besides the price of oil, other key uncertainty factors affecting economic development include the intensity of the expected slowdown of the US economy and the cascading effects of the rising economies in Asia.

The employment situation has seen rapid improvement. In 2006, the employment situation continued to improve in all major industries with the exception of primary production. More than 40,000 new jobs were created, and the average annual unemployment rate fell by more than half a percentage point from the previous year to 7.7 percent. The employment rate in the age group that is important for the employment pension system, namely those aged between 60 and 64, has climbed from approximately 25 percent to almost 40 percent in five years.

During the year, inflation accelerated in Finland, and at two percent it reached the overall level of the euro zone. Interest rates began to rise in the first half of the year, but towards the year-end, interest began sliding again. On the whole, the year turned out to be difficult for interest investors.

Share prices continued to rise briskly in early 2006, until they took a downward turn in April. In June, share prices were more or less at the same level as at the turn of the year. However, share prices rose steadily during the autumn and full-year performance turned out to be positive for investors in most markets. Japan was the only exception to the positive development trend.

As a result of favorable economic development, the demand for office premises picked up and utilization rates were up. Rents for office premises rose particularly in the Helsinki region.



Development of the employment pension system

One of the objectives of the pension reform that came into effect at the beginning of 2005 was to encourage people to work longer instead of opting for early retirement. Experiences gained in 2005 and 2006 suggest that a change is clearly taking place in retirement trends. If continued, this positive development would significantly alleviate the upward pressure on pension expenditure and would thereby further strengthen the financial durability of the employment pensions system.

The new Employees' Pensions Act (TyEL) came into effect at the beginning of 2007, replacing the previous Employees' Pensions Act (TEL), the Temporary Employees' Pensions Act (LEL) and the Pensions Act for Performing Artists and Certain Groups of Employees (TaEL). In the long run, this act will significantly simplify the practices and procedures involved in employment pension insurance. As the new act took effect, the special status of the Etera Mutual Pension Insurance Company was removed and it started to compete with existing TEL institutions for the clientele currently insured under TyEL and under the Self-Employed Persons' Pensions Act (YEL).

The legislative changes will involve considerable modifications to the information systems and operating practices. They have and will require significant development efforts from Ilmarinen and other employment pensions companies.

The survey on the investment of employment pension assets launched by the key labor market organizations at the end of 2004 was completed in January 2006. Based on the survey, the organizations agreed on the changes to be made to the regulations concerning employment pension investments on January 27, 2006. The resulting legislative amendments were ratified on December 8, 2006. To make the entire employment pension system bear a part of the price risk involved in equity investments, the change in technical provisions will be partly tied to the average return on equity investments. Solvency capitals that serve as pension-institution-specific investment buffers will be strengthened to some degree. Furthermore, some details of the funding of old-age pensions will be changed a little. These changes are believed to relieve the upward pressure on employment pension contributions by 1 or 2 percentage points in the long run.

In this connection, legislation regarding the cover for employment pension institutions' technical provisions and the calculation of the solvency border was reformed. As of the beginning of 2007, the classification of assets associated with these regulations will reflect the actual risk, and the pension institution's Board of Directors must confirm the principles applied in this classification.

Similarly, some parts of the legislation concerning the administrative bodies of employment pension insurance companies were amended effective as of the beginning of 2007. These changes involved more detailed qualification criteria for members of the Supervisory Board and Board of Directors as well as for the President and CEO, a requirement for mandatory committees dealing with appointments, remuneration and auditing, and a requirement for a special election committee, which prepares the election of members to the Supervisory Board and the Board of Directors and has equal representation from both employer and employee organizations.

Legislation regarding the solvency capital transferred in connection with portfolio transfers and the transfer of funds was amended in 2006 to the effect that transferring of solvency capital is twice the amount compared to the median of employment pension institutions' solvency border. This amount will be confirmed semiannually and represents 22.5 percent of the technical provisions at the beginning of 2007.

On January 11, 2007, the Ministry of Social Affairs and Health published a report on the competitive situation regarding the employment pension system. The report looks at the competitive environment for the employment pension system as a whole and in relation to the key purpose of the employment pension system. Other background reasons include statements from the Finnish Competition Authority and its motions regarding competition issues. According to the report, the different legislative amendments implemented for competition-related reasons have, to some extent, clouded the fact that the execution of the employment pension system is built on an insurance principle rather than on the principles of a savings fund. Special attention is paid to the need to measure and assess the effectiveness of the decentralized execution of the employment pension system. The report is now in circulation for comments.

Results and solvency

Ilmarinen benefited from the choices made in its investment strategy as share prices rose, making 2006 a positive year for Ilmarinen in terms of investments and solvency. The company's net investment income calculated at market value was 8.5 percent (12.1 percent in 2005). Solvency capital grew to EUR 5,828.0 million from EUR 5,090.1 million a year earlier.

At the end of 2006, Ilmarinen's solvency capital stood at 33.7 (32.0) percent of the technical provisions used in solvency calculations and 60 (63) percent of the maximum capital. Solvency capital was 2.4 times its solvency border compared with 2.5 in 2005. The monitoring limits of employment pension companies' solvency capital depend on the risk content of its investment portfolio.

The information on the company's results and solvency presented below is based on the indicators and analyses shown in the notes to the financial statements, calculated primarily at market value.

Ilmarinen's overall result for 2006 totaled EUR 850.3 (1,514.9) million. The underwriting business recorded a profit of EUR 19.9 (51.2) million, while the loading profit amounted to EUR 22.9 (11.7) million. Net investment income at market value totaled EUR 1,803.0 (2,174.1) million and it exceeded the EUR 995.5 (722.1) million interest credited to technical provisions by EUR 807.6 (1,452.0) million.

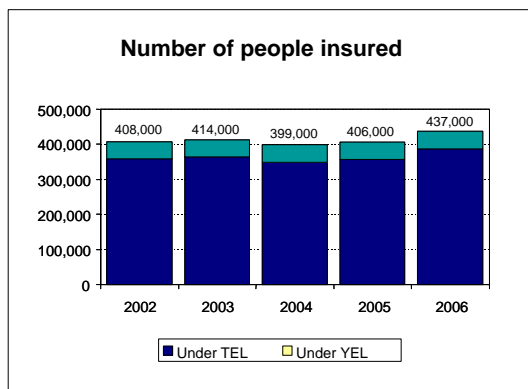
According to the actuarial principles confirmed by the Ministry of Social Affairs and Health, the profit from the underwriting business will be transferred to the equalization provision, except for EUR 3.5 million which was the amount by which the equalization provision for the TEL supplementary pension insurance would otherwise have exceeded its upper limit.

The amount available for discounts to be granted on TEL contributions, or client bonuses, continued to be determined by the company's solvency capital and solvency position in 2006. A total of EUR 81.0 (78.0) million was earmarked for use as client bonuses. This represented 0.70 (0.76) percent of the total wage bill insured and EUR 209 (218) per employment relationship insured with Ilmarinen. As of fiscal 2007, the amount available for client bonuses will be determined primarily on the basis of the company's solvency capital but partly also on the basis of its loading profit.

The remainder of the overall result is retained in the company's solvency capital apart from the guarantee capital interest to be paid after the financial statements have been adopted.

Policies and income from premiums

The number of people insured under TEL showed particularly favorable development in 2006. At the end of 2006, the company had 31,551 (31,386) TEL policies, showing an increase of 0.5 percent during the year. At the end of the year, TEL policies covered 387,000 (357,000) insured persons; an increase of 8.4 percent on the previous year. The average number of persons covered by a TEL policy in 2006 grew to 12 from 11 the year before.

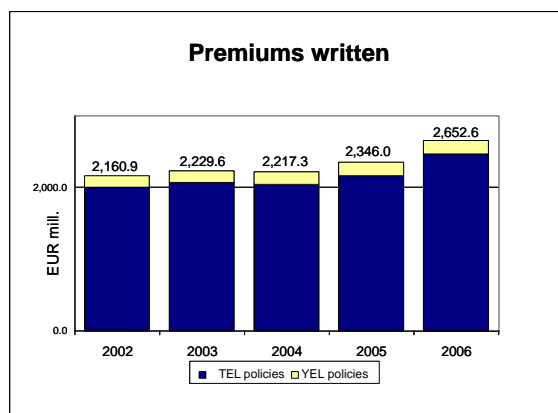


The total wage bill insured with Ilmarinen under TEL was EUR 11,505.6 (10,268.0) million, showing an increase of 12.1 percent on the previous year. The market share calculated from the total wage bill insured under TEL in 2006 is estimated to have risen considerably from the 32.4 percent in 2005.

At the end of the year, Ilmarinen had 49,898 (49,495) YEL policies. Ilmarinen is clearly the biggest provider of YEL insurance, and its market share in the past few years has been in the region of 31-31 percent measured by the number of insured people. The average YEL income was EUR 18,510 (17,759) per year. This grew by some 4.2 percent from the previous year; slightly more than the increase of 3.4 percent in the wage coefficient to which YEL is tied. The average YEL income is significantly lower than the average earnings of TEL employees.

Ilmarinen's premiums written in 2006 totaled EUR 2,652.6 (2,346.0) million.

TEL premiums written amounted to EUR 2,471.2 (2,166.6) million, which means the income from TEL contributions rose by 14.1 percent. The discounts granted on TEL contributions or client bonuses totaled EUR 72.4 million, compared with EUR 41.6 million a year earlier. The key factor in the change in income from TEL contributions was a higher wage bill for persons insured.



Premiums written in YEL policies were up by 1.1 percent to EUR 181.4 (179.4) million. Bad debts from unpaid TEL contributions amounted to EUR 4.3 (6.9) million, and EUR 3.5 (2.9) million from unpaid YEL contributions. Ilmarinen did not incur any losses from unpaid YEL contributions because the government compensates for any contributions not paid by the policyholders under the YEL system.

Total sales result for the financial year was passable. Growth in the number of policies and income from premiums in 2006 resulted from the good sales performance in the previous years and the increase in the total wage bill insured. The transfer of TEL policies from other employment pension companies to Ilmarinen or vice versa produced a positive result (approximately EUR 4.8 million measured with income from premiums). Small client company transfers to Ilmarinen developed particularly well.

Sales of pension insurance policies for entrepreneurs also exceeded the set targets. In terms of annual income from premiums, sales were approximately EUR 15 million, with 4,964 new policies sold. During the year, the transfers of YEL policies showed a positive result with 308 policies after several loss-making years. In terms of the YEL policies, the competitive situation in 2006 was asymmetrical as entrepreneurs were able to transfer their insurance policies from other employment pension insurance companies to Etera, but not the other way around.

Ilmarinen introduced a new local level key account organization on August 1, 2006 to bolster its employment pension insurance sales. The company also tightened its co-operation with its partner network (Pohjola, A-vakuutus, OP Bank Group, Pohjantähti). During the year, electronic channels became increasingly popular: almost half of the corporate clients used Ilmarinen's web services.

Contribution rate

The average TEL contribution confirmed for 2006 was 21.6 percent, which is the same as a year earlier. The employee contribution for people aged under 53 was 4.3 percent and for those aged 53 and over 5.4 percent. The employer's contribution was 17.1 percent on average. The contribution rate payable by the employer depends on the policy and on the client bonuses granted by the employment pension company. Ilmarinen's client bonuses were, on average, 4.0 percent (2.6) of the employer's contribution. Employers within the tariff premium system are granted a maximum discount of 0.6 percentage points to reduce the equalization provision for disability pensions.

In 2007, the TyEL contribution will be approximately 21.6 percent of the earnings, representing the same level as the TEL contribution in 2006. Employees' age-specific employee pension contributions remain unchanged. The average employer contribution will be 17.0 percent. This reduction is due to the refunding of assets tied to the Finnish Center for Pensions' credit insurance after the Center sold its shares in Garantia Insurance Company. In 2007, as in the previous year, employers within the tariff premium system will be granted a temporary discount to reduce the equalization provision for disability pensions. The amount of the discount depends on the employer's size and is 0.6 percentage points at most.

The YEL contribution in 2006 was 20.8 percent of the reported income confirmed for entrepreneurs. However, for entrepreneurs who had turned 53 before the beginning of the fiscal year, the YEL contribution was 21.9 percent. These contributions remain unchanged in 2007.

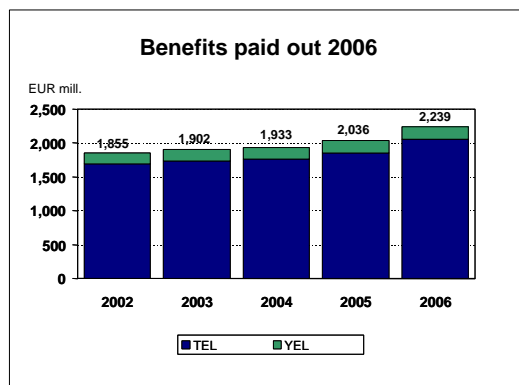
Pensions and maintaining working capacity

In 2006, Ilmarinen paid out a total of EUR 2,239.1 (2,035.8) million in pensions.

Pension expenditure by type of pension in 2005, EUR million

	TEL	YEL	Total	% of total expenditure
Old-age pensions	1,187.3	106.6	1,293.9	57.8
Early old-age pensions	146.2	15.6	161.8	7.2
Part-time pensions	28.9	7.7	36.6	1.6
Disability pensions	347.4	27.8	375.2	16.8
Individual early retirement pensions	19.1	1.2	20.3	0.9
Unemployment pensions	138.2	2.4	140.6	6.3
Survivors' pensions	188.8	21.9	210.7	9.4
Total	2,055.9	183.2	2,239.1	100.0

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



Number of pension recipients December 31, 2006
Benefits under basic coverage

Pension type	TEL	YEL	Total
Old-age pensions	128,137	16,606	144,743
Early old-age pensions	13,041	2,912	15,953
Part-time pensions	3,875	1,161	5,036
Disability pensions	36,153	4,458	40,611
Individual early retirement pensions	1,157	129	1,286
Unemployment pensions	10,610	253	10,863
Survivors' pensions	33,033	6,359	39,392
Total	226,006	31,878	257,884

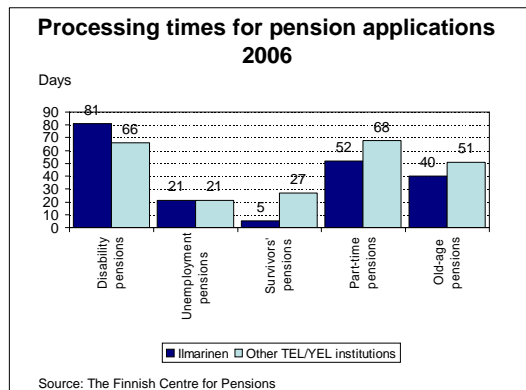
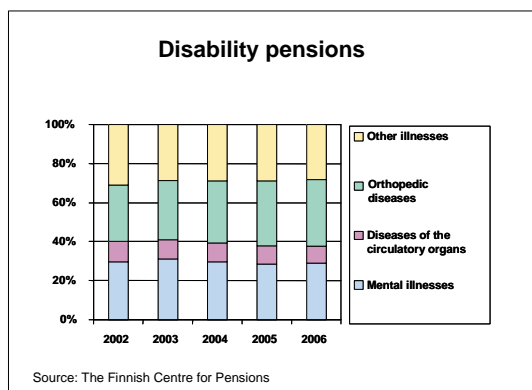
At the end of the year, the number of pension recipients was 257,884, showing an increase of 5.8 percent from 243,775 a year earlier. The higher than usual growth percentage can be attributed to the pensions received through portfolio transfers. At the end of the year, TEL pensions were paid out to 226,006 (212,468) pension recipients, and YEL pensions to 31,878 (31,307) pension recipients.

Old-age pensioners represented 62 percent of all pension recipients and disability pension recipients 16 percent. Recipients of individual early retirement pension accounted for half a percent. Unemployment pension recipients accounted for about four percent and part-time pension recipients for less than two percent. Survivors' pension recipients represented 15 percent of all pension recipients.

Pension decisions in 2006

	2006	2005	Change %
Old-age pensions	5,142	5,783	-11.1
Early old-age pensions	371	424	-12.5
Part-time pensions	904	931	-2.9
Disability pensions	6,112	5,252	16.4
Individual early retirement pensions	7	53	-86.8
Unemployment pensions	2,678	1,949	37.4
Survivors' pensions	2,597	2,609	-0.5
New pension decisions, total	17,811	17,001	4.8
All pension decisions, total	31,659	29,162	8.6

Ilmarinen issued a total of 31,659 pension decisions in 2006, which is about 8.6 percent more than in 2005. The number of new pension decisions grew by 4.8 percent to 17,811. The number of old-age pension decisions decreased; this is because the comparison figure for the previous year was exceptionally high as several age cohorts had the opportunity to retire on old-age pension in 2005. The pension reform will gradually abolish individual early retirement pensions altogether, which to some extent increased the number of disability pensions. However, the key factor explaining the increase in the number of disability pensions and unemployment pensions granted was the increase in the number of insured people. The exceptionally sharp rise in the number of new unemployment pensions also reflects the special demographic characteristics: In 2006, the first of the baby-boomer generations reached the age of 60, which is a typical age for an unemployment pension to begin.



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. Measured with both indicators, the company has

outperformed its benchmark group. This was also true in 2006, except in the case of disability pension decisions where processing times were temporarily prolonged. In the case of disability pensions, refusals represented 22.1 (22.1) percent. Of those Ilmarinen's pension decisions that were appealed, 6.3 (4.5) percent, were reversed by the Pension Appeals Board and 13.3 (14.9) percent by the Insurance Court.

In April 2006, Ilmarinen was the first employment pension company to introduce a new service to assist those customers who were refused disability pension. This guidance service is provided by rehabilitation research institutes and occupational clinics under a contractual relationship with Ilmarinen in different parts of Finland.

A total of 22,020 (21,499) individual pension coverage reports were prepared in response to requests from clients.

In 2006, Ilmarinen organized 49 various occupational wellbeing seminars around Finland for personnel in its customer companies in charge of operations, human resources and development. In addition to these, several individual training programs designed for customer companies were organized.

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. In 2006, Ilmarinen granted rehabilitation allowance or a pension-related rehabilitation increment in 1,106 (918) cases for vocational rehabilitation. These payments increased by 20 percent from the previous year.

Underwriting business, technical provisions and portfolio transfers

At the end of 2006, technical provisions amounted to EUR 20,917.2 (18,891.3) million. In net terms, the provision for future bonuses grew by EUR 648.3 million and totaled EUR 3,588.3 (2,940.1) million at the year-end. In other respects, technical provisions increased by 8.6 percent.

The company recorded an underwriting result of EUR 19.9 (51.2) million. In terms of disability pensions, the result of the underwriting business was in the red because disability contributions were set at a lower level than the anticipated disability expenditure to curb the growth of equalization provision. Change in equalization provision was EUR 16.3 million and it grew to EUR 909.9 million. The transfer to the equalization provision was EUR 3.5 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 6.0 percent until June 30, 2006 after which it was 6.5 percent. As of the beginning of 2007, the technical rate of interest will be replaced with a calculated interest included in the calculation bases for TyEL insurance, the amount of which will be determined on the basis of the average solvency of pension institutions and will be 5.5 percent in the first half of 2007. As of 2007, the percentage of investment income to be transferred to technical provisions will be

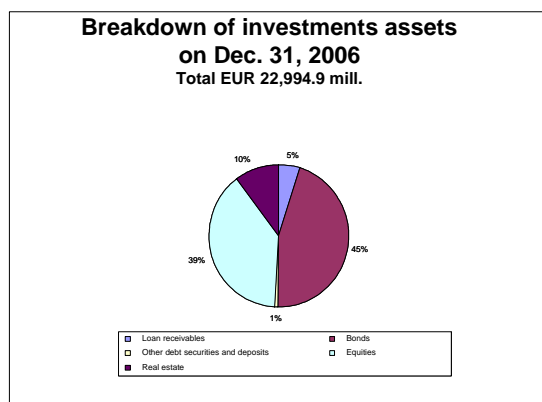
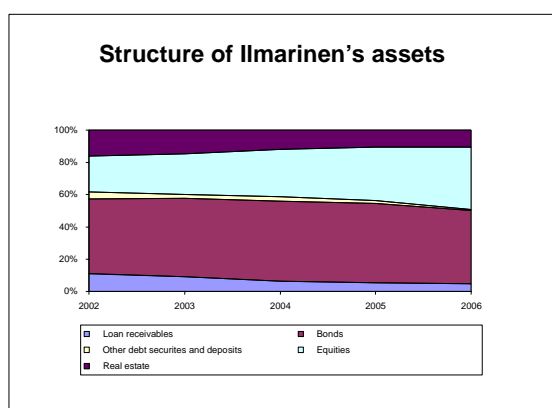
determined on the basis of a pension liability adjustment factor derived from the average solvency rate of pension institutions on the one hand, and from a new equity linked buffer on the other hand.

Assets covering technical provisions totaled EUR 21,927.6 (20,582.4) million.

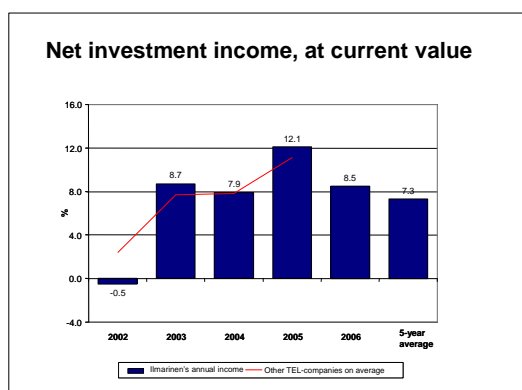
In 2005, the amount of the liability transferred from the three TEL pension foundations was significant, almost one billion euro in total. In 2006, the adjustment items related to these transfers were EUR 5.0 million with the provision for future bonuses accounting for EUR 0.5 million. New transfers of liability or portfolio transfers were not carried out during the fiscal year.

Investment

In the basic allocation, or target investment breakdown, adopted by the Board of Directors each year, the proportions for various types of investment 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.

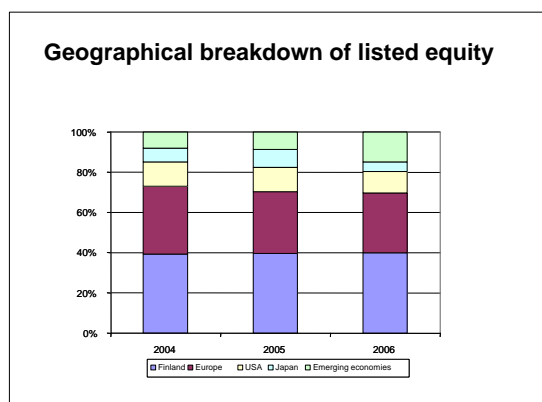
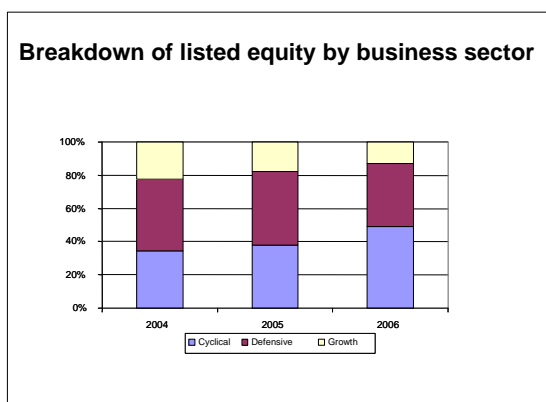


At the end of 2006, the total market value of Ilmarinen's investments was EUR 22,994.9 (20,983.2) million. Return on investments at market value was 8.5 percent, which corresponds to a real return of 6.8 percent. Return on investment portfolio a year ago was 12.1 percent. The average annual return at market value over the past five years has been 7.3 percent, which corresponds to an average real annual return of 6.2 percent.



Bonds, interest-rate funds and other financial market instruments accounted for 46 (51) percent of Ilmarinen's investment assets. Their capitalization was EUR 10,543.1 (10,715.8) million, and return at market value was 1.2 (4.3) percent. Government bonds represented EUR 5,733.0 (6,184.6) million or 54.4 (57.7) percent. Money market investments accounted for EUR 155.9 (398.3) million, or 1.5 (3.7) percent and a return of 3.8 (4.5) percent. The remaining 44.1 percent consisted of 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 the year, the average time-to-maturity of the bond portfolio was 4.4 (4.7) years.

Equities accounted for 39 (33) percent of investments, excluding the interest-rate and real estate funds included in them in the balance sheet. As a result of the continued upward trend in share prices in 2006 and share purchases, their value increased to EUR 8,959 (6,987.8) million. Domestic equities accounted for 38 (37) percent of this, or about EUR 3,424.5 (2,613.2) million. Domestic equities represented 40 (40) percent of the listed equities investments. The equity markets showed a favorable trend, although not as good as a year earlier. The positive performance raised the return on Ilmarinen's equity investments calculated at market value to 20.2 (30.8) percent.

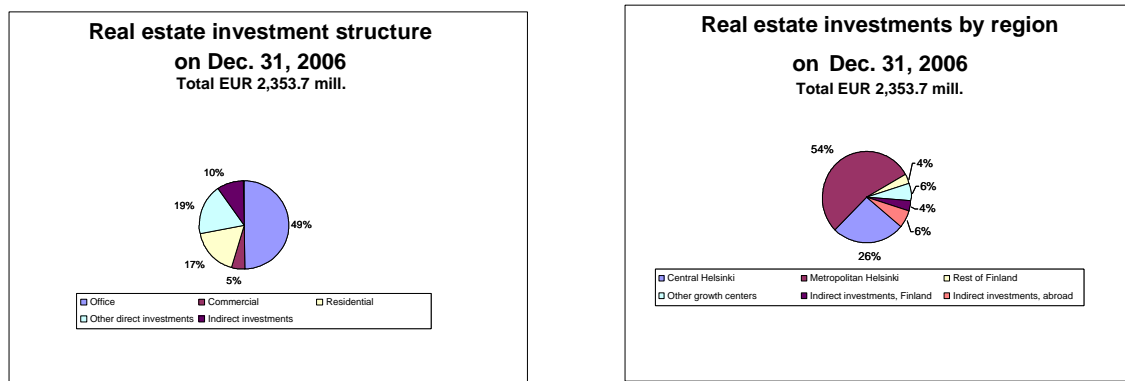


Ilmarinen's equity portfolio also includes investments in venture capital funds and hedge funds, as well as investments in commodities, which the company has been increasing over the past few years. At the end of the year, they accounted for about 3.1 (2.8) percent of total investment assets. Private equity funds accounted for EUR 370.8 million, hedge funds for EUR 325.8 million, and investments in commodities for EUR 10.3 million. The return on capital employed in hedge funds totaled an average of 6.6 percent and of private equity funds 40.0 percent.

These figures also include the derivatives used at market value. Derivatives are used for hedging and modifying the allocation of investment assets.

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 2004. No investments were disposed of for ethical reasons in 2005 or 2006.

Ilmarinen's real estate portfolio at the end of 2006 amounted to EUR 2,353.7 (2,203.6) million showing a change of 6.8 percent from the previous year. Real estate investments represented 10 (11) percent, with one percentage point of indirect investment. Real estates in direct ownership accounted for EUR 2,122.0 million.



At the end of the year, Ilmarinen agreed to sell an approximately EUR 300 million real estate portfolio to Aberdeen Real Estate Fund Finland, with Ilmarinen as an investor with a holding of one third. This deal was finalized in January 2007.

Investments in real estate funds continued both in Finland and abroad. At the end of the year, investments worth a total of EUR 231.6 million had been made. Indirect investments accounted for 10 percent 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 at year-end was 91.2 (89.9) percent.

Prices of real estate were up as the requirements on net income decreased as a result of strong investment demand. Listed real estate companies showed a particularly strong increase in value.

The total return on the company's real estate portfolio was 8.0 (5.6) percent. The return on property in Ilmarinen's direct ownership was 7.2 (4.7) percent. The market values of properties were revised primarily based on property estimates prepared by external appraisers, which had a net effect of some EUR 39 million on the result. The return on indirect real estate investments was 20.8 (21.5) percent.

Loans granted to clients grew by approximately 5.9 percent. Loan receivables represented 5 (5) percent of investment assets at the year-end. New loans amounted to EUR 317.1 (273.1) million in 2006, and EUR 253.1 (306.4) worth of loans was repaid. The entire loan portfolio totaled EUR 1,139.1 (1,076.0) at the year-end, including accrued interest. The return on loan receivables was 4.6 (4.6) percent.

Chart: Client loan portfolio, EUR million

	1996	2001	2006	Percentage return
TEL loans	1,962.5	1,192.2	380.6	4.5
Investment loans	288.8	428.4	758.5	4.4
Total (incl. interest accrued)	2,251.3	1,620.6	1,139.1	4.4
Of total portfolio, %	27	11	5	

Employment pension insurance companies were given significantly more opportunities to assume investment risks as of the beginning of 1997 when the conditions of investment activities were modified. A large number of further revisions were made to these regulations in early 2007 with the objective of improving the return on employment pension funds invested. In the ten year period from 1997 to 2006, when the previous regulations were in effect, the total average return on Ilmarinen's investments was approximately 7.6 percent per year, which corresponds to a real annual return of 6.0 percent. This is the best rate of return any employment pension company has been able to achieve.

Risk Management

The aim of risk management at Ilmarinen is to prevent any risks threatening the company from being realized, to minimize any damage or losses caused by them, and to secure business continuity. Meanwhile, another objective is to allow the company to benefit from the opportunities of controlled risk taking in its business, especially in investments. The key priority is to safeguard the rights of the insured persons, pension recipients and policyholders, in every situation.

Changes in the legislation regarding benefits and the insurance business, as well as changes in the conditions of investment activities introduced in early 2007, will, to some extent, change some of the risk management focus areas and practices. Preparations were made in 2006 for these changes.

Legislation sets specific quantitative and qualitative requirements on the assets covering technical provisions, but the regulations were simplified effective as of the beginning of 2007. The covering assets will be calculated at market value, and the key purpose of the regulations regarding cover is now to avoid risk concentrations. Ilmarinen bears the investment risk associated with the coverage of its technical provisions and return requirements. However, a system will be gradually introduced between 2007 and 2011 in which the entire employment pension system will bear a percentage of the price risk associated with equity investments representing 10 percent of total investments. The solvency regulations for employment pension insurers will continue to provide the framework for the risk management of investments, but the number of different levels of monitoring limits will be reduced. As of the beginning of 2007, investments will be classified in accordance with the same principles and based on the real risk of investments in the regulations regarding coverage and when calculating solvency requirements.

Ilmarinen has a risk management plan covering all of the company's activities approved annually by the Board of Directors. The company has a risk management committee comprising representatives from business sectors and support functions for the purposes of coordinating and developing risk management at the company level, which updated the risk survey and risk assessment in view of the company's operations in 2006. This risk analysis was discussed at the meeting of the Board of

Directors' Audit Committee in December and it will serve as a basis for the risk management plan update in spring 2007.

A contingency plan covering the company's critical operations required by the Insurance Company Act was finalized at the beginning of the year and it was approved by the Board in May.

Risk management is described in more detail in the notes to the financial statements.

Personnel

The average number of personnel in Ilmarinen Group was 673 in 2006 compared with 687 a year earlier. The parent company Ilmarinen employed an average of 525 (547) personnel. These average figures include 48 (48) part-time employees whose input has been adjusted for calculation purposes to correspond with the working hours of full-time personnel. During the year, an average of 27 (30) people were on family leave and other unpaid leave. At the year-end, the total number of people employed by the parent company Ilmarinen was 563 (582), of whom 543 (541) were permanent employees.

Information technology

The most significant IT project in 2006 involved building a joint earnings information system for the employment pension companies, pension institutions and the Finnish Center for Pensions required by the amalgamation of pension laws, as well as making the corresponding adjustments to Ilmarinen's own information systems. The new system will be introduced in two stages during 2007 when the new Employees' Pensions Act (TyEL) will take effect. Arek Oy, a service company owned by the employment pension companies, together with its suppliers, is in charge of the development of the earnings information system and is responsible for providing the related IT services.

Ilmarinen's own IT systems development and maintenance is primarily handled by TietoIlmarinen, a joint venture established with TietoEnator. This company's second year of operations went as planned in terms of service deliveries and company development. The company was able to keep service costs in check while strengthening IT competence and improving operating practices. IT operating services development continued with WM data and the new computer center operating environment was completed. The financial objectives associated with the arrangements were reached. An extension of the operating service co-operation is being prepared with the information management personnel of the OP Bank Group.

With regard to data security maintenance, a development project was launched in order to harmonize management procedures and technologies, initially with Ilmarinen's own information systems. The management of external systems and IT services provided to clients and business partners will be included in the project later.

Operating expenses

Ilmarinen's operating expenses have developed in line with the strategy approved earlier by the Board of Directors, which states that as a result of legislative reforms affecting employment pensions, service development and changes in the personnel's age structure operating expenses and

the number of personnel were allowed to grow temporarily, but by 2007 the number of personnel should return to the level of 2002 and the loading profit to its previous high level.

In 2006, streamlining of processes and the automation of operations continued as part of the company's cost-containment regime. Furthermore, some administrative services were outsourced.

Despite the growth of volume in operations, operating expenses decreased. Total operating expenses amounted to EUR 85.9 (87.6) million; a decrease of 1.8 percent from the previous year. Investment charges totaled EUR 9.2 (9.4) million, or 0.04 percent of the total amount of investments. These charges were financed using the return on investments. Working capacity maintenance costs, which were financed using the administrative component for disability risk included in the insurance premium, totaled EUR 4.2 (3.8) million. Other operating costs except for the legal administrative charge to be included as of 2006 (EUR 0.8 million in 2006) were financed using the expense loading component included in premiums, and they were EUR 22.9 (11.7) million or 24.2 (13.6) percent below this. The legal administrative charge is used to cover the costs of the Pension Appeal Court. Similar costs were previously included in the costs of the Finnish Center for Pensions, which are shown as a separate item in the Profit and Loss Account under "Statutory charges".

Administration

After Gretel Ramsay resigned from Ilmarinen's Board of Directors, in its meeting on March 16, 2006, the Supervisory Board elected Marja Usvasalo in her place for the remainder of her term, until the end of 2009. After Antti Tanskanen resigned from Ilmarinen's Board of Directors effective as of January 1, 2007, in its meeting on November 27, 2006, the Supervisory Board elected Reijo Karhinen in his place for the remainder of his term, until the end of 2009.

In its meeting on February 2, 2007, the Board of Directors re-elected Hannu Syrjänen as Chairman of the Board, and Lauri Ihalainen and Leif Fagernäs as Deputy Chairmen. The Chairpersons also act as the Board's Nomination and Compensation Committee. The Audit Committee consists of George Berner, Seppo Junttila and Hannu Rautiainen.

The Articles of Association of employment pension companies must be amended to comply with the legislation that entered into force on January 1, 2007, with concern to the members of administrative bodies within two years, and with concern to the managing director and committees within one year from the effective date of the law. Consequently, the amendments required in Ilmarinen's Articles of Association will be prepared for the Annual General Meeting to be held in spring 2007.

President and CEO Kari Puro retired on December 31, 2006 after leading Ilmarinen since the beginning of 1991. In its meeting on May 3, 2006 Ilmarinen's Board of Directors elected Harri Sailas the new President and CEO effective as of January 1, 2007.

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 rights, which comprise 70% of all votes to which TietoIlmarinen's shares entitle, although Ilmarinen only owns 30% of the shares. The number of subsidiaries on December 31, 2006 was 157. The number of real estate

subsidiaries decreased by 31 when the divestment of real property discussed in connection with investments was realized.

As a result of the ownership arrangements carried out at Oy Porasto Ab in 2006 Ilmarinen's holdings in the company and its voting rights dropped from 26.3% to 12.8%, which means Porasto is no longer Ilmarinen's affiliate. After the Finnish Center for Pensions surrendered its ownership of Garantia Insurance Company on December 20, 2006, Ilmarinen raised its holdings to 23.57 percent, making Garantia its affiliate.

Suomi Mutual Life Assurance Company and Pohjantähti Mutual Insurance Company are companies in which Ilmarinen has a participating interest.

Guarantee capital

Ilmarinen has EUR 22,994,653.31 in guarantee capital, divided into 13,672 guarantee shares. On December 31, 2006 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

The positive development of the stock market has further strengthened Ilmarinen's solvency compared with the situation at the turn of the year. At the end of January, solvency capital had risen to 34.0 percent of the technical provisions used to calculate solvency. Since January, the company's solvency has seen continued favorable development.

Significant changes were made to the solvency framework for employment pension companies' investment activities at the beginning of 2007. The change in the solvency limit calculation principles adopted on January 1, 2007 and the asset classification criteria approved by Ilmarinen's Board of Directors on January 30, 2007, lowered the solvency border at the turn of the year by approximately 0.3 percentage points but the increased equity weighting in the investment portfolio has subsequently raised it by about one percentage point. At the end of January, the solvency capital was 2.3 times solvency limit according to the new criteria. As of the beginning of 2007, technical provisions will be affected by the provision for bonuses tied to equity income, associated with the new system where the entire employment pension system will bear part of the price risk associated with equity investments, but owing to the gradual introduction of this reform its impact is currently insignificant.

The framework, which was effective until the end of 2006, was in place for a period of ten years, a period that has seen skyrocketing share prices followed by deep plunges. Practical experiences proved that the solvency capital mechanism worked as intended over these economic cycles. The changes now made to the conditions of employment pension investment activities were based on an assumption that in order to improve the expected return from employment pension investments, the pension companies' risk-bearing ability must be further developed. With the reform, the proportion of equity investments or other high-risk, high-yield investments of employment pension companies' investment portfolios is expected to grow by about ten percentage points over the next few years.

Under the previous employment pension insurers' solvency framework, Ilmarinen had already invested in equities more than its competitors to get a better return in the long run. In the future, it is now possible and likely for Ilmarinen to increase its investments in domestic and foreign equities. As a result stronger fluctuations are to be expected in the annual return on investments. This does not, however, contribute substantially to the impact of fluctuations in equity markets on annual results, because under the new solvency framework, part of the share price risk will be borne jointly.

The result for 2007 will depend largely on the developments in the investment markets. Ilmarinen expects that its relative standing in the competition between employment pension companies over bonuses will remain good in the longer term. This is supported by the new principles regarding the determination of the bonuses to be paid on the basis of long-term results in investment activities, and the company's cost-efficiency, which as of 2007 will have a more direct impact on client bonuses. Measures taken to succeed in the competition in the TyEL market, which is more extensive than the TEL market, include active customer management and new web services.

Proposal by the Board of Directors for the 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 2006 was 7.25 percent and the guarantee capital interest EUR 1,667,112.36.

The amount of retained consolidated non-restricted capital and reserves according to the financial statements on December 31, 2006, was EUR 32.2 million. The retained non-restricted capital and reserves of the parent company stood at EUR 64,838,701.59, with profit for the financial year accounting for EUR 9,428,373.96.

The Board of Directors proposes that EUR 1,667,112.36 be paid as interest on guarantee capital for 2006 and that EUR 50,000.00 be set aside for use at the Board's discretion for generally beneficial purposes. If the Board's 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	63,121,589.23
Capital and reserves, total	86,116,242.54

Helsinki, February 20, 2007

Hannu Syrjänen

Lauri Ihalainen	Leif Fagernäs	Jukka Alho
George Berner	Eino Halonen	Jukka Hienonen
Arto Hiltunen	Seppo Junttila	Reijo Karhinen
Risto Piekka	Marja Usvasalo	Harri Sailas (President and CEO)