

REPORT ON OPERATIONS AND FINANCIAL STATEMENTS



REPORT ON OPERATIONS

1. ECONOMIC DEVELOPMENT

The long-term weak performance of Finland's economy continued in 2015. The short period of recovery following the financial crisis and deep downturn of 2008–2009 evolved into a new downturn in 2012. Finland's economy shrunk slightly in 2012–2014 and economic growth failed to take off in 2015. In this respect, Finland's performance was weaker than that of most eurozone countries, in which economic recovery began during 2015. As a result of a prolonged downturn that began already in 2009, Finland's total production is still clearly below the 2007 level. This is the longest period in modern history with a zero increase in average production.

The main reason behind Finland's long economic downturn lies in weak exports, which, for their part, can be explained by a number of factors: the weak development of the export countries, unfavourable changes in foreign exchange rates, the problems experienced by the electronics and paper industries and weakened competitiveness especially compared to the country's western neighbours.

On the up side, the country's balance of trade and current account turned around during 2015, showing a slight surplus. However, this cannot be attributable to increased exports; instead it is due to the decline in the world market price of oil that lowered import prices.

Private consumption and investments remained very subdued during the year and total production hardly grew at all.

Employment rates fell as a result of the weak economic development. As specified in the Pact for Employment and Growth concluded in 2013, the growth rate of nominal wages remained very slow. Because the number of employed declined, the result was a slowing down in the growth of payroll to around 1 per cent in 2015. This had its repercussions on the earnings-related system's premiums written, the growth of which also remained very low. The unemployment rate rose to more than 9 per cent during 2015 – while the employment rate declined to just under 68 per cent.

Wage moderation slightly improved the competitiveness of Finnish production, but at the same time, the weak payroll development slowed down the growth of tax income, premiums written and private consumption alike.

In summer 2015, the labour market organisations agreed on the pay raises for the remaining period – i.e. until the autumn of 2016 – of the Pact for Employment and Growth concluded in 2013. In addition, the labour market organisations held long negotiations concerning the new labour market solution presented by Prime Minister Sipilä to improve competitiveness. No consensus was reached by the end of the reporting year.

The rise in consumer prices came to a complete halt in 2015, and the price level declined by 0.2 per cent. The main reason for this was the decline in the price of oil.

Due to the prolonged economic downturn, public finances remained at a weak level during 2015. The total deficit for the state and municipalities was approximately EUR 6 billion, i.e. some 3 per cent of the GDP's value. The deficit for the entire public sector is expected to have remained below this due to the earnings-related pension sector showing a financing surplus as in previous years. Nevertheless, the financing surplus of the earnings-related pension sector also shrunk.

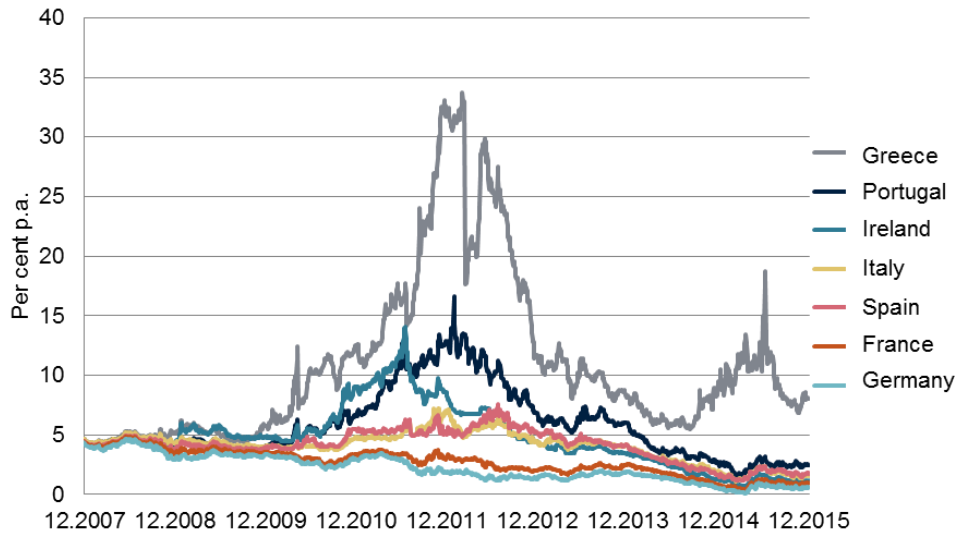
The EMU debt of the public sector increased compared with the GDP as it has done in previous years, exceeding for the first time the critical 60 per cent limit.

The government of Prime Minister Katainen decided in spring 2014 to implement new measures to reduce the public sector deficit. The implemented measures included the reduction of the index increment for social security benefits for 2015. The reduction also affected earnings-related pensions. The increase to the earnings-related pension index was cut from 1.1 per cent to 0.4 per cent, which also somewhat curbed the growth of pension expenditure.

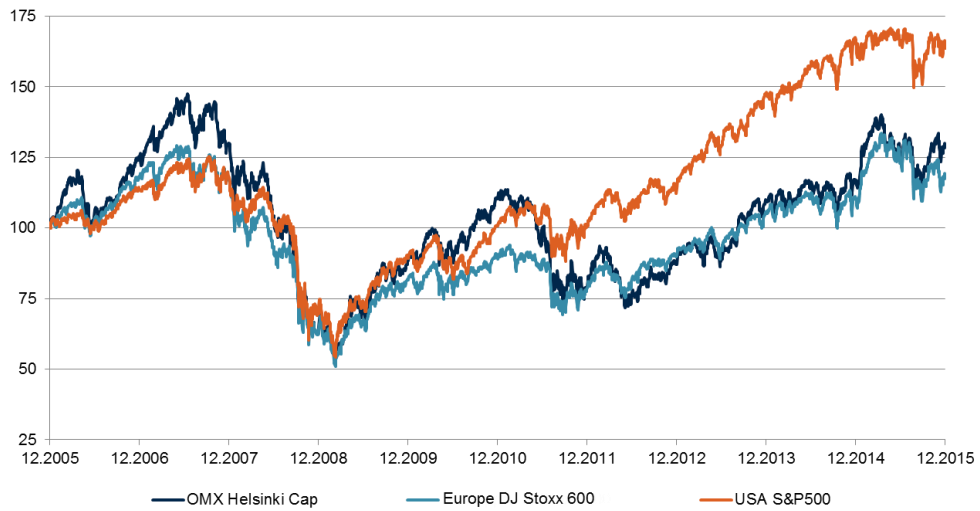
The global economy grew around 3 per cent in 2015, with the United States and China being the main growth engines. The economies of the EU countries also continued to recover, but economic growth in the eurozone remained at around one per cent. The deceleration of economic growth in China and the strong decline in the world market price of oil had a major impact on the development of the global economy. These factors considerably hindered price rises. Falling raw material prices had a negative impact on the economy of many raw-material-producing countries, such as Russia.

The European Central Bank continued its monetary stimulus policy and kept eurozone short-term key interest rates near zero. As a result, returns on fixed income investments were quite low and some investors were even left with negative returns on many low-risk government bonds. In terms of share prices, the year proved to be positive in the end. The rise in share prices was strongest during the first quarter of the year. After that, uncertainty about the development of the Chinese economy pushed share prices down for about six months. During the final quarter of the year, share prices rose once again. The year proved to be a good one for equity investors, with real returns further improved by inflation coming to a standstill.

Interest rates on 10-year government bonds in the eurozone



Stock market performance



2. DEVELOPMENTS IN THE EARNINGS-RELATED PENSION SYSTEM

The labour market organisations reached an understanding on the contents of the next pension reform in 2014. The pension reform is geared towards an increase in the average pension age and decrease in the sustainability deficit in public finances according to the 2012 agreement on extending careers and the targets set by Prime Minister Katainen's government.

The new pension legislation was prepared by the Ministry of Social Affairs and Health in early 2015 based on the outcome of the negotiations. On the basis of this preparatory work, Prime Minister Sipilä's government presented a bill to the Parliament, which adopted the new pension acts in November 2015. The new acts will enter into force in the beginning of 2017. Preparations to implement the changes are progressing on various fronts.

The pension reform means changes to the pension system's retirement age limits and pension accruals. In addition, earnings-related pension contributions are expected to stabilise close to their current level.

The new pension legislation is targeted at the gradual raising of the age limits for old-age pension. The age limits will begin rising in 2018, increasing by three months per age class until 2027 so that for those born in 1955 the lower limit for old-age pension will be 63 years and three months and 65 years for those born in 1962. After this the increase will halt for three years. Beyond 2030, the age limits will develop so that the ratio between life expectancy and the length-of-the-career expectancy will remain constant in the future.

The upper age limit for old-age pension follows the development of the lower limit so that it will be some 5 years higher than the lower limit also in future. The upper limit will, however, be raised less often, one year at a time. The life expectancy coefficient also remains part of the system but its weight in determining pensions will be reduced.

The pension reform gives rise to two new types of pension: the years-of-service pension and partial early old-age pension.

The years-of-service pension makes it possible to retire at the age of 63 if the pension applicant has had a career spanning at least 38 years and if he or she has also carried out work that is physically or mentally strenuous and if his or her work capacity can be seen to have weakened. The criteria for the years-of-service pension were specified in connection with the preparation of the legislation.

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

The pension reform will also alter the accrual of pensions. As of 2017, the pension insurance contributions of the employee will no longer be deducted from the pensionable salary based on which the

pension is calculated. On the other hand the accelerated accrual included in the 2005 pension reform will cease.

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

In summer 2015, the Finnish Pension Alliance TELA's mortality section completed its proposal for a new mortality base to be applied in TyEL insurance. According to the mortality section's report, mortality decrease has been faster than expected and mortality development varies from one age group to the next.

The mortality model will be changed at the end of 2016 and the age shifts that depict mortality decrease are 1.7 years on average in 10 years' time, compared to the current 1 year. The change will lead to an average increase of 4 per cent in old-age pension liabilities and an increase of 0.2 percentage points in the old-age pension contribution compared to the current mortality base. The mortality supplement mainly concerns younger age groups. In accordance with the pension reform agreement, the mortality base change will be financed in a way that deviates from the current legislation. The 2017 legislative reform takes into account a financing principle that deviates from the current legislation.

Solvency reform and other earnings-related pension sector regulation

As part of the labour market organisations' pension agreement it was also agreed that the weight of the collective equity-linked buffer fund of the pension companies would be increased to 20 from its current 10 per cent. The change means that an even greater proportion of the fluctuations in the return on equity will be borne by the pension system. The reform will increase the risk level of the pension system but it will improve the ability of individual pension institutions to bear risks. The reform is aimed at achieving growth in the share of equity investments and improved investment returns. The change will come into force gradually during 2017 and 2018.

The act on the calculation of a pension provider's solvency limit and on the diversification of investments will enter into force on 1 January 2017, replacing the current solvency legislation applicable to pension institutions. The solvency requirements still depend on the level of risk inherent in the investments. The solvency calculation under the new act will take into account more precisely and more comprehensively all of the risks in the pension institutions' investment operations that are relevant to their operations, in addition to underwriting risks. The risks will be taken into account according to the risk classification stipulated in the act and an investment can be subject to a number of risks. In addition, the calculation takes into account the expected return on the investments and the interdependence of the various risk factors. The solvency limit will describe, as it does at present, the amount of solvency capital that a pension institution must have in case of underwriting and investment risks. The riskier the investments for the pension institution, the higher

the solvency limit. The solvency limit will be calculated on the basis of the entire investment assets, unlike today when it is defined for an amount corresponding to the technical provisions. The regulations governing the assets to cover technical provisions will be abolished as they are redundant, but some of the regulations concerning the diversification of investments will remain in force.

3. ILMARINEN'S RESULT AND SOLVENCY

Despite the weak performance of the Finnish real economy, 2015 was a good investment year for Ilmarinen. Share prices increased on most markets during the year. Ilmarinen's annual return on investments increased to 6.0 (6.8) per cent, as a result of which the company's solvency capital strengthened by more than EUR 300 million. Due to a decline in the consumer price index, the real return on investments was 6.2 (6.3) per cent. The figure was close to the previous year's level, exceeding the long-term average by 2.1 percentage points.

The number of Ilmarinen's corporate and self-employed customers remained almost unchanged during the operating year. The efficiency of Ilmarinen's operations remained at the same good level as in the previous year. The loading profit, which describes efficiency, improved slightly on the previous year and the ratio of operating expenses to expense loading components was 75.5 (76.0) per cent.

The net return on Ilmarinen's investments, calculated at current value, was 6.0 per cent in 2015 (6.8 per cent in 2014). Solvency capital, i.e. the difference between the company's assets and liabilities measured at current value, increased to EUR 8,244.2 million (7,904.5). At the end of 2015, solvency capital amounted to 29.6 (29.8) per cent of technical provisions used in the calculation of solvency.

The solvency capital is intended to cover the risks inherent in insurance and investment operations. The monitoring limits for the solvency capital of pension insurance companies are determined by the level of risk inherent in the company's investments, which is estimated by dividing the investments into classes according to risk and by calculating the solvency limit based on the classification. The classification is made on the basis of the actual risk of the investment. The solvency limit also takes into account the insurance risk. Ilmarinen's solvency capital at the end of the financial period was 2.0 times (2.0) the solvency limit.

Investment income at current value was EUR 406.8 (804.8) million, when taking into account the interest credited on technical provisions, EUR 1,317.2 (1,128.9) million, and EUR 346.6 (254.7) million was transferred to 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 result of the underwriting business under the company's own responsibility was EUR 32.2 (45.7) million and loading profit was EUR 35.4 (34.0) 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 included in the solvency capital according to the criteria approved by the Ministry of Social Affairs and Health. The loading profit

shows the amount by which the expense loading components and other similar income exceed the operating expenses to be covered by them. The loading profit will be transferred to the solvency capital to the extent where it is not used for client bonuses.

According to the Act on Employment Pension Insurance Companies, all off-balance-sheet items equivalent to debt, for which the obligation to make payment must be considered likely, must be deducted from the solvency capital. When calculating the solvency ratio, these items shall be taken into account in the technical provisions that form the basis for the solvency calculation as soon as the act or the calculation base has been adopted, even if the change enters into force later.

For this reason, when calculating solvency, the supplementary pension insurance portion under the Employees Pensions Act shall be deducted from the equalisation provision included in the solvency capital, and shall be transferred to the provision for pooled claims on 1 January 2017. The portion of equalisation provision transferring to the provision for pooled claims equalled EUR 19.3 million at the end of 2015. Supplementary pension insurance contributed to the underwriting result in the amount of EUR 4.8 million.

Ilmarinen's total financial result in 2015 at current value stood at EUR 474.3 (884.5) 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 equalisation provision set aside for underwriting risks. For 2015, EUR 98 (93) million will be allocated for client bonuses, which is 0.59 (0.56) per cent of the insured payroll and EUR 196 (182) per employee insured with Ilmarinen.

The above information concerning the result and solvency is based on the key figures calculated at current value presented in the notes to the financial statements. It shows 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 2015, the profit in the profit and loss account was EUR 5.3 (4.3) 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	2015	2014
Result in the profit and loss account	5.3	4.3
Change in technical provisions		
Change in equalisation provision	32.2	45.3
Change in provision for future bonuses	855.0	80.0
Transfer to client bonuses	98.0	93.0
Change in depreciation difference	1.7	0.2
Change in the difference between current value and book value, i.e. valuation gain/loss	-517.8	661.8
Profit at current value	474.3	884.5

4. INSURANCE PORTFOLIO AND PREMIUMS WRITTEN

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.

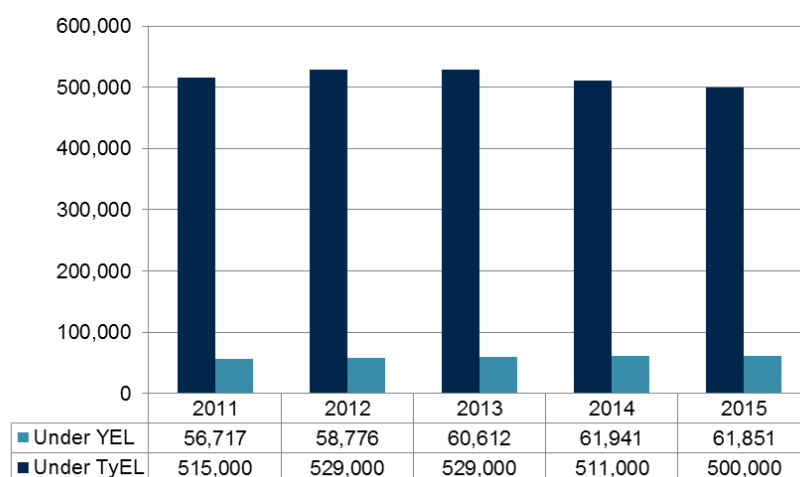
Ilmarinen's insurance portfolio declined slightly during the operating year. The number of TyEL insurance policies at the end of 2015 stood at 38,354, which is 133 or 0.3 per cent less than in the previous year. In addition to employers with insurance contracts with Ilmarinen, 5,450 (5,893) temporary employers paid TyEL contributions to the company.

At the end of the year, 500,500 (511,000) insured were covered by Ilmarinen's TyEL insurance policies. The number of insured fell by some 2 per cent, which partly resulted from the decline in the number of employees in the entire economy. The number of employees covered by a TyEL insurance policy in 2015 was on average 13 (13).

The TyEL payroll insured with Ilmarinen was EUR 16,651 (16,713) million, down 0.4 per cent from the previous year. The market share calculated from the insured TyEL payroll amount is estimated to have declined slightly in 2015 compared to the previous year.

There were 61,851 YEL insurance policies at the end of the year, which is 90 policies or 0.15 per cent less than a year earlier. The average annual reported income for YEL insurance policies was EUR 24,003 (24,041), which is slightly less than in the previous year.

Number of insured

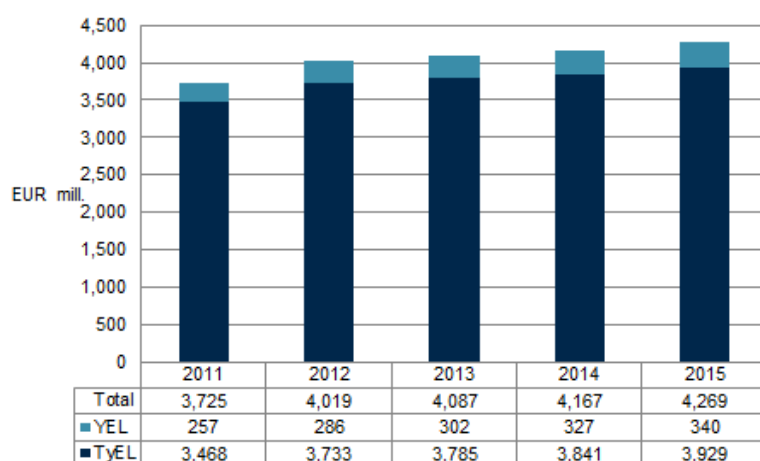


In 2015, Ilmarinen's premiums written stood at EUR 4,268.7 (4,167.4) million, up 2.4 per cent from 2014. The rise in premiums written resulted from higher earnings-related pension contributions. EUR 3,929.0 (3,840.5) million in TyEL insurance premiums were received, i.e. TyEL premiums

written increased by 2.3 per cent compared to the premiums written in the previous year. In 2015, client bonuses granted as discounts in TyEL contributions totalled EUR 94.1 million, compared with EUR 84.2 million in the previous year.

YEL premiums written stood at EUR 339.7 (326.8) million, an increase of 3.9 per cent.

Premiums written



Credit losses remained low despite the weak economic situation. Credit losses on unpaid TyEL insurance contributions amounted to EUR 11.3 (14.5) million. They declined by more than 20 per cent and they only accounted for 0.28 (0.38) per cent of the premiums written. This was partly due to the decrease in the number of bankruptcies and the measures to improve the receivables turnover rate carried out jointly with an external partner.

Credit losses on unpaid YEL insurance contributions were EUR 2.2 (2.3) 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 3,614 new TyEL insurance policies were sold. This increases the annual TyEL premiums written by EUR 80.2 million during 2016. As a result of policy transfers, Ilmarinen's TyEL insurance portfolio decreased by 243 policies and premiums written by EUR 41.7 million.

A total of 5,919 new YEL insurance policies were sold. This will increase the YEL premiums written by EUR 32.1 million. As a result of policy transfers between pension companies, Ilmarinen's YEL insurance portfolio decreased by 158 policies and premiums written by EUR 0.7 million.

Two portfolio transfers took place at the end of the year under review, on 31 December 2015. Oriola Pension Fund's insurance operations and with them a total of EUR 66 million in assets transferred to Ilmarinen. The amount consists of EUR 51.3 million in technical provisions and EUR 14.7 million in transferring solvency capital (28.6 per cent of technical provisions). OP-Pohjola's pension insurance policies transferred from Ilmarinen to OP-Eläkekassa. These policies represent a total of

EUR 124.1 million in assets. The amount consists of a total of EUR 95.4 million in technical provisions for TyEL insurance and TEL supplementary cover and of EUR 28.7 million in solvency capital (30.1 per cent of technical provisions). Combined, these transfers reduced Ilmarinen's pension assets by approximately EUR 58 million and its technical provisions by around 44 million euros. As a result of the transfers, Ilmarinen's technical provisions decreased by some 0.14 per cent.

5. CONTRIBUTION LEVEL

The average TyEL contribution for 2015 was 24.0 per cent of an employee's salary or wages, which is 0.4 percentage points higher than in the previous year. The share of contribution for employees aged under 53 was 5.70 per cent and 7.20 per cent for those aged 53 and over. The average contribution for employers was 18.00 per cent of the 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 3.1 (2.8) per cent of the employer contribution.

The confirmed TyEL contribution for 2016 is, in accordance with the pension agreement concluded in autumn 2014, 0.4 percentage points higher than in 2015, but as a temporary discount of 0.4 percentage points is granted on the contribution, the TyEL contribution will remain the same on average, i.e. at 24.0 per cent of salary or wages. The average employer contribution is 18.00 per cent of the payroll. In 2016, the contribution for employees aged under 53 is 5.70 per cent and 7.20 per cent for those aged 53 and over.

The YEL contribution for 2015 was 23.7 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, 25.2 per cent. In 2016, the contribution for employees aged under 53 is 23.6 per cent and 25.1 per cent for those aged 53 and over.

6. PENSIONS AND ACTIVITIES BOOSTING WORKING CAPACITY

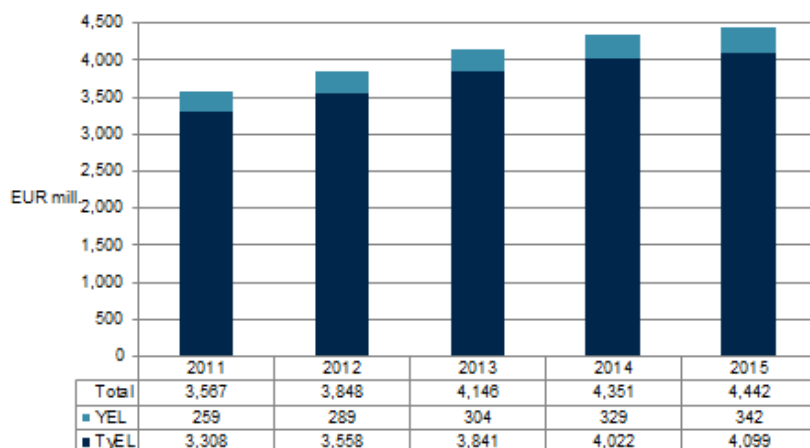
In 2015, new pension decisions made at Ilmarinen totalled 22,813, which is 1.7 per cent more than in the previous year. In 2015, Ilmarinen paid a total of EUR 4,441.6 (4,350.9) million in pensions. Pension expenditure increased by 2.1 per cent on the previous year, thus continuing to grow relatively quickly, just as in previous years.

Pension expenditure according to pension type in 2015

EUR million	TyEL	YEL	Total	%
Old-age pensions	3,160.0	258.9	3,418.9	77.0
Early old-age pensions	249.7	23.0	272.7	6.1
Part-time pensions	15.3	3.9	19.2	0.4
Disability pensions	390.7	26.9	417.6	9.4
Unemployment pensions	0.0	0.0	0.0	0.0
Survivors' pensions	283.5	29.7	313.2	7.1
Total	4,099.2	342.4	4,441.6	100.0

The majority of the approximately EUR 4.4 billion in pension expenditure, i.e. some 83.1 per cent, consisted of old-age pensions. Disability pensions made up just over 9 per cent of the pension expenditure and survivors' pensions 7 per cent.

Pensions paid



Ilmarinen's pension premiums written were just over EUR 4.26 billion. Pension expenditure excluding pension management costs was approximately EUR 4.44 billion and thus some EUR 173 million more than premiums written.

Number of pension recipients on 31 December 2015

Pensions in accordance with basic protection

EUR million	TyEL	YEL	Total	%
Old-age pensions	203,874	27,455	231,329	71.6
Early old-age pensions	14,767	3,239	18,006	5.6
Part-time pensions	1,392	330	1,722	0.5
Disability pensions	26,522	2,743	29,265	9.1
Survivors' pensions	35,877	6,973	42,850	13.3
Total	282,432	40,740	323,172	100.0

At year-end the number of pension recipients was 323,172, which is 1.4 per cent more than a year earlier, when they numbered 318,867. At the end of the year, 282,432 (278,760) pension recipients received TyEL pensions and 40,740 (40,107) received YEL pensions.

Pension decisions in 2015

	2015	2014	Change, %
New pension decisions			
Old-age pensions	10,627	10,195	4.2
Early old-age pensions	7	170	-95.9
Part-time pensions	618	512	20.7
Disability pensions	5,650	5,911	-4.4
Survivors' pensions	2,827	3,158	-10.5
Right to rehabilitation	3,084	2,480	24.4
Total new pension decisions	22,813	22,426	1.7
Total pension decisions	41,293	41,335	-0.1

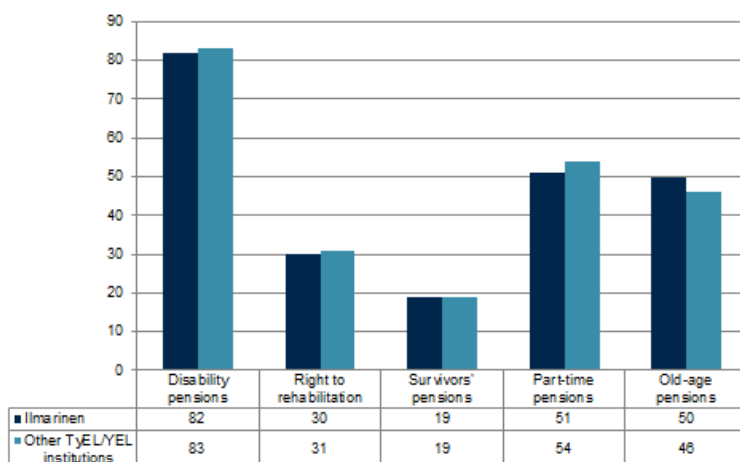
During 2015, Ilmarinen made a total of 41,293 pension decisions, which is nearly as many as in the previous year.

The number of new pension decisions increased by 1.7 per cent in 2015 and a total number of 22,813 were granted, including decisions concerning the right to rehabilitation. The number of disability pensions declined clearly from the previous year while a growing number of people made use of vocational rehabilitation. The number of old-age pensions grew slightly from the previous year.

Ilmarinen measures the quality of the processing of pension applications by ensuring that no interruptions occur in the applicant's income, as well as based on the permanence of decisions in appeal instances. Of all new insurance decisions, 88.7 per cent were granted during the month in which retirement began. Of the negative decisions sent to the Pension Appeal Court (Työeläkeasioiden muutoksenhakulautakunta TELK), 12.1 per cent were amended against Ilmarinen's position. The share of amended decisions was around 2 percentage points higher than that of other private sector pension providers on average. 19.3 per cent of the decisions sent to the Insurance Court were amended against Ilmarinen's position.

In 2015, Ilmarinen had faster processing times for pension applications in almost all pension types than in the peer group.

Processing times of pension applications 2015



Ilmarinen has offered its customers receiving negative disability pension decisions a guidance service on issues such as securing a livelihood and continuing in working life. Although customers have been satisfied with the service, its utilisation rate has fallen to a very low level over the years. For this reason, the service has been partly replaced by vocational rehabilitation services and similar instructions provided on Ilmarinen's website.

Pension records are sent every three years to people under the age of 60 and annually to people aged over 60. In 2015, people born between September and December as well as everyone over the age of 60 received their pension records. A total of 205,755 pension records were mailed during October–November, and 55,638 people retrieved their pension records from the online service between April and December.

For Ilmarinen's well-being at work services, 2015 was a record-breaking year in terms of customer co-operation. Ilmarinen organised 40 seminars on well-being at work for its client companies throughout Finland, attracting around 2,160 participants. During the year, Ilmarinen also had more than 1,900 distinct coaching or other well-being at work projects underway in co-operation with clients. These well-being at work projects covered around 160,00 employees insured with Ilmarinen. Co-operation with clients is systematic and goal-oriented and the projects are always targeted at jointly identified challenges related to well-being at work. As a general rule, co-operation is based on written agreements and the results produced by the services are monitored through indicators agreed on together with clients and customer surveys, for example.

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

Ilmarinen also supports the management of disability risks in its client companies through vocational rehabilitation. This service includes training provided to supervisors and advisory services as well as expert support for both supervisors and employees during the rehabilitation planning phase. Altogether 3,000 vocational rehabilitation applicants received confirmation of support for changing careers or returning to work. This is 24 per cent more than in the previous year. During

the actual rehabilitation period, the company pays benefits pursuant to earnings-related pension legislation to support the individual's income during the rehabilitation and compensate for the costs resulting from the training. Altogether approximately 5,800 decisions related to rehabilitation benefits were made in 2015, which was an increase of more than 15 per cent compared to the previous year.

Since the beginning of 2015, a preliminary vocational rehabilitation decision has been issued without separate application to those who have applied for disability pension, if returning to work still seems to be an option. This procedure makes it possible to start the vocational rehabilitation and its planning sooner.

7. UNDERWRITING BUSINESS AND TECHNICAL PROVISIONS

At the end of 2015, Ilmarinen's technical provisions totalled EUR 30,630.2 (28,402.3) million. The provision for future bonuses, which serves as a buffer for investment losses, increased by net EUR 841.0 million and stood at EUR 1,683.9 (842.9) million at the end of the year. The equity linked buffer increased due to the rise in share prices by EUR 345.8 million and stood at EUR 1,235.2 (889.4) million at the end of the year. Otherwise, the increase in technical provisions was 3.9 per cent.

The result of the underwriting business under the company's own responsibility was EUR 32.2 (45.7) million. The equalisation provision grew by EUR 32.2 million to EUR 1,048.6 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 5.7 per cent in 2015, of which the return tied to the equity linked buffer equalled 1.2 per cent. A 4.5 per cent return was credited on the remaining technical provisions.

The technical interest rate used until the end of 2015 to calculate insurance contributions was 5.50 per cent in the first half of the year and 5.75 per cent in the second half. As of 1 January 2016, insurance contributions will be calculated using the insurance contribution interest rate, which is 2.00 per cent in the first half of the year.

Assets that cover technical provisions stood at EUR 35,141.8 (32,725.0) million at the end of the reporting year.

Breakdown of technical provisions

EUR million	2015	2014
Provision for unearned premiums		
Future pensions	13,598.7	13,359.1
Provision for future bonuses	1,683.9	842.9
Provision for current bonuses	98.6	94.8
Equity linked buffer	1,235.2	889.4
Total provision for unearned premiums	16,616.5	15,186.2
Provision for claims outstanding		
New pensions awarded	12,965.1	12,199.6
Equalisation provision	1,048.6	1,016.5
Total provision for claims outstanding	14,013.8	13,216.0
Total technical provisions	30,630.2	28,402.3

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 expected average long-term real return on Ilmarinen's investment assets is 4 per cent, and the expected standard deviation of the return is around 10 per cent.

In 2015, Ilmarinen's key investment theses were cascaded, thus further strengthening the value platform of the entire organisation's investment operations. A review of the investment strategy extending to 2020, which will steer investment operations in the long term, took place in 2015. Key changes brought about by the strategy include a decreasing proportion of fixed-income investments, a growing allocation share of real estate and infrastructure investments and an increase of the allocation share of listed equities and shares related to the amended pension legislation. As part of the strategy, the diversification of the real estate portfolio outside of Finland, which was already begun in 2015, will also be continued.

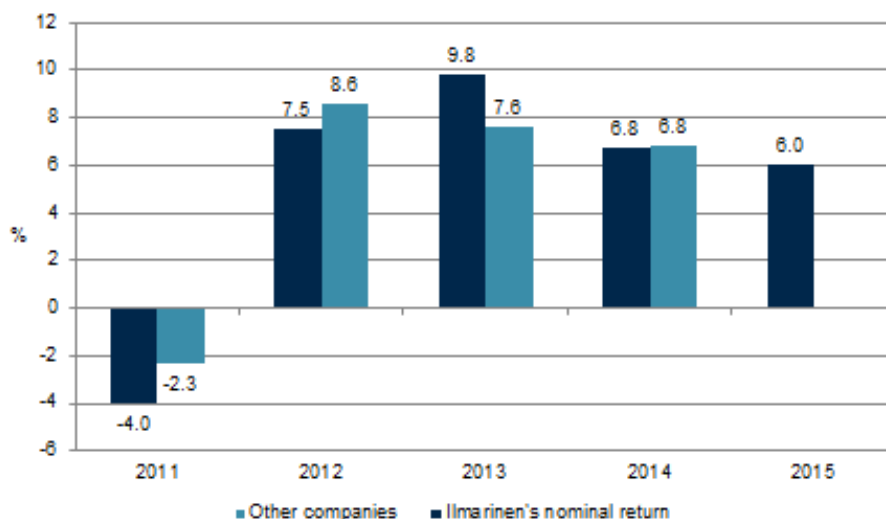
Economic growth and inflation were lower than expected in the reporting year. The development in the world economy was inconsistent. Monetary policy evolved in two directions, with the European Central Bank launching a government bond purchasing programme while the US central bank initiated interest rate hikes. The price of oil continued on the same downward trajectory as in the previous year.

Ilmarinen's investments in 2015 focussed on the high-yield equity markets while limiting the duration, i.e. exposure to growing interest rates. Also the successful currency insight had a positive effect on the investment result. In its entirety, 2015 was a good year for investors.

At the end of 2015, Ilmarinen's total investments at current value were EUR 35,841.0 (34,195.5) million. The return on investments at current value was 6.0 per cent. Inflation in Finland at year-

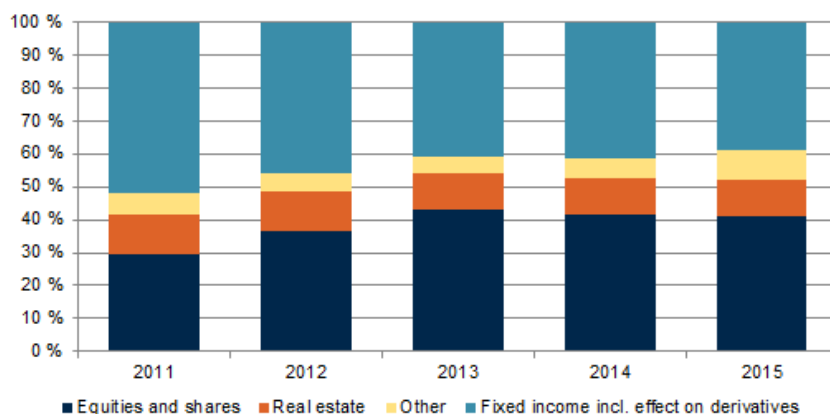
end was negative. The consumer price index declined 0.2 per cent. The real return on Ilmarinen's investments in 2015 was 6.2 per cent. In the previous year, the return on the investment portfolio was 6.8 per cent, i.e. 6.3 in real terms. Calculated at current value, average annual income over the last five years has been 5.1 per cent, which corresponds to an average annual real income of 3.6 per cent. Calculated from 1997, the average annual return at current value for Ilmarinen's investments has been 5.9 per cent per annum. This corresponds to an annual real return of 4.2 per cent.

Net investment income



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.

Development of the basic breakdown of investments



Bonds, fixed income funds and other money market instruments formed 40.4 (39.9) per cent of the total value of Ilmarinen's investment assets. Their total market value, taking into account deriva-

tives, was EUR 14,475.8 (13,636.1) million and return at current value was 1.0 (2.1) per cent. A total of EUR 4,245.8 (5,026.0) or 29.3 (36.9) per cent was invested in bonds issued by governments or other similar issuers. Ilmarinen had EUR 469.3 (922.0) million or about 3.2 (6.8) per cent in money market investments, yielding 3.5 (9.0) per cent. The remaining 67.4 per cent were corporate bonds, most of which had a high credit rating. The return on bonds with credit risk was 0.0 per cent. At the end of the year, the modified duration of the bond portfolio was 0.8 (-0.9) years.

Ilmarinen's corporate credit portfolio decreased in 2015 by almost 24.9 per cent, because companies' interest towards TyEL relending continued to decline due to the low investment activity of companies. At the end of the year, loan receivables made up 3.0 (4.2) per cent of investment assets. New loans amounting to EUR 183.1 (55.5) million were drawn down during 2015. At the end of the year, the total loan portfolio was EUR 1,088.5 (1,448.5) million including accumulated interest. The return on loan receivables was 3.7 (4.3) per cent.

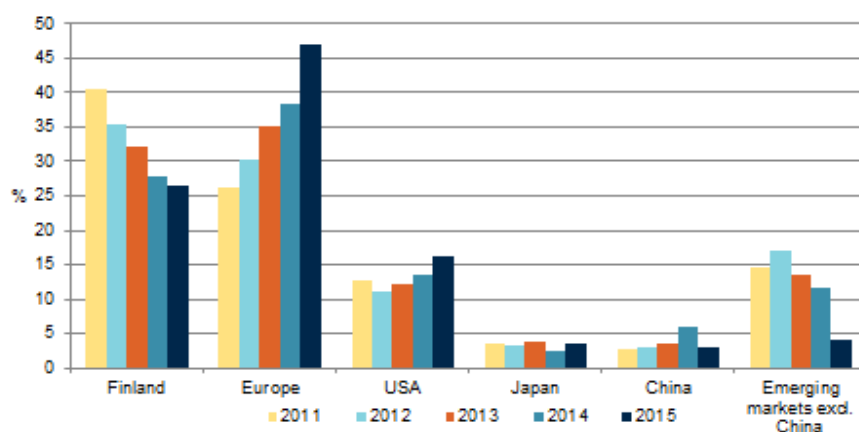
Corporate credit portfolio, EUR million

EUR million	2006	2010	2015	Return, %
Premium loans	534.9	1,684.9	682.4	3.6
Lending other than premium loans	541.0	1,453.0	406.1	3.9
Total (includes accumulated interest)	1,076.0	3,137.8	1088.5	3.7
Share of total portfolio, %	5	11	3	

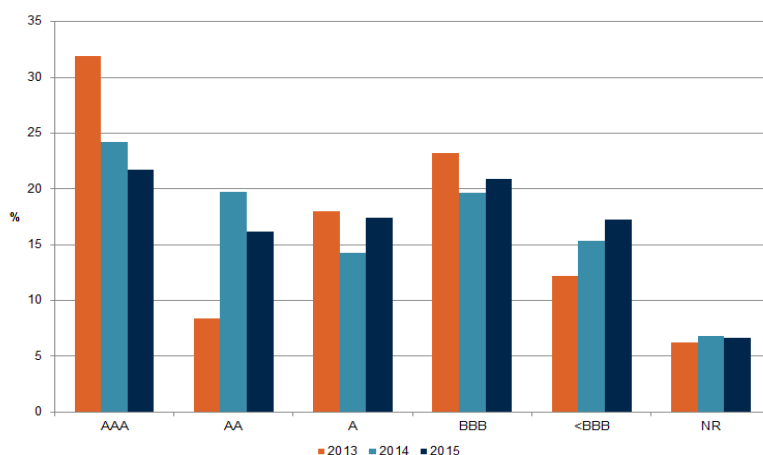
The above-mentioned investments together make up the fixed-income investment class. These investments accounted for 43.4 (44.1) per cent of the investment portfolio and their returns were 1.2 (2.4) per cent.

Listed and non-listed equities and shares as well as private equity investments made up 40.2 (39.6) per cent of all investments. Their value increased to EUR 14,398.6 (13,539.4) million in 2015. Of this, domestic equities and shares made up about 27.8 (30.3) per cent, or EUR 4,006.9 (4,096.0) million. Domestic equities made up 26.5 (28.0) per cent of investments in listed equities and shares. The return on equities, calculated at current value, was 11.6 (10.9) per cent.

Geographical breakdown of listed equities



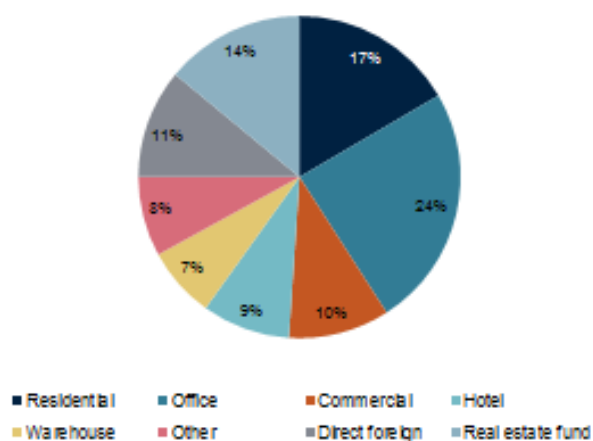
Credit risk breakdown of bond investments



Equity, currency and interest derivatives are used both for hedging and for altering the risk level of the investment portfolio. As a result of the use of derivatives, the amount of equities and shares according to risk was EUR 14,731.0 million, i.e. 41.1 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 2015 stood at EUR 3,935.5 (3,735.4) million, a 5.4 per cent change from the previous year. The share of real estate investments was 11.0 (10.9) per cent, of which real estate funds made up 1.4 percentage points. The value of directly-owned properties was EUR 3,427.8 (3,243.6) million. The lease rate of Finnish real estate owned by Ilmarinen remained at the previous year's level and was 90.1 (88.2) per cent at year-end.

Structure of real estate assets on 31 Dec 2015



The total return on the company's real estate investments was 7.8 (5.4) per cent. The return on direct real estate investments was 7.0 (4.9) per cent. The return on real estate funds was 13.0 (8.5) per cent. The amount of direct foreign real estate investments grew to EUR 397.2 million.

Some 5.4 (5.4) 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 1.9 percentage points, i.e. EUR 670.8 million and generated an average return of 12.8 per cent on capital employed.

According to the responsible investment principles included in Ilmarinen's ownership policy, Ilmarinen will start an engagement process with a company that fails to fulfil the criteria set forth in the policy. If the engagement process does not lead to the desired end result, the investment is sold. Additionally, Ilmarinen refrains from acquiring investments whose operations do not fulfil the required criteria. During 2015, 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 and Risk Management Committee and the Board of Directors. The Board of Directors approved the risk management plan on 27 May 2015.

The company's risk management function, 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 level 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.

With regards to developing company-wide risk management, the first phase of the development work related to the reporting of operative risks was completed in 2015, consisting of determining the current status, the objectives and the requirements for the new reporting system. In business

continuity management, Ilmarinen developed a business impact analysis model to enable better management of disruptions, and participated in an operative exercise covering the financial sector (FATO 2015). In strategic investment risk management, long-term scenario analyses were incorporated into the investment strategy process.

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

10. PERSONNEL

An average of 593 people worked for Ilmarinen Group in 2015 compared to 600 a year earlier. The average number of employees in the parent company Ilmarinen during the reporting year was 535 (537), measured in person years. This figure includes 65 (69) part-time employees, whose work contribution has been adjusted to correspond with the average working hours of full-time employees. 44 (59) persons were on family leave or other unpaid leave during the year. At the end of the year, the parent company Ilmarinen employed 573 (576) persons, of whom 542 (554) were permanent employees.

Supervisory work was evaluated by measuring to which extent the employees feel that supervisors comply with Ilmarinen's leadership principles. Based on the results of the employee survey, the score given to supervisors by employees remained at a high level, equalling 3.9 on a scale of 1–5. Supervisors received especially good feedback for supporting success, for fairness and for encouraging thinking outside the box, all of which achieved a score of 4. In addition to the leadership principles, we also monitor the implementation of the work community principles in day-to-day work. According to the results the jointly agreed principles are successfully implemented with an average score of 3.8 on a scale of 1 to 5. The respondents gave particularly high scores to the work community's positive team spirit, customer orientation and compliance with values and ground rules (all of these areas were scored more than 4).

Ilmarinen's new strategy emphasises the importance of an energising work community. We want to be a role model in how work and the work community can support activeness. The company's modernised premises, which will be fully operational in spring 2016, also support this target. The multi-purpose office space offers functional solutions for various work situations. Its primary objectives are to support activeness and well-being while promoting interaction and a culture of continuous improvement. Since we have wanted to make mobile work easier for our personnel, we have significantly increased the use of mobile tools.

Ilmarinen's remuneration systems, with the exception of the remuneration through the personnel fund, were revamped during the year and entered into force on 1 January 2016. In addition, Ilmarinen's Board of Directors adopted Ilmarinen's remuneration and incentive policy which lays down the company's criteria for and elements of remuneration. According to Ilmarinen's remuneration policy, remuneration at Ilmarinen should support the company's strategic goals and long-term interests, and the implementation of its values. It should be coherent and open and designed to encourage excellent performance. It should be competitive while being reasonable and responsible, and in line with good risk management.

The description of the new remuneration system can be found on Ilmarinen's website.

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 channeled through the personnel fund. Ilmarinen's Board of Directors annually decides on the amount of profit sharing bonuses transferred to the fund. The criteria for the profit sharing bonuses paid to the fund have been distilled from Ilmarinen's strategic targets. The fund covers the entire personnel excluding management. The fund is managed by a council and a board elected by the personnel.

Ilmarinen's long-term incentive plan 2013–2015 ended at the end of the year and the bonuses earned under the plan will be paid out over the next four years in accordance with the plan. The last of the four instalments under the management's long-term incentive plan 2010–2012 will be made in spring 2016.

11. INFORMATION TECHNOLOGY

The renewal of the information systems for the processing of pensions continued according to plan and the new pension processing system was rolled out in two phases during the year. The last phase of the project will be completed in early 2016. The development of digital customer services was continued by expanding the content of the web services and improving their availability with mobile devices. The overall reform of the financial administration's information systems was completed as planned by the end of the year.

In a bid to look into ways to improve the efficiency of the maintenance and development of the basic systems related to the insurance and pension processes, a call for proposals was organised among service providers, based on which the actual tendering process was launched in the autumn. The decisions concerning the supplier selection and the future services will be made in early 2016. The use of cloud services was promoted by evaluating new potential application areas and drawing up a policy to guide their use. The production activities for information technology functioned as planned both in terms of customer services and the company's own operations.

12. OPERATING EXPENSES

Ilmarinen's cost-efficiency remained relatively good as in the previous year. The efficiency of operations benefits Ilmarinen's customers in the form of client bonuses. The operating expenses financed using the loading income increased by 0.9 per cent. The ratio of the above-mentioned operating expenses to the expense loading components available for them decreased slightly equalling 75.5 (76.0) per cent.

Ilmarinen's total operating expenses were EUR 150.7 (149.8) million, up 0.6 per cent from the previous year. The loading profit grew 4 per cent to EUR 35.4 (34.0) million.

The statutory charges, EUR 11.1 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 25.3 (23.5) million, or 0.07 per cent of the total investment amount. They are financed using the return on investments. Activities were conducted together with clients to maintain well-being at work and work capacity. The costs of maintaining work capacity that are financed from the administration part of disability risk contained in the insurance contribution were EUR 5.1 (5.7) million.

13. MANAGEMENT

In 2015, Matti Lievonen, President and CEO, Neste Oyj, served as the Chairman of Ilmarinen's Supervisory Board. Antti Herlin, Board Chairman of Kone Corporation, and Kirsi Kaasinen, Vice Chairman of the Board of the Finnish Association of Graduate Engineers TEK, were Deputy Chairmen, with Kaasinen as the primary Deputy Chairman. The Supervisory Board has altogether 28 members.

Composition of the Board of Directors from 1 January to 31 December 2015:

- Anne Berner, Chairman of the Board, Oy Vallila Interior Ab, membership ended on 23 April 2015
- Sture Fjäder, President of the Confederation of Unions for Professional and Managerial Staff in Finland AKAVA
- Mikko Helander, President and CEO, Kesko Corporation
- Jyri Häkämies, Director General of the Confederation of Finnish Industries EK
- Hille Korhonen, President and CEO, Alko Inc
- Olli Lehtilä, Managing Director, Pohjola Insurance Ltd
- Hannu Leinonen, President and CEO, Destia Ltd
- Lauri Lyly, President of the Central Organization of the Finnish Trade Unions
- Heikki Malinen, President and CEO, Posti Group Corporation
- Katarina Murto, Director of Negotiations, The Finnish Confederation of Salaried Employees, STTK
- Jussi Pesonen, President and CEO, UPM-Kymmene Corporation
- Kristian Pullola, Vice President, Corporate Controller, Nokia Corporation

Deputy members:

- Minna Korkea-aho, Executive Vice President and CFO, Northern Power Company
- Hannu Rautiainen, Director, Legal Affairs and Administration of the Confederation of Finnish Industries EK
- Kari Savolainen, President and CEO, Finavia Corporation
- Petri Vanhala, President, Finnish Paper Workers' Union

The term of office of the members of the Board of Directors is four years between 1 January 2014 and 31 December 2017. Mikko Helander and Hille Korhonen started as new members on 1 January 2015 and Katarina Murto on 12 March 2015. Anne Berner, formerly a deputy member, became a full member on 1 January 2015 and Kari Savolainen started as a new deputy member. Anne

Berner's membership ended on 23 April 2015. Jussi Pesonen's board membership and chairmanship ended on 31 December 2015.

In its meeting on 16 November 2015, the Supervisory Board elected Pekka Vauramo, President and CEO at Finnair Oyj, as a new member to replace the resigning members for the term of office from 1 January 2016 to 31 December 2017. CFO Minna Korkeaoja, formerly a deputy member, became a full member and Antell Group's Deputy CEO Annukka Lantto was elected as a new deputy member.

The Chairmen of the Board of Directors make up the Nomination and Compensation Committee. Jussi Pesonen was Chairman of the Board in 2015. Jyrki Häkämies and Lauri Lyly were the Deputy Chairmen, the latter of whom was the primary Deputy. In January 2016, the Board of Directors elected Mikko Helander as its new Chairman, with Lyly and Häkämies continuing as Deputy Chairmen.

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

In 2015, the Election Committee was chaired by Matti Lievonen, with Sakari Lepola as Deputy Chairman and Sture Fjäder, Antti Herlin, Katarina Murto and Jussi Pesonen as members.

The attendance of the members of the Board of Directors and the Supervisory Board in meetings has been stated in the Declaration of Remuneration and Incentives, which is available at <http://www.ilmarinen.fi/en/ilmarinen/corporate-governance-and-organisation/declaration-of-remuneration-and-incentives/>.

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

As of the beginning of 2015, legislative amendments concerning the governance of earnings-related pension companies came into force. The change somewhat increased the administrative workload particularly in documenting, reporting and control and in terms of reorganising insider control. Ilmarinen's public insider register was implemented on 1 June 2015.

14. GROUP

At the end of 2015, Ilmarinen Group comprised 125 (170) subsidiaries and 38 (27) participating interests, of which 19 (14) have been consolidated into the Group as material associated companies. With the exception of TietoIlmarinen, the company's subsidiaries are real estate companies. The majority of the associated companies as well are real estate companies or real estate management 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 data on all of the subsidiaries and participating interests can be found in the Notes to the Financial Statements.

In March 2015, Ilmarinen sold its holdings in Garantia Insurance Company to Taaleritehdas Plc.

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

In early 2016, the Financial Supervisory Authority is preparing amendments to its regulations and guidelines concerning earnings-related pension companies' well-being at work activities and the financing thereof. Companies have been invited to submit their positions to the supervisor. Ilmarinen submitted its position within the specified timeframe at the end of January.

16. FUTURE PROSPECTS

The recovery of the Finnish economy still appears to be fragile and we can expect the growth of the national economy's payroll and Ilmarinen's premium income to remain very slow in 2016. The growth of earnings-related pension expenditure will also decelerate as the earnings-related pension index will not be incremented in 2016 due to the decline in the price level in 2015.

In January, labour market organisations restarted negotiations concerning a labour market solution to improve competitiveness.

The investment environment continues to be challenging and twofold. The monetary stimulus programme launched by the European Central Bank is expected to continue in 2016. As a result, the returns on low-risk bonds will remain very low. The low interest rate level may favour share price development but the many uncertainties in the global economy will add to uneasiness on the markets. In January, this could be seen as a general decline in share prices and an increase in volatility.

Ilmarinen will ensure its competitiveness by improving its cost-efficiency and operating as successfully as possible as a long-term investor of pension assets in a challenging environment. The partnership with the OP Financial Group will be a major success factor for Ilmarinen in customer relationship management, as it has been in the previous years.

Proposal of the Board of Directors for the disposal of profit

The parent company's distributable capital and reserves in the financial statements on 31 December 2015 amount to EUR 76,550,982.71, of which the profit for the financial year is EUR 5,302,092.74.

The Board of Directors proposes that a maximum of EUR 50,000 be reserved for use by the Board of Directors as donations for purposes of general interest, or similar purposes, and authorises the Board of Directors to decide on the recipients of the donations, their purpose and other conditions for donations. The authorisation will be in force until the 2017 Annual General Meeting and any donation funds that remain unused at the end of the authorisation shall be transferred to the contingency fund.

In addition, the Board of Directors proposes that the remainder of the profit, i.e. EUR 5,252,092.74 be transferred to the contingency fund.

Helsinki, 18 February 2016

Mikko Helander

Lauri Lyly

Jyri Häkämies

Sture Fjäder

Hille Korhonen

Minna Korkeaoja

Olli Lehtilä

Hannu Leinonen

Heikki Malinen

Katarina Murto

Kristian Pullola

Pekka Vauramo

Timo Ritakallio
President and CEO