

REPORT ON OPERATIONS AND FINANCIAL STATEMENTS 2014



26 February 2015

REPORT ON OPERATIONS

1. ECONOMIC DEVELOPMENT

The weak performance of Finland's economy continued in 2014. Following a two-year downturn, overall production took a slow upward trajectory towards the end of the reporting year, but in terms of the whole year, economic growth remained at around zero. A factor affecting the poor performance of the national economy was the continuation of the long-term downturn in the eurozone. In addition, during the final part of the year, Russia's economic problems began to have a negative impact on exports.

The key reason behind the long downturn in the Finnish economy has been weak export performance. Exports and industrial production shrank slightly compared to the previous year, also during 2014. However, towards year-end, order books for industry began to grow. A further positive factor was the slight shrinking of the deficit in the balance of trade compared with the previous year. On the other hand, consumption stood still and investments dwindled.

In light of the poor long-term performance of production, it is surprising that employment figures have remained relatively stable. The number of employed in 2014 was some 2.4 million, which was just 0.2 per cent less than in the previous year. The fairly good employment situation has, in fact, resulted in stability in the domestic markets. The employment rate, i.e. the number of employed in proportion to the working-age population, remained at around 68.3 per cent. Unemployment grew slightly and the average unemployment rate for the entire year was 8.7 per cent.

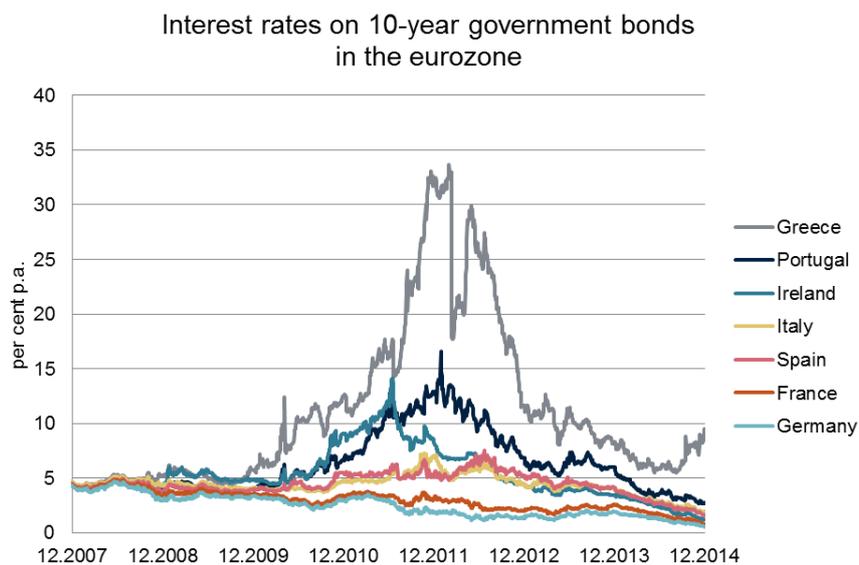
As specified in the Pact for Employment and Growth settled on in 2013, the growth rate of nominal wages remained very slow. Because the number of employed declined, the result was a slowing down in the growth of payroll to around one per cent in 2014. The growth rate of consumer prices also slowed down to just over one per cent due to which the real earnings of employees remained almost unchanged.

Due to the prolonged economic downturn, public finances remained at a weak level during 2014. The total deficit for the state and municipalities was approximately EUR 8 billion, i.e. some 4 per cent of the value of the GDP. The deficit for the entire public sector remained below this at 2.5 per cent of the GDP value because the earnings-related pension sector had a financing surplus as in previous years. For this reason the deficit in Finland's public finances did not exceed the 3 per cent limit set by the Stability and Growth Pact. The EMU debt of the public sector increased compared with the GDP as it has done in previous years, rising to some 59 per cent, close to the critical 60 per cent limit.

The government of Prime Minister Katainen decided in spring 2014 to implement new measures to reduce the public sector deficit. The implemented measures included the reduction of the index increment for social security benefits for 2015. The reduction also applies to earnings-related pensions.

The global economy did not develop uniformly. The relatively strong recovery of the United States' economy continued, which led to the strengthening of the dollar. The downturn continued for the EU countries and economic growth slowed down in many emerging countries. The Ukraine crisis increased economic uncertainty. On top of this, global oil market prices took a sharp downward turn towards the end of the year.

In the eurozone and elsewhere in Europe, inflation slowed to a near-zero level during 2014, which was cause for growing concern in terms of deflation. The European Central Bank promised to prevent deflation from occurring, which served to create expectations of a light monetary policy continuing for quite some time. As part of its stimulating monetary policy, the ECB decreased its key interest rate to around zero. Due to the ECB's actions, the returns on the long-term bonds of the countries with the highest credit ratings fell to a record-low level: the return on German and Finnish 10-year government bonds, for example, fell to below 1 per cent. As a result of the decline in interest rates, 2014 turned into a relatively good year in terms of fixed income investments.



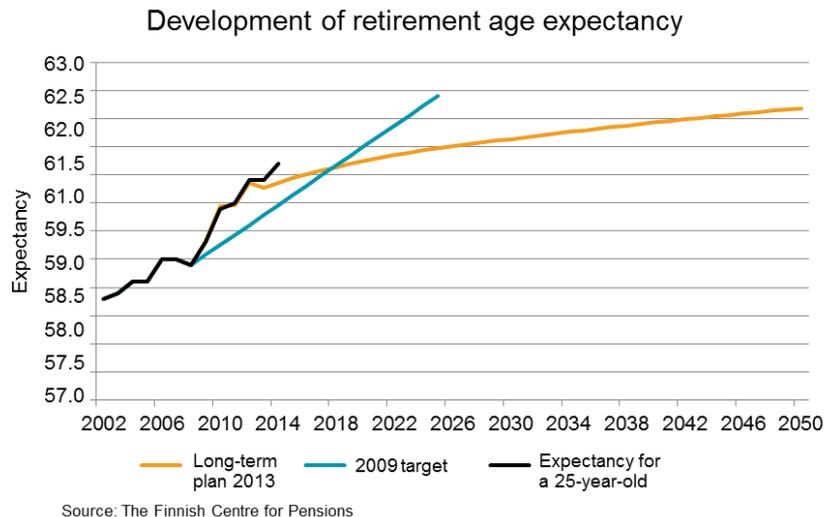
Low interest rates in the US, Europe and Japan supported share price development throughout the year. By the autumn, the major share indexes rose by some 10 per cent from the beginning of the year. In October, share prices fell but recovered towards year-end. The greatest increase in share prices took place in the United States.



2. DEVELOPMENTS IN THE EARNINGS-RELATED PENSION SYSTEM

The labour market organisations' negotiations concerning the reform of the earnings-related pension system were brought to a close in September 2014. The negotiation outcome included long-term decisions on the pension system's age limits, pension accrual and pension contributions. The pension reform is geared towards an increase in the average pension age and decrease in the sustainability deficit in public finances according to the 2012 agreement on extending careers and the targets set by the government. The reform is set to enter into force in 2017.

Based on the target set by the labour market organisations and Prime Minister Jyrki Katainen's government, the expected retirement age for a 25-year-old which measures the average retirement age should rise to 62.4 years by 2025. The development in the retirement age expectancy has, to date, been positive and even faster than expected. In 2014, this expectancy figure rose to 61.2 years. This fast growth rate is not expected to continue in the coming years, however, which is why it seems unlikely that the retirement age target set for 2025 will be reached without an increase in the lower retirement age limit. The Finnish Centre for Pensions has assessed that the negotiation outcome creates the conditions required for achieving these targets.

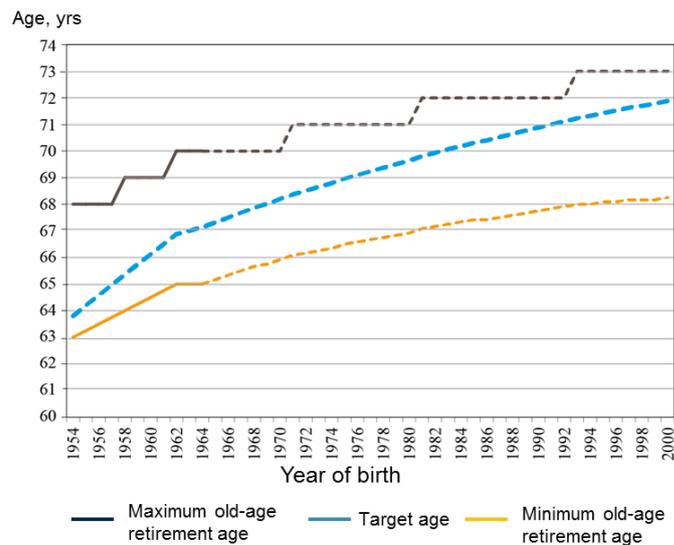


Pension reform

The labour market organisations' agreement concerning the pension reform is targeted at the gradual raising of the old-age pension age limits. The age limits will begin rising in 2018, increasing by three months per age class until 2027 so that for those born in 1955 the lower limit for old-age pension will be 63 years and three months and 65 years for those born in 1962. After this the increase will halt for three years. The pension reform negotiations also came to a conclusion concerning the age limits for the pension system after 2030. The goal is to set the age limits so that the ratio between life expectancy and the length-of-the-career expectancy remains constant in the future. Based on the assessment of the Finnish Centre for Pensions this will lead to age limits beginning to rise again after 2030. The lower limit is expected to rise to some 68 years by mid-way through the century.

The upper age limit for old-age pension follows the development of the lower limit so that it will be some 5 years higher than the lower limit also in future. The upper limit will, however, be raised less often, one year at a time. In addition a target pension age will be calculated for each age class using the life-expectancy coefficient. The target pension age is obtained by calculating the age until which it is necessary to work for the deferred retirement to be sufficient to compensate for the decreasing effect on the pension of the life expectancy coefficient. The target age is between the upper and lower limits. The life expectancy coefficient thus remains part of the system even though its weight in determining pensions will become lighter.

Estimated development of retirement age limits according to the negotiation outcome for the 2017 pension reform



The agreement includes two new types of pension: the years-of-service pension and partial early old-age pension. The years-of-service pension makes it possible to retire at the age of 63 if the pension applicant has had a career spanning at least 38 years and if he or she has also carried out work that is physically or mentally strenuous and if his or her work capacity can be seen to have weakened. The criteria for the years-of-service pension will become clarified further in connection with the preparation of the legislation.

The partial early old-age pension will take the place of the current part-time pension. This offers the opportunity to receive a pension at the earliest at the age of 61, which would then equal either 25 or 50 per cent of the old-age pension. The age limit will rise to 62 years in 2025.

The lower limits for the years-of-service pension and partial early old-age pension will follow the increase in the lower age limit for old-age pension as of 2030.

The pension reform will also alter the accrual of pensions. As of 2017, the pension insurance contributions of the employee will no longer be deducted from the pensionable salary based on which the pension is calculated. The change will increase future pension accruals by some 5 per cent compared to current ones. On the other hand the accelerated accrual included in the 2005 pension reform for those aged 53 or 63 will cease. During the transition period between 2017 and 2025, 53–62-year-olds have the right to an annual accrual of 1.7 per cent. After this, work performed at any age accrues pension at 1.5 per cent annually.

The purpose of the current 4.5 per cent accrual rate for those who have turned 63 is to encourage people to delay retirement to a later date. As of 2017, the accelerated accrual will be replaced by an increase for deferred retirement, which will not be based on the salary or wages but on the earned pension accrual. The increase for deferred retirement will increase the pension accrual by 0.4 per cent per month after the lower age limit for retiring on an old-age pension has been reached.

The changes to benefits included in the pension agreement are estimated to decrease pension expenditure to such a degree that the average pension contribution will not need to be increased to a level higher than the 24.4 per cent level agreed on for 2017. The evaporation of the pressure to increase pension contributions and the rise in the average pension age will decrease the sustainability deficit of public finances, according to the assessment by the Ministry of Finance, by an amount that equals 1 per cent of the value of gross domestic product.

The preparation of the legislation based on the agreement by the labour market organisations has started up at the Ministry of Social Affairs and Health. The objective is for the legislative proposals related to the pension reform to be presented to Parliament in autumn 2015.

Solvency reform and other earnings-related pension sector regulation

As part of the labour market organisations' pension agreement it was also agreed that the weight of the collective equity-linked buffer fund of the pension companies would be increased to 20 from its current 10 per cent. The change means that an even greater proportion of the fluctuations in the return on equity will be borne by the pension system. The reform will not decrease the risk level of the pension system but it will improve the ability of individual pension institutions to bear risks. The reform is aimed at achieving growth in the share of equity investments and improved investment returns. The change is set to take effect in 2017.

The bill for the new solvency legislation for pension companies was presented to the Parliament in November 2014. Solvency calculation as presented in the proposal would take into account more precisely and more comprehensively all of the investment risks that are relevant to the operations of pension institutions, in addition to insurance risks. The solvency limit would describe, as it does at present, the amount of solvency capital that a pension institution must have in case of insurance and investment risks. The riskier the investments for the pension institution, the higher the solvency limit. The calculation of the solvency limit would be carried out based on the entire investment assets, unlike today when it is defined for an amount corresponding to the technical provisions. The regulations governing the covering of technical provisions would become redundant. Regulations concerning the diversification of investments would be left in the act. The laws included in the bill are set to come into force on 1 January 2017.

The Ministry of Social Affairs and Health has long been preparing legislative projects that are geared towards increasing competition in the earnings-related pension sector. The aim of the reform is to increase the competitiveness of the earnings-related pension sector by making the provisions concerning the determination of insurance contributions more liberal in the sense that each pension insurance company could independently prepare the calculation bases for both the expense loading contained in the insurance contribution and for client bonuses. Another aim is to more precisely regulate the well-being at work services provided by earnings-related pension companies to their customers. No progress was made in terms of these reform projects during 2014.

The amendment concerning the reforming of the administrative regulations for earnings-related pension institutions came into force on 1 January 2015. The goal of the reform is to, among other

things, increase the openness of the administration of earnings-related pension companies. The amendment is discussed in more detail in section 13.

The Finnish pensions system in international comparisons

For the first time the Finnish earnings-related pension system took part in an international comparison of the pension systems of 25 countries, The Melbourne Mercer Global Pension Index study. The pension systems of different countries are assessed based on three sets of criteria. Finland came fourth after Denmark, Australia and Holland. In the sub-index describing the integrity of pension systems, Finland was best. The criterion describes the openness and transparency of the determining of pensions and operations of the pension system.

3. ILMARINEN'S RESULT AND SOLVENCY

Despite the weak performance of the real economy, 2014 was a relatively good investment year for Ilmarinen. Share prices increased dramatically everywhere during the year. Due to a strong stock market year, Ilmarinen's annual return on investments increased to 6.8 per cent, as a result of which the company's solvency was clearly strengthened. The real return on investments equalled 6.3 per cent, i.e. 2.2 percentage units higher than the long-term average.

Ilmarinen succeeded well in the competition for pension customers. The growth in the number of corporate and self-employed customers during the operating year was evidence of the trust enjoyed by the company. The efficiency of Ilmarinen's operations remained at the same good level as last year. The loading profit, which describes efficiency, fell slightly on the previous year and the ratio of operating expenses to expense loading components was 76 (75) per cent.

The net return on Ilmarinen's investments, calculated at current value, was 6.8 per cent in 2014 (9.8 per cent in 2013). Solvency capital, i.e. the difference between the company's assets and liabilities measured at current value, increased to EUR 7,904.5 million. At the end of 2014, solvency capital amounted to 29.8 (28.0) per cent of technical provisions used in the calculation of solvency. In the previous year, the solvency capital was EUR 7,122.6 million.

The solvency capital is intended to cover the risks inherent in insurance and investment operations. The monitoring limits for the solvency capital of pension insurance 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 risk and by calculating the solvency limit based on the classification. The classification is made on the basis of the actual risk of the investment. The solvency limit also takes into account the insurance risk. Ilmarinen's solvency capital at the end of the financial period was 2.0 times (1.9) the solvency limit.

Investment income at current value was EUR 804.8(1,468.6) million, when taking into account the interest credited on technical provisions, EUR 1,128.9 (979.9) million, and the EUR 254.7 (466.7) million increase in the equity linked buffer. The equity linked buffer ties, for ten per cent, the technical provisions to the average return on listed equities of pension funds and thus transfers the equity risk to be covered by the entire earnings-related pension system.

The underwriting result under the company's own responsibility was EUR 45.7 (-14.8) million and its loading profit was EUR 34.0 (35.1) million. The underwriting result is the difference between contribution components intended to cover insurance risks and claims incurred. The underwriting result will be transferred to the equalisation provision included in the solvency capital according to the criteria approved by the Ministry of Social Affairs and Health. The loading profit shows the amount by which the expense loading components and other similar income exceed the operating expenses to be covered by them. The loading profit will be transferred to the solvency capital to the extent where it is not used for client bonuses.

Ilmarinen's total financial result in 2014 at current value thus stood at EUR 884.5 (1,489.0) million.

The amount allocated for discounts on TyEL insurance contributions, i.e. client bonuses, is determined based on the company's solvency capital and loading profit. The solvency capital does not, in this case, take into account the portion set aside for insurance risks. EUR 93.0 (86.0) million will be allocated for client bonuses from the result for 2014. The transfer is 0.56 (0.51) per cent of the insured payroll and EUR 182 (163) per employee insured with Ilmarinen.

The above information concerning the result and solvency are based on the key figures calculated at current value presented in the notes to the financial statements. They show the company's financial result and position more clearly than the profit and loss account and balance sheet. The valuation of investments in official accounting is based on acquisition cost and the amount of profit in the profit and loss account is determined by the calculation base approved in advance by the Ministry of Social Affairs and Health. The difference between the book profit and the result in the profit and loss account is entered as technical provisions, excluding the change in depreciation difference. In 2014, the result in the profit and loss account was EUR 4.3 (3.8) million.

The following calculation shows the connection of the result in the profit and loss account to the total financial result at current value:

EUR million	2014	2013
Result in the profit and loss account	4.3	3.8
Change in technical provisions		
Change in equalisation provision	45.3	-14.8
Change in provision for future bonuses	80.0	285.3
Transfer to client bonuses	93.0	86.0
Change in depreciation difference	0.2	0.3
Change in the difference between current value and book value, i.e. valuation gain/loss	661.8	1,128.4
Profit at current value	884.5	1,489.0

4. INSURANCE PORTFOLIO AND PREMIUMS WRITTEN

The number of Ilmarinen's insurance clients continued to increase. At the end of 2014, the company had 38,487 TyEL insurance policies and 61,941 YEL insurance policies. Ilmarinen was successful in customer acquisition together with its partner OP Financial Group. The transfer of insurance policies between Ilmarinen and other pension insurance companies was net positive in YEL insurance for Ilmarinen as in previous years. TyEL insurance policies, however, resulted in a negative transfer result, measured in payroll.

The majority of employers that have insured their employees with Ilmarinen have signed an insurance contract with the company. Employers only employing temporary employees can, however, pay their employer contributions to a pension insurance company without signing an actual insurance contract.

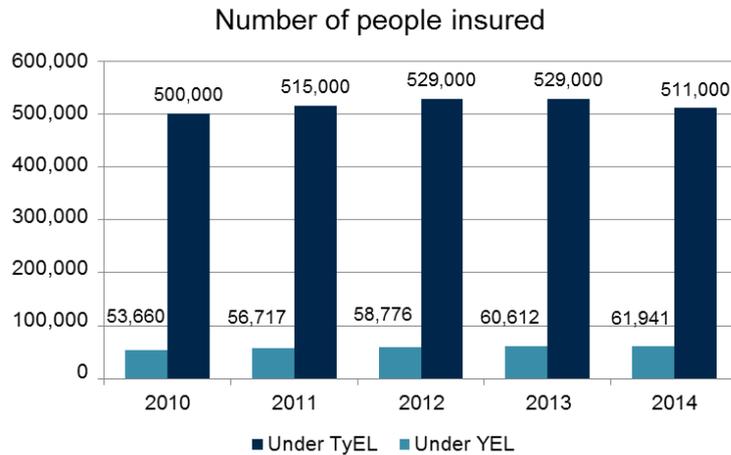
Ilmarinen renewed its invoicing service during 2014 by initiating co-operation with Lindorff Oy in TyEL invoicing, the management of receivables and collection. YEL collection matters have already been under Lindorff's management. The new arrangements are intended to, among other things, improve customer service through longer service hours and cost-efficiency. A replacement investment in a new invoicing system was thus also deemed unnecessary.

Ilmarinen's insurance portfolio grew during the operating year. The number of TyEL insurance policies at the end of 2014 stood at 38,487, which is 250 more than in the previous year. In addition to employers with insurance contracts with Ilmarinen, 5,893 (3,999) temporary employers paid TyEL contributions to the company.

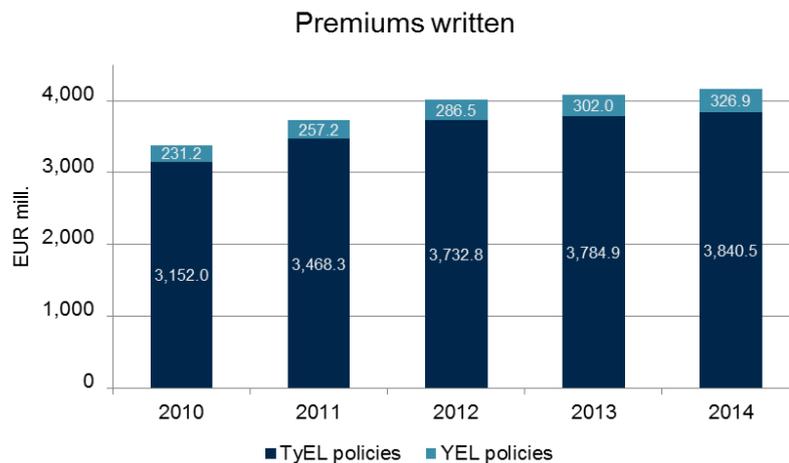
At the end of the year, 511,000 (529,000) insured were covered by Ilmarinen's TyEL insurance policies. The number of insured fell by more than 3 per cent, which resulted from the decline in the number of employees in the entire economy. The average size of TyEL insurance policies in 2014 was 13 (14).

The TyEL payroll insured with Ilmarinen was EUR 16,713 (16,843.0) million, this was 0.8 per cent less than the payroll insured in the previous year. The market share calculated from the insured TyEL payroll amount is estimated to have declined slightly in 2014 compared to the previous year.

The number of self-employed persons insured with Ilmarinen has continued to grow over several years. There were some 61,941 YEL insurance policies at the end of the year, which is 1,329 policies more than a year earlier. The average annual reported income for YEL insurance policies was EUR 24,017 (23,722), an increase of 1.2 per cent on the previous year.



In 2014, Ilmarinen’s premiums written stood at EUR 4,167.4 (4,086.9) million, up 2.0 per cent from 2013. The rise in premiums written resulted from higher pension contributions.



EUR 3,840.5 (3,784.9) million in TyEL insurance premiums were received, i.e. TyEL premiums written increased by 1.5 per cent compared to the premiums written in the previous year. In 2014, discounts in TyEL contributions, i.e. client bonuses, totalled EUR 84.2 million, compared with EUR 62.4 million in the previous year.

YEL premiums written stood at EUR 326.8 (302.0) million, an increase of 8.2 per cent.

Credit losses on unpaid TyEL insurance contributions amounted to EUR 14.5 (16.1) million. Credit losses fell despite the weak economic situation. They made up 0.38 per cent of premiums written, which can still be considered low. In order to ensure the timeliness of TyEL insurance contribution payments, Ilmarinen has developed its payment methods and the supervision of insurance contributions. These measures will be used to decrease the amount of hidden insurance contribution

debt, which helps employers to manage their payment problems and decreases Ilmarinen's credit loss risk.

Credit losses on unpaid YEL insurance contributions amounted to EUR 2.3 (2.6) million. Ilmarinen will not, however, incur losses on the YEL credit losses due to the fact that the State's share in the financing system for YEL pensions compensates for insurance contributions not received from policyholders.

A total of 3,816 new TyEL insurance policies were sold. This will increase the annual TyEL premiums written by EUR 94.8 million during 2015. Ilmarinen's TyEL insurance portfolio increased by 403 policies but premiums written fell by EUR 29.0 million.

A total of 6,492 new YEL insurance policies were sold. This will increase the YEL premiums written by EUR 26.9 million. Ilmarinen's performance in the transfer of YEL insurance policies was also excellent, the transfer resulting in 775 new policies and a gain of EUR 5.0 million.

Ilmarinen ended its co-operation with Pohjantähti Mutual Insurance Company in January 2014. It was decided that the sales of earnings-related pension contributions would be consolidated with one sales channel, i.e. the OP Financial Group.

5. CONTRIBUTION LEVEL

The average TyEL contribution for 2014 was 23.6 per cent of an employee's salary or wage, which is 0.8 percentage units higher than in the previous year. The higher-than-normal increase resulted from the ending of the temporary contribution discount of 0.4 percentage units granted for 2013. The share of contribution for employees aged under 53 was 5.55 per cent and 7.05 per cent for those aged 53 and over. The average contribution for employers was 17.75 per cent of payroll. The employer contribution level varies depending on the insurance policy as well as the client bonuses paid by the pension insurance company. Ilmarinen's client bonuses were on average 2.8 (2.1) per cent of the employer contribution.

The average confirmed TyEL contribution for 2015 as specified in the Pact for Employment and Growth is 24.0 per cent of an employee's salary or wages, i.e. 0.4 percentage units higher than in 2014. The average employer contribution is 18.0 per cent of the payroll. In 2015, the contribution for employees aged under 53 is 5.70 per cent and 7.20 per cent for those aged 53 and over.

The YEL contribution for 2014 was 23.3 per cent of confirmed earned income. The YEL contribution for self-employed persons who had turned 53 before the start of the financial year was, however, 24.8 per cent. In 2015, the contribution for employees aged under 53 is 23.7 per cent and 25.2 per cent for those aged 53 and over.

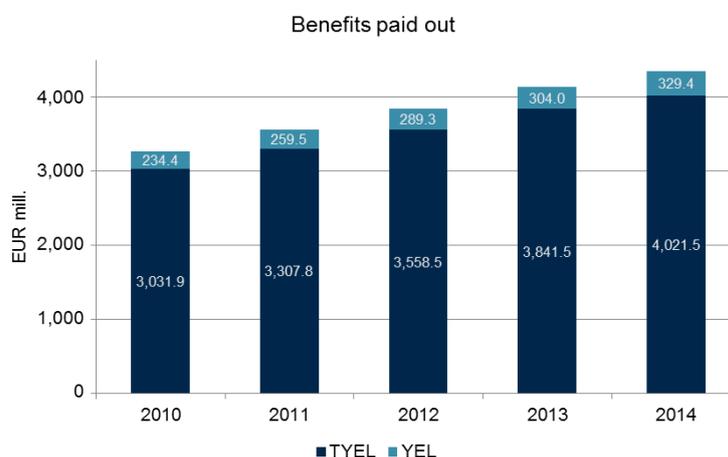
6. PENSIONS AND ACTIVITIES BOOSTING WORKING CAPACITY

In 2014, new pension decisions made at Ilmarinen totalled 22,426, i.e. 4.0 per cent less than in the previous year. In 2014, Ilmarinen paid a total of EUR 4,350.9 (4,145.1) million in pensions. Pension expenditure grew 5.0 per cent from the previous year, and continued to grow quickly, just as in previous years.

Pension expenditure according to type in 2014

EUR million	TyEL	YEL	Total	%
Old-age pensions	3,036.6	242.5	3,279.1	75.4
Early old-age pensions	259.2	23.7	282.9	6.5
Part-time pensions	20.9	5.2	26.1	0.6
Disability pensions	416.5	28.1	444.6	10.2
Unemployment pensions	0.5	0.0	0.5	0.0
Survivors' pensions	287.8	29.9	317.7	7.3
Total	4,021.5	329.4	4,350.9	100.0

The majority of the approximately EUR 4.3 billion in pension expenditure, i.e. some 80 per cent, consisted of old-age pensions. Disability pensions made up approximately 10.2 per cent of the pension expenditure and survivors' pensions just over 7 per cent.



Ilmarinen's pension premiums written equalled just over EUR 4.17 billion. Pension expenditure excluding pension management costs was approximately EUR 4.35 billion and thus some EUR 184 million more than premiums written.

Number of pension recipients on 31 December 2014

Pensions in accordance with basic protection

Type of pension	TyEL	YEL	Total	%
Old-age pensions	196,597	26,299	222,896	69.9%
Early old-age pensions	15,402	3,356	18,758	5.9%
Part-time pensions	1,854	475	2,329	0.7%
Disability pensions	28,640	2,995	31,635	9.9%
Survivors' pensions	36,267	6,982	43,249	13.6%
Total	278,760	40,107	318,867	100.0%

At year-end the number of pension recipients was 318,867, which is 1.6 per cent more than a year earlier, when they numbered 313,962. At the end of the year, 278,760 (274,602) pension recipients received TyEL pensions and 40,107 (39,360) received YEL pensions.

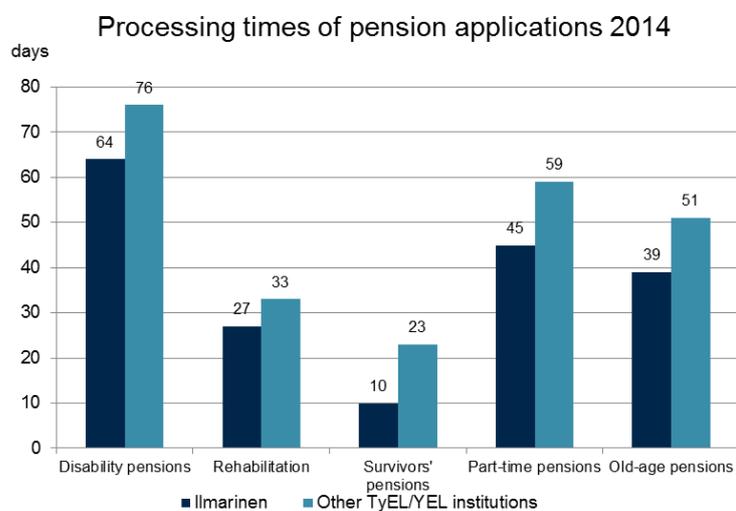
Pension decisions in 2014

	2014	2013	Change %
New pension decisions			
Old-age pensions	10,195	10,097	1.0
Early old-age pensions	170	626	-72.8
Part-time pensions	512	880	-41.8
Disability pensions	5,911	6,333	-6.7
Survivors' pensions	3,158	3,054	3.4
Right to rehabilitation	2,480	2,375	4.4
Total new pension decisions	22,426	23,365	-4.0
Total pension decisions	41,335	42,733	-3.3

During 2014, Ilmarinen made a total of 41,335 pension decisions, which is 3.3 per cent less than during the previous year. The number of new pension decisions decreased by 4.0 per cent in 2014 and a total number of 22,426 were granted, including decisions concerning the right to rehabilitation. The number of disability pensions declined clearly from the previous year while a growing number of people made use of vocational rehabilitation. The number of old-age pensions remained on a par with the previous year.

Ilmarinen measures the quality of the processing of pension applications by ensuring that no interruptions occur in the applicant's income, as well as based on the permanence of decisions in appeal instances. Of all new insurance decisions, 94.1 per cent were granted during the month in which retirement began. Of the negative decisions sent to the Pension Appeal Court (Työeläkeasioiden muutoksenhakulautakunta TELK), 14.2 per cent were amended against Ilmarinen's position. The share of amended decisions was slightly higher than the average share of amendment decisions made by the Pension Appeal Court. 16.4 per cent of the decisions sent to the Insurance Court were amended against Ilmarinen's position.

In 2014, Ilmarinen had faster processing times for pension applications in all pension types than in the peer group.



Source: The Finnish Centre for Pensions 31 Dec. 2014

Ilmarinen offers its customers receiving negative disability pension decisions 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 co-operation agreements. Feedback received from customers, employers and service providers on the service has been positive.

In 2013, the mailing of pension records was changed such that they will now be sent to people under the age of 60 every three years. In 2014, the pension record was sent to people born between May and August as well as to everyone over the age of 60. A total of 228,298 pension records were mailed during July–November, and 48,564 people retrieved their pension records from the online service.

For Ilmarinen’s well-being at work services, 2014 was a record-breaking year in terms of customer co-operation. Ilmarinen organised 38 seminars on well-being at work for its client companies throughout Finland, attracting around 2,200 participants. During the year, Ilmarinen also had 1,800 distinct coaching or other well-being at work projects underway in co-operation with clients. Co-operation with clients is systematic and goal-oriented and the projects are always targeted at jointly identified challenges related to well-being at work. As a general rule, co-operation is based on written agreements and the results produced by the services are monitored through indicators agreed on together with clients and customer surveys, for example.

This monitoring shows that the services have improved well-being at work and reduced disability risk in client companies.

Ilmarinen also supports the management of disability risks in its client companies through vocational rehabilitation. This service includes training provided to supervisors and advisory services as

well as expert support for both supervisors and employees during the rehabilitation planning phase. Altogether 2,500 vocational rehabilitation applicants received confirmation of support for changing careers or returning to work. The increase from the previous year was more than 4 per cent. During the actual rehabilitation period, the company pays benefits pursuant to earnings-related pension legislation, which support the individual's income during the rehabilitation and compensate for the costs resulting from the training. Altogether more than 5,000 decisions related to rehabilitation benefits were made in 2014, which was a 4 per cent increase on the previous year.

7. UNDERWRITING BUSINESS AND TECHNICAL PROVISIONS

At the end of 2014, Ilmarinen's technical provisions totalled EUR 28,402.3 (27,188.9) million. The provision for future bonuses, which serves as a buffer for investment losses, increased by net EUR 80.0 million and stood at EUR 842.9 (762.9) million at the end of the year. The equity linked buffer increased due to the rise in share prices by EUR 255.4 million and stood at EUR 889.4 (634.0) million at the end of the year. Otherwise, the increase in technical provisions was 3.4 per cent.

The underwriting result under the company's own responsibility was EUR 45.7 (-14.8) million. The equalisation provision grew by EUR 45.3 million to EUR 1,016.5 million.

Interest is credited on technical provisions on return on investments in compliance with the technical bases. The majority of the return requirement on technical provisions of pension insurance companies is determined on the basis of the average solvency of pension institutions, and the remainder, 10 per cent, is tied to the average return on the listed equities owned by the pension institutions. The share of the return requirement determined on the basis of the average solvency of pension institutions is calculated by adding the pension liability supplementary coefficient, given in the technical bases, to the 3 per cent discount rate. The interest credited on technical provisions totalled 5.0 per cent in 2014, of which the return tied to the equity linked buffer equalled 0.9 per cent. A 4.1 per cent return was credited on the remaining technical provisions.

The technical interest rate used to calculate insurance contributions was 4.50 per cent in the first half of the year and 5.00 per cent in the second half.

Assets that cover technical provisions stood at EUR 32,725.0 (32,643.3) million at the end of the reporting year.

Table: Breakdown of technical provisions

EUR million	2014	2013
Provision for unearned premiums		
Future pensions	13,359.1	13,136.8
Provision for future bonuses	842.9	762.9
Provision for current bonuses	94.8	86.0
Equity linked buffer	889.4	634.0
Total provision for unearned premiums	15,186.2	14,619.7
Provision for claims outstanding		
New pensions awarded	12,199.6	11,598.0
Equalisation provision	1,016.5	971.2
Total provision for claims outstanding	13,216.0	12,569.2
Total technical provisions	28,402.3	27,188.9

8. INVESTMENT OPERATIONS

A long-term approach is essential in investing pension assets. The objective of Ilmarinen's investment operations is the highest possible return on investments in the long term. However, the average risk of the investments should not be too high in relation to the company's risk bearing ability. The average long-term expected return on Ilmarinen's investment assets is six per cent, and the expected standard deviation of the return is eight per cent.

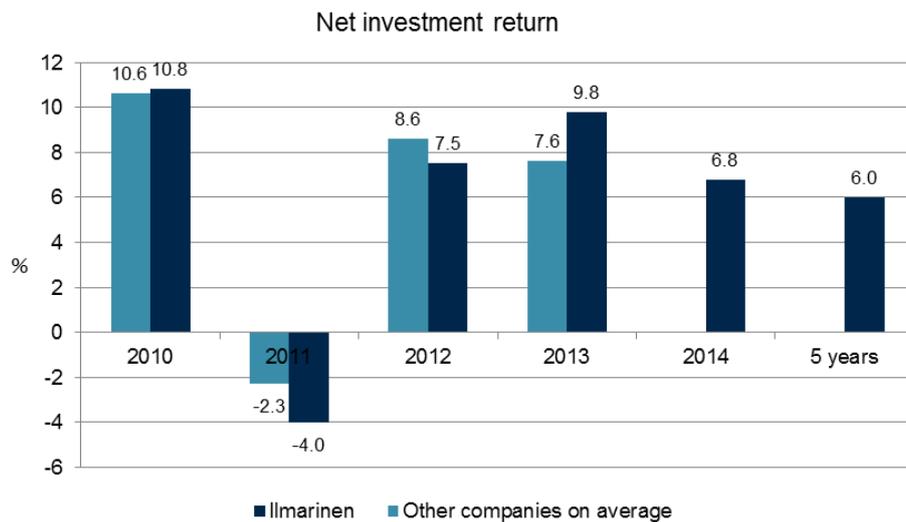
In 2014, Ilmarinen's key investment theses were cascaded, thus further strengthening the value platform of the entire organisation's investment operations. During the year, the investment strategy extending to 2020 was adjusted, which will steer investment operations in the long term. Key changes brought about by the strategy include a decreasing proportion of fixed-income investments and a growing allocation share of real estate and infrastructure investments.

Economic growth and inflation were lower than expected in the reporting year. Monetary policy continued to be highly stimulating, however, which supported investment market performance, which in turn decreased the interest rate level and gave the equity markets a boost. Geopolitical risks, most importantly the Ukraine crisis, and the sharp drop in the price of oil in the second half of the year added to market fluctuations.

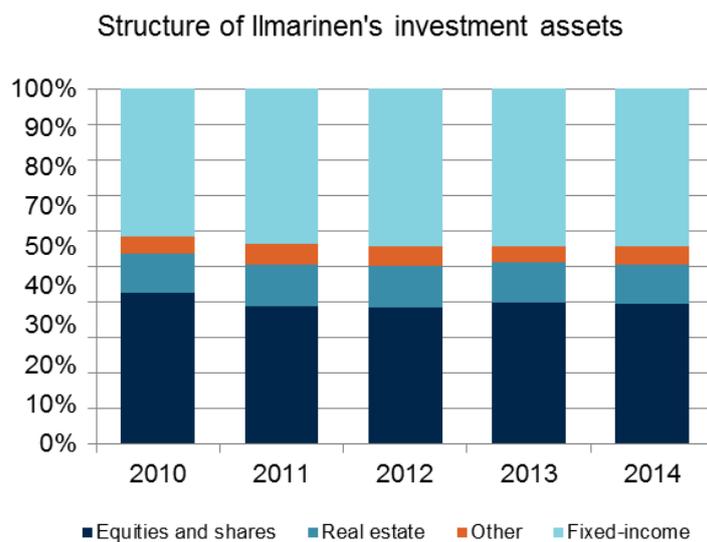
Ilmarinen's investments in 2014 focussed successfully on the high-yield equity markets while limiting the exposure to growing interest rates. Also the currency outlook had a positive effect on the investment result. In its entirety, 2014 was a good year for investors.

At the end of 2014, Ilmarinen's total investments at current value were EUR 34,195.5 (32,270.2) million. The return on investments at current value was 6.8 per cent. Inflation at the end of the year was 0.5 per cent and the real return on Ilmarinen's investments was 6.3 per cent in 2014. In the previous year, the return on the investment portfolio was 9.8 per cent, i.e. 8.1 in real terms. Calculations are based on the investment portfolio at the end of the reporting year.

lated at current value, average annual income over the last five years has been 6.0 per cent, which corresponds to an average annual real income of 3.9 per cent. Calculated from 1997, the average annual return at current value for Ilmarinen's investments has been 5.9 per cent per annum. This corresponded to an annual real yield of 4.1 per cent.



The following breakdown of the company's asset allocation follows the classification according to current value. The notes to the financial statements include this basic breakdown as well as the investment risk breakdown and a table portraying the classification of investment returns according to investment class.



Bonds, fixed income funds and other money market instruments formed 39.9 (38.8) per cent of the total value of Ilmarinen's investment assets. Their total market value, taking into account derivatives, was EUR 13,636.1 (12,524.82) million and return at current value was 2.1 (4.6) per cent. A total of EUR 5,026.0 (4,444.2) or 36.9 (35.5) per cent was invested in bonds issued by governments or other similar issuers. Ilmarinen had EUR 922.0 (688.1) million or about 6.8 (5.5) per cent in money market investments, yielding 0.0 (0.0) per cent. The remaining 56.3 per cent were corporate bonds, most of which had a high credit rating. The return on bonds with credit risk was 0.8 per cent. At the end of the year, the modified duration of the bond portfolio was -0.9 (0.2) years.

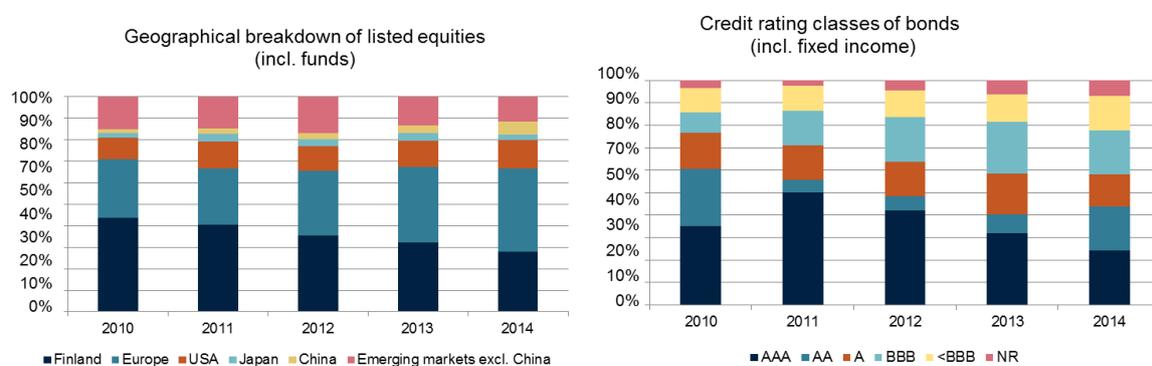
Ilmarinen's corporate credit portfolio decreased in 2014 by almost 17.6 per cent, because companies' interest towards TyEL relending continued to decline due to the low investment activity of companies. At the end of the year, loan receivables made up 4.3 (5.5) per cent of investment assets. New loans amounting to EUR 55.5 (99.4) million were drawn down during 2014. At the end of the year, the total loan portfolio was EUR 1,473.8 (1,789.1) million including accumulated interest. The return on loan receivables was 4.3 (4.0) per cent.

Corporate credit portfolio, EUR million

EUR million	2004	2009	2014	Return, %
Premium loans	710.2	1,762.7	581.4	4.0
Lending other than premium loans	400.6	1,449.0	892.4	4.5
Total (includes accumulated interest)	1,110.9	3,211.8	1,473.8	4.3
Share of total portfolio, %	6	13	4	

The above-mentioned investments together make up the fixed-income investment class. The investment portfolio share of all of these investments was 44.2 (44.4) per cent and their returns were 2.4 (4.5) per cent.

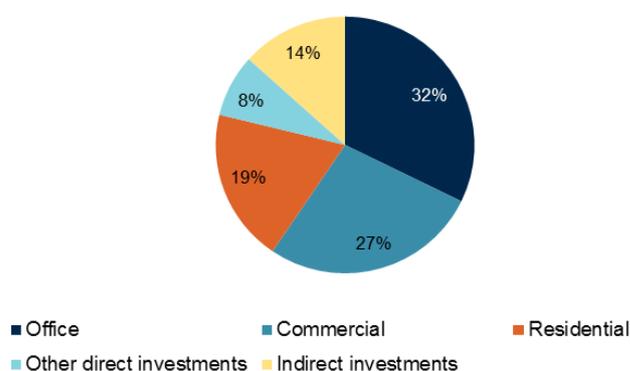
Listed and non-listed equities and shares as well as private equity investments made up 39.7 (39.8) per cent of all investments. Their value increased to EUR 13,568.3 (12,843.0) million in 2014. Of this, domestic equities made up about 30.2 (33.6) per cent, or EUR 4,096.0 (4,317.0) million. Domestic equities made up 28.0 (32.2) per cent of investments in listed equities and shares. The return on equities, calculated at current value, was 10.9 (20.9) per cent.



Equity, currency and interest derivatives are used both for hedging and for altering the risk level of the investment portfolio. As a result of the use of derivatives, the amount of equities and shares according to risk was EUR 14,319.8 million, i.e. 41.9 per cent of investments. The effect of interest derivatives is included in the modified duration of the bond portfolio reported above.

Real estate investments at the end of 2014 stood at EUR 3,681.3 (3,644.1) million, a 1.0 per cent change from the previous year. The share of real estate investments was 10.8 (11.3) per cent, of which indirect investments made up 1.4 percentage units. The value of directly-owned properties was EUR 3,189.6 (3,101.3) million. The lease rate of real estate owned by Ilmarinen remained at the previous year's level and was 88.2 (88.4) per cent at year-end.

Real estate investment structure on 31 Dec. 2014



The total return on the company's real estate investments was 5.4 (4.8) per cent. The return on direct real estate investments was 4.9 (5.0) per cent. The net return on direct real estate investments before changes in value was 5.0 per cent. The return on indirect real estate investments was 8.5 (3.2) per cent. The commercial real estate vacancy rate remained relatively high.

Some 5.4 (4.6) per cent of the market value of investment assets consisted of commodity investments, investments in absolute return funds and other investments. Of this, absolute return funds accounted for EUR 522.3 million and generated an average return of 6.8 per cent on capital employed.

According to the responsible investment principles included in Ilmarinen's ownership 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 does not lead to the desired end result, the investment is sold. Additionally, Ilmarinen refrains from acquiring investments whose operations do not fulfil the required criteria. During 2014, Ilmarinen was involved in several hundred engagement processes.

On 6 February 2014, OP-Pohjola Group made a public tender offer for the shares of Pohjola Bank. In its meeting on 12 February 2014, Ilmarinen's Board of Directors voted to accept the offer and sell Ilmarinen's 10 per cent holding in Pohjola Bank's shares.

9. RISK MANAGEMENT

The objective of Ilmarinen's risk management is to prevent the realisation of risks threatening the company's operations, minimise the financial and other damage caused by realised risks and to ensure the continuity of operations. Another objective is for the company to be able to utilise the opportunities offered by controlled risk-taking in business operations, especially in investment activities. The most essential goal is to secure Ilmarinen's statutory operations and the rights of the insured, pensioners and policyholders in all situations.

Ilmarinen has a risk management plan that covers the entire operations of the company and is based on the Board of Directors' risk management plan. A Risk Management Committee is in place for the company-level monitoring, assessment and development of risk management, made up of organisational unit representatives. The Committee regularly prepares an assessment of the risks facing the company and submits it for approval to the Executive Group and updates the risk management plan annually. The risk assessments are handled by the Board's Audit and Risk Management Committee and the Board of Directors. The Board of Directors approved the risk management plan on 22 May 2014.

Risk management within the company, including monitoring of investment risks, and reporting to the Board of Directors fall under the responsibility of the Senior Vice President in charge of the company's actuarial services and risk management. This ensures the independence of investment activity reporting and risk monitoring from risk-taking functions.

Risk-taking in investment operations is steered by the investment plan approved by the Board of Directors and the related risk tolerance analysis and investment authorisations and other principles determined by the Board of Directors. The risk level and change requirements for the basic allocation are monitored by an Asset Management Group, comprised of representatives of investment operations, the actuarial and risk management function and the finance function. The risk management function also produces scenario and stress tests for monitoring and assessment. In investment operations risk monitoring and management are continuous.

Work to develop company-level risk management continued according to the approved overall plan. In 2014, risk management training for Ilmarinen employees, risk management guidelines, risk assessment models and risk reporting to management were developed further. In addition a survey of business needs was launched in order to develop company-wide risk assessment and monitoring processes and the reporting system. A comprehensive analysis was made of continuity management during the year, in connection with which a plan was drawn up to revise the risk management area in question. Long-term scenario analyses were further developed in strategic investment risk management.

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

10. PERSONNEL

An average of 600 persons worked for Ilmarinen Group in 2014 compared to 604 a year earlier. The average number of employees in the parent company Ilmarinen was 537 (535). This figure includes 69 (68) part-time employees, whose work contribution has been adjusted to correspond with the average working hours of full-time employees. 59 (55) persons were on family leave or other unpaid leave during the year. At the end of the year, the parent company Ilmarinen employed 576 (581) persons, of whom 554 (562) were permanent employees.

Ilmarinen has set goals for its personnel costs, and they are covered by the expense loading component. The long-term target was for the number of personnel measured in average person years to decline in a controlled manner, i.e. at an average annual rate of two per cent per year. Development investments tied down person years during 2014 and the number of personnel declined by one per cent. The realised total for the year was 449 (453).

The productivity of the personnel can be measured by making the number of person years proportional to the number of insured. When person years financed by the insurance contribution's expense loading component for every one thousand insured are used as an indicator, the figure for 2014 was 0.499 (0.494).

Personnel costs covered by investment operations are monitored separately by the company. The number of investment personnel increased slightly and equalled, on average, 85 person years (87).

Assessments of leadership measured whether supervisors had abided by the leadership principles launched at the beginning of 2012. The score given to supervisors by employees remained at a high level, equalling 3.9 on a scale of 1–5. Supervisors received especially good feedback for supporting success (4.0) and for encouraging thinking outside the box (4.0). Supervisory work was also developed during the reporting year: special focus was placed on supervisor coaching.

In addition to the leadership principles, the implementation of the work community principles in day-to-day work is also monitored. According to the results, the jointly agreed principles are successfully implemented with a score of 3.8 on a scale of 1 to 5. Respondents gave the best scores to statements measuring support to co-workers and customer-orientation (4.1 and 4.0).

In recent years, Ilmarinen has continuously focussed its efforts on making remuneration more encouraging, more fair, more objective and more transparent.

The entire personnel is covered by a short-term remuneration system. The goals for performance-based rewards have been set high in order for them to encourage excellent performance.

The rewarding of personnel in the long term takes place through a profit-sharing bonus channelled through the personnel fund. Ilmarinen's Board of Directors annually decides on the amount of profit sharing bonuses transferred to the fund. Ilmarinen's personnel fund started operating at the beginning of 2011 and, according to the Board's decision, the third profit sharing bonus was paid into the fund in 2014. The criteria have been distilled from Ilmarinen's strategic targets.

The fund includes the entire personnel, except for those covered by the long-term remuneration system for management. The fund is managed by a council and a board elected by the personnel.

The second bonuses earned under the management's long-term remuneration system were paid out in 2014. The first earnings period covered the years 2010–2012. The payment of the bonuses earned during that period has been spread out over four years and they will continue to be paid in 2015–2016. The second earnings period covers the years 2013–2015.

11. INFORMATION TECHNOLOGY

The reform of the pension processing system was the largest information technology project of the year. Work progressed according to plan in all areas. The rolling out of the functions will take place gradually over 2015 and 2016. The first portions of the digital services for customers were finished: a cloud-based contact centre system was launched in the autumn and new online service at the end of the year. A new insurance contribution invoicing system was introduced towards the end of the year.

The overhaul of the financial administration's IT systems proceeded according to plan and during 2015 we will move over to new accounting and cost accounting systems. Due to the development needs and special features of the investment operations' IT services it was decided to establish an organisational unit within the IT division to meet the needs of these services. Alongside the major development projects the service level for IT production activities remained good.

12. OPERATING EXPENSES

Ilmarinen's cost-efficiency remained relatively good as in the previous year. The efficiency of operations benefits Ilmarinen's customers in the form of client bonuses. The operating expenses financed using the loading profit increased by 2.4 per cent. The ratio of the above-mentioned operating expenses to the expense loading components available for them rose slightly equalling 76 (75) per cent.

Ilmarinen's total operating expenses were EUR 149.8 (143.4) million, up 4.5 per cent from the previous year. The loading profit was EUR 34.0 (35.1) million.

The statutory charges, EUR 12.5 million, are financed through a separate part of the insurance contributions allocated to statutory charges. These charges include the share of the costs of the Finnish Centre for Pensions, the supervision charge of the Financial Supervisory Authority and the judicial administration charge.

Operating expenses for investment activities were EUR 23.5 (22.0) million, or 0.07 per cent of the total investment amount. They are financed using the return on investments. Activities were conducted together with clients to maintain well-being at work and work capacity. The costs of maintaining work capacity that are financed from the administration part of disability risk contained in the insurance contribution were EUR 5.7 (4.3) million.

13. CORPORATE GOVERNANCE AND ORGANISATION

In 2014, Matti Lievonen, President and CEO, Neste Oyj, functioned as the Chairman of Ilmarinen's Supervisory Board. Antti Herlin, Board Chairman of Kone Corporation, and Kirsi Kaasinen, Vice Chairman of the Board of the Finnish Association of Graduate Engineers TEK, were Deputy Chairmen, with Kaasinen as the primary Deputy Chairman. The Supervisory Board has altogether 28 members.

In its meeting on 11 November 2013, the Supervisory Board elected new members and deputy members to the Board of Directors for the next four years, i.e. for the term of office starting on 1 January 2014 and ending on 31 December 2017. The composition of the Board of Directors on 1 January 2014:

- Sture Fjäder, President of the Confederation of Unions for Professional and Managerial Staff in Finland AKAVA
- Kim Gran, President and CEO, Nokian Tyres Plc
- Matti Halmesmäki, President and CEO, Kesko Corporation
- Minna Helle, Director, Negotiations and Social Policy of Finnish Confederation of Professionals STTK
- Jyri Häkämies, Director General of the Confederation of Finnish Industries EK
- Olli Lehtilä, Managing Director, Helsinki OP Bank
- Hannu Leinonen, President and CEO, Destia Ltd
- Lauri Lyly, President of the Central Organization of the Finnish Trade Unions
- Heikki Malinen, President and CEO, Itella Corporation
- Leena Niemistö, CEO, Oy Dextra Ab
- Jussi Pesonen, President and CEO, UPM-Kymmene Corporation
- Kristian Pullola, Vice President, Corporate Controller, Nokia Corporation

Deputy members:

- Anne Berner, Managing Director, Oy Vallila Interior Ab
- Minna Korkeaaja, Executive Vice President and CFO, Northern Power Company
- Hannu Rautiainen, Director, Legal Affairs and Administration of the Confederation of Finnish Industries EK
- Petri Vanhala, President, Finnish Paper Workers' Union

New members were Minna Helle, Olli Lehtilä and Heikki Malinen with Minna Korkeaaja as a new deputy member.

Kim Gran, Matti Halmesmäki, Minna Helle and Leena Niemistö resigned from the Board on 31 December 2014.

In its meeting on 19 November 2014, the Supervisory Board elected new members to replace the members who resigned, for the period 1 January 2015 to 31 December 2017: Mikko Helander, President and CEO of Kesko Corporation, and Hille Korhonen, President and CEO of Alko Inc. Anne Berner, formerly a deputy member, became a full member and Finavia Corporation's President and

CEO Kari Savolainen became a new deputy member. Helle's successor on Ilmarinen's Board of Directors will be appointed in the Supervisory Board's meeting in March 2015.

Jussi Pesonen was Chairman of the Board in 2014. Jyrki Häkämies and Lauri Lyly were the Deputy Chairmen, the latter of whom was the primary Deputy. The Chairmen of the Board of Directors make up the Nomination and Compensation Committee.

Kristian Pullola was Chairman of the Audit and Risk Management Committee and its members were Minna Helle, Minna Korkeaoja and Hannu Rautiainen.

During 2014, Ilmarinen prepared for the legislative amendment concerning the governance of employment pension companies that came into effect on 1 January 2015. The change will cause some increase in the administrative workload particularly in documenting, reporting and control and in terms of reorganising insider control. Furthermore, the amendment will add to the Board of Directors' tasks. Ilmarinen's ways of working have, for the most part, already been in line with the new regulations. The biggest changes concern updating existing documentation and the Code of Conduct, and the implementation of insider control as of 1 June 2015. In addition, the work of the Board and its committees and the division of labour between them has been developed further and their effectiveness boosted based on the needs of the Board and the requirements of good corporate governance.

Matti Lievonen held the role of Chairman for the Election Committee until 19 November 2014 with Sture Fjäder, Minna Helle, Antti Herlin and Jussi Pesonen as its members. Esa Vilkuna was Deputy Chairman until 24 September 2014.

In its meeting on 19 November 2014, Ilmarinen's Supervisory Board elected the new members for the new term of office for the Election Committee, which began immediately and will end following the final Supervisory Board meeting for 2015. Matti Lievonen will continue as Chairman with Sture Fjäder, Antti Herlin and Jussi Pesonen as members. Sakari Lepola, Chairman of the Board, Wood and Allied Workers' Union, was elected as the new Chairman for the Election Committee. Minna Helle's membership in the Election Committee ended on 19 November 2014 and a new member will be elected in her place in the Supervisory Board's meeting in March 2015.

Ilmarinen has an internal auditor and Compliance Officer who report to the President and CEO and the Board of Directors.

Ilmarinen's auditor is Ernst & Young Oy, Authorized Public Accountant Firm, with Tomi Englund, APA, as the principal auditor.

14. GROUP

In addition to the Ilmarinen parent company, Ilmarinen Group mainly includes real estate companies, which came to a total of 169 at the end of 2014. 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 2014 was 170. Garantia Insurance Company Ltd, Kruunuvuoren Satama Oy, Russia Invest B.V., Technopolis Holding 2 AS, Tamina Homes Inc and eight shipping companies, owned together with the National Emergency Supply Agency, and Navidom, which handles their asset management, were consolidated as Ilmarinen's associated companies.

Ilmarinen owns Suomi Mutual Life Assurance Company's guarantee capital in its entirety. As the guarantee shares do not give the right to vote, the company cannot be consolidated with the Group as an associated undertaking, instead it is considered a participating interest.

15. EVENTS AFTER THE FINANCIAL YEAR

On 11 December 2014, Taaleritehdas has committed to purchasing the entire share stock of Garantia Insurance Company from its current owners, among them Ilmarinen. The sale will take place on 31 March 2015, provided that all of the conditions agreed on in the bill of sale for the transaction are met.

Harri Sailas, Ilmarinen's President and CEO as of 2007, will retire in spring 2015. In September 2014, the company's Board of Directors elected as its new President and CEO Timo Ritakallio, who took on the role on 1 February 2015.

16. FUTURE PROSPECTS

The recovery of the Finnish economy still appears to be fragile and we can expect the growth of the payroll and Ilmarinen's premium income to remain very slow in 2015. The cut to the earnings-related pension index decided by the government will also somewhat slow the growth of pension expenditure.

The investment environment continues to be twofold. The monetary policy stimulus measures started up by the European Central Bank in January 2015 will create possibilities for increasing share prices but will simultaneously push returns on low-risk bonds to close to zero. The continuation of the Ukraine crisis will increase the political risk linked to economic development.

The preparation of new pension acts based on the labour market organisations' pension agreement is proceeding at the Ministry of Social Affairs and Health and the new government to be appointed following this spring's parliamentary elections is expected to submit a bill concerning the pension reform to the Parliament during the autumn.

The 2017 pension reform requires the renewal of many systems related to the calculation of pensions. Ilmarinen has initiated the implementation of pension reform measures by preparing for these changes.

Ilmarinen endeavours to ensure its competitiveness by improving its cost-efficiency and operating as a successful investor of pension assets. The key success factor in the management of Ilmarinen's customer relationships is its close partnership with the OP Financial Group, which has a nationwide service network and a comprehensive financial sector service selection.

Proposal of the Board of Directors for the disposal of profit

The parent company's distributable capital and reserves in the financial statements on 31 December 2014 amount to EUR 71,264,764.97, of which the profit for the financial year is EUR 4,275,472.46.

The Board of Directors proposes that a maximum of EUR 50,000 be reserved for use by the Board of Directors as donations for purposes of general interest, or similar purposes, and authorises the Board of Directors to decide on the recipients of the donations, their purpose and other conditions for donations. The authorisation will be in force until the 2016 Annual General Meeting and any donation funds that remain unused at the end of the authorisation shall be transferred to the contingency fund.

In addition, the Board of Directors proposes that the remainder of the profit, i.e. EUR 4,225,472.46 be transferred to the contingency fund.

Helsinki, 26 February 2015

Jussi Pesonen

Lauri Lyly

Jyri Häkämies

Anne Berner

Sture Fjäder

Mikko Helander

Hille Korhonen

Olli Lehtilä

Hannu Leinonen

Heikki Malinen

Kristian Pullola

Petri Vanhala

Timo Ritakallio
President and CEO

Today a report has been issued on the performed audit.

Helsinki, 11 March 2015

Ernst & Young Oy
Authorized Public Accountant Firm

Tomi Englund
Authorised Public Accountant