

REPORT ON OPERATIONS AND FINANCIAL STATEMENTS 2008

REPORT ON OPERATIONS 2008

Economic development

The development of the world economy and Finland's national economy was in 2008 characterised by a deepening financial crisis. The 2007 sub prime mortgage crisis in the US can be seen as the catalyst for the current difficulties in the financial markets. The drop in share prices continued throughout the early 2008 and accelerated towards the autumn. In October, the problems increased when several major financial institutions ran into trouble and were taken under government control. This led to financial institutions not lending to one another and to a steep rise in corporate loans' credit risk premiums. These events were reflected in share prices as an unusually sharp and deep drop. As a result, extensive forced liquidations of holdings were seen in the finance sector when solvency requirements would otherwise not be met.

National and international agreements for rescue operations and their implementation started to slowly calm the situation down in November. Share price volatility remained high even though the downward pressure on prices decreased or ended in many markets. Credit risk premiums for corporate debt did not, however, show signs of normalising. In Finland, the financial sector did not face extensive problems even though the decrease in asset values had significant effects.

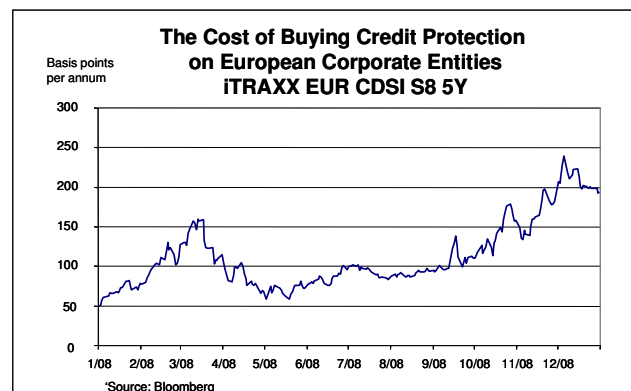
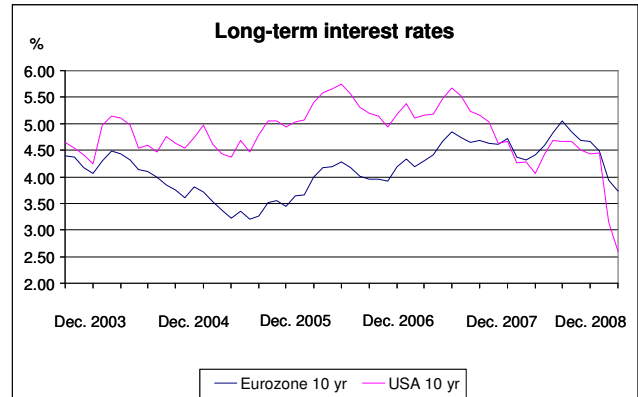
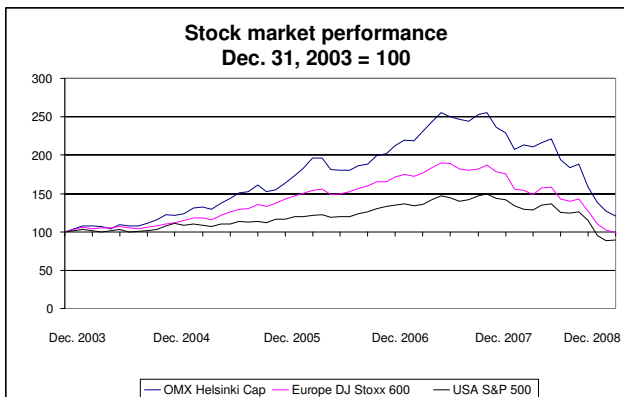
In late 2008, the financial crisis started to reflect more clearly on the real economy throughout the world. In the US, Europe and Japan, economic growth stalled and overall production made a downturn. Growth in Asian economies was clearly lower than estimated. Leading economic indicators weakened continuously and rapidly. Simultaneously forecasting institutions cut their estimates on the economy.

The employment situation improved in Finland almost until the end of the year, but by year-end news of planned dismissals and lay-offs had become more common. A turn for the worse in the unemployment rate was seen already in December. It is too early to say how the weakened demand for workforce will affect the employment situation of 60-64 year olds. This important variable for the earnings-related pension scheme that depicts the lengthening of careers has in a few years increased from less than 25 percent to 40 percent.

Price increases accelerated in early 2008. In Finland, the year-on-year change in the consumer price index increased at its worst to nearly five percent. The prices of oil and other raw materials made a steep downturn during summer and inflation started to decelerate. At the end of the year consumer prices were 3.5 percent higher than a year earlier. The average inflation rate in 2008 was 4.1 percent.

Long-term interest rates increased in the first half of the year but made a clear downturn in the second half as the economic outlook became gloomier. The Euribor rates started a trend-like decline in October when the EU countries agreed on joint measures to stabilise the financial markets. The

year was difficult for fixed-income investors due to the crisis environment in the financial markets and a heavy increase in credit risk premiums.



Development of the earnings-related pension scheme

The financial crisis was the main factor in 2008 in terms of the operating environment of the earnings-related pension scheme. The solvency requirements adopted for employment pension institutions in 1997 and 2007 are based on the fact that risk taking is awarded with higher expected returns on the investment markets. The time frame for pension investments spans over decades. Thus it is natural to invest employment pension funds in instruments with highly variable values and returns in the short-term, but ones in which the return development is expected to be good in the long-term. A typical investment form is shares.

The core of the solvency mechanism introduced in 1997 consists of solvency capital requirements depending on the risk level of the investments. These were revised in 2007 so that part of the share price risk is now carried by the entire private sector earnings-related pension scheme, by making the change in underwriting reserves partially dependent on the average income from pensions institutions' investments in listed shares. The change was planned to come into force gradually so that the weight of the share tied to the average yield on the quoted shares would have increased by 2 percentage point intervals between 2007-2011 and have been 10 per cent from 2011 onwards. The solvency regulations have worked well during normal fluctuations in the investment markets. They are not, however, designed to bear exceptional share price declines like the ones seen in 2008.

In September-October 2008 it became obvious that employment pension institutions would have to gradually start lowering their share price risk in order to ensure that they would not face problems if the share price decline would continue. In this situation, the Ministry of Social Affairs and Health announced that it would prepare a suggestion for the amendment of a law with which the different parts of the solvency regulations would be adjusted to better carry the risks. Some of the changes would be temporary. The justification for the amendment project was that this would prevent enforced sale of Finnish shares in employment pension institutions' investment portfolios, which would have resulted in steeper share price declines. The government bill was initially processed quickly but eventually became delayed to such an extent that the desired effects in terms of shareholdings have not been reached in full. The new law entered into force on 22 December 2008 and it was partially applied already from 17 October 2008.

The private sector employee pensions' financing system is, in Finland, based on partial advance funding within which the funding ratio can be adjusted without major technical problems. Investment yield is kept in solvency capital until it is considered certain enough to be moved to underwriting reserves. In the amended law, the share of the underwriting reserves tied to the income of shares was raised to ten percent already for 2008. The yield in accordance with the supplementary multiplier of pension liabilities was not transferred to retirement pension liabilities as normal but was left in solvency capital for the full year 2008. These changes slowed the transfer of assets to underwriting reserves further compared to the previously-valid legislation, without risking the long-term financing of earnings-related pensions.

The legislative changes also include reducing the minimum amount of solvency capital and treating a part of the provision for pooled claims, included in the underwriting reserves, as solvency capital. Each provision is valid until the end of 2010. All in all the changes are expected to have increased the solvency of employment pension institutions by nearly ten percentage points. Of the changes made, the companies can only take the increase in the share of the underwriting reserves tied to the income of shares into consideration in client bonuses based on solvency.

As the availability of corporate financing has decreased as a result of the financial crisis, customer companies' premium loans has increased.

The development of employment pension contributions is forecasted using several assumptions regarding returns on investment. According to the basic estimate by the Finnish Centre for Pensions in 2007, the level of employment pension contributions would stabilise within a couple of decades to approximately 25 percent of the total payroll, after gradually climbing to this level. This basic estimate is based on a real income assumption of four percent. The average real income of employment-pension investors between 1997 and 2007 exceeded this level clearly but the development in 2008 lowered the real income to slightly over three percent. The effect on the future level of pension contributions is not dramatic. If the loss in income seen in 2008 remains permanent but the income level meets the expectations in the future, the long-term estimate for the employment pension contributions must be raised by nearly one percentage point. This would mean slightly under a half percentage point increase in both the employees' and the employers' average contribution.

These estimates only took into account the effects of the financial crisis on the return on

investments. The development in real economics and the weakening employment situation in particular may change the views on contribution development in the near future. The accumulation rules for earnings-related pensions encourage continued working and postponing of retirement. The effectiveness of these incentives is highly dependent on the development of workforce demand. The ongoing crisis would have a considerable effect on long-term contribution development only if it would permanently lower the employment rate in future decades.

The changes in the legislation on benefits included in pension reform for the most part entered into force already at the start of 2005. In 2008 the most significant change under implementation was the introduction of the employee pension record. During 2008, information on gainful employment registered in the earnings-related pension scheme was sent to all individuals in the private sector who are covered by statutory earnings-related pension insurance. The purpose of the record is that everyone would check that the registered information is correct. The record also makes it easier to comprehend the level of the pension coverage accumulated thus far and in the future from gainful employment. The employee pension record has resulted in far fewer contacts than expected, and the need to investigate errors or deficiencies in the register has also been lower than expected. The record will, based on legislation, be mailed annually, but in the future the insured can choose an electronic record to be sent instead of the traditional paper version. Despite this, the administration cost generated by the employee pension records is substantial.

The Companies Act, the Insurance Companies Act, and the Act on Employment Pension Insurance Companies are applied to pension insurance companies. The new Insurance Companies Act as well as some changes to the Act on Employment Pension Insurance Companies took effect on 1 October 2008. The changes were minor in terms of content.

The survey on the competitive conditions of the earnings-related pension scheme continues. Based on the report published in 2007, the issue is being developed further by an official workgroup. Pension insurance companies made a proposal in January 2008 that the determination of the part of the employment pension contribution that is collected for business expenses and the division of bonuses and rebates between customers could be company-specific. The issue has not progressed. It is probable that the earliest these company-specific bases could be applied is 2011. All in all, the survey on the competitive situation will probably eventually lead to legislative measures whose contents cannot be fully predicted as of yet.

Ilmarinen's result and solvency

2008 was a diverse year for Ilmarinen. The customer base increased exceptionally but the financial crisis heavily depressed both investment returns and solvency. When the Ministry of Social Affairs and Health had announced the changes to solvency regulations, the Board of Directors of Ilmarinen made a decision on 31 October according to which the company's investment operations would from that date forward be managed in accordance with the aims of the new legislation. At the end of the year, the company's solvency calculated using the new legislation was satisfactory.

The net yield of Ilmarinen's investments, calculated at fair value, was -17.7 per cent in 2008 (5.7 per cent in 2007). Solvency capital, i.e. the difference between the company's assets and liabilities measured at fair value, decreased to EUR 2,673.0 million from EUR 6,068.8 million in the previous

year. At the end of 2008 solvency capital amounted to 14.0 (32.5) per cent of technical reserves used in the calculation of solvency.

The solvency capital is intended to cover the risks inherent in investments. The control limits of the solvency capital of authorised pension companies are determined by the level of risk inherent in the company's investments which is estimated by dividing the investments into classes according to their risk and by calculating the so-called solvency border based on the classification. From the beginning of 2007, the classification has been made on the basis of the actual risk of the investment when this is clearly different than the risk of the investment estimated according to its juridical nature. In 2008, the Insurance Supervision Authority surveyed the principles applied by pension institutions in classification based on actual risks and published a report on the issue. On 17 December 2008, Ilmarinen's Board of Directors made some clarifications in the basis for the classifications, which had a minor effect on the solvency border. Ilmarinen's solvency capital at the end of the accounting period was two-fold compared to the solvency border as it also was in 2007.

The amount of solvency capital and the related indicators presented above are not comparable with the previous year because the changes in solvency legislation in late 2008 changed the relationship between the solvency capital and underwriting reserves and Ilmarinen continued implementing its long-term investment strategy in accordance with the aims of the legislative change.

Ilmarinen's overall result in 2008 was EUR -4 338.1 (344.6) million. The result of the underwriting business under the company's own responsibility was EUR 76.4 (9.0) million and its loading profit was EUR 34.7 (14.0) million. The technical underwriting result is the difference between premium components intended to cover risks and claims incurred. The loading profit shows how much the expense loading components and other similar income exceed the operating expenses to be covered by them.

Net income from investments activities calculated at fair value was EUR -4,571.5 (1,325.0) million. The interest refunded on technical provisions was EUR 660.2 (996.6) million and the change in technical provisions tied to yield from shares was EUR -782.5 (6.8) million. Thus the deficit from investment operations was EUR 4,449.2 million. In the previous year the surplus from investment operations was EUR 321.6 million. The interest credited to technical provisions for 2008 only corresponded with a three per cent discount rate, while the income in accordance with the supplementary multiplier of pension liabilities, EUR 383.3 million, was transferred to the solvency capital instead of underwriting reserves in accordance with the changes in solvency legislation. In the previous year the corresponding item was included in the interest credited to technical provisions. The increase in the share of the underwriting reserves tied to the income of shares reduced the return requirement for the underwriting reserves by EUR 470.1 million.

The result of the underwriting business under the company's own responsibility will be transferred to the equalisation provision in line with the principles affirmed by the Ministry of Social Affairs and Health, except for EUR 0.4 million, the amount by which the equalisation provision of supplementary pension insurance pursuant to TEL (Employees' Pensions Act) would otherwise have exceeded its upper limit.

The amount allocated for discounts on TyEL insurance premiums, i.e. bonuses and rebates, is determined based on the company's solvency capital and the loading profit. The company started

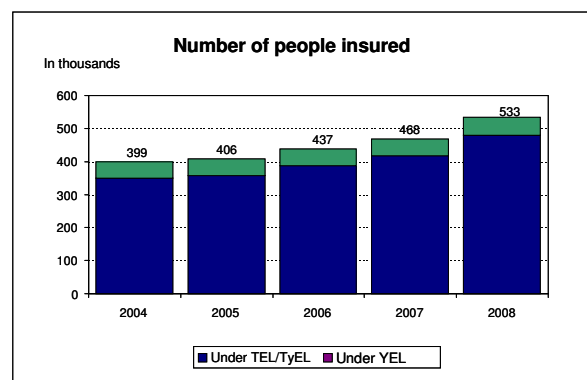
using a calculation principle for bonuses and rebates where the weight of the loading profit increased and the weight of solvency capital decreased. EUR 31.0 (74.0) million will be allocated for bonuses and rebates. The transfer is 0.21 (0.60) per cent of the insured payroll and EUR 65 (177) per employee insured at Ilmarinen. The sum which the company has saved of the expense loading component in the premium through operational efficiency is higher than this.

The overall result minus the result from underwriting activities, the transfer to bonuses and the interest paid on guarantee capital after the approval of the financial statements all lower the company's solvency capital. The solvency capital was, due to the change in legislation, raised by EUR 792.9 million, the amount of provision for pooled claims treated equal to solvency capital.

Insurance portfolio and premiums written

A majority of employers that have insured their employees through Ilmarinen have signed an insurance contract with the company. Those who only employ people temporarily can, however, pay their employer contributions to authorised pension insurance companies without signing an actual insurance contract. Below, "policyholder" refers to a client that has concluded an insurance contract with Ilmarinen and "TyEL employee" refers to an employee who is employed by such an employer.

The development of Ilmarinen's TyEL insurance portfolio was very good in 2008. At the end of 2008, there were 35,793 (34,113) TyEL insurances, so the number of insurances increased by 4.9 per cent during the year. In addition, 2,054 temporary employers paid TyEL insurance premiums to Ilmarinen. At the end of the year, there were 480,000 (417,000) insured covered by TyEL insurances, which was 15.1 percent more than at the end of the previous year. The average size of a TyEL insurance was about 13 persons in 2008 which is slightly higher than in 2007 when it was 12 persons.



The amount of TyEL payrolls insured at Ilmarinen was EUR 14,623.0 (12,425.5) million. This was 17.7 per cent more than the payrolls insured in the previous year. Market share, calculated on the basis of the amount of insured TyEL payrolls, is estimated to have increased clearly in 2008 from the corresponding figure in 2007, which was 30.7 per cent.

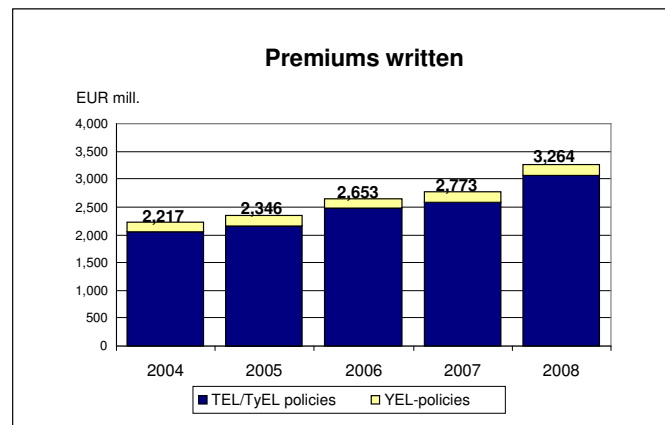
Ilmarinen had 52,814 (51,289) YEL (Self-Employed Persons' Pension Act) insurances at the end of the year. Ilmarinen is clearly the largest insurer of self-employed persons, and its market share has

been in the range 30-31 per cent in recent years, measured on the basis of premiums written. The average annual reported income for YEL insurances was EUR 19,866 (19,285). It increased by about 3.0 per cent from the previous year, or by more than the wage coefficient to which YEL reported income is tied and which increased by 2.2 per cent.

Half way through the year the total number of employees and entrepreneurs insured through Ilmarinen exceeded half a million people. Based on the interim review, Ilmarinen then became the largest employment pension insurance company measured by the number of insured. At the end of 2008, the total number of TyEL and YEL insured people was 533,000.

In 2008, Ilmarinen's premiums written stood at EUR 3,264.4 (2,772.5) million.

EUR 3,059.7 (2,578.7) million in TyEL insurance premiums were received, i.e. TyEL premiums written increased by 18.7 per cent compared to the premiums written in 2007. Discounts given to TyEL premiums in 2008, i.e. bonuses and rebates, totalled EUR 74.8 million, compared with EUR 79.9 million in the previous year. The main factor affecting the growth in TyEL premium income was the increase in the insured payroll.



Premium income from YEL insurances stood at EUR 204.7 (193.9) million, an increase of 5.6 per cent.

Credit losses on unpaid TyEL insurance premiums were EUR 8.7 (6.0) million. Credit losses on unpaid YEL insurance premiums were EUR 3.3 (3.2) million. Ilmarinen will not, however, incur losses on credit losses on YEL insurance premiums because in the financing system for YEL pensions, the State's share compensates for insurance premiums not received from policyholders.

There were no major changes in Ilmarinen's operating environment in terms of sales. The combining of private sector employee pension legislation in 2007 and the exceptionally large transfer of insurance policies between companies was such that it resulted in balanced out during the year, but was still slightly higher than before 2007. The sales result in the last quarter was becoming overshadowed by the financial crisis and weaker economic outlook. It did not, however, have a significant effect in 2008.

Ilmarinen's cooperation partners OP-Pohjola Group and Pohjantähti enabled Ilmarinen's success, in particular with small and medium sized customer acquisition. The transfer of TyEL insurance

policies between Ilmarinen and other pension insurance companies turned out positive in terms of net amount both in terms of entrepreneurs and small and medium sized companies and Ilmarinen strengthened its position in both customer groups based on the number of insurance policies. Ilmarinen's position as an insurer of large customers was strengthened in March 2008 when the insurance cover for Nokia's employees was transferred from Nokia's own pension fund to Ilmarinen.

A total of 4,585 new TyEL insurances were sold. This increases the TyEL premiums written by EUR 69 million. Of this, approximately EUR 3 million came from direct payments made by customers through Ilmarinen's web service.

A total of 5,444 new YEL insurances were sold. This increases the YEL premiums written by EUR 16.8 million. Some EUR 1.4 million of the annual premiums written in new YEL insurances came from customers that signed on to the insurance directly through Ilmarinen's web service. Ilmarinen was successful in the transfer of YEL insurances, and the transfer resulted in 309 new policies and a gain of EUR 1.3 million.

Contribution rate

The confirmed average TyEL premium for 2008 was 21.8 per cent or 0.2 percentage points higher than in 2007. The contribution of employees under the age of 53 was 4.1 per cent and the contribution of over 53-year-olds was 5.2 per cent. The average contribution for employers was 17.5 per cent of payroll. The level of the employer contribution varies depending on the insurance and also depends on the authorised pension company's bonuses and rebates. Ilmarinen's bonuses and rebates were on average 3.1 (4.0) per cent of the employer's contribution. Small and medium-sized employers were also granted a maximum discount of 1.0 percentage points to reduce the equalisation provision relating to disability pensions.

The confirmed TyEL premium for 2009 is on average 22.0 per cent of the salary, i.e. 0.2 percentage points higher than in 2008. In 2008, the employment pension contribution percentages of employees by age class was decreased by a correction caused by the fact that the compensation level had been estimated as lower than the actual outcome when determining the contribution bases for 2007. Therefore, the contribution percentages now rose by 0.2 percentage points so the contribution of employees under the age of 53 is 4.3 per cent and the contribution of over 53-year-olds is 5.4 per cent in 2009. The average contribution for employers is 17.5 per cent. In 2009, small and medium-sized employers will again be granted a temporary discount to reduce the equalisation provision relating to disability pensions. The amount of the discount depends on the size of the employer and is a maximum of 1.0 percentage points.

The YEL premium for 2008 was 20.6 per cent of confirmed earnings. The YEL premium of self-employed persons who turned 53 before the start of the accounting year was 21.7 per cent. In 2009, the YEL premium is 0.2 percentage points higher than in 2008, i.e. 21.9 per cent for self-employed persons who turned 53 before the start of the accounting year and 20.8 per cent for others.

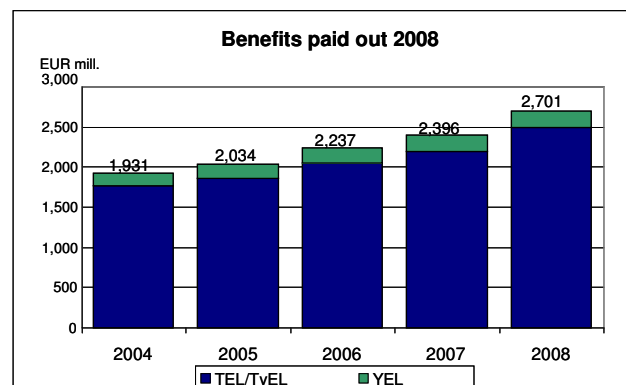
Pensions and activities that promote work capacity

In 2008, Ilmarinen paid a total of EUR 2,703.3 (2,398.4) million in pensions.

Pension expenditure by type of pension in 2008, EUR millions

	TyEL	YEL	Total	% of total pension expenditure
Retirement pensions	1,519.1	125.9	1,645.0	60.8
Early retirement pensions	166.6	16.9	183.5	6.8
Part-time pensions	27.9	7.5	35.4	1.3
Disability pensions	399.5	29.3	428.8	15.9
Individual early retirement pensions	4.6	0.2	4.9	0.2
Unemployment pensions	160.3	2.7	162.9	6.0
Survivors' pensions	219.3	23.5	242.8	9.0
Total	2,497.3	206.0	2703.3	100.0

The figures in the table contain both items paid directly to pension recipients and items paid through the pay-as-you-go pool.



Number of pension recipients on 31.12.08
Pensions in accordance with basic protection

Type of pension	TyEL	YEL	Total
Retirement pensions	141,834	17,889	159,723
Early retirement pensions	13,379	2,988	16,367
Part-time pensions	3,662	1,065	4,727
Disability pensions	36,576	4,387	40,963
Individual early retirement pensions	0	0	0
Unemployment pensions	10,538	263	10,801
Survivors' pensions	34,533	6,491	41,024
Total	240,522	33,083	273,605

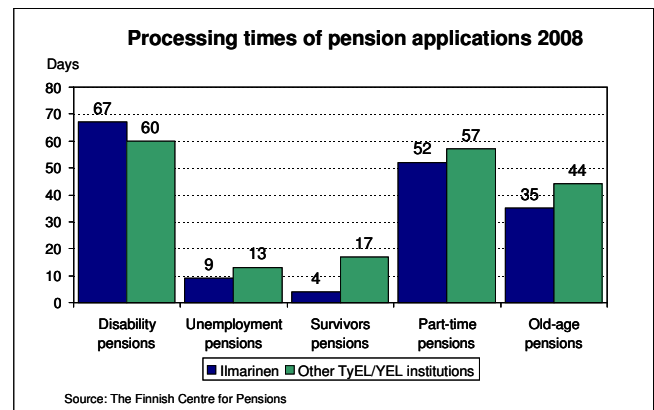
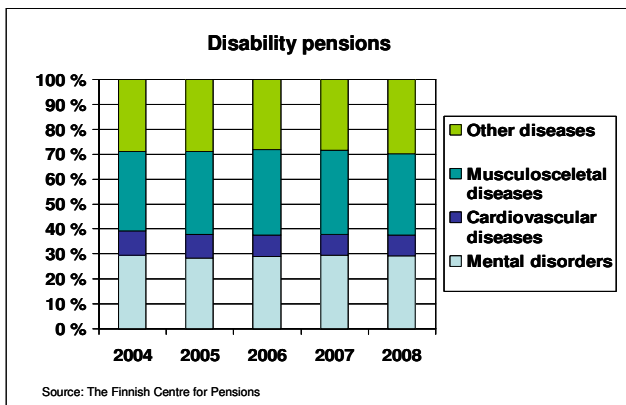
At the end of the year, there were 273,605 pension recipients, i.e. 4.0 per cent more than a year earlier, when there were 262,971. At the end of the year, 240,522 (230,507) pension recipients received TyEL pension, and 33,083 (32,464) received YEL pension.

A total of 64 per cent of pension recipients received retirement pension and 15 per cent received disability pension. The last of the people who had received individual early retirement pensions transferred to old-age pension in 2008. Just as previous year, the share of unemployment pension recipients was about four per cent, the share of part-time pension recipients was slightly under two per cent and the share of survivors' pension recipients was 15 per cent of all pension recipients.

Pension decisions in 2008

	2008	2007	Change %
New pension decisions			
Retirement pensions	6,842	5,328	28.4
Early retirement pensions	534	455	17.4
Part-time pensions	1,258	1,240	1.5
Disability pensions	5,985	5,979	0.1
Unemployment pensions	2,857	2,913	-1.9
Survivors' pensions	2,907	2,749	5.7
Total new pension decisions	20,383	18,664	9.2
Total pension decisions	35,183	31,354	12.2

During 2008, Ilmarinen made a total of 35,183 pension decisions, or 12.2 per cent more than during the previous year. The number of new pension decisions grew by 9.2 per cent and totalled 20,383. Clearly more retirement pensions were granted than in the previous year. The main reason for this was the large size of the age class that turned 63. There was no significant change in the amount of disability pensions, unemployment pensions and part-time pensions granted in 2008. Slightly more survivors' pensions were granted than in the previous year.



Ilmarinen measures the efficiency of the processing of pension claims using the average processing time for each type of pension and the quality of pension decisions based on the permanency of the decisions in the courts of appeal. The company has traditionally performed clearly better than the benchmark group using both indicators. This was also the case in 2008 with the exception of the processing period of disability pension decisions. The share of negative decisions among disability pension decisions was 23.7 (21.1) per cent. Of those Ilmarinen decisions that were sent to appeal bodies, 6.1 (4.5) per cent of the decisions sent to the Pension Appeal Court (Työeläkeasioiden muutoksenhakulautakunta TELK) were amended against Ilmarinen's position, and 12.3 (19.1) per cent of the decisions sent to the Insurance Court were amended against Ilmarinen's position.

Ilmarinen remains the only pension company that offers its customers who have received a negative disability pension decision a guidance service on issues such as securing a livelihood and continuing in working life. The service is provided by rehabilitation research institutes and work clinics throughout Finland that have concluded cooperation agreements. Feedback received from customers, employers and service providers has been positive.

Ilmarinen is responsible for mailing employee pension records to approximately 720,000 insured persons. The records were mailed in May-October. Ilmarinen is the only Finnish pension company that is profiled through its own employee pension record service while other companies use the työeläke.fi portal.

A total of 17,856 (22,120) individual pension insurances were reviewed in response to customer queries.

In 2008, Ilmarinen held a total of 27 seminars on well-being at work throughout Finland for individuals responsible for the operations, staff and development of its customer companies. In addition to these events, numerous training sessions were held for customer companies.

Ilmarinen continued to support the occupational rehabilitation of the personnel of its customer companies by offering training in occupational rehabilitation and, during the rehabilitation planning stage, guidance and expert support for both employees seeking rehabilitation and the staff of the customer companies. During the actual rehabilitation period, the company pays benefits pursuant to employee pension legislation, which supports the individual's livelihood during the rehabilitation and compensates for the costs of the training. In 2008, Ilmarinen paid a rehabilitation allowance or a

rehabilitation premium tied to a pension during occupational rehabilitation in 1,457 (1,268) cases. The number of these payments increased by 14.9 per cent from the previous year.

Underwriting business, technical provisions, portfolio transfer and fund transfer

At the end of 2008, technical provisions stood at a total of EUR 20,612.8 (2,661.1) million. Provision for future bonuses decreased by net EUR 3,171.2 million and stood at EUR 765.9 (3,937.1) million at the end of the year. Share-revenue linked supplementary insurance liability decreased by EUR 785.8 million. The increase in the other parts of technical provisions was 10.2 per cent.

The result of the underwriting business under the company's own responsibility was EUR 76.4 (9.0) million. The equalisation provision grew by EUR 76.0 million to EUR 993.9 million. The transfer into the equalisation provision was EUR 0.4 million less than the result of the underwriting business since the equalisation provision of TEL supplementary pension insurance reached its maximum.

A share of the investment income, determined by the technical bases, is credited to technical provisions. Part of the required return on the technical provisions of pension companies is tied to the average solvency of pension institutions, and the rest, 10 per cent from 2008 onwards, is tied to the average yield on the listed shares owned by the pension institutions.

The share of the required return determined on the basis of the average solvency of pension institutions is calculated by adding the supplementary multiplier of the pension liability, given in the technical bases, to the three per cent discount rate. In 2008, the supplementary multiplier of pension liabilities was 3.03 per cent until the middle of the year, and 1.58 per cent after that. As part of the change in legislation the income in accordance with the supplementary multiplier was transferred to solvency capital instead of the retirement pension liability for the whole year. The change was applied from October 17, 2008 onwards.

The average yield on the listed shares owned by the pension institutions was -42.2 per cent. As a result of negative income from shares and the change in solvency legislation, the interest credited to technical provisions for 2008 was negative and amounted to -0.6 per cent calculated for the average underwriting reserves.

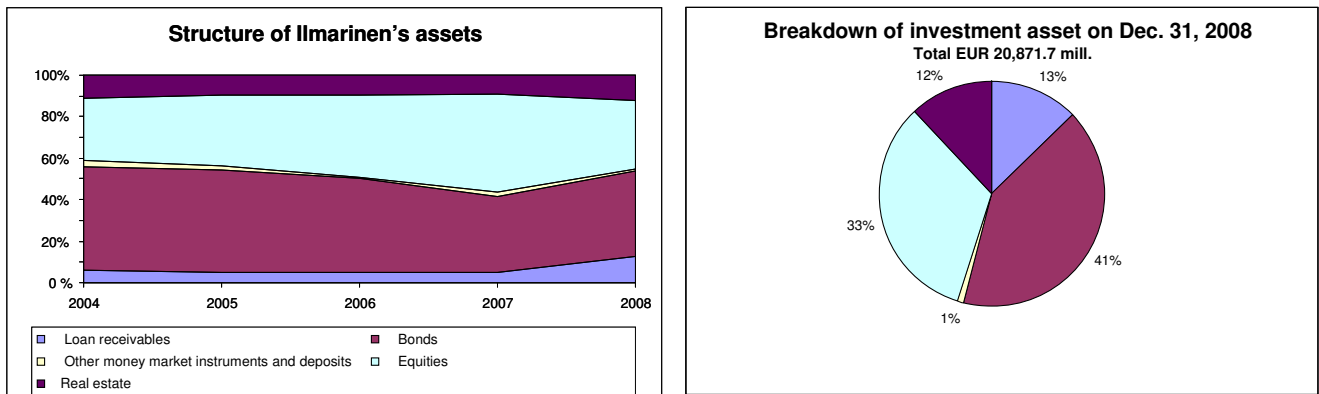
The technical rate of interest use to calculate insurance premiums was 6.25 per cent in the first half of the year and 4.75 per cent in the second half.

Assets that cover technical provisions stood at EUR 21,597.8 (23,748.6) million.

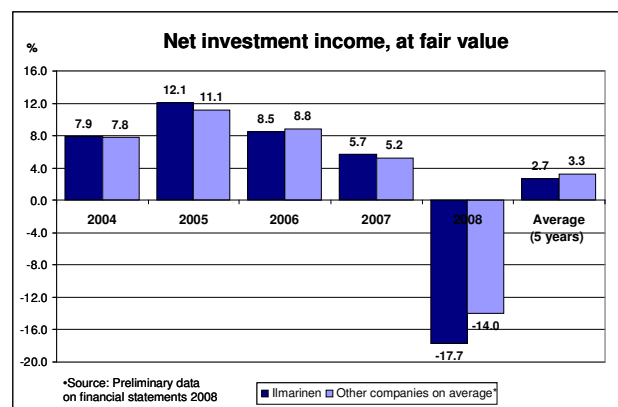
During 2008, two pension funds transferred their TyEL liabilities to Ilmarinen. The transferred liability was net EUR 971.1 million, of which provision for future bonuses made up EUR 186.8 million.

Investment activities

The objective of Ilmarinen's investment activities is to achieve the highest possible income in the long-term within the risk level framework defined by the Board of Directors. The starting point for the evaluation of the risk is the company's average solvency across business cycles. In 2008, the result of investment activities was depressed by an exceptionally problematic investment environment.



At the end of 2008, Ilmarinen's total investments calculated at fair value were EUR 20,871.7 (23,663.6) million. Income from investments calculated at fair value was -17.7 per cent, which corresponds to real income of -20.5 per cent. In the previous year, income from the investment portfolio was 5.7 per cent. Calculated at fair value, average annual income over the last five years has been 2.7 per cent, which corresponds to average annual real income of 0.9 per cent. Calculated from 1997, the average annual income at fair value for Ilmarinen's investments has been 5.0 per cent per annum. This corresponded to an annual real yield of 3.2 per cent.

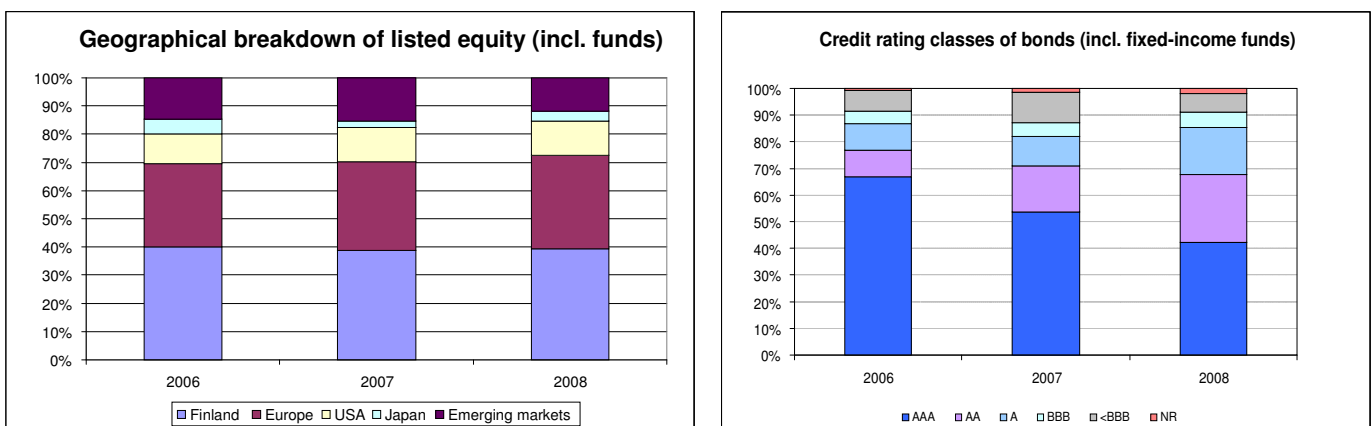


Fixed-income investments including bonds, money market funds and other money market instruments formed 42 (38) per cent of the total value of Ilmarinen's investment assets. The total market value of fixed-income investments was EUR 8,697.3 (9,058.3) million and income at fair value was -4.8 (2.1) per cent. A total of EUR 1,940.9 (2,715.3) or 22.3 (30.0) per cent of fixed-income asset allocation was invested in government bonds. Ilmarinen had EUR 122.4 (447.2) million or about 1.4 (4.9) per cent in money market instruments yielding 4.6 (4.0) per cent. The remaining 76.3 per cent were corporate bonds, emerging market bonds and investments in fixed-

income funds. Most of the corporate bonds had a high credit rating. At the end of the year, the modified duration of the bond portfolio was 3.7 (4.3) years.

Equity investments, excluding bond and real estate funds, made up 33 (47) per cent of total investments. Their value decreased by EUR 6,969.4 (11,200.7) million in 2008 as a result of decreased share prices and divestments. Investments in domestic shares made up about 35.3 (35.7) per cent of total equity investments, or EUR 2,463.0 (4,000.7) million. Domestic shares made up 39.5 (38.9) per cent of investments in listed equities. The return on equities, calculated at fair value, settled at -36.9 (9.1) per cent.

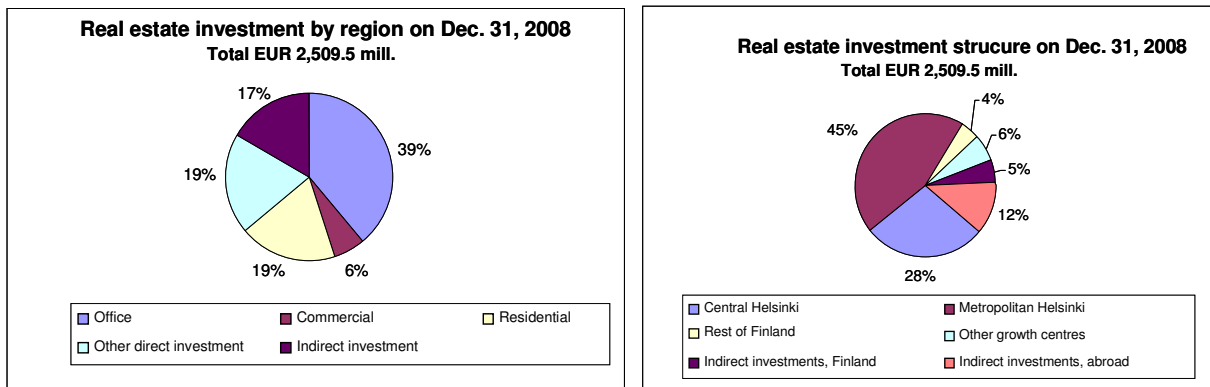
These figures include the value of derivatives calculated at fair value. Share, currency and interest derivatives are used both for hedging and to shape the distribution of investments.



Equities include investments in private equity funds and hedge funds as well as commodity investments. At the end of the year, they made up about 6.3 (5.8) per cent of the market value of investment funds. Of this, private equity funds made up EUR 569.7 million, hedge funds made up EUR 608.9 million, and investments in commodities made up EUR 3.3 million. The distribution of investments according to risk is presented in its entirety in the Risk Management Notes to the financial statements. Hedge funds had an average return of -15.5 per cent and private equity funds an average return of -9.8 per cent on committed capital.

Ilmarinen's ownership policy also takes into account responsible investment issues. According to this policy, Ilmarinen will start an engagement process with a company that fails to fulfil the criteria set forth in the policy. If the engagement process is unsuccessful or the outcome appears to be negative, Ilmarinen must either sell the securities or refrain from ownership. During 2008, Ilmarinen had active engagement processes with nine different companies. In addition the securities of one company were sold.

At the end of 2008, Ilmarinen's real estate investments stood at EUR 2,509.5 (2,165.3) million, a 15.9 per cent increase compared to 2007. The share of real estate investments was 12 (9) per cent, of which indirect investments made up two percentage points. The value of directly-owned properties was EUR 2,091.4 million. The capacity utilisation rate of real estate stood at 94.9 (94.1) per cent at the end of the year.



The total return of the company's real estate investments was 6.1 (9.5) per cent. Return from directly-owned properties was 8.3 (9.0) per cent, which includes the 2.8 percentage point effect from a EUR 53.3 million adjustment to the properties' fair values. The return on indirect real estate investments was -5.2 (14.5) per cent.

The portfolio of loans granted by Ilmarinen's corporate financing more than doubled, i.e. increased by 117.5 per cent. At the end of the year, loan assets made up 13 (5) per cent of investment funds. During 2008, EUR 1,687.9 (351.3) million in new loans were withdrawn and EUR 243.1 (250.5) million in loans were repaid. At the end of the year, the total loan portfolio was EUR 2,695.6 (1,239.3) million including accrued interest. The return on loan assets was 4.9 (4.5) per cent.

Chart: Loan portfolio of corporate financing, EUR million

	1998	2003	2008	Return %
Premium loans	1,546.8	925.2	1,391.3	4.4
Other loans	277.5	477.7	1,304.3	5.1
Total (includes accumulated interest)	1,824.3	1,403.0	2,695.6	4.9
Share of total portfolio, %	16	9	13	

Risk management

The objective of Ilmarinen's risk management is to prevent the realisation of risks threatening the company, minimise the financial and other damage caused by realised risks and to ensure the continuity of operations. On the other hand, the objective is that the company can utilise the opportunities offered by managed risk-taking in business operations, especially in investment activities. It is important above all that the rights of the insured, pensioners and policyholders are ensured in all situations.

The assets covering technical provisions are calculated at fair value and the main objective of the regulations governing assets held to cover technical provisions is to avoid concentrations of risk. The classification of investments is carried out, both in these regulations and when calculating solvency requirements, on the basis of the same principles and based on the actual risk of the investments. Ilmarinen carries the investment risk connected to covering its technical provisions and return requirement. However, part of the risk of equity investments is carried at the level of the

whole earnings-related pension scheme. From 22 December 2008 onwards this part corresponds with 10 per cent of all investments. The joint solvency rules for earnings-related pension insurers provide the framework for risk management of investments. As an exception to permanent legislation, the minimum for solvency capital is 2 per cent of the technical provisions until the end of 2010.

Ilmarinen has a risk management plan that covers the entire operations of the company and is approved annually by the Board of Directors. There is a risk management committee for the company-level coordination and development of risk management that is made up of representatives of business units and support units. The risk management committee updates the survey and evaluation of the risks facing the company with respect to its operations every six months. In 2008 the company's entire Executive Group took part in identifying risks. The risk analysis was discussed and the risk management plan confirmed by the audit committee of the Board of Directors and by the Board of Directors in January 2009.

Risk monitoring and reporting to the Board of Directors on investment activities was transferred to the area of responsibilities of the company's Chief Actuary as of 1 April 2008. The objective of this organisational change was to further improve the independence of the reporting of investment activities and risk management from the risk-taking function.

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

Personnel

In 2008, the average number of employees in the Ilmarinen Group was 655, compared with 668 a year earlier. The average number of employees in the Ilmarinen parent company was 529 (525). This figure includes 65 (57) part-time employees, whose work contribution has been adjusted to correspond to the working hours of full-time employees when calculating the averages. An average of 29 (24) persons were on family leave or other unpaid leave during the year. At the end of the year, the parent company Ilmarinen employed 573 (580) persons, of whom 539 (545) were under permanent employment.

A management training programme that included all of Ilmarinen's managers was carried out according to plan and with good results. A company-wide operating model for evaluating the requirements for individual tasks was completed, and skill charting based on the renewed structure began. Both procedures will, when completed, support salary discussions as included in the collective bargaining agreement of the insurance sector. The first discussions were held in early 2009. The detailed principles related to the salary discussions were agreed on during the autumn and both managers and personnel were also trained for the new practices.

Information technology

In 2008, the insured for the first time received the statutory employee pensions record in accordance with the new legislation. The IT systems were completed during spring and the records were mailed starting in summer as planned. The customer management system project based on an external service solution started in early 2008, and the services are expected to be in use in early 2009. The management and structure of IT services was changed in view of group level development and cost

management. An IT division that serves business operations' in IT development and use started functioning at the beginning of 2009.

Based on a bidding competition, TietoEnator Oyj was selected as the supplier of IT business services in cooperation with OP-Pohjola Group. The change project started in summer and the transfer of the business services was carried out as planned in several stages during the rest of the year. Workstation environment procurement, maintenance and production services were transferred in simultaneous project to the supplier of the business services. The changes mean that the reliability of Ilmarinen's IT services improves and will result in cost savings. TietoIlmarinen will continue to be responsible for the developing and maintaining the group's own IT systems.

Operating expenses

Ilmarinen's cost efficiency improved considerably during the financial year. The costs financed using the administrative cost income from premiums decreased by EUR 2.3 million, even though the company's operational volume increased exceptionally. The ratio of the above-mentioned operating expenses to the expense loading components available for them clearly improved and was 71 (86) per cent. This corresponds with the company's targeted improvement in efficiency in administrative costs, which benefits Ilmarinen's customers in the form of customer bonuses and rebates.

Ilmarinen's total operating expenses were EUR 113.5 (103.5) million, up 9.7 per cent from the previous year. The majority of the increase in operating expenses was caused by statutory fees that increased from EUR 5.3 million in 2007 to EUR 14.2 million. The statutory fees are financed through a separate part of the insurance premiums allocated to statutory fees. These fees include the share of the costs of the Finnish Centre for Pensions, the supervision fee of the Insurance Supervisory Authority and the judicial administration fee.

Operating expenses of investment activities were EUR 11.2 (9.8) million, or 0.5 per million of the total amount of investments. They are financed from the income from investment activities. The costs of maintaining work capacity, which are financed from the administration part of disability risk contained in the insurance premium, were EUR 4.9 (2.8) million.

Management

The Supervisory Board selected Riku Aalto to replace Erkki Vuorenmaa as a deputy member of the Board of Directors from 1 January 2009 onwards. Riku Aalto's term will end on the same date as Erkki Vuorenmaa's term would have ended, i.e. on 31 December 2009. The deputy members of the Board of Directors are always invited to the Board meetings but they only have voting rights when the corresponding actual member is not present.

At its meeting on 26 January 2009, the Board of Directors re-elected Hannu Syrjänen as its Chairman and Lauri Ihalainen and Leif Fagernäs as Vice-Chairmen. The Chairman and Vice-Chairmen also function as the Nomination Committee and Compensation Committee of the Board of Directors.

The members of the Audit Committee are George Berner as Chairman, Leila Kostiainen and Hannu Rautiainen as the committee's legal professional.

In its meeting on 20 November 2008, Ilmarinen's Supervisory Board selected the members of the Election Committee. The term of the Election Committee began immediately and will end on at the end of the last Supervisory Board meeting of 2009.

Jorma Eloranta was re-elected as the Chairman of the Election Committee and Esa Vilkuna was re-elected as the deputy chairman. The other Election Board members are Antti Herlin, Leila Kostiainen, Hannu Syrjänen and Matti Viljanen. Of the six members of the Election Committee, half are individuals nominated by representatives of policyholders on the Supervisory Board, and the other half are individuals nominated by representatives of the insured on the Supervisory Board.

Group

In addition to the Ilmarinen parent company, the Ilmarinen Group mainly includes real estate companies. Based on voting rights, TietoIlmarinen belongs to Ilmarinen Group as Ilmarinen's ownership of TietoIlmarinen's shares gives it control of 70 per cent of the votes, although Ilmarinen only owns 30 per cent of the share capital. The number of subsidiaries on 31 December 2008 was 131. Non-life insurance company Garantia is Ilmarinen's affiliate.

Suomi Mutual Life Assurance Company and Pohjantähti Mutual Insurance Company are associated companies of Ilmarinen.

Guarantee capital

Ilmarinen has guarantee capital of EUR 22,994,653.31, which is divided into 13,672 guarantee shares. On 31 December 2007, the owners of the guarantee capital and their shares of the guarantee capital were as follows:

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

Future prospects

On 22 January 2009, the main labour market organisations announced their proposal regarding changes to, for instance, employment pension contributions, certain employee pension benefits and unemployment benefits in the next few years. Based on the proposal, the employment pension contribution will remain at the same level in 2010 as in 2009 but in 2011-2014 it will rise by 0.4 percentage points annually or by a total of 1.6 percentage points. The rise will be divided equally between employers and employees. In this contribution level, the effects from the temporary discount have not been considered. The proposal requires abolition of the employer's national basic pension contribution, and the labour market organisations' basis when making the proposal was that the increase of the employee's pension contribution will be compensated for in income taxation in a

recognisable manner and in all income classes. The contribution development in accordance with the agreement would, if materialised, help ensure the long-term financing balance in the earnings-related pension scheme.

The SATA committee that is preparing an overall reform of social security gave an intermediate report on its policies on 27 January 2009. The main point in the proposal connected to pensions is the guaranteed pension, which means that additional work in case of lower pension accumulation will no longer increase the total pension.

The operating environment for investment activities was exceptionally difficult in 2008. The effects of the financial crisis on the development of the global economy have already proven extremely negative. In Finland, cuts in the workforce and lay-offs are common, which is likely to be reflected as a very modest increase in the insured payroll in 2009. The difficult operating environment for companies is likely to result in an increase in credit losses from insurance premiums and a weakening in the demand for office premises.

Both prior to the financial crisis and while adapting to it, the investment strategies of pension insurance companies have become diversified, which is in particular visible in the share weight. Ilmarinen has traditionally carried out investment activities aiming at a good return over the long term and will continue doing so in the future.

Continuous efforts to improve the company's cost efficiency will bear fruit in future years as well. The strengthened cost efficiency will support the company's ability to grant its customers' bonuses and rebates. Ilmarinen believes that its relative position in the competition on bonuses and rebates between pension companies will remain good over the long term.

When the customers' needs become differentiated, Ilmarinen must generate more interesting service packages. The effects of the work to improve the ability to cope with work, the length of careers and wellbeing at work depend on how quickly the economy will recover from the recession.

The company's key trump cards, in addition to the development of its own operations, include the partnership with OP-Pohjola Group that has a nationwide service network and extensive selection of finance sector services.

The financial crisis has resulted in a global discussion on how the regulation in the financing sector should be developed. One of the major questions in the future is how the transparency of different investment instruments should be ensured without risking the chances of diversification and to obtain long-term profit.

Proposal of the Board of Directors for the use of the profit

According to the Articles of Association, the rate of interest on the guarantee capital is the technical rate of interest plus one per cent. For 2008, the yield percentage calculated in this fashion is 6.5 and the interest on the guarantee capital is EUR 1,494,652.47.

The parent company's distributable free equity in the financial statements for 31 December 2008 is EUR 73,531,689.85, of which the profit for the period is EUR 5,989,062.21.

The Board of Directors proposes that EUR 1,494,652.47 is distributed as interest on the guarantee capital for 2008, EUR 50,000.00 is reserved for use by the Board of Directors as donations for the public good and the rest of the profit, EUR 4,444,409.74, is transferred into the contingency fund.

Helsinki, 23 February 2009

Hannu Syrjänen

Lauri Ihalainen

Leif Fagernäs

Jukka Alho

George Berner

Jukka Hienonen

Arto Hiltunen

Reijo Karhinen

Leila Kostainen

Leena Niemistö

Markku Vesterinen

Matti Viljanen

Harri Sailas
President and CEO