REPORT ON OPERATIONS AND FINANCIAL STATEMENTS 2013

26 February 2014

ILMARINEN

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1. ECONOMIC DEVELOPMENT

The weak performance of Finland's economy continued in 2013. The positive development following the financial crisis remained brief when the Finnish economy once again plunged into a new and persistent downturn in 2012. It resulted in a decline of approximately one per cent in overall production in 2012 and, based on preliminary data, the same trend continued throughout 2013 with a further weakening of about one per cent in overall production.

A factor affecting the poor performance of the national economy and the shrinking of production levels was the eurozone debt crisis. The ECB's promise of support measures was successful in calming the financial markets in 2012 and fears of the euro system disintegrating were allayed. Instead, the indebtness of eurozone nations led to tightening financial policies in almost every eurozone country, which resulted in a slump in domestic demand and the start of a new downturn in the EU region in 2012. The downturn continued in 2013. The eurozone's economic growth did not receive the expected boost from exports as the external value of the euro in relation to the dollar and yen remained very strong.

The prolonged downturn in the eurozone made its mark on the Finnish economy in 2013 as a continuation of the weak export development that had started in 2012. Finland's national economy also suffered from the eurozone's weak demand level, decreased cost-competitiveness and structural problems in key industries. Export levels decreased by some two per cent compared with the previous year and industrial production declined some three per cent; the most significant decline in production volumes took place in the electronics industry. The deficit in the balance of trade, however, decreased somewhat on the previous year due to a larger decline in imports compared with exports.

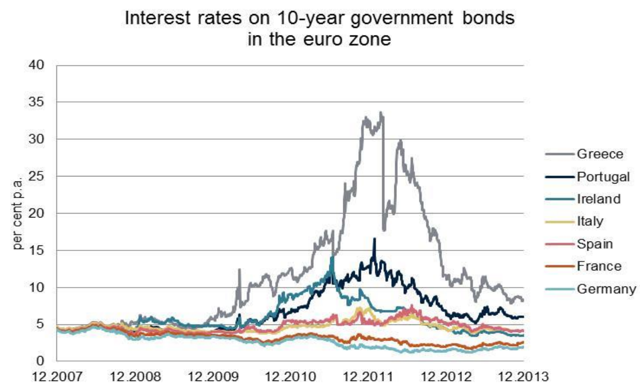
The weakening of overall production by approximately one per cent in 2013 resulted primarily from a reduction in investments; private and public final consumption expenditure remained roughly on the previous year's level. Bearing in mind that the development of overall production has been subdued for several years, the relatively stable development of employment levels comes as a surprise. Compared with the decline in production, employment levels declined by very little in Finland. The number of employed people declined in 2013 by just over half a per cent compared with the previous year and unemployment levels increased by half a percentage unit from the previous year to 8.2 per cent. Finland's rate of unemployment remained, however, clearly below the European average. The employment rate decreased, dropping to about 67 per cent. The number of employed people in 2013 was just over 2.4 million, which is 100,000 less than before the start of the financial crisis in 2008.

Declining employment and the slowing down of the rise in the earnings level led to a slackening in the growth of the national economy's payroll in 2013 to just over one per cent. The growth rate of consumer prices also slowed down to more than one per cent and the real earnings of employees remained unchanged.

As a result of the economic downturn, the state of public finances weakened clearly over the course of 2013. The total deficit for the state and municipalities rose to approximately EUR 10 billion, i.e. some 5 per cent of the value of the GDP. The deficit for the entire public sector remained below this at 2 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 to some 55 per cent of the GDP at the end of the year and approached the critical 60 per cent limit.

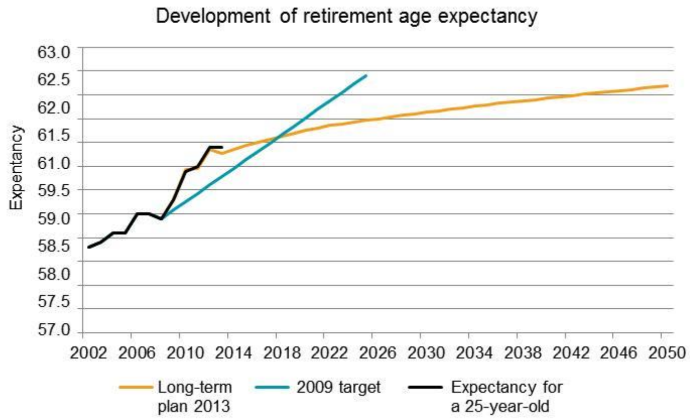
The government headed by Prime Minister Jyrki Katainen agreed in August 2013 on structural policies that are aimed at a gradual closing of the sustainability gap in the public sector. The greatest focus was on measures that are aimed at increasing the length of careers and at raising the average retirement age. The labour markets agreed on a long-term wage solution lasting up to three years, which will limit the pay increases based on collective agreements to less than one per cent in 2014–2015. The wage solution is expected to gradually improve the price competitiveness of Finland's export industry in relation to competitor countries. At the same time increments in earnings-related contributions were agreed on for 2014–2016.

Share prices rose dramatically during 2013 in nearly every corner of the world. Share prices also rose in the European countries despite the continuing downturn. The key European share indices increased by approximately 20 per cent and the prices of Finnish equities by some 30 per cent. 2013 turned out to be a good investment year even though the return on government bonds remained low due to an increase in the interest rate level.



2. DEVELOPMENTS IN THE EARNINGS-RELATED PENSION SYSTEM

For several years now, increasing the retirement age has been under discussion in Finland, meaning an increase in both the average retirement age and the lower limit for retiring on old-age pension. Labour market organisations and Prime Minister Jyrki Katainen's government have set a target for the development of the average pension age, according to which the expected retirement age for a 25-year-old 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 2012, the expectancy rose to 60.9 years and remained on the same level in 2013. The expectancy has risen from the year 2000 by more than two 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. This is why it is considered necessary to change old-age pension age limits and reform the earnings-related pension system. The objective of the reform is lengthening careers and increasing the available workforce.



In their agreement on extending careers, signed in 2012, the labour market organisations agreed on a pension reform that is set to come into force at the beginning of 2017. The target is also important for Finland's government, which made the career-extending pension reform a central part of its structural policy goals in August 2013. The government hopes that the reform will improve the balance of public finances and thus play a part in closing the large sustainability gap of the public sector.

Labour market organisations agreed on dispensing with the early old-age pension and increasing the age limit for part-time pensions in the 2012 agreement on extending careers. These changes will come into effect once the transition periods end in 2014. The organisations also agreed that the average earnings-related pension contributions would be raised by 0.4 percentage units per year in 2015 and 2016. The earnings-related pension contributions for 2014–2016 were re-confirmed in connection with the comprehensive wage solution agreed on by the labour market organisations in autumn 2013. The increment will be split evenly between the employer and employee.

Negotiations between the trade union federations concerning the 2017 pension reform began at the end of 2013. The goal is to reach a negotiated solution by the autumn of 2014, whereupon legislative preparatory work could begin.

Assessing the sustainability of the earnings-related pension system

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 implementation system.

The overall views of both professors concerning the Finnish pension system were very positive. A coherent and comprehensive system improves the functionality of the labour markets when the employee's pension security is not tied to the employer. The assessment, however, points out that Finland would be wise to prepare 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 institutions. Professor Ambachtsheer also suggested strongly increasing the share weight in investment operations.

The Finnish Centre for Pensions simultaneously carried out an international comparison of pension cover implementation costs in certain European countries. According to the comparison, the Finnish system is relatively cost-efficient due to its unusually broad coverage in comparison with the systems of other developed welfare states.

The Finnish Centre for Pensions published its latest long-term calculation on the development of the earnings-related pension system. The assumed increase in the life expectancy of Finns is slightly more conservative than before in this newest calculation and, at the same time, the assumption concerning the development of employment rates has become more positive. Due to these changes, the future pension expenditure has slightly declined from previous estimates and, correspondingly, the payroll has risen somewhat. According to the new estimate, a sustainable level of earnings-related pension contributions would be some 25 per cent of wages and salaries. If the contribution were raised to this level in the near future, no new increments would be necessary until the 2050s. Labour market organisations have agreed on increasing the average contribution level to 24.4 per cent of wages and salaries in 2016. In light of the new estimate, this level is fairly close to the long-term sustainable level. In other words, the assessment concerning the pressure to increase contributions in the earnings-related pension system has taken a positive direction.

Background studies for the pension reform

A group of high-level experts led by Jukka Pekkarinen, Director General of the Economics Department at the Ministry of Finance, was appointed in 2012 to investigate the sustainability and change requirements of the earnings-related pension system in view of future pension negotiations. The working group completed its work in November 2013. It discussed whether the present incentives of the earnings-related pension system – accelerated accrual and the life expectancy coefficient – will be sufficient for achieving the retirement age target set by the government and labour market organisations.

A key finding of the report is that the decisions made in the 2005 pension reform do not seem to be sufficient for achieving the retirement age increase goal set for 2025. Pekkarinen's group bases its assessment on research results, according to which the increase in retirement age that has taken place so far provides an overly optimistic picture of the development. According to the report, the reason for the perceived positive development is the gradual closing of the early old-age pension channels and not the moving forward of the actual retirement age.

In addition the report delves into the impacts of alternative methods for adapting the pension system on the sufficiency, allocation and funding of pensions, as well as on employment levels and the public sector sustainability gap. The model presented in the report and developed by researchers at the Research Institute of the Finnish Economy (ETLA) recommends that the retirement age be tied to life expectancy. The group of experts were not meant to present any recommendations for actions. The options presented in the report can be seen to favour the gradual increasing of the lower limit for the old-age retirement age.

Solvency reform and other earnings-related pension sector regulation

At the beginning of 2013 an amendment to legislation concerning the solvency regulation of earnings-related pension institutions came into force which combined 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 increases the efficiency of the use of capital in pension institutions. The amendment did not have a great impact on the solvency of pension companies. 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 aim of the overall reform is to take investment risks into account better in the solvency requirements and the development of risk management in pension institutions.

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 clients bonuses. Another aim is to more precisely regulate the well-being at work services provided to customers of earnings-related pension companies. These reform projects did not yet become passed as bills during 2013. The Ministry also began preparations for reforming the administrative regulations concerning earnings-related pension institutions.

3. ILMARINEN'S RESULT AND SOLVENCY

Despite the weak performance of the real economy, 2013 was a good investment year for Ilmarinen. Stock prices increased dramatically everywhere during the year. Due to a strong stock market year, Ilmarinen's annual return on investments increased to 9.8 per cent, as a result of which the company's solvency was clearly strengthened. The real return on investments equalled 8.1 per cent, i.e. 4.1 percentage units 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, improved clearly on the previous year and the ratio of operating expenses to expense loading components fell to 75 (80) per cent.

The net return on Ilmarinen's investments, calculated at current value, was 9.8 per cent in 2013 (7.5 per cent in 2012). Solvency capital, i.e. the difference between the company's assets and liabilities measured at current value, increased to EUR 7,122.6 million. At the end of 2013, solvency capital amounted to 28.0 (23.9) per cent of technical provisions used in the calculation of solvency. In 2012, the solvency capital was EUR 5,752.4 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. Due to the legislative amendment, Ilmarinen's solvency limit increased by approximately 0.6 percentage units. Ilmarinen's solvency capital at the end of the financial period was 1.9 times the solvency limit. A year previously the corresponding figure, i.e. the ratio of the then solvency capital to the solvency limit was 2.2 (without the temporary item according to the temporary legislation, the solvency position would have been 1.7).

Investment income at current value was EUR 1,468.6 million (EUR 911.2 million), when taking into account the interest credited on technical provisions, EUR 979.9 (813.9) million, and the EUR 466.7 million increase (EUR 323.2 million) 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 -14.8 (-7.0) million and its loading profit amounted to EUR 35.1 (27.0) 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 2013 at current value thus stood at EUR 1,489.0 (931.2) 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 86.0 (62.0) million will be allocated for client bonuses from the result for 2013. The transfer is 0.51 (0.37) per cent of the insured payroll and EUR 163 (117) 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 2013, the result in the profit and loss account was EUR 3.8 (3.0) 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	2013	2012
Result in the profit and loss account	3.8	3.0
Change in technical provisions		
Change in equalisation provision	-14.8	-10.9
Change in provision for future bonuses	285.3	59.8
Transfer to client bonuses	86.0	62.0
Change in depreciation difference	0.3	0.2
Change in the difference between current value and book value, i.e. valuation gain/loss	1,128.4	817.1
Profit at current value	1,489.0	931.2

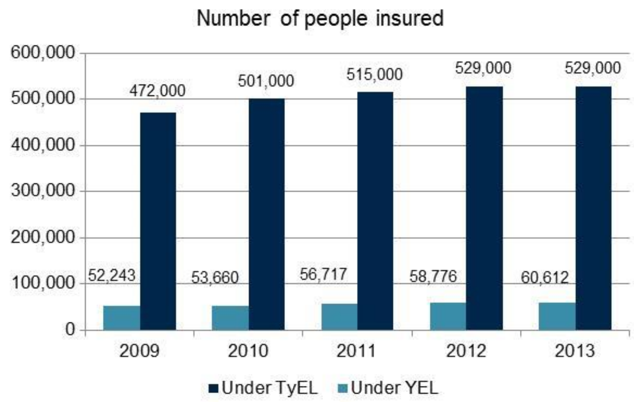
4. INSURANCE PORTFOLIO AND PREMIUMS WRITTEN

Ilmarinen was successful in customer acquisition together with its partner OP-Pohjola Group. The transfer of insurance policies between Ilmarinen and other pension insurance companies was net positive for Ilmarinen as in previous years.

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 insurance portfolio grew during the operating year. The number of TyEL insurance policies at the end of 2013 stood at 38,237, up by 2.1 per cent. In addition to employers with insurance contracts with Ilmarinen, 3,999 (3,666) temporary employers paid TyEL contributions to the company.

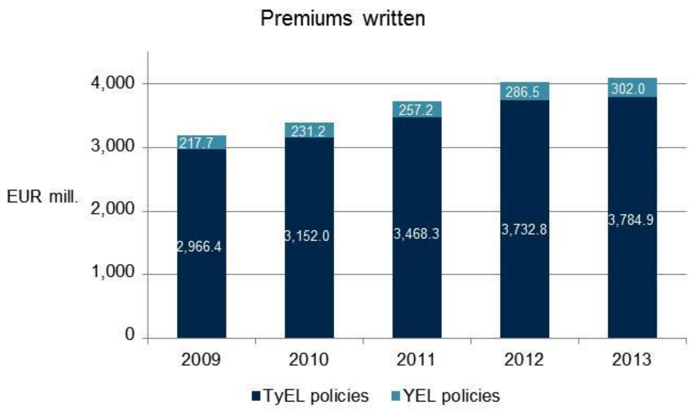
At the end of the year, 529,000 (529,000) insured were covered by Ilmarinen's TyEL insurance policies. In other words the number of insured remained steady despite the decrease in the total number of wage earners in the economy. The average size of TyEL insurance policies in 2013 was 14 (14).



The TyEL payroll insured at Ilmarinen was EUR 16,843.0 (16,694.2) million, up 0.9 per cent from the payroll insured in the previous year. The market share calculated from the insured TyEL payroll amount is estimated to have remained almost unchanged in 2013.

At the end of the year, Ilmarinen had 60,612 (58,776) YEL insurance policies, which is 3.1 per cent more than a year earlier. Due to growth over a number of years, the 60,000 insurance policy mark was exceeded in 2013. The average annual reported income for YEL insurance policies was EUR 23,722 (23,302), an increase of about 1.8 per cent on the previous year.

In 2013, Ilmarinen's premiums written stood at EUR 4,086.9 (4,019.3) million, up 1.7 per cent from 2012. Premiums written grew primarily due to the increase in the national economy's payroll amount.



EUR 3,784.9 (3,732.8) million in TyEL insurance contributions were received, i.e. TyEL premiums written increased 1.4 per cent compared to the previous year. In 2013, discounts in TyEL contributions, i.e. client bonuses, totalled EUR 62.4 million, compared with EUR 54.8 million in the previous year.

YEL premiums written stood at EUR 302.0 (286.5) million, an increase of 5.4 per cent.

Credit losses on unpaid TyEL insurance contributions amounted to EUR 16.1 (12.7) million. Credit losses grew as a result of the economic situation. They made up 0.4 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 2.6 (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 4,041 new TyEL insurance policies were sold. This will increase the annual TyEL premiums written by EUR 70.7 million during 2014. Ilmarinen's performance in transfers of TyEL insurance from other pension insurance companies was excellent: Its TyEL insurance portfolio increased by 962 policies and premiums written by EUR 57.1 million.

A total of 6,731 new YEL insurance policies were sold. This will increase the YEL premiums written by EUR 25.7 million. Ilmarinen's performance in the transfer of YEL insurance policies was also excellent, the transfer resulting in 1,195 new policies and a gain of EUR 6.7 million.

5. CONTRIBUTION LEVEL

The average TyEL contribution for 2013 was 22.8 per cent of an employee's salary or wage, i.e. the same as in the previous year. This results from the 0.4 percentage unit contribution discount for 2013 decided on in autumn 2012. 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 2.1 (1.9) per cent of the employer contribution.

The average confirmed TyEL contribution for 2014 is 23.6 per cent of an employee's salary or wage, i.e. 0.8 percentage units higher than in 2013. The basic percentage will increase by 0.4 percentage units according to the Social Agreement concluded by the social parties in early 2009. In addition, the insurance contribution will increase due to the ending of the one-time 0.4 percentage unit discount given in 2013. The average employer contribution will also increase by 0.4 percentage units. In 2014, the contribution for employees aged under 53 was 5.55 per cent and 7.05 per cent for those aged 53 and over.

The YEL contribution for 2013 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 2014, the contribution for employees aged under 53 is 23.3 per cent and 24.8 per cent for those aged 53 and over.

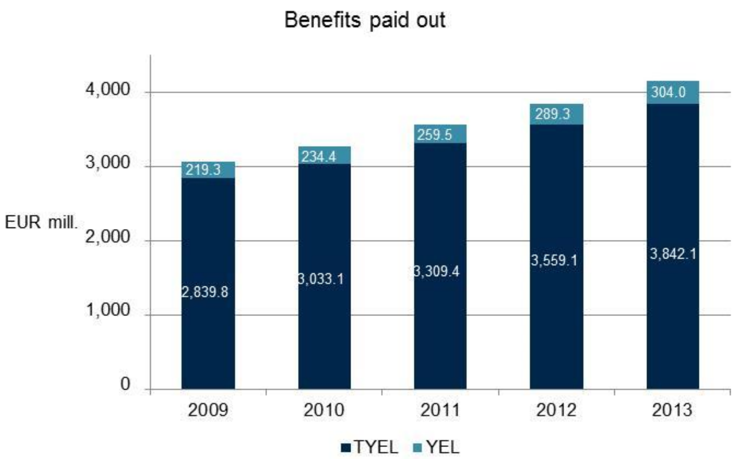
6. PENSIONS AND ACTIVITIES BOOSTING WORKING CAPACITY

In 2013, new pension decisions made at Ilmarinen totalled 23,365, i.e. 4.4 per cent more than in the previous year. In 2013, Ilmarinen paid a total of EUR 4,146.1 (3,848.4) million in pensions. Pension expenditure grew 7.7 per cent from the previous year, and continued to grow quickly, just as in previous years.

Pension expenditure according to type in 2013

EUR million	TyEL	YEL	Total	%
Old-age pensions	2,841.6	218.9	3,060.5	73.8
Early old-age pensions	255.8	22.5	278.3	6.7
Part-time pensions	25.9	5.5	31.4	0.8
Disability pensions	434.1	28.5	462.6	11.2
Unemployment pensions	1.2	0.0	1.2	0.0
Survivors' pensions	283.5	28.6	312.1	7.5
Total	3,842.1	304.0	4,146.1	100.0

The majority of the EUR 4.1 billion in pension expenditure, i.e. some 80 per cent, consisted of old-age pensions. Disability pensions made up approximately 11% of the pension expenditure and survivors' pensions just over 7 per cent.



Ilmarinen's pension premiums written equalled just over EUR 4.09 billion. Pension expenditure excluding pension management costs was approximately EUR 4.15 billion and thus some EUR 60 million more than premiums written.

Number of pension recipients on 31 December 2013
Pensions in accordance with basic protection

Type of pension	TyEL	YEL	Total	%
Old-age pensions	189,428	25,078	214,506	68.3%
Early old-age pensions	15,754	3,449	19,203	6.1%
Part-time pensions	2,496	600	3,096	1.0%
Disability pensions	30,516	3,251	33,767	10.8%
Unemployment pensions	36	2	38	0.0%
Survivors' pensions	36,372	6,980	43,352	13.8%
Total	274,602	39,360	313,962	100.0%

At year-end the number of pension recipients was 313,962, which is 2 per cent more than a year earlier, when they numbered 307,934. At the end of the year, 274,602 (269,599) pension recipients received TyEL pensions and 39,360 (38,335) received YEL pensions.

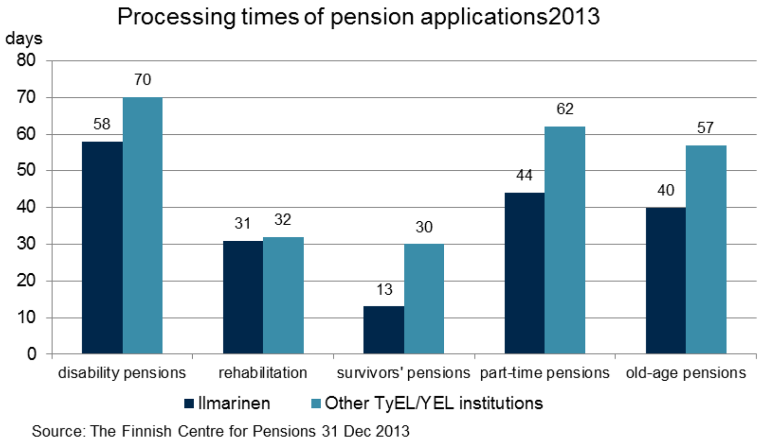
Pension decisions in 2013

	2013	2012	Change %
New pension decisions			
Old-age pensions	10,088	9,415	7.1
Early old-age pensions	626	655	-4.4
Part-time pensions	880	606	45.2
Disability pensions	6,333	6,520	-2.9
Unemployment pensions	9	21	
Survivors' pensions	3,054	3,096	-1.4
Right to rehabilitation	2,375	2,067	14.9
Total new pension decisions	23,365	22,380	4.4
Total pension decisions	42,733	41,051	4.1

Retirement in Ilmarinen's client base continued as expected. During 2013, Ilmarinen made a total of 42,733 pension decisions, or 4.1 per cent more than during the previous year. The number of new pension decisions increased by 4.4 per cent in 2013 and a total number of 23,365 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 continued to increase clearly (+7.1%) as did decisions concerning rehabilitation (+14.9%).

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 per cent were granted during the month in which retirement began. Of the negative decisions sent to the Pension Appeal Court (Työeläkeasioiden muutoksenhakulautakunta TELK), 14.0 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. 18.2 per cent of the decisions sent to the Insurance Court were amended against Ilmarinen's position.

In 2013, Ilmarinen had faster processing times for pension applications in all pension types than in the peer group. Especially the handling of disability pension applications became faster: the average processing time decreased to 58 days (72 days in 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.

In 2013, the mailing of pension records was changed so that they will now be sent to people under the age of 60 every three years. In 2013, the pension record was sent to people born between January and April as well as everyone over the age of 60. Ilmarinen was responsible for mailing pension records to approximately 235,000 insured persons. During July–November, around 230,000 pension records were mailed and around 40,000 (39,763) insured persons retrieved their pension records from the online service.

A total of some 12,000 (12,000) individual pension insurance policies were reviewed in response to customers' queries (preliminary pension calculation). Customers carried out 75,000 corresponding preliminary calculations on the online service.

For Ilmarinen's well-being at work services, 2013 was an extremely active year, just like the previous one. Ilmarinen organised 41 seminars on well-being at work for its client companies throughout Finland, attracting around 1,800 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 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. The popularity of vocational rehabilitation continued to rise; in 2013 the increase was over 10 per cent. More than 2,400 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 4,868 benefit decisions related to rehabilitation were made in 2013, which was a 14 per cent increase on the previous year.

7. UNDERWRITING BUSINESS AND TECHNICAL PROVISIONS

At the end of 2013, Ilmarinen's technical provisions totalled EUR 27,188.9 (25,585.9) million. The provision for future bonuses, which serves as a buffer for investment losses, increased by net EUR 285.3 million and stood at EUR 762.9 (477.6) million at the end of the year. The equity linked buffer increased due to the rise in share prices by EUR 466.7 million and stood at EUR 634.0 (167.3) 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 -14.8 (-7.0) million. The equalisation provision decreased by EUR 14.8 million to EUR 971.2 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 three per cent discount rate. The interest credited on technical provisions totalled 5.5 per cent in 2013, of which the return tied to the equity linked buffer equalled 1.8 per cent. A 3.7 per cent return was credited on the remaining technical provisions.

The technical interest rate used to calculate insurance contributions was 4.0 per cent in the first half of the year and 4.75 per cent in the second half.

Assets that cover technical provisions stood at EUR 32,643.3 (29,936.8) million at the end of the reporting year.

Table: Breakdown of technical provisions

EUR million	2013	2012
Provision for unearned premiums		
Future pensions	13,136.8	13,088.5
Provision for future bonuses	762.9	477.6
Provision for current bonuses	86.0	62.4
Equity linked buffer	634.0	167.3
Total	14,619.7	13,795.8
Provision for claims outstanding		
New pensions awarded	11,598.0	10,804.0
Equalisation provision	971.2	986.0
Total	12,569.2	11,790.0
Total technical provisions	27,188.9	25,585.9

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.

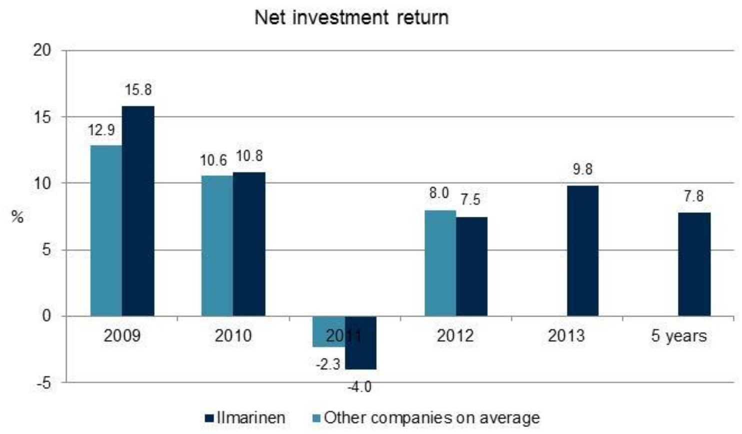
In 2013, Ilmarinen's key investment theses were developed further, thus strengthening the value platform of the entire organisation's investment operations. During the year, an investment strategy extending to 2020 was also drawn up, which will steer investment operations in the long term. Key changes brought about by the strategy include a decreasing proportion of fixed-income investments and a growing allocation share of real estate and infrastructure investments.

The eurozone government bond crisis simmered down and confidence in the financial markets rose during the reporting year. At the same time, the large central banks continued their stimulating monetary policies, which played a role in improving market liquidity. Subsequently, share prices rose powerfully in Europe, the US and Japan. The Helsinki Stock Exchange also experienced this strong increase in share prices. The upward direction of interest rate levels had somewhat of a weakening effect on the return on bonds.

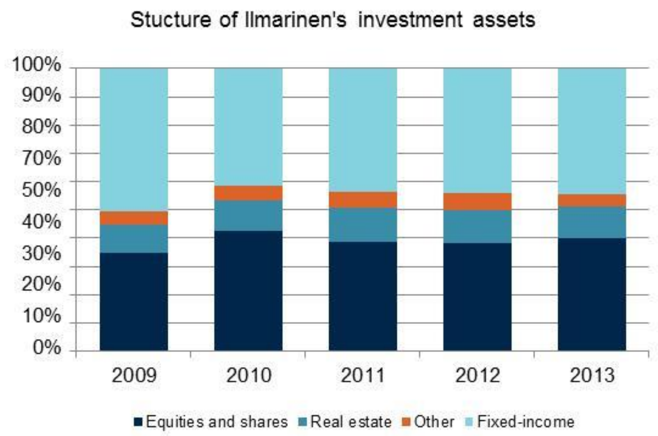
Ilmarinen's investments in 2013 focussed successfully on the high-yield equity markets while limiting the exposure to growing interest rates. In its entirety, 2013 was an excellent year for investors.

At the end of 2013, Ilmarinen's total investments calculated at current value were EUR 32,270.2 (29,520.4) million. The return on investments at current value was 9.8 per cent. With an inflation rate of 1.6 per cent during the year, the real return on Ilmarinen's investments in 2013 was 8.1 per cent. In the previous year, the return on the investment portfolio was 7.5 per cent, i.e. 5.0 in real terms. Calculated at current value, the average annual return over the last five years has been 7.8 per cent, which corresponds to an average annual return of 5.8 per cent in real terms.

Calculated from 1997, the average annual return at current value for Ilmarinen's investments has been 5.9 per cent per annum. This corresponds to an annual real yield of 4.0 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 38.8 (36.3) per cent of the total value of Ilmarinen's investment assets. Their total market value, taking into account market value derivatives, was EUR 12,524.8 (10,702.2) million and return at current value was 4.6 (7.9) per cent. A total of EUR 4,444.2 (4,013.1) or 35.5 (37.5) per cent was invested in bonds issued by governments or other similar issuers. Ilmarinen had EUR 688.8 (1,976.6) million or about 5.5 (18.5) per cent in money market investments, yielding 0.0 (1.9) per cent. The remaining 59.0 per cent were corporate bonds, most of which had a high credit rating. The return on bonds with credit risk was 5.3 per cent. At the end of the year, the modified duration of the bond portfolio was 0.2 (0.7) years.

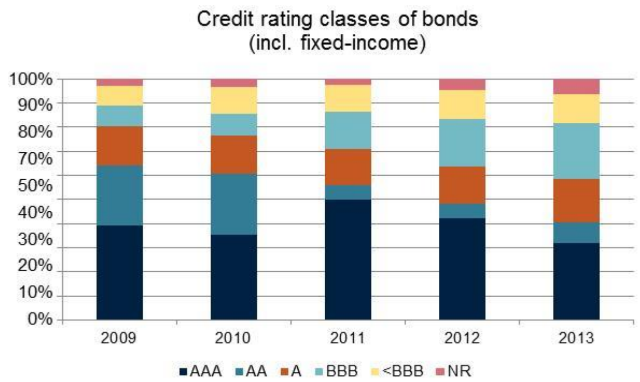
Ilmarinen's corporate credit portfolio decreased in 2013 by almost 23.9 per cent, because companies' interest towards TyEL relending continued to decline substantially due to the low investment activity of companies. At the end of the year, loan receivables made up 5.5 (8.0) per cent of investment assets. New loans amounting to EUR 99.4 (218.3) million were drawn down during 2013. At the end of the year, the total loan portfolio was EUR 1,789.1 (2,352.0) million including accrued interest. The return on loan receivables was 4.0 (3.4) per cent.

Corporate credit portfolio, EUR million

EUR million	2003	2008	2013	Return %
Premium loans	925.2	1,391.3	782.7	5.0
Lending other than premium loans	477.7	1,304.3	1,006.4	3.0
Total (includes accumulated interest)	1,403.0	2,695.6	1,789.1	4.0
Share of total portfolio, %	9	13	6	

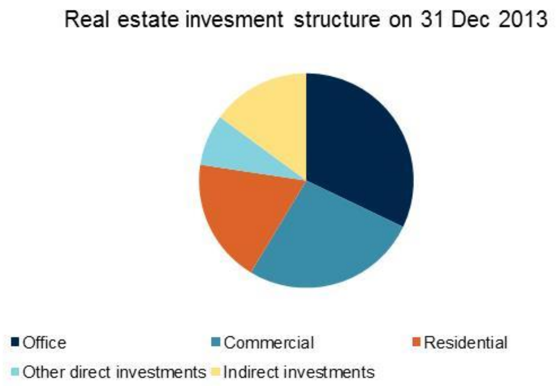
The above-mentioned investments together make up the fixed-income investment class. The investment portfolio share of all of these investments was 44.4 (44.2) per cent and their returns were 4.5 (6.9) per cent.

Listed and unlisted equities and shares as well as private equity investments made up 39.8 (38.4) per cent of all investments. Their value increased to EUR 12,843.0 (11,328.7) million in 2013 as a result of rising share prices and share acquisitions. Of this, domestic equities made up about 33.6 (35.3) per cent, or EUR 4,317.0 (4,000.7) million. Domestic equities made up 32.2 (35.3) per cent of investments in listed equities and shares. The return on equities, calculated at current value, was 20.9 (9.5) 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 13,847.8 million, i.e. 42.9 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 2013 stood at EUR 3,644.1 (3,465.7) million, a 5.1 per cent change from the previous year. The share of real estate investments was 11.3 (11.7) per cent, of which indirect investments made up 1.7 percentage units. The value of directly-owned properties was EUR 3,101.3 (2,942.9) million. The occupancy rate of real estate owned by Ilmarinen remained at the previous year's level and was 88.4 (88.4) per cent at year-end.



The total return on the company's real estate investments was 4.8 (5.1) per cent. The return on direct real estate investments was 5.0 (5.6) 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 3.2 (2.2) per cent. The commercial real estate vacancy rate remained relatively high.

Some 4.6 (5.7) 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 409.4 million and generated an average return of 5.6 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 2013, Ilmarinen was involved in several hundred engagement processes.

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 20 May 2013.

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 2013, work to develop company-level risk monitoring and reporting procedures was continued and investments were made in supporting the development of business risk management processes. In business continuity management, Ilmarinen's current and target levels were defined according to area. The company's Risk Management Committee revised Ilmarinen's risk management development programme from the perspective of strengthening the risk management culture and monitoring of project risks, for example. Long-term scenario analyses, in particular, were 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 604 persons worked for Ilmarinen Group in 2013 compared to 612 in 2012. The average number of employees in the parent company Ilmarinen was 535 (542). This figure includes 68 (78) part-time employees, whose work contribution has been adjusted to correspond with the average working hours of full-time employees. 55 (50) persons were on family leave or other unpaid leave during the year. At the end of the year, the parent company Ilmarinen employed 581 (584) persons, of whom 562 (561) were permanent employees.

Ilmarinen has set goals for its personnel costs, and they are covered by the expense loading component. The target for 2013 was for the number of personnel measured in average person years to decline in a controlled manner, i.e. at an annual rate of two per cent per year. The target corresponding to a decline of two per cent was 452 and the realised total 453.

Special attention was paid in 2013 to ensuring that the service promises of the support functions correspond with the needs of the business and that their resources and operating models serve their purpose. In connection with this, Ilmarinen established a separate planning and development business and consolidated all of its secretarial and assistant services into one department.

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 2013 was 0.494 (0.512). Work productivity measured in this manner increased during the reporting year by 3.5 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, 87 person years (85). For example, the Helsinki area real estate services were transferred from an external service provider to Ilmarinen.

According to the personnel, supervisory work remained on the same excellent level as in previous years – the total score given to the entire company's supervisors by their subordinates was 4.05 on a scale of 1 to 5. Assessments of leadership once again measured whether supervisors had abided by the leadership principles launched at the beginning of 2012. Supervisors received especially good feedback for supporting success (4.33) as well as for encouraging thinking outside the box and for being present (4.13).

As supervisors are not alone responsible for creating a good work community, work community principles that apply to the entire personnel were launched in late 2012 in order to back up the leadership principles. The success of their implementation was measured through a personnel survey in autumn 2013. According to the results the jointly agreed principles are successfully implemented with a score of 3.92 on a scale of 1 to 5. Respondents gave the best scores to statements measuring customer-orientation and support to co-workers (4.04). The weakest point according to the respondents was the principle "I am not afraid to ask, I question things in a positive manner". However, it also received a good score of 3.67.

In recent years, Ilmarinen has continuously focussed its efforts on making remuneration more encouraging, more fair, more objective and more transparent. This work continued during the reporting year: the descriptions of all of Ilmarinen's remuneration systems were harmonised and defined in more detail. Key elements were, for example, the further clarification of responsibilities and roles related to remuneration and the systematisation of the assessment and development of the remuneration systems.

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 second profit sharing bonus was paid into the fund in 2013. 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 first bonuses earned under the management's long-term remuneration system were paid out in 2013. 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 2014–2016. The second earnings period covers the years 2013–2015.

11. INFORMATION TECHNOLOGY

In renewing the pension processing system, based on a bidding round and on a comparison of possible solutions, it was decided that Ilmarinen would take part in the joint project of the pension companies that aims at implementing a new pensions processing system prior to the legislative amendments set to take force in 2017. The agreement negotiations were concluded in June and work on the new information technology deliveries was begun immediately. The system is the most comprehensive IT system renewal in Ilmarinen's recent history.

An overall renewal of the financial administration's IT systems was initiated in the autumn with the central areas being accounting and cost accounting IT system solutions. Process development targets and principles steering decision-making derived from the investment strategy were defined to serve as a basis for the development of investment operations' future IT services, and a look was taken into the service and software offering on the international markets with a view to the following stages. In the early part of the year a bidding round was set into motion for selecting a system and supplier for the customer and service data management system.

Negotiations for the continuation of operating service co-operation were held between OP-Pohjola Group, Ilmarinen and Tieto during early 2013 and an agreement was signed at the end of May that will result in significant service and pricing reforms. An agreement containing similar changes in the management of the present system was concluded between Ilmarinen and Tieto at the end of the year. As in previous years, the production activities for information technology functioned as planned both in terms of customer services and Ilmarinen's own operations.

12. OPERATING EXPENSES

Ilmarinen's cost-effectiveness improved clearly compared to the previous year. The operating expenses financed using the loading profit remained nearly on a par with the previous year. The ratio of the above-mentioned operating expenses to the expense loading components available for them decreased and was 75 (80) per cent. The halting of the rise in expenses was partly due to the increased efficiency of operations and partly due to the increased capitalisation of development expenditure compared with the previous year. The efficiency of operations benefits Ilmarinen's customers in the form of client bonuses and rebates.

Ilmarinen's total operating expenses were EUR 143.4 (144.0) million, down -0.4 per cent from the previous year. The loading profit was EUR 35.1 (27.0) million.

The statutory charges, EUR 11.4 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 22.0 (20.9) 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 4.3 (5.1) million.

13. CORPORATE GOVERNANCE AND ORGANISATION

Since 17 April 2012, Matti Lievonen, President and CEO, Neste Oyj, has functioned as the Chairman of Ilmarinen's Supervisory Board and Kirsi Kaasinen, Vice Chairman of the Board of the Finnish Association of Graduate Engineers TEK, has functioned as the Deputy Chairman. Chairman of KONE Corporation's Board of Directors, Antti Herlin, is the second Deputy Chairman. Kaasinen is the primary Deputy Chairman.

The composition of Ilmarinen's Board of Directors 2013 remained the same in 2013 as in the previous year. The term of office of the Board expired on 31 December 2013.

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 Board's new members are Minna Helle, Director, Negotiations and Social Policy at Finnish Confederation of Professionals STTK, Olli Lehtilä, Managing Director at Helsinki OP Bank and Heikki Malinen, President & CEO, Itella. The Supervisory Board named Minna Korkeaoja, Executive Vice President of Finance, Services, Communications & Corporate Responsibility, Pohjolan Voima Oy as a new deputy member. Members George Berner, Leila Kostiainen and Heikki Vitie and deputy member Timo Parmasuo left the Board. 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 23 January 2013. The Board elected Jyri Häkämies, 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. 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, re-elected on 23 January 2013, are Kristian Pullola (Chairman), Leila Kostiainen and Hannu Rautiainen.

The work of the Board and its committees and the division of labour between them has been developed further and their effectiveness boosted during 2013 based on the needs of the Board and the requirements of good corporate governance.

In its meeting in December, the Board of Directors decided to rename the Audit Committee the "Audit and Risk Management Committee" and affirmed the number of members to be four instead of three as of 2014. In future, one member will represent employee organisations and one member employer organisations. In addition, the Board of Directors approved the updates to the work plans and charters of the Board and the new Audit and Risk Management Committee so that they correspond to the new division of labour. These change will come into effect in 2014.

In its meeting on 11 November 2013, 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 2014.

Matti Lievonen functioned as the Chairman of the Election Committee in 2013 and Esa Vilkuna as the Deputy Chairman. The other Election Board members were Sture Fjäder, Antti Herlin, Leila Kostiainen and Jussi Pesonen.

Half of the Election Committee's six members are elected from among the individuals nominated by the Supervisory Board representatives of the policyholders and half from among the individuals nominated by the Supervisory Board representatives of the insured. The Supervisory Board re-elected, in its meeting on 11 November 2013, its existing members. General Secretary Leila Kostiainen's membership in Ilmarinen's Board of Directors ended on 31 December 2013 and Minna Helle, Director, Negotiations and Social Policy, was elected by the Supervisory Board as the new member of the Election Committee as of 1 January 2014.

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 167 at the end of 2013. 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 2013 was 168. Garantia Insurance Company Ltd, Kruunuvuoren Satama Oy, Russia Invest B.V. and Technopolis Holding 2 AS are 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

Ilmarinen ended its co-operation with Pohjantähti Mutual Insurance Company in January 2014. The reason behind this change was the decision to consolidate the sales of earnings-related pension insurance entirely in one sales channel, i.e. the OP-Pohjola Group.

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.

16. FUTURE PROSPECTS

The outlook for growth in the Finnish economy appears weak also for 2014. This is why it seems likely that employment development will continue to be poor. The poor employment development and low increases in salaries will result in slower payroll growth than in previous years. The growth of earnings-related pension companies' premiums written will accelerate somewhat, however, thanks to the 0.8 percentage unit increase made in contributions.

The investment environment remains challenging even though recovery expectations have begun to surface in the global economy. The substantial increase in share prices in 2013 has created strong expectations for companies' performance in 2014. For the valuation levels of equities and shares to remain stable, performance expectations must be realised.

Pension negotiations will be held in 2014 and it is expected that the labour market organisations will come to an agreement on the contents of the pension reform designed for 2017.

Elo Mutual Pension Insurance Company, created through Pension Fennia's and mutual pension company LähiTapiola's merger, started up its operations on 1 January 2014. The number of earnings-related pension companies declined from seven to six as a result but, at the same time, the number of large pension companies grew from two to three. The starting up of Elo's operations will be likely to increase competition in the earnings-related pension sector. Ilmarinen is confident in its attitude towards the added competition.

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 the 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.

Proposal of the Board of Directors for the disposal of profit

The parent company's distributable capital and reserves in the financial statements for 31 December 2013 amount to EUR 67,015,302.51, of which the profit for the financial year is EUR 3,773,637.34.

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 3,723,637.34, be transferred into the contingency fund.

Helsinki, 26 February 2014

Jussi Pesonen

Lauri Lyly	Jyri Häkämies	Sture Fjäder
Kim Gran	Matti Halmesmäki	Minna Helle
Olli Lehtilä	Hannu Leinonen	Leena Niemistö
Kristian Pullola	Heikki Malinen	Harri Sailas President and CEO