

REPORT ON OPERATIONS AND FINANCIAL STATEMENTS 2012



1. ECONOMIC DEVELOPMENT

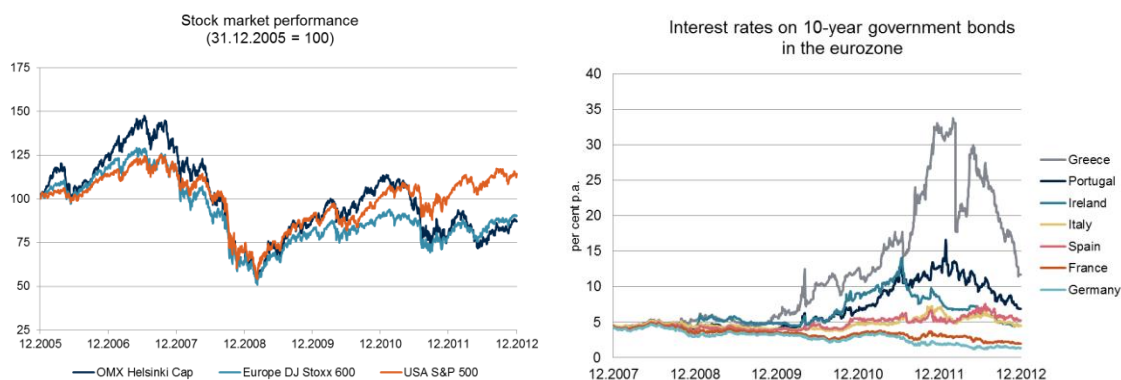
Finland's economy came close to a recession in 2012. The economic recovery that took place following the deep downturn in 2009 began to decelerate already in the autumn of 2011 and, during 2012, economic growth came to an almost complete standstill. This was a Europe-wide phenomenon, arising from the European debt crisis, which had already lasted for several years. The eurozone sovereign debt crisis continued and gave birth to increasing uncertainty in the capital markets. Simultaneously, many European countries were attempting to decrease their public deficits by tightening their financial policies, which in turn nearly stopped the economic growth of the entire eurozone in its tracks. As a result of slowing growth in the eurozone, unemployment figures continued to rise. This environment also meant a weak development in Finnish exports.

During 2011, the European sovereign debt crisis spread from Greece, Portugal and Ireland, countries with earlier debt-related problems, to Italy and Spain, where government bond interest rates started to rise. The situation remained extremely unstable during early 2012. The threat of the debt crisis spreading to the eurozone's larger economies caused nervousness in the markets, as a result of which interest rate differences increased and share prices took a downward turn in the second quarter of the year. A significant turn of events occurred in summer 2012 when the ECB reported that it was prepared to take unlimited support measures in order to secure the stability of the euro, if required. Following this announcement, market confidence began to improve. During the second part of the year, the interest rates of the crisis countries' government bonds began to decline and European share prices began to rise. The returning confidence of investors did not, however, cause the real economy to develop in a more positive direction.

The growth percentage of the Finnish economy was close to zero in 2012. The downturn in the global economy led to shrinking exports. The favourable development of private consumption prevented the economy from sliding deeper into the downturn. The confidence and income development of households remained relatively good. The number of employed continued to increase during the early part of the year but saw a downward trajectory towards the end of the year. Unemployment also began to grow towards year-end, but the annual average unemployment for 2012 remained below 8 per cent and was thus very close to the corresponding figure for the previous year. The employment rate remained at 69 per cent, with no significant changes taking place since the previous year. Payroll growth slowed down to around 3.5 per cent from the previous year's figure of 5 per cent. The key reason for this was the poor development of the payroll for industry. The increase in consumer prices decelerated somewhat during 2012, also in comparison with 2011. The annual average increase in prices was 2.4 per cent.

The 2009 economic crisis led to a considerable deficit in Finland's budget. Economic recovery began to decrease the deficit in 2011 but the halting of growth in 2012 also meant that the recovery of government finances was interrupted. The government budget deficit stabilised at approximately EUR 7 billion. In order to rectify the situation, the government decided in early spring 2012 to implement tax hikes and expenditure savings to balance out the government budget in 2013–2016. The decided measures will simultaneously restrict the growth of households' purchasing power and domestic demand.

The development of share prices in Finland and in Europe was turbulent during the early part of the year. During the latter half of the year, share prices began to rise strongly, ultimately turning 2012 into a good investment year. The stock index of the Helsinki Stock Exchange rose around 10 per cent during the year. Additionally, the returning confidence boosted the return on fixed-income investments. The return on pension funds' investments at current value clearly exceeded expectations in 2012 and clearly surpassed the long-term average return.



2. DEVELOPMENTS IN THE EARNINGS-RELATED PENSION SYSTEM

An exceptionally rapid change in the population's age structure is taking place in Finland in the 2010s, as the baby-boomer age groups are preparing to retire. As a result of this change, the number of pensioners will grow rapidly and the old age dependency ratio will rise faster than in most other industrial countries. This development is enhanced by the rising life expectancy. The change in age structure, together with the weakened employment rate following the 2009 downturn, have started up an extensive social debate concerning the need to lengthen careers and raise the average retirement age. On the one hand, the goal is to improve the long-term sustainability of public finances and, on the other, to improve labour supply incentives so that a large enough labour force will exist even if the number of working-aged people declines.

Working career policy

The positive development of working careers and employment ceased in 2012. The employment rate of 55 to 64 year-olds, a key group in terms of working career targets, did not improve due to the weakened employment situation. Despite this, the retirement age expectancy remained above the set target, just as in 2010. The retirement age expectancy has, so far, increased more rapidly than the targets set during and after the pension reform in 2005.

The labour market organisations signed an agreement for extending careers in March 2012. It contained decisions involving changes in early retirement channels and earnings-related pension contributions and set a timetable for the next pension reform. According to the agreement, early old-age pension will be discontinued and the age limit for part-time pension will increase by one year. The right to receive the continued unemployment benefit, i.e., the unemployment path to retire-

ment, will correspondingly be deferred by one year. The changes will come into force gradually during 2013 and 2014. The organisations also agreed that the average earnings-related pension contributions would be raised by 0.4 percentage points per year in 2015 and 2016. The increment will be split evenly between the employer and employee. In connection with the decision, agreements were made concerning measures for improving unemployment security incentives and improving well-being at work and occupational health care.

The organisations also agreed that a pension reform will be implemented in 2017 at the latest. Nearly all of the parameters related to employment pensions will be under negotiation during the preparations for the pension reform. The objective of the reform is to lengthen working careers and to strengthen the financial foundation of the pension system. A group of high-level experts led by Jukka Pekkarinen, Director General of the Economics Department at the Ministry of Finance, was appointed to investigate the sustainability and change requirements of the earnings-related pension system in view of future negotiations. The working group will continue its investigations until the end of 2013.

Raising the retirement age has so far appeared to be the most problematic issue during the negotiations concerning working careers. The raising of the minimum old-age pension limit from 63 years to 65 years has been discussed in public since 2009. Finnish business and industry interest groups as well as many experts have been in favour of a gradual increase in the retirement age. In many European countries decisions have already been made to raise the retirement age. In Finland the parties have not, however, taken a strong stand on the issue nor does the Government Programme include any mention of it. The issue has been left to be solved by the labour market organisations within the pension negotiation working group. Wage earners' organisations have, to date, expressed their opposition to the raising of the retirement age and public opinion has not warmed to the issue either. According to a survey conducted by the Finnish Centre for Pensions, the majority of wage earners and employers consider the current pension age limits to be suitable.

Solvency reform and other earnings-related pension sector regulation

Following the steep decline in share prices caused by the financial crisis, the Finnish Parliament enacted a temporary act in autumn 2008, amending the solvency regulations of pension insurance companies on a temporary basis until the end of 2010. In spring 2010, the validity of the act was extended by another two years to the end of 2012. In 2011, the Ministry of Social Affairs and Health set up a new working group to prepare a permanent amendment to the solvency regulations. In its spring session, the Parliament passed a partial amendment in which the pension institutions' use of capital would be boosted by combining the solvency capital intended to cover investment risks and the equalisation provision created for insurance risks, into a new type of solvency capital. The amendment came into force at the start of 2013. The working group set up by the Ministry of Social Affairs and Health will continue its work on the overall reform of the solvency framework.

The survey on the competitive conditions of the earnings-related pension system continued at the Ministry of Social Affairs and Health during the year under review. 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.

The policies adopted by pension insurance companies in projects aimed at maintaining working capacity have gained more attention and regulation in this area will be developed by the Ministry of Social Affairs and Health.

Reaching an agreement on earnings-related pension contributions for 2013 proved challenging. The renewal of the solvency regulations made the equalisation provision included in the solvency capital a topic of surprisingly wide-spread public debate. Many demands were presented in the media for the surplus that has accrued in the pension companies' equalisation provision to be reduced through a deduction in earnings-related pension contributions. On the other hand, the Social Agreement between the labour market organisations includes a prior agreement concerning an increase in the average earnings-related pension contribution during 2011–2014 by 0.4 percentage points per year. Finding a negotiated solution was no simple matter, but eventually the labour market organisations agreed that a one-time discount of 0.4 percentage points would be applied to the contributions for 2013. In practical terms, the decision means that the contribution for 2013 will remain at the previous year's level.

3. ILMARINEN'S RESULT AND SOLVENCY

2012 was a good investment year for Ilmarinen despite the euro crisis and weak outlook at the beginning of the year. Stock prices increased dramatically in the second half of the year, which raised the annual return on investments to 7.5 per cent and improved Ilmarinen's solvency. The real return on investments equalled 5.0 per cent, i.e. 1.3 percentage points higher than the long-term average.

Ilmarinen succeeded well in the competition for pension customers. An increase in the customer base and premiums written during the year spoke of customers' confidence in the company. The loading profit, which describes the efficiency of operations, in turn weakened and the ratio of operating expenses to expense loading components rose to 80 (74) per cent. The increase in expense ratio was largely due to greater development investments.

The net return on Ilmarinen's investments, calculated at current value, was 7.5 per cent in 2012 (-4.0 per cent in 2011). Solvency capital, i.e. the difference between the company's assets and liabilities measured at current value, increased to EUR 5,752.4 million from EUR 4,808.7 million in the previous year. At the end of 2012, solvency capital amounted to 23.9 (21.1) per cent of technical provisions used in the calculation of solvency. The solvency capital includes the amount of EUR 1,003.6 (951.2) million in provision for pooled claims treated equal to solvency capital, in accordance with the temporary legislation. Without this item, the solvency capital would have amounted to EUR 4,748.8 (3,857.5) million and the company's solvency ratio to 18.9 (16.2) per cent.

The solvency capital is intended to cover the risks inherent in investments. 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 accord-

ing 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. Ilmarinen's solvency capital at the end of the financial period was 2.2 times the solvency limit, compared to 2.5 a year earlier. Without the temporary item according to the temporary legislation, the solvency position would have been 1.7 (2.0).

Investment income at current value was EUR 911.2 million (EUR 1,756.2 million negative in 2011), when taking into account the interest credited on technical provisions, EUR 813.9 (959.7) million, and the EUR 323.2 million increase (a EUR 356.4 million decrease in 2011) 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 -7.0 (-69.4) million and its loading profit amounted to EUR 27.0 (33.7) 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 according to the criteria prescribed 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 2012 at current value thus stood at EUR 931.2 (-1,791.9) 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. EUR 62.0 (55.0) million will be allocated for client bonuses from the result for 2012. The transfer is 0.37 (0.35) per cent of the insured payroll and EUR 117 (107) 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 2012, the result in the profit and loss account was EUR 3.0 (5.8) million.

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

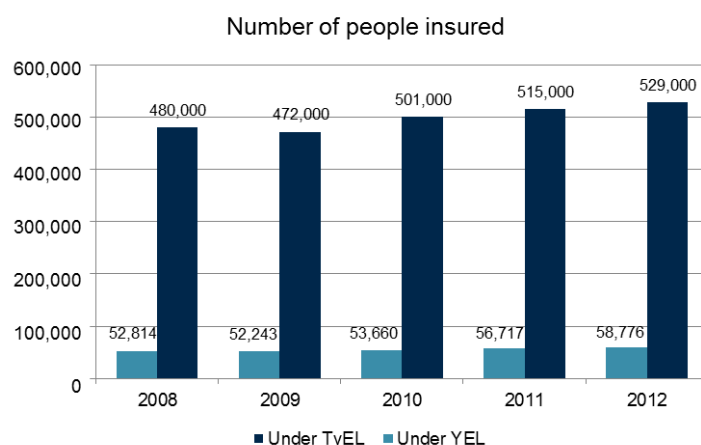
EUR million	2012	2011
Result in the profit and loss account	3.0	5.8
Change in technical provisions		
Change in equalisation provision	-10.9	-71.0
Change in provision for future bonuses	59.8	-1,153.9
Transfer to client bonuses	62.0	55.0
Change in depreciation difference	0.2	0.1
Change in the difference between current value and book value, i.e. valuation gain/loss	817.1	-627.8
Profit at current value	931.2	-1,791.9

4. INSURANCE PORTFOLIO AND PREMIUMS WRITTEN

Ilmarinen was successful in customer acquisition together with its partners OP-Pohjola Group and Pohjantähti. The transfer of insurance policies between Ilmarinen and other pension insurance companies increased Ilmarinen's customer numbers and premiums written considerably.

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.

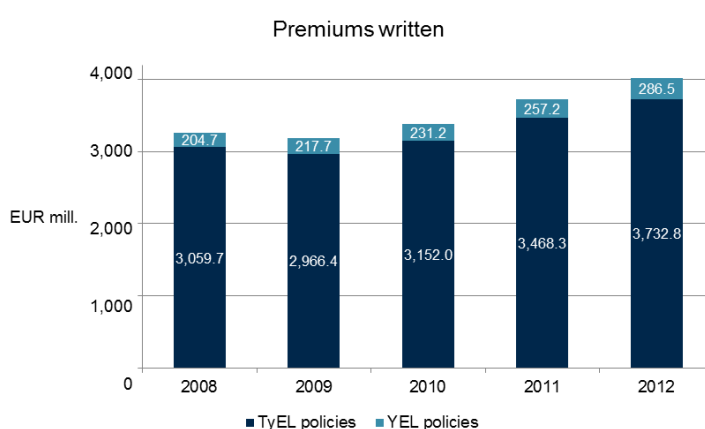
Ilmarinen's investment portfolio and the number of people insured increased during the operating year. The number of TyEL insurance policies at the end of 2012 stood at 37,462 (36,511), up by 2.6 per cent. In addition to employers with insurance contracts with Ilmarinen, 3,666 (3,745) temporary employers paid TyEL contributions to the company. At the end of the year, 529,000 (515,000) insured were covered by TyEL insurance policies, which was around 2.7 per cent more than a year earlier. The number of insured thus increased clearly more than the number of wage earners in the whole economy. The average size of TyEL insurance policies in 2012 remained at 14 (14).



The TyEL payroll insured at Ilmarinen was EUR 16,694.2 (15,923.8) million, up 4.8 per cent from the payroll insured in the previous year. The market share calculated from the insured TyEL payroll amount is estimated to have risen slightly in 2012 compared to the previous year.

At the end of the year, Ilmarinen had 58,776 (56,717) YEL insurance policies, which is 3.6 per cent more than a year earlier. The company's position as the market leader for YEL insurance remained strong. Ilmarinen is clearly the largest insurer of self-employed persons, and the company's market share, measured in premiums written, has ranged from 30 to 31 per cent in recent years. The average annual reported income for YEL insurance policies was EUR 23,302 (22,410). It increased by about 3.9 per cent from the previous year, or by more than the wage coefficient to which YEL reported income is tied and which increased 3.0 per cent.

In 2012, Ilmarinen's premiums written stood at EUR 4,019.3 (3,725.5) million, up 7.9 per cent from 2011. The increase in premiums written was due, in addition to the rise in payroll in the national economy, to higher TyEL contributions and the increase in Ilmarinen's market share.



EUR 3,732.8.3 (3,468.3) million in TyEL insurance contributions were received, i.e. TyEL premiums written increased 7.6 per cent compared to the previous year. In 2012, discounts in TyEL contributions, i.e. client bonuses, totalled EUR 54.8 million, compared with EUR 70.8 million in the previous year.

YEL premiums written stood at EUR 286.5 (257.2) million, an increase of 11.4 per cent.

Credit losses on unpaid TyEL insurance contributions amounted to EUR 12.7 (13.1) million. Therefore the payment collection situation remained good. Credit losses on unpaid TyEL insurance contributions amounted to EUR 2.5 (2.5) 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 3,733 new TyEL insurance policies were sold. This will increase the annual TyEL premiums written by EUR 91.7 million during 2013. Ilmarinen's performance in transfers of TyEL insurance from other pension insurance companies was excellent: Its TyEL insurance portfolio increased by 1,292 policies and premiums written by EUR 48.0 million.

A total of 6,659 new YEL insurance policies were sold. This will increase the YEL premiums written by EUR 26.6 million. Ilmarinen's performance in the transfer of YEL insurance policies was also excellent, the transfer resulting in 1,400 new policies and a gain of EUR 6.4 million.

5. CONTRIBUTION LEVEL

The confirmed average TyEL contribution for 2012 was 22.8 per cent of an employee's salary or wages, i.e. 0.4 percentage points higher than in the previous year. The share of contribution for employees aged under 53 was 5.15 per cent and 6.50 per cent for those aged 53 and over. The average contribution for employers was 17.35 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 1.9 (2.6) per cent of the employer contribution.

The average confirmed TyEL contribution for 2013 is 22.8 per cent of an employee's salary or wages, i.e. the same as in 2012. The basic percentage will increase by 0.4 percentage points according to the Social Agreement concluded by the social parties in early 2009. The contribution to be paid will not, however, rise because the social parties agreed on a one-time discount of 0.4 percentage points for 2013. The average employer contribution as well as the earnings-related pension contribution percentage for employees will thus remain unchanged.

The YEL contribution for 2012 was 22.5 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, 23.85 per cent. In 2013 the contributions will remain unchanged.

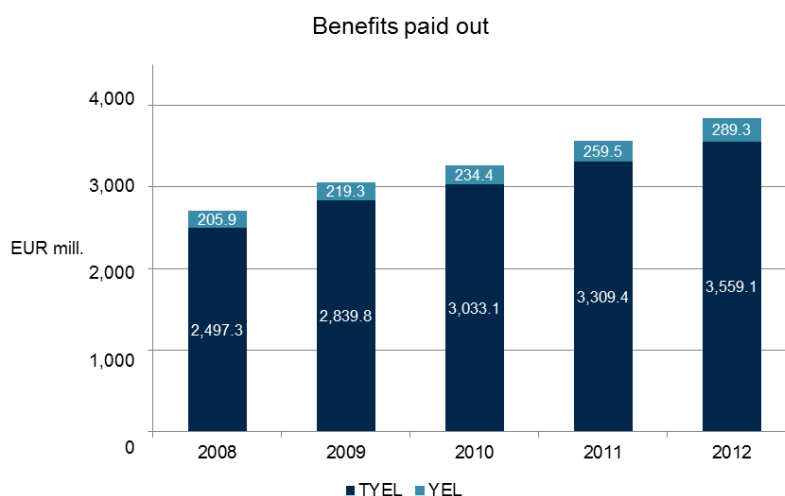
6. PENSIONS AND ACTIVITIES TO MAINTAIN WORKING CAPACITY

In 2012, around 22,000 people insured at Ilmarinen retired on earnings-related pensions, which is slightly more than during the previous year. In 2012, Ilmarinen paid a total of EUR 3,848.4 (3,568.9) million in pensions. Pension expenditure increased by 7.8 per cent from the previous year, and continued to grow quickly, just as in previous years.

Pension expenditure according to type in 2012

EUR million	TyEL	YEL	Total	%
Old-age pensions	1,281.9	202.9	2 757.2	71.6
Early old-age pensions	242.3	21.8	264.1	6.9
Part-time pensions	29.5	6,2	35.7	0.9
Disability pensions	434.4	29.5	463.9	12.1
Unemployment pensions	26.9	0.4	27,3	0.7
Survivors' pensions	271.7	28.5	300.2	7.8
Total	1,281.9	289.3	2,886.4	100.0

The majority of the EUR 3.8 billion in pension expenditure consisted of old-age pensions. Disability pensions made up approximately 12% of the pension expenditure.



Ilmarinen's pension premiums written equalled just over EUR 4 billion, which is EUR 170 million more than the pension expenditure.

Number of pension recipients on 31 December 2012 Pensions in accordance with basic protection

Type of pension	TyEL	YEL	Total	%
Old-age pensions	181,988	23,896	205,884	66.9%
Early old-age pensions	15,738	3,358	19,096	6.2%
Part-time pensions	2,988	672	3,660	1.2%
Disability pensions	32,350	3,464	35,814	11.6%
Unemployment pensions	99	3	102	0.0%
Survivors' pensions	36,436	6,942	43,378	14.1%
Total	269,599	38,335	307,934	100.0%

At year-end the number of pension recipients was 307,934, which is 1.9 per cent more than a year earlier, when they numbered 302,093. At the end of the year, 269,599 (265,033) pension recipients received TyEL pensions and 38,335 (37,060) received YEL pensions.

Pension decisions in 2012

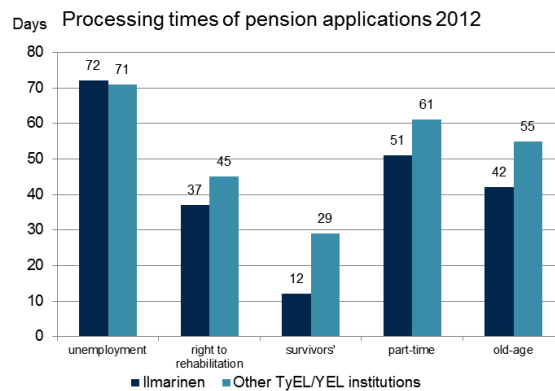
	2012	2011	Change %
New pension decisions			
Old-age pensions	9,415	8,632	9.1
Early old-age pensions	655	631	3.8
Part-time pensions	606	1,025	-40.9
Disability pensions	6,520	6,636	-1.7
Unemployment pensions	21	308	-93.2
Survivors' pensions	3,096	3,048	1.6

Right to rehabilitation	2,067	1,846	12.0
Total new pension decisions	22,380	22,126	1.1
Total pension decisions	41,051	40,713	0.8

Retirement in Ilmarinen’s client base continued as expected. During 2012, Ilmarinen made a total of 41,051 pension decisions, or 0.8 per cent more than during the previous year. The number of new pension decisions increased by 1.1 per cent in 2012 and a total number of 22,380 were granted, including decisions concerning the right to rehabilitation. The number of disability pensions declined slightly from the previous year but the number of old-age pensions increased clearly (+9.1%) as did decisions concerning rehabilitation (+12%).

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 the negative decisions sent to the Pension Appeal Court (Työeläkeasioiden muutoksenhakulautakunta TELK), 14.4 (13.8) 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. 20.2 (19.2) per cent of the decisions sent to the Insurance Court were amended against Ilmarinen’s position.

Ilmarinen had faster processing times for pension applications in 2012 than on average in the peer group, excluding the processing of disability pension decisions, which became congested in the early part of the year. The total processing time for disability pension applications in 2012 was 72 (68) days on average.



Source: The Finnish Centre for Pensions 31 Dec 2012

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.

Ilmarinen was responsible for mailing pension records to approximately 576,600 insured persons. During July–November, around 542,000 pension records were mailed and in April–November, around 35,000 insured persons retrieved their pension records from the online service.

A total of 12,000 individual pension insurance policies were reviewed in response to customers' queries.

For Ilmarinen's well-being at work services, 2012 was an extremely active year, just like the previous one. Ilmarinen organised 40 seminars on well-being at work for its client companies throughout Finland, attracting around 2,000 participants. During the year, Ilmarinen also had 1,200 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 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. The popularity of vocational rehabilitation continued to rise; in 2012 the increase was over 12 per cent. More than 2,200 new applications for the right to rehabilitation were processed. 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. Close to 4,300 benefit decisions related to rehabilitation were made in 2012, which was an 8.7 per cent increase on the previous year.

7. UNDERWRITING BUSINESS, TECHNICAL PROVISIONS AND PORTFOLIO TRANSFERS

At the end of 2012, Ilmarinen's technical provisions totalled EUR 25,585.9 (24,205.5) million. The provision for future bonuses, which serves as a buffer for investment losses, increased by net EUR 71.3 million and stood at EUR 477.6 (406.3) million at the end of the year. The equity linked buffer increased also due to the rise in share prices by net EUR 322.4 million and stood at EUR 167.3 (-155.1) million at the end of the year. Otherwise, the increase in technical provisions was 4.1 per cent.

The underwriting result under the company's own responsibility was EUR -7.0 (-69.4) million. The equalisation provision decreased by EUR 10.9 million to EUR 986.0 million. The difference between the underwriting result and the change in the equalisation provision resulted from limiting the equalisation provision of supplementary pension insurance under TEL to its upper limit and transferring the exceeding portion, EUR 3.3 million, to the provision for future bonuses.

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 three per cent discount rate. The interest credited on technical provisions totalled 4.6 per cent in 2012, of which the return tied to the equity linked buffer equalled 1.3 per cent. A 3.3 per cent return was credited on the remaining technical provisions.

The technical interest rate used to calculate insurance contributions was 3.25 per cent in the first half of the year and 4.00 per cent in the second half.

Assets that cover technical provisions stood at EUR 29,936.8 (27,845.9) million.

In 2012, two company pension funds transferred their portfolios to Ilmarinen in part or in full. The liability transferred to Ilmarinen, together with the adjustment items related to the previous year's portfolio transfers, totalled EUR 106.7 million, of which the provision for future bonuses made up EUR 11.5 million.

Breakdown of technical provisions

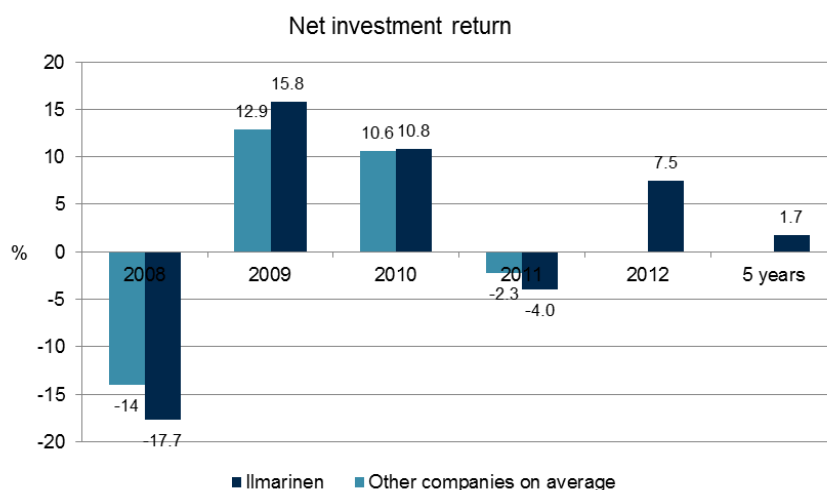
EUR million	2012	2011
Provision for unearned premiums		
Future pensions	13,088.5	12,734.3
Provision for future bonuses	477.6	406.3
Provision for current bonuses	62.4	55.2
Equity linked buffer	167.3	-155.1
Total	13,795.8	13,040.7
Provision for claims outstanding		
New pensions awarded	10,804.0	10,167.8
Equalisation provision	986.0	996.9
Total	11,790.0	11,164.7
Total technical provisions	25,585.9	24,205.5

8. INVESTMENT OPERATIONS

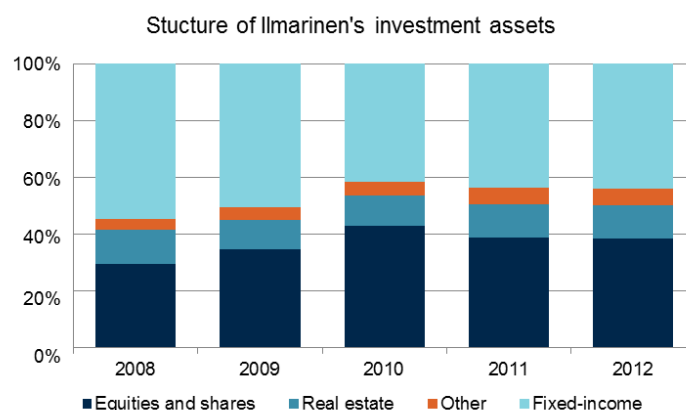
A long-term approach is essential in investing pension assets. The objective of Ilmarinen's investment operations is the highest possible return on investments in the long term. However, the average risk of the investments should not be too high in relation to the company's risk bearing ability. The average long-term expected return on Ilmarinen's investment assets is 6 per cent, and the expected standard deviation of the return is 8 per cent.

The continuation of the eurozone sovereign debt crisis, the threat of it spreading and the eurozone economies sliding back into the downturn caused nervousness in the markets throughout 2012, which led to a decline in share prices during the second quarter of the year. During the final part of the year, however, the confidence in the markets rose again and share prices showed an upward trajectory in both Europe and the United States. In its entirety, 2012 was a good year for investors.

At the end of 2012, Ilmarinen's total investments at current value were EUR 29,520.4 (27,484.9) million. The return on investments at current value was 7.5 per cent. With an inflation rate of 2.4 per cent during the year, the real return on Ilmarinen's investments in 2012 was 5.0 per cent. In 2011, investment portfolio returns were -4.0 per cent, or -6.7 per cent in real terms. Calculated at current value, the average annual return over the last five years has been 1.7 per cent, which corresponds to an average annual return of -0.5 per cent in real terms. Calculated from 1997, the average annual return at current value for Ilmarinen's investments has been 5.6 per cent per annum. This corresponds to an annual real return of 3.7 per cent.



The following breakdown of Ilmarinen's asset allocation and returns abides by the Finnish Pension Alliance TELA's recommendations for the classification of investments according to market value. Both the classification of investments and their returns into different investment types according to official regulations, as well as the table according to the recommendations are included in the notes to the financial statements.



Bonds, fixed income funds and other money market instruments formed 36.3 (33.4) per cent of the total value of Ilmarinen's investment assets. Their total market value, taking into account market value derivatives, was EUR 10,702.2 (9,189.2) million and return at current value was 7.9 (-1.6) per cent. A total of EUR 4,031.1 (4,171.7) or 37.5 (45.4) per cent was invested in bonds issued by governments or other similar issuers. Ilmarinen had EUR 1,976.6 (504.3) million or about 18.5 (5.5) per cent in money market investments, generating a return of 1.9 (-10.9) per cent. The remaining 44.0 per cent were corporate bonds, most of which had a high credit rating. The return on bonds with credit risk was 13.5 per cent. At the end of the year, the modified duration of the bond portfolio was 0.7 (0.2) years.

Ilmarinen's corporate credit portfolio decreased in 2012 by almost 16 per cent, because companies' interest towards TyEL relending declined substantially as banks restored their normal financing capacity following the financial crisis. At the end of the year, loan receivables made up 8.0 (10.2) per cent of investment assets. New loans amounting to EUR 218.3 (300.0) million were drawn down during 2012. At the end of the year, the total loan portfolio was EUR 2,352.0 (2,796.6) million including accumulated interest. The return on loan receivables was 3.4 (3.3) per cent.

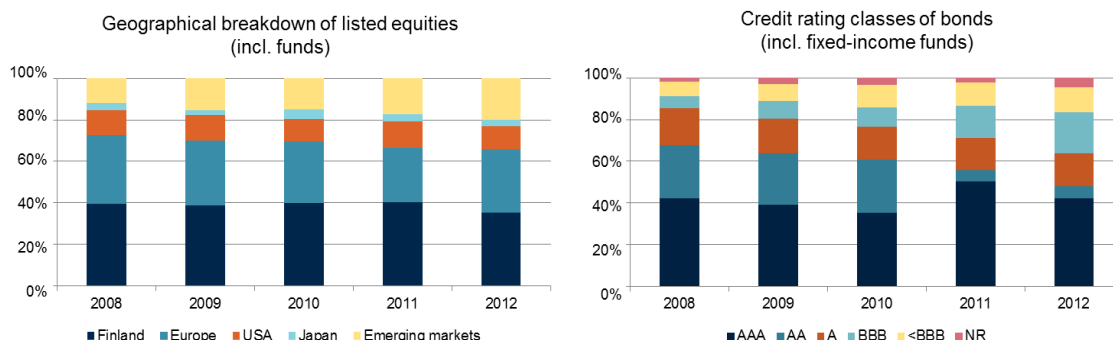
Corporate credit portfolio, EUR million

EUR million	2002	2007	2012	Return %
Premium loans	1,089.4	284.8	1,166.4	4.2
Lending other than premium loans	470.3	954.5	1,185.6	2.8
Total (includes accumulated interest)	1,559.7	1,239.3	2,352.0	3.4
Share of total portfolio, %	11	5	8	

The above-mentioned investments together make up the fixed-income investment class. The investment portfolio share of all of these investments was 44.2 (43.6) per cent and their returns were 6.9 (-0.4) per cent.

Listed and unlisted equities and shares as well as private equity investments made up 38.4 (38.8) per cent of all investments. Their value increased to EUR 11,328.7 (10,661.2) million in 2012 as a result of rising share prices and share acquisitions. Of this, domestic equities made up about 35.3 (40.5) per cent, or EUR 4,000.7 (4,322.8) million. Domestic equities made up 35.3 (40.4) per cent

of investments in listed equities and shares. The return on equities, calculated at current value, was 9.5 (-13.6) per cent.

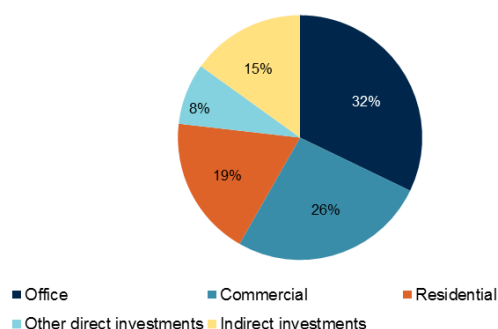


Equity, currency and interest derivatives are used both for hedging and for altering the risk level of the investment portfolio. As a result of using derivatives, the amount of equities and shares according to risk deviated at the end of the year from their amount according to market value. Calculated using the method agreed on by the employment pension institutions, their amount according to risk was EUR 10,829.1 million, i.e. 36.7 per cent of investments. The effect of interest derivatives is included in the modified duration of the bond portfolio reported above.

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 2012, Ilmarinen was involved in several hundred engagement processes.

Real estate investments at the end of 2012 stood at EUR 3,465.7 (3,237.1) million, a 7.1 per cent change from the previous year. The share of real estate investments was 11.7 (11.8) per cent, of which indirect investments made up 1.8 percentage points. The value of directly-owned properties was EUR 2,942.9 (2,736.5) million. The occupancy rate of real estate owned by Ilmarinen decreased from the previous year and was 88.4 (92.6) per cent at year-end. However, the occupancy rate was close to the long-term average.

Real estate investment structure on 31 Dec 2012



Real estate values increased slightly and rent levels showed a mildly positive development. The total return on the company's real estate investments was 5.1 (6.4) per cent. The return on direct real estate investments was 5.6 (5.9) per cent. The return on direct real estate investments was increased by a capital growth of EUR 9.3 million. The net return on direct real estate investments before changes in value was 5.3 per cent. The return on indirect real estate investments was 2.2 (8.9) per cent.

Commodity investments and investments in absolute return funds are classified as "other investments" according to TELA's recommendations. At the end of the year, other investments made up about 5.7 (5.8) per cent of the market value of investment assets. Of this, absolute return funds accounted for EUR 349.9 million and generated an average return of 7.7 per cent on capital employed.

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 Committee and the Board of Directors. The Board of Directors approved the risk management plan on 25 January 2012.

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 2012, a new company-wide reporting system for operational risks was taken into use and the related-party guidelines were updated. In practice, risk management should also be fully integrated into the company's operations. This is why development work around the company's management and control system was initiated in order to incorporate seamless risk management into Ilmarinen's administrative structure. This same goal was also supported by the coaching event held for the company's supervisors by the Risk Management Committee, which delved deeper into those risk management and internal control tasks that the supervisors are responsible for.

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

10. PERSONNEL

An average of 612 persons worked for Ilmarinen Group in 2012 compared to 617 in 2011. The average number of employees in the parent company Ilmarinen was 542 (545). This figure includes 78 (71) part-time employees, whose work contribution has been adjusted to correspond with the average working hours of full-time employees. An average of 50 (59) persons were on family leave or other unpaid leave during the year. At the end of the year, the parent company Ilmarinen employed 584 (593) persons, of whom 561 (573) were permanent employees.

Ilmarinen has set goals for its personnel costs, and they are covered by the expense loading component. The target for 2012 was for the number of personnel measured in average man years to decline in a controlled manner, i.e. at an annual rate of one per cent per year. The target corresponding to a decline of one per cent was 462 and the realised total 461.

The productivity of the personnel can be measured by making the number of man years proportional to the number of insured. When man years financed by the insurance contribution's expense loading component for every one thousand insured are used as an indicator, the figure for 2012 was 0.512 (0.529). Work productivity measured in this manner increased during the reporting year by 3.3 per cent.

Personnel costs covered by investment operations are monitored separately by the company. Holding the key functions in the company's own hands instead of outsourcing them is an important aspect of investment operations. For this reason, the number of personnel increased slightly and equalled, on average, 78 man years (75).

Personnel reported that leadership had remained at the same good level as in previous years. Assessments of leadership measured in particular whether supervisors had abided by the leadership principles launched at the beginning of 2012. The purpose of the principles is to achieve a good level of leadership throughout Ilmarinen. Personnel were particularly satisfied with the work of their immediate supervisors. The know-how of supervisors was improved throughout 2012 through the "Välitä varhain, puutu ajoissa" coaching, which focussed on early intervention. According to the personnel's assessment, supervisors made the most progress in the areas of caring and intervention as well as in supporting success.

As supervisors are not alone responsible for creating a good work community, Ilmarinen's personnel principles were created to back up the leadership principles. They concern everyone within the company, regardless of their position. The principles were created through crowd wisdom – Ilmarinen's entire personnel were given the chance to create the building blocks for them over the course of the autumn. Both the leadership principles and the personnel principles serve to strengthen a culture that has the customer at its core and in which the company's values are a natural part of daily life.

The entire personnel are 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. 2012 was the first year during which the personnel earned rewards according to the remuneration system, which was renewed in 2011.

In recent years, Ilmarinen has focussed its efforts on making remuneration more encouraging, more fair, more objective and more transparent. The efforts bore fruit during the reporting year. The personnel survey for 2012 showed that the personnel consider the remuneration system to be fairer than ever before.

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 first profit sharing bonus was paid into the fund in 2012. 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.

11. INFORMATION TECHNOLOGY

Modifications to the information systems were continued in connection with several business development projects. During 2012, a company-wide document management system, a control system for the TyEL insurance process, a loan system serving investment operations and a modern intranet system enabling group work were among the completed modifications.

The improvement of the pension processing system was boosted through the implementation of a preliminary study of the entire decision-making process and through assessments of the available solutions related to the purchasing of the information system. The planning of future information technology solutions for investment operations was begun through a study of the development of operating models, instruments and operating environment for investments. This work will continue in 2013 with the planning of architecture and system solutions as well as the definition of a development path. The development of a company-wide customer data management system was begun with an analysis of the current situation and through mapping out the information requirements for customer management processes, based on which customer data management solutions will be implemented in 2013.

The production activities for information technology functioned as planned, both in terms of customer services and Ilmarinen's own operations. The extensive change and improvement measures undertaken within the technical environment were achieved without disruption. Regularly implemented comparisons reveal that the information technology services used by Ilmarinen are also very cost-competitive.

12. OPERATING EXPENSES

Ilmarinen's cost efficiency weakened somewhat during the financial year in comparison with the previous year. The operating expenses financed using the loading profit increased by EUR 12.7 million, or 13.3 per cent. Due to this, the ratio of the above-mentioned operating expenses to the expense loading components available for them rose and was 80 (74) per cent. The increase in operating expenses was largely dependent on the greater information technology and development expenditure. They are used to improve the company's long-term cost efficiency and operational reliability. The efficiency of operations benefits Ilmarinen's customers in the form of client bonuses and rebates.

Ilmarinen's total operating expenses were EUR 144.0 (130.9) million, up 10.1 per cent from the previous year.

The statutory charges, EUR 9.3 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 20.9 (17.4) 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 working capacity. The costs of maintaining working capacity that are financed from the administration part of disability risk contained in the insurance contribution were EUR 5.1 (5.2) million.

13. CORPORATE GOVERNANCE AND ORGANISATION

Jorma Eloranta was Chairman of the Supervisory Board until the Annual General Meeting of 17 April 2012 and Merja Strengell, Chairman of the Board of the Finnish Association of Graduate Engineers TEK, and Antti Herlin, Chairman of the Board of KONE Corporation, were Deputy Chairmen. Since 17 April 2012, Matti Lievonen, President and CEO, Neste Oyj, has functioned as the Chairman of the Supervisory Board and Kirsi Kaasinen, Vice Chairman of the Board of the Finnish Association of Graduate Engineers TEK, has functioned as the Deputy Chairman. Antti Herlin will continue as the second Deputy Chairman. Kaasinen is the primary Deputy Chairman.

In its meeting on 15 November 2011, the Supervisory Board appointed Sture Fjäder, President of the Confederation of Unions for Academic Professionals AKAVA and Kim Gran, President and CEO of Nokian Tyres plc, as new members of the Board of Directors. Fjäder joined the Board of Direc-

tors on 1 December 2011 to replace Matti Viljanen. Gran joined the Board on 1 January 2012 following the departure from the Board of Hannu Syrjänen.

In its meeting on 14 March 2012, the Supervisory Board elected Financial Counsellor Heikki Vitie as a new member of the Board of Directors as of 14 March 2012. Vitie replaced Reijo Karhinen, who left his seat on the Board on 1 March 2012.

Board member Jukka Alho left the Board as of 1 September 2012 and Deputy Chairman Mikko Pukkinen as of 9 November 2012. In their stead, the Supervisory Board appointed, in their meeting on 13 November 2012, Hannu Leinonen, President and CEO of Destia, as of 13 November 2012 and Jyri Häkämies, CEO, Confederation of Finnish Industries (EK), as of 1 December 2012.

Otherwise, the Board of Directors' composition remains as before. The deputy members of the Board of Directors are always invited to the Board meetings but they only have voting rights when the corresponding member is not present.

The Board of Directors elected Jussi Pesonen, President and CEO of UPM-Kymmene Corporation, as its Chairman in its meeting on 25 January 2012. The Board elected Mikko Pukkinen, Director General of the Confederation of Finnish Industries EK and Lauri Lyly, President of the Central Organisation of Finnish Trade Unions (SAK) as its Deputy Chairmen. Pukkinen functioned as the Deputy Chairman until 9 November 2012, when he departed from the Board. Jyri Häkämies was selected as the new Deputy Chairman. Lauri Lyly is the primary Deputy Chairman. The Chairman and Deputy Chairmen also function as the Board's Nomination and Compensation Committee.

The members of the Audit Committee, selected on 25 January 2012, are Kristian Pullola (Chairman), Leila Kostiainen and Hannu Rautiainen.

In its meeting on 15 November 2012, Ilmarinen's Supervisory Board also elected the members of the Election Committee. The term of the Election Committee began immediately and will end following the final Supervisory Board meeting in 2013.

Matti Lievonen functioned as the Chairman of the Election Committee and Esa Vilkuna as the Deputy Chairman. The other Election Board members are Sture Fjäder, Antti Herlin, Leila Kostiainen and Jussi Pesonen. 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.

Ilmarinen presents, in connection with the financial statements and the Report on Operations, a separate corporate governance statement.

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

Hannamari Mäntyvaara, Master of Laws, was selected as Ilmarinen's Compliance Officer. She took up her position at Ilmarinen as of 29 October 2012. The Compliance Officer's task is to supervise the legality of operations and to ensure and monitor compliance with external and internal rules

related to the operations. The key task of the Compliance function is to ensure the smooth functioning and sufficiency of reliable governance and internal control as well as to support the business management and Board in these matters.

14. GROUP

In addition to the Ilmarinen parent company, 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 2012 was 168. Garantia Insurance Company Ltd, Kruunuvuoren Satama Oy and Russia Invest B.V. are Ilmarinen's associated companies.

Suomi Mutual Life Assurance Company is Ilmarinen's participating interest. Ilmarinen owns the guarantee capital of this company in full.

15. EVENTS AFTER THE FINANCIAL YEAR

The international assessment of the Finnish earnings-related pension system commissioned by the Finnish Centre for Pensions was published in Helsinki on 7 January 2013. The assessment was carried out by the esteemed pension economists Professor Nicholas Barr of the London School of Economics and Professor Keith Ambachtsheer of the University of Toronto. Barr studied the pension system and its sustainability while Ambachtsheer focussed on the economic efficiency of the present decentralised system.

The overall views of both professors concerning the Finnish pension system were very positive. According to them, the Finnish pension system can be considered one of the best or even the best in the world. This results from the comprehensive cover, flexibility and sustainability of the earnings-related pension system: in Finland the basis of pension cover is the same for everyone, all work accrues pension and the pension follows the employee when he or she changes jobs. A coherent and comprehensive system improves the functionality of the labour markets when the employee's pension security is not tied to the employer, unlike in many other countries.

The assessment, however, points out that Finland would be wise to be prepared for the gradual increase in the age limits of the pension system and to think about ways to improve the cost efficiency of its pension insurance companies. Professor Ambachtsheer also suggested strongly increasing the share weight in investment operations.

16. FUTURE PROSPECTS

The assessment of the need for pension reform, carried out by the working group led by Director General Jukka Pekkarinen will be completed during 2013. The working group's report will invigorate the public debate concerning pensions, while simultaneously creating a foundation for the negotiations to be held concerning the pension reform planned for 2017.

The weak economic outlook may cause employment figures to drop during 2013. The resulting muted development of payroll and unchanged pension contributions will be likely to slow down the growth of pension institutions' premium income in 2013.

The investment environment will probably remain challenging despite the fact that stock prices rose dramatically towards the end of 2012. The extremely low interest rate level will, in future, weaken the return on fixed-income investments. The possible prolongation of the downturn in the eurozone and possible setbacks in the management of the EU debt crisis may also unsettle market confidence.

In this challenging environment, Ilmarinen wishes to ensure its competitiveness. The company's key competitive assets, alongside the continuous development of its own operations, include the partnership with OP-Pohjola Group which has a nationwide service network and an extensive selection of financial services.

Ilmarinen will systematically pursue its adopted strategy. Ilmarinen's objectives according to the strategy are to increase its premiums written through new customer accounts, to improve its cost efficiency and to achieve success as an investor of pension assets.

Mutual Insurance Company Pension Fennia and mutual pension company LähiTapiola have announced their merger in early 2014. As a result of the merger, a third major earnings-related pension company will emerge in the sector, which will be likely to increase competition in the field. Ilmarinen is confident in its attitude towards the added competition.

Proposal of the Board of Directors for the disposal of profit

The parent company's distributable non-restricted equity in the financial statements for 31 December 2012 amounts to EUR 63,259,915.17, of which the profit for the accounting period is EUR 3,018,462.34.

The Board of Directors proposes that EUR 50,000.00 be reserved for use by the Board of Directors as donations for purposes of general interest and the remainder of the profit, EUR 2,968,462.34, be transferred into the contingency fund.

Helsinki, 27 February 2013

Jussi Pesonen

Lauri Lyly

Jyri Häkämies

George Berner

Sture Fjäder

Kim Gran

Matti Halmesmäki

Hannu Leinonen

Leila Kostainen

Leena Niemistö

Kristian Pullola

Heikki Vitie

Harri Sailas
President and CEO