REPORT ON OPERATIONS AND FINANCIAL STATEMENTS 2017

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ILMARINEN

REPORT ON OPERATIONS

ILMARINEN'S STRATEGY

Ilmarinen is a mutual pension insurance company owned by its customers. Our basic task is to ensure that the personnel of our client companies receive the statutory pension they earned from employment. The core values that guide our activities are responsibility, openness and succeeding together.

Ilmarinen wishes to be the most attractive earnings-related pension partner. The strategic goals derived from that vision include the best customer experience, a strong market position, efficient operations and solid solvency.

1 ECONOMIC DEVELOPMENT

The Finnish economy developed better than expected during 2017. In the early part of the year, economic forecasts predicted growth of more than one per cent, but the growth figure for total production wound up at some three per cent. The strong economic recovery was backed by the accelerated growth seen in the global economy and particularly in the euro zone, which bolstered demand for Finnish export products. Export volumes increased by ten per cent. In addition to exports, economic development was fuelled by the positive development in investments and private consumption, which were supported by the improved confidence of companies and households. The already strong growth in construction activity continued.

The recovery of economic growth also affected the labour markets. Employment figures grew by some 50,000 people and the payroll for the whole economy grew by around three per cent. The positive performance also strengthened public finances. The government budget deficit, which has long been large, shrank and the EMU deficit for the entire public sector is estimated to have fallen to approximately one per cent in relation to the value of total production. Inflation remained very slow, just as in previous years; consumer prices rose by just under one per cent during the year. This was partially the result of moderate global price development and domestic cost development, which remained very slow due to the competitiveness pact concluded by labour market organisations in 2016.

Pursuant to the pact, no general pay increases took place in 2017. Instead, annual working hours were extended by 24 hours and discounts were agreed on employers' social security contributions, which will be implemented between 2017 and 2020. Instead of pay raises, consumers' purchase power was supported by low inflation and increased employment. The earnings level index rose during the reporting year by just under one per cent.

The positive development of the global economy was backed by the central banks' stimulating monetary policy. The US Federal Reserve slightly raised its key interest rates, but the European Central Bank (ECB) kept its key interest rates below zero and continued to make significant securities purchases under its quantitative easing policy. In addition to short-term rates, the monetary policy also maintained long-term rates at an exceptionally low level. Low interest rates, together with a recovering real economy backed the strong development of share prices. Inflation remained slow, although the price of oil took an upward turn during the year. The euro strengthened in relation to the US dollar.

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2 DEVELOPMENTS IN THE EARNINGS-RELATED PENSION SYSTEM

New legislation on the pension reform entered into force at the beginning of 2017. At first, the reform changed the pension accrual rules. Earnings-related pension starts to accrue for work from the age of 17 and the accrual percentage for persons who have turned 53 and 63 years of age changed. In addition, when calculating the pension accrual, the earnings-related pension contributions of employees are no longer deducted. The reform did not yet impact the retirement age in 2017; it will not begin to rise until 2018.

The pension reform introduced new types of pensions: the partial early old-age pension and the years-of-service pension. The part-time pension was discontinued. The partial early old-age pension, which is available from the age of 61 up, received a great deal of interest right at the beginning of 2017. Partial early old-age pensions granted during the reporting year were most often 50 per cent of the final pension. Only few chose the other option, i.e. 25 per cent of the final pension.

With a few exceptions, hardly anyone applied for years-of-service pension in 2017. This was to be expected because the lowest old-age retirement age in 2017 was still the same as the 63-year age limit set for the years-of-service pension.

The competitiveness pact agreed on by labour market organisations in 2016 brought a change to earnings-related pension contributions in 2017. In accordance with the pact, employer's earnings-related pension contributions will be decreased gradually and employees' contributions will correspondingly rise between 2017 and 2020. The average level of earnings-related pension contributions will remain unchanged, however, at 24.4 per cent.

The expense loading rate of earnings-related pension companies was reduced by some seven per cent as of the beginning of 2017 as a result of more efficient operations on the part of pension companies. The change reduced the expense loading and loading profit of pension companies. Simultaneously, the bases for client bonuses were changed so that, in future, the entire loading profit can be transferred to client bonuses. Previously no more than half of the loading profit could be transferred to client bonuses.

New solvency regulations came into force at the start of the year. The main change was a more risk-based calculation method for the solvency requirement, i.e. the solvency limit. Thus, the new regulations take into account the risks of companies' investment portfolios even better and more transparently than before. The buffer, or equalisation provision, separately reserved for insurance risks, was merged with the rest of the solvency capital, with which both insurance and investment risks are buffered.

The reporting of pension companies' solvency ratios was renewed at the start of 2017. Earlier, the solvency ratio was the ratio of solvency capital to technical provisions. The solvency ratio in accordance with the new practice is the ratio of solvency capital to technical provisions plus one hundred per cent. The new calculation method provides a better description of the sufficiency of pension assets in relation to the pension liability.

The technical provisions partially buffer the fluctuations in equity returns. At the start of 2017, the weight of the equity linked buffer included in technical provisions was increased from 10 per cent to 15 per cent. The weight will increase further to 20 per cent as of the beginning of 2018. As a result of the change, the impact of fluctuations in share prices on the technical provisions will grow.

A change will take place in client bonuses given as discounts on insurance contributions as of the start of 2018. Pension companies can now decide themselves how to distribute client bonuses among their customers. The Ministry of Social Affairs and Health has confirmed the calculation bases for client bonuses for each company. The change will impact the client bonuses paid to customers in 2019.

3 MERGER OF ILMARINEN AND ETERA

The Boards of Etera Mutual Pension Insurance Company (Etera) and Ilmarinen signed a merger agreement on 29 June 2017, which was registered in the trade register on 30 June 2017. According to the merger plan, Etera was to merge into Ilmarinen as specified in the Act on Employment Pension Insurance Companies, chapter 10. The merger plan stated that Etera's insurance portfolio and other assets, liabilities and rights would transfer without liquidation proceedings to Ilmarinen through the registration of the implementation of the merger, the planned date for which was 1 January 2018. The extraordinary general meetings of Ilmarinen and Etera approved the merger proposal in September 2017.

The merger required official approval. According to the statement presented by the Finnish Competition and Consumer Authority to the Financial Supervisory Authority on 31 August 2017, there was no obstacle to the merger in competition law. The Financial Supervisory Authority approved the merger on 10 October 2017. The implementation of the merger was registered in the trade register on 1 January 2018.

The merger on 1 January 2018 created Finland's largest earnings-related pension company in terms of the number of customers. The total number of insured persons and pension recipients at Ilmarinen will rise to more than 1.1 million as a result of the merger. Following the merger, Ilmarinen's market share is estimated to be approximately 37 per cent measured in premiums written and its pension assets to be more than EUR 45 billion.

The goal of the merger is to improve the efficiency of operations and upgrade the level of services provided to customers. Improved cost-effectiveness enables larger client bonuses. When deciding on the merger, Ilmarinen's Board of Directors set as a goal the reduction of the operating expenses of the merged company by EUR 20 million by 2020 compared with the combined operating expenses of Ilmarinen and Etera in 2016. Increased cost-effectiveness will be achieved by dismantling the overlapping functions of the merging companies. In addition to the improvement in operating expenses, the merger is geared towards a reduction in the relative costs of investment operations.

4 ILMARINEN'S RESULT AND SOLVENCY

2017 turned out to be a good investment year for the company. Share prices increased on most markets during the year. Rising share prices were supported by a low interest rate level and accelerating economic growth. The company's annual return on investments was 7.2 (4.8) per cent, as a result of which the company's solvency capital strengthened by close to EUR 961 million. Due to a 0.5 per cent rise in the consumer price index, the real return on investments was 6.7 (3.8) per cent. The figure was well above the 4.3-per-cent long-term average for Ilmarinen's real investment returns.

Insurance sales were successful in 2017. We adopted new operating models and invested heavily in digital sales. The new digital services for work capacity management and well-being at work significantly increased our competitiveness in all customer segments. Measured in premiums written, customer acquisition in 2017 equalled EUR 368 million, which is the second-best sales result in the company's history. Also net customer acquisition, at EUR 124 million, developed extremely favourably. In 2017, the net sales result improved 32 per cent compared to 2016 and 77 per cent compared to 2015.

The number of corporate and self-employed customers remained almost unchanged during the operating year. The efficiency of operations remained at the same good level as in the previous year. Due to a change in the expense loading rate, the comparable loading income fell seven per cent compared with 2016, as a result of which the loading profit shrank from the previous year and the ratio of operating expenses to expense loading components rose to 81.1 (74.9) per cent. The company's operating expenses remained almost unchanged, however.

Solvency capital, i.e. the difference between the company's assets and liabilities measured at current value, increased to EUR 9,420.7 million (8,460.0). At the end of 2017, the solvency ratio was 131.2 (129.2) per cent. As of the start of 2017, the solvency ratio is calculated as the ratio of pension assets to technical provisions when earlier the solvency ratio was the solvency capital's ratio to technical provisions.

The solvency capital is intended to cover the risks inherent in insurance and investment operations. The solvency capital at the end of the financial period was 1.8 times (2.0) the solvency limit required by the risk breakdown of the company's investments. Strong solvency is one of the company's strategic goals.

Investment return at current value was EUR 1,038.8 (410.5) million, when taking into account the interest credited on technical provisions, EUR 1,263.7 (1,132.9) million, and EUR 390.9 (199.9) million was transferred to the equity linked buffer. The equity linked buffer ties a certain percentage of the return requirement on technical provisions to the average return on listed equities of pension funds and thus transfers the equity risk from the company to be covered by the entire earnings-related pension system.

The underwriting result under the company's own responsibility was EUR 13.3 (-35.5) 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 provision for future bonuses 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. Ilmarinen's loading profit was EUR 25.4 (36.1) million. As of the start of 2017, the loading profit can be used in full for client bonuses, whereas before only half of it could be transferred to client bonuses.

Ilmarinen's total financial result for 2017 at current value stood at EUR 1,078.4 (405.2) million. The result consists of the investment result, the underwriting result and the loading profit.

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. For 2017, EUR 120 (102) million will be allocated for client bonuses. This is 0.72 (0.61) per cent of the insured payroll and EUR 238 (205) 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 accounting is based on the lower of cost or current value 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 2017, the profit in the profit and loss account was EUR 5.2 (4.5) 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	2017	2016
Result in the profit and loss account	5.2	4.5
Change in technical provisions		
Change in equalisation provision entered in the profit and loss account	-	-35.5
Change in provision for future bonuses	731.6	-161.8
Transfer to client bonuses	120.0	102.0
Change in depreciation difference	0.3	0.3
Change in difference between current and book values	221.4	495.8
Profit at current value	1,078.4	405.2

5 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.

The insurance portfolio grew slightly in 2017. The number of TyEL insurance policies at the end of 2017 stood at 38,766, which is 635 or 1.7 per cent more than in the previous year. In addition to employers with insurance contracts with Ilmarinen, 4,676 (5,078) temporary employers paid TyEL contributions to the company.

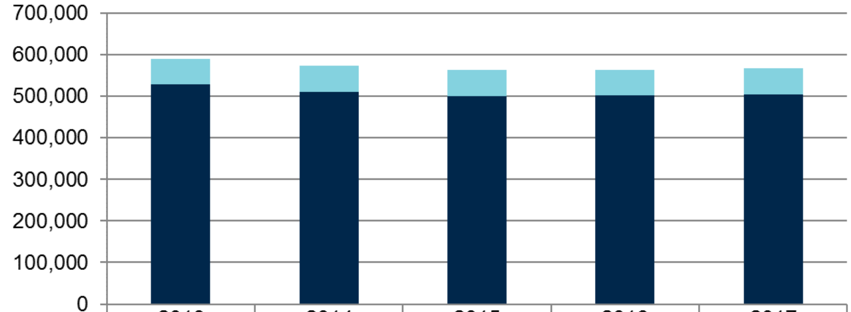
The proportion of customers with insurance contracts, who report their insurance information monthly and pay their contributions based on these notifications, grew 30 per cent in the insurance portfolio. By the end of the year, more than half of employers with insurance at Ilmarinen had elected to report their insurance information monthly. Using this notification method creates prerequisites for transferring to the incomes register, where notifications will be made for each payment of salary and wages.

At the end of the year, 503,800 (502,000) insured were covered by TyEL insurance policies. The number of insured grew by approximately 0.4 per cent. The average number of persons in Ilmarinen's TyEL insurance policies in 2017 was 13 (13).

The TyEL payroll insured with the company was EUR 16,709 (16,788) million, down 0.5 per cent from the previous year.

There were 63,052 YEL insurance policies at the end of the year, which is 1,566 policies, i.e. 2.5 per cent more than a year earlier. The average annual reported income for YEL insurance policies was EUR 23,530 (23,917), slightly down from the previous year.

Number of insured

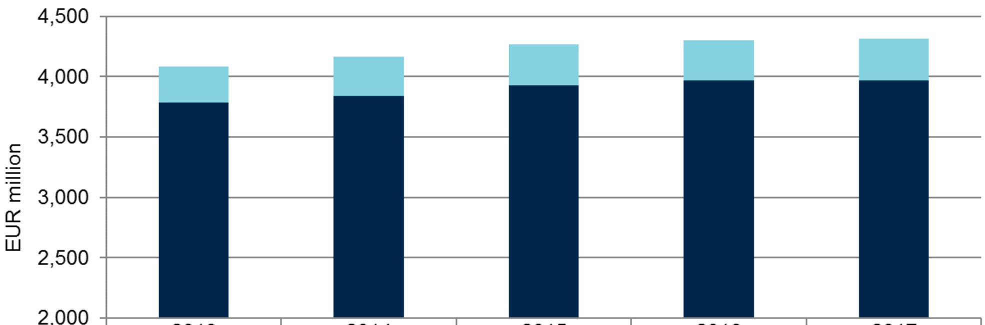


	2013	2014	2015	2016	2017
Insured under YEL	60,612	61,941	61,851	61,486	63,052
Insured under TyEL	528,900	510,800	500,500	502,000	503,800

In 2017, premiums written stood at EUR 4,311.6 (4,301.8) million, up 0.2 per cent from the previous year. EUR 3,968.5 (3,967.4) million in TyEL insurance contributions were received, i.e. TyEL premiums written remained unchanged. In 2017, client bonuses granted as discounts in TyEL contributions totalled EUR 102.1 million, compared with EUR 98.6 million in the previous year.

YEL premiums written stood at EUR 343.0 (334.5) million, an increase of 2.6 per cent.

Premiums written



	2013	2014	2015	2016	2017
YEL	302	327	340	334	343
TyEL	3,785	3,841	3,929	3,967	3,969
Total	4,087	4,167	4,269	4,302	4,312

The positive economic momentum continued and also caused a decline in credit losses in 2017.Credit losses on unpaid TyEL insurance contributions amounted to EUR 7.6 (9.2) million. TyEL credit losses declined by more than 17 per cent, accounting for just 0.19 (0.23) per cent of premiums written.

Credit losses on unpaid YEL insurance contributions were EUR 2.2 (2.0) million. YEL credit losses remained at the previous year's level. The YEL credit losses will not result in losses, however, 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 4,001 new TyEL insurance policies were sold. This increases the annual TyEL premiums written by EUR 87.2 million during 2018. Due to transfers, the company's TyEL insurance portfolio increased by 312 policies and premiums written decreased by EUR 4.9 million.

A total of 7,138 new YEL insurance policies were sold. This will increase the YEL premiums written by EUR 34.5 million. As a result of policy transfers between pension companies, Ilmarinen's YEL insurance portfolio increased by 929 policies and premiums written by EUR 7.1 million.

6 CONTRIBUTION LEVEL

The average TyEL contribution for 2017 was 24.4 per cent of an employee's salary or wages, i.e. on a par with the previous year. In addition, an average temporary discount of 0.4 per cent of the salary or wages was granted in 2016, which means that the contribution charged in 2017 rose by 0.4 percentage points from the previous year. The contribution for employees aged under 53 and employees having reached the age of 63 was 6.15 per cent, and 7.65 per cent for those aged between 53 and 62. The average contribution for employers was 17.95 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. Client bonuses were on average 3.5 (3.3) per cent of the employer contribution.

The confirmed average TyEL contribution for 2018 is also 24.4 per cent. In accordance with the competitiveness pact made by the labour market organisations in 2016, the average employer contribution is 17.75 per cent of salaries and wages, meaning that the contribution will decline by an average of 0.20 percentage points. Employees' contributions will rise by a corresponding 0.20 percentage points. In 2017, the contribution for employees aged under 53 and those aged 63 and over is 6.35 per cent, and 7.85 per cent for those aged 53–62.

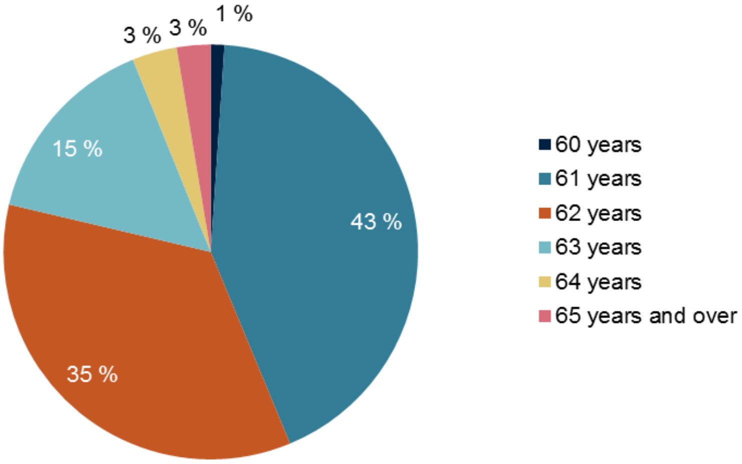
The 2017 YEL contribution for self-employed persons who had turned 53 before the start of the financial year but had not yet turned 63 was 25.6 per cent. The contribution for other self-employed persons was 24.1 per cent. In 2018, the contribution for self-employed persons will not change.

7 PENSIONS AND ACTIVITIES BOOSTING WORK CAPACITY

In 2017, new pension decisions made totalled 28,604, which is 10.5 per cent more than in the previous year. In 2017, a total of EUR 4,721.8 (4,594.1) million in pensions was paid. Pension expenditure increased by 2.8 per cent on the previous year, thus continuing to grow relatively quickly, just as in previous years.

Due to the pension reform in 2017, two new types of pension were introduced: partial early old-age pension and years-of-service pension. During the year, 2,996 decisions on partial early old-age pensions were given. This type of pension is popular, particularly among 61–62-year-olds and most people applied for pension to increase their income.

Age distribution of partial old-age pension applicants on 31 Dec 2017



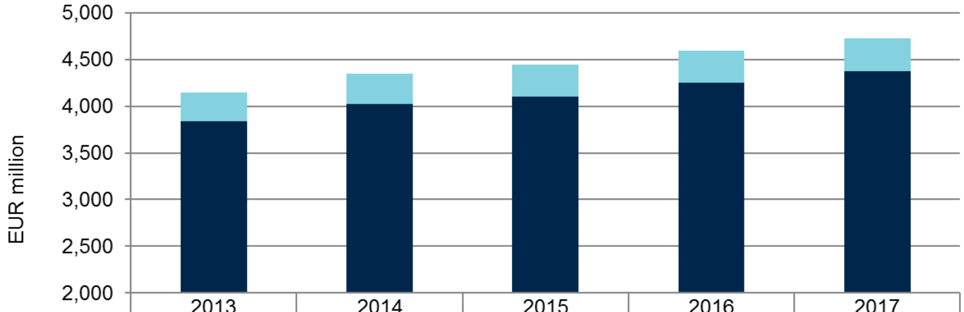
The first years-of-service pension decision was issued by Ilmarinen in December 2017. Not many applications have been made for years-of-service pension as yet because the old-age retirement age is close to the years-of-service pension's lower age limit of 63. When the retirement age rises, the pension is expected to grow in popularity.

Pension expenditure according to pension type in 2017

EUR million	TyEL	YEL	Total	%
Old-age pensions	3,474.2	273.9	3,748.1	79.4
Early old-age pensions	231.0	20.0	251.0	5.3
Partial early old-age pensions	12.5	1.3	13.7	0.3
Part-time pensions	9.2	2.0	11.3	0.2
Disability pensions	361.7	24.3	385.9	8.2
Years-of-service-pensions	0.0	0.0	0.0	0.0
Unemployment pensions	0.0	0.0	0.0	0.0
Survivor's pensions	284.2	27.6	311.7	6.6
Total	4,372.7	349.1	4,721.8	100.0

The majority of the EUR 4.72 billion in pension expenditure, i.e. 79.4 per cent, consisted of old-age pensions. Disability pensions made up 8.2 per cent of the pension expenditure and survivors' pensions 6.6 per cent.

Pensions paid



	2013	2014	2015	2016	2017
YEL	304	329	342	339	349
TyEL	3,841	4,022	4,099	4,255	4,373
Total	4,146	4,351	4,442	4,594	4,722

Premiums written were just over EUR 4.31 billion. Pension expenditure excluding pension management costs stood at EUR 4.72 billion, which is thus EUR 410 million more than premiums written.

Number of pension recipients on 31 December 2017
Pensions in accordance with basic cover

	TyEL	YEL	Total	%
Old-age pensions	217,311	29,739	247,050	73
Early old-age pensions	13,773	2,993	16,766	5
Partial early old-age pensions	2,164	533	2,697	1
Part-time pensions	683	133	816	0
Disability pensions	24,011	2,333	26,344	8
Survivor's pensions	36,352	6,629	42,981	13
Total	294,294	42,360	336,654	100

At year-end, the number of pension recipients was 336,654, which is 2.2 per cent more than a year earlier, when they came to 329,323. At the end of the year, 294,294 (287,976) pension recipients received TyEL pensions and 42,360 (41,347) received YEL pensions.

Pension decisions in 2017

	2017	2016	Change, %
New pension decisions			
Old-age pensions	12,393	12,482	-1
Early old-age pensions	0	1	-100
Partial early old-age pensions	2,996	0	
Part-time pensions	94	821	-89
Disability pensions	6,302	6,054	4
Years-of-service pensions	2	0	
Survivors' pensions	3,332	3,126	7
Right to rehabilitation	3,485	3,399	3
New pension decisions, total	28,604	25,883	11
Pension decisions, total	46,028	42,986	7

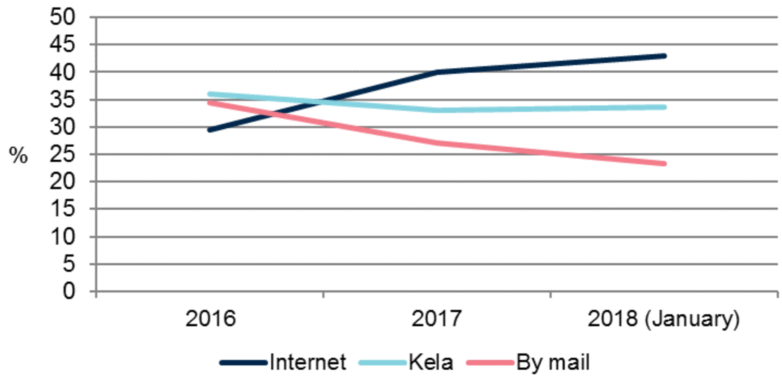
During 2017, altogether 46,028 pension decisions were issued, which is seven per cent more than in the previous year.

The number of new pension decisions increased by 10.5 per cent in 2017 and 4.1 per cent more new disability pension decisions were made than in 2016. In the earnings-related pension system, the number of disability pension decisions remained approximately on a par with the previous year's level.

The company's pension processing system was modernised significantly. The new processing system makes pension processing more automated and faster than before, enabling the company to provide better digital services for its pension customers. In the implementation phase in 2015–2017, the granting of pension decisions was distributed unevenly. Pension decision processing normalised in 2017. The processing times of disability pension applications fell by 40 days, and in old-age pensions, Ilmarinen was faster, on average, than other pension institutions, with a 36-day average.

The new processing system led to the digitalisation of services and increased the use of electronic services. 57 per cent of old-age pensions are applied for online as are 28 per cent of rehabilitation applications. At their fastest, pension applications arriving online have been processed in just four minutes. Pension applications are processed automatically in 30 per cent of cases.

Pension applications by channel 2016–2018



Pension records are sent every three years to people under the age of 60 and annually to people aged over 60. In 2017, people born between September and December as well as everyone over the age of 60 received their pension records. A total of 220,346 pension records were mailed during October–November, and 46,082 people retrieved their pension records from the online service between April and December.

For the well-being at work services, 2017 was a record-breaking year in terms of customer co-operation. Ilmarinen organised 44 seminars on well-being at work for its client companies throughout Finland, attracting 2,987 participants. During the year, Ilmarinen also had 2,364 distinct coaching or other well-being at work projects underway in co-operation with clients. These well-being at work projects covered around 135,000 employees insured with Ilmarinen. Co-operation with clients is systematic and goal-oriented and the projects are always targeted at jointly identified development areas to reduce disability risks. As a 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.

The management of disability risks in client companies is also supported 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 some 3,500 vocational rehabilitation applicants received confirmation of support for changing careers or returning to work. The increase from the previous year was 2.5 per cent. 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. More than 7,000 benefit decisions related to rehabilitation were made in 2017, which was a 10.7 per cent increase on the previous year.

EUR 6.8 (9.6) million was used for managing disability risk in client companies.

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.

8 TECHNICAL PROVISIONS

At the end of 2017, the company's technical provisions stood at a total of EUR 33,390.9 (31,458.7) million. The liability for future and current pensions grew by EUR 813.8 million, coming to EUR 29,434.8 (28,620.9) million at the end of the year. Provision for future bonuses, which buffers against insurance and investment losses, increased by net EUR 1,637.2 million and stood at EUR 3,159.7 (1,522.6) million at the end of the year. The equalisation provision that was earlier part of the company's technical provisions, transferred to the provision for future bonuses on 1 January 2017. The equity linked buffer increased due to the rise in share prices by EUR 390.9 million and stood at EUR 676.4 (1,435.0) million at the end of the year before examining the exceeding of the upper limit.

The liability for future and current pension grows due to the pension cover accrued during the year and is reduced when pensions are paid. Interest is credited on technical provisions on return on investments in compliance with the technical bases. Most of the yield requirement on technical provisions of pension insurance companies is determined on the basis of the average solvency of pension institutions, and the remainder, 15 per cent, (20 per cent from the start of 2018) is tied to the average return on the listed equities owned by the pension institutions. The interest credited on technical provisions totalled 5.2 per cent in 2017, of which the return tied to the equity linked buffer equalled 1.2 per cent. A 4.0 per cent return was credited on the remaining technical provisions.

Breakdown of technical provisions

EUR million	2017	2016
Provision for unearned premiums		
Future pensions	14,627.0	14,461.7
Provision for future bonuses	3,159.7	1,522.6
Provision for current bonuses	119.9	102.0
Equity linked buffer	676.4	285.5
Total provision for unearned premiums	18,583.1	16,371.8
Provision for claims outstanding		
New pensions awarded	14,807.7	14,159.2
Equalisation provision	-	927.6
Total provision for claims outstanding	14,807.7	15,086.9
Total technical provisions	33,390.9	31,458.7

9 INVESTMENT OPERATIONS

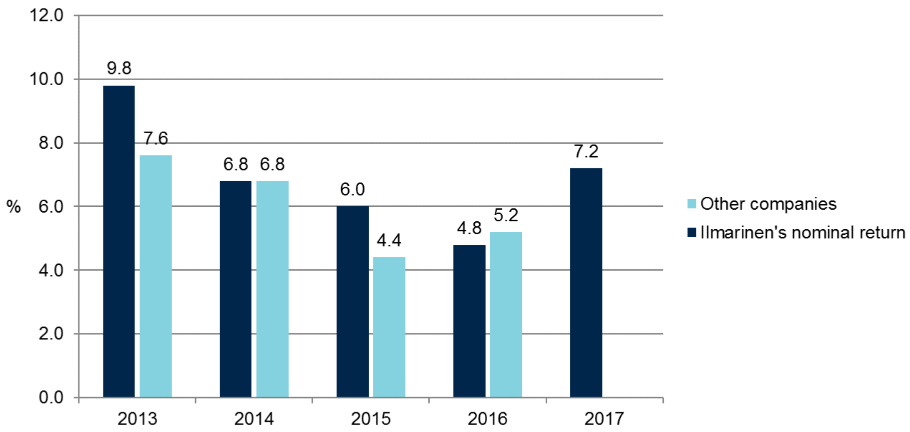
Pension assets must be invested in a profitable and secure manner. That is why a long-term approach is essential in investing pension assets. The objective of the company's investment operations is the highest possible return on investments in the long term. However, the average risk of the investments should not be too high in relation to the company's risk bearing ability. The expected average long-term real return on the company's investment assets is four per cent, and the expected standard deviation of the return is around ten per cent.

Economic growth accelerated in 2017 in all the main economies. Monetary policy evolved in two directions, with the European Central Bank continuing its bond purchasing programme, while the US Federal Reserve continued its careful interest rate hikes that it initiated in 2016. Inflation remained low, although the price of oil took an upward turn during the reporting year.

For the equity markets, 2017 was clearly positive in all the main markets. In the company's equity portfolio, all market areas returned well although the weakening of the dollar against all the main currencies somewhat lowered the return on dollar-denominated investments. The negative impact was reduced by hedging against currency risk. The fixed income portfolio's exposure to rising interest rates, i.e. duration, was small throughout the year. Overall, 2017 was a good year for investors and the return on all the main asset classes was positive, as in 2016.

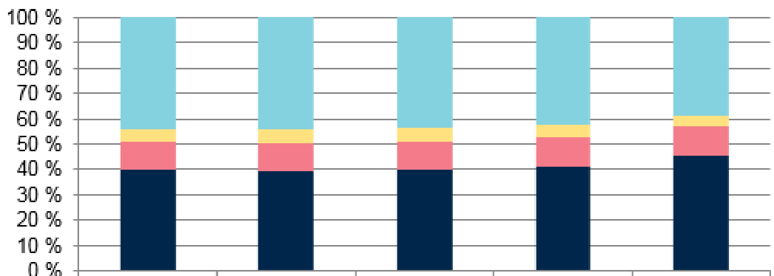
At the end of 2017, the company's total investments at current value were EUR 39,355.1 (37,214.4) million. The return on investments at current value was 7.2 per cent. Inflation in Finland accelerated slightly at the end of the year. The year-on-year change in the consumer price index was 0.5 per cent. The real return on the company's investments in 2017 was 6.7 per cent. In the previous year, the return on the investment portfolio was 4.8 per cent, i.e. 3.8 in real terms. Calculated at current value, the average annual return over the last five years has been 6.9 per cent, which corresponds to an average annual real return of 6.2 per cent. Calculated from 1997, the average annual return at current value on the company's investments has been 5.9 per cent per annum. This corresponds to an annual real return of 4.3 per cent.

Net return on investments



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



	2013	2014	2015	2016	2017
Fixed-income investments	44.4	44.1	43.4	42.2	38.5
Other investments	4.6	5.4	5.4	5.3	4.5
Real estate investments	11.3	10.9	11.0	11.3	11.9
Equities and shares	39.8	39.6	40.2	41.2	45.1

Bonds, fixed income funds and other money market instruments formed 36.4 (39.5) per cent of the total value of the company's investment assets. Their total market value, taking into account derivatives, was EUR 14,325.3 (14,713.3) million and return at current value was 1.5 (3.7) per cent. A total of EUR 5,199.4 (4,139.8) or 36.3 (28.1) per cent was invested in bonds issued by governments or other similar issuers. Money market investments came to EUR 344.6 (991.3) million or about 2.4 (6.7) per cent, yielding 5.4 (5.8) per cent. The remaining 61.3 per cent were corporate bonds, most of which had a high credit rating. The return on bonds with credit risk was 1.7 per cent. At the end of the year, the average maturity of the bond portfolio was 0.4 (0.6) years.

In the company's corporate financing, somewhat fewer loans other than premium loans were granted. The number of new TyEL loans was markedly lower than in the previous year, which reduced the loan portfolio compared to 2016. At the end of the year, loan receivables made up 2.1 (2.7) per cent of investment assets. New loans amounting to EUR 106.2 (321.4) million were drawn down during 2017. At the end of the year, the total loan portfolio was EUR 833.1 (1,007.4) million including accumulated interest. The return on loan receivables was 3.4 (3.3) per cent.

Corporate credit portfolio, EUR million

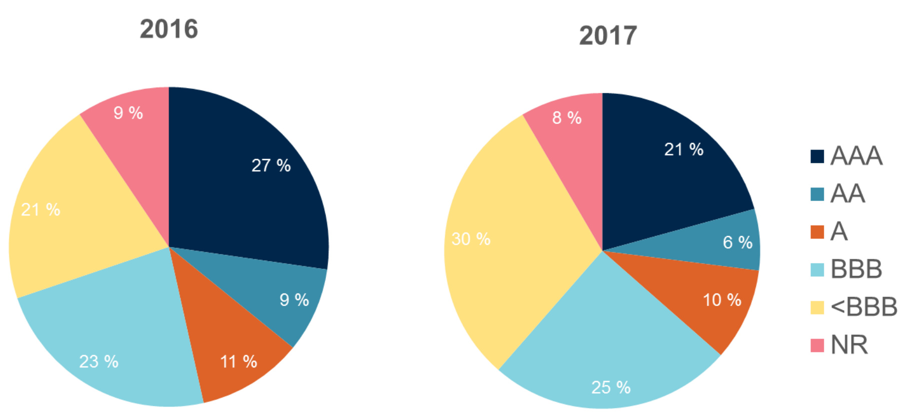
	2017 € million	Interest rate, %	Loans 2017	2016 € million	Interest rate, %
Lending other than premium loans*	578.6	3.3	100.0	631.9	3.4
Premium loans	254.5	2.4	6.2	375.5	2.9
Total	833.1	3.0	106.2	1,007.4	3.2

*Inkluderar inte lån för fastighetsplaceringar, vilka behandlats som ägarintresseföretag.

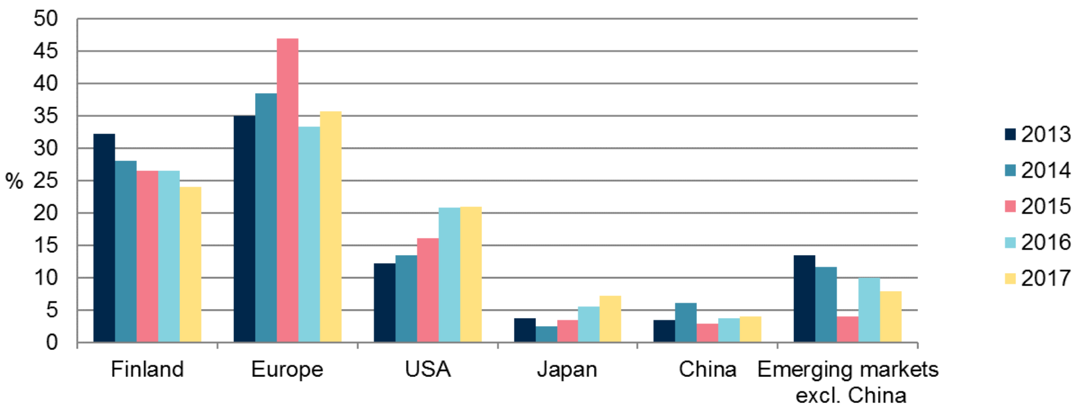
The above-mentioned investments together make up the fixed-income investment class. These investments accounted for 38.5 (42.2) per cent of the investment portfolio and their returns were 1.6 (3.6) per cent.

Listed and non-listed equities and shares as well as private equity investments made up 45.1 (41.2) per cent of all investments. Their value increased to EUR 17,755.9 (15,321.8) million in 2017. Of this, domestic equities made up about 24.8 (27.2) per cent, or EUR 4,402.1 (4,169.9) million. Finnish equities made up 24.0 (26.5) per cent of investments in listed equities and shares. The return on equity investments, calculated at current value, was 14.8 (6.5) per cent.

Credit risk breakdown of bond investments



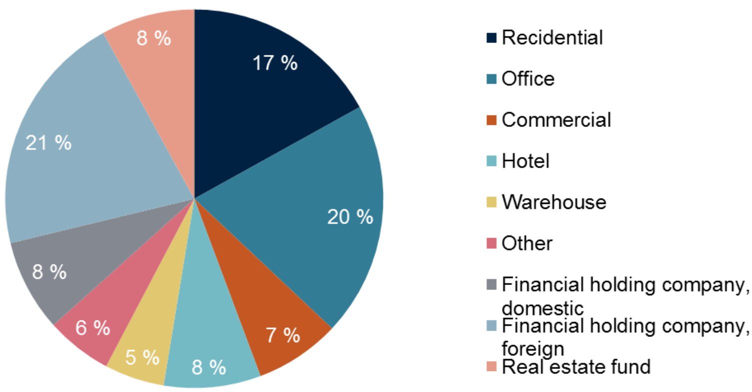
Geographical breakdown of listed equities



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 17,482.9 million, i.e. 44.4 per cent of investments. The effect of interest derivatives is included in the average maturity of the bond portfolio reported above.

Real estate investments at the end of 2017 stood at EUR 4,682.9 (4,199.6) million, an 11.5 per cent change from the previous year. The share of real estate investments was 11.9 (11.3) per cent, of which real estate funds made up 1.0 percentage points. The value of directly owned properties was EUR 4,308.4 (3,744.0) million. The lease rate of Finnish real estate owned by Ilmarinen declined slightly and was 89.9 (87.4) per cent at year-end.

Structure of real estate assets on 31 Dec 2017



The total return on the company's real estate investments was 5.0 (6.4) per cent. The return on direct real estate investments was 4.7 (6.7) per cent. The return on real estate funds was 7.4 (3.6) per cent. The amount of direct foreign real estate investments grew to EUR 972.4 million.

Some 4.5 (5.3) 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 748.6 million Hedge funds had an average return of -1.0 per cent on capital employed.

According to the company's responsible investment principles, the company will start an engagement process with a company that fails to fulfil the criteria set forth in the policy, in other words if the company seriously violates the principles of the UN's Global Compact concerning human rights and working against environmental damage and corruption. Additionally, we refrain from acquiring investments whose operations do not fulfil the required criteria: We do not invest in manufacturers of tobacco products and controversial weapons or companies of whose business at least 30 per cent is related to burning coal. During 2017, the company had 15 engagement processes, of which ten were carried out through Nordic engagement co-operation and five through a service provider. Five new engagement processes were initiated and two were completed. In addition to engagement processes related to violations of international norms, we co-filed letters with other investors asking 37 of our investees to report on their environmental impacts. In addition, we approached five international electricity companies to improve key development areas.

10 DEVELOPMENT, IT AND INFORMATION SECURITY

The focus in IT system development in implementing the strategy shifted during the reporting year from the pension systems to the modernisation of TyEL insurance processes and systems. The modernisation is in preparation for the incomes register, which will be introduced in 2019. The development of digital services was continued as part of the strategy's implementation. For instance, the Ohjaamo (Virtual Control Room) and Parempi vire services were introduced during 2017.

Also the system support for HR processes and operative risk management was revamped. The level of automation and agility of system development were raised significantly. The agile development operating model was adopted as the standard development model. End-user services were put out to tender and the new contract enabled cost benefits. The production activities for information technology met the targets set, both in terms of customer service and the company's own operations.

Over the course of the year, a new information security services package was taken into use in order to improve the identification and combating of cyber threats.

Preparations for the EU's General Data Protection Regulation were continued by reviewing the processing of personal data in operational processes and IT systems to identify any need for changes and by carrying out the required improvement measures. The implementation of test material management was also begun.

The finalisation of Ilmarinen's and Etera's merger was prepared in late 2017 with the planning of the obligatory Day 1 changes and the systems map for the IT vision.

11 RISK MANAGEMENT

The objective of the company'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 the company’s statutory operations and the rights of the insured, pensioners and policyholders in all situations.

The company has risk management system operating principles that cover its entire operations. 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 a review of the risks facing the company and submits it for approval to the Executive Group and annually updates the risk management system’s operating principles. The risk reviews are handled by the Board’s Audit and Risk Management Committee and the Board of Directors.

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. The company’s risk management function also prepares, under the guidance of the Board of Directors, an assessment of the appropriateness of the risk management operations and, together with the operative management, the company’s risk and solvency assessment.

Risk-taking in investment operations is steered by the investment strategy approved by the Board of Directors and the investment plan drawn up to implement it, as well as 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.

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

12 PERSONNEL

An average of 577 people worked for Ilmarinen Group in 2017 compared to 584 a year earlier. The average number of employees in the parent company Ilmarinen during the reporting year was 543 (538), measured in person years. This figure includes 66 (64) part-time employees, whose work contribution has been adjusted to correspond with the average working hours of full-time employees. During the year, 47 (55) persons were on family leave or other unpaid leave. At the end of the year, the parent company Ilmarinen employed 567 (592) persons, of whom 520 (540) were permanent employees.

Timo Ritakallio, Ilmarinen’s President and CEO as of 2015, was appointed as the new President of OP Financial Group in autumn 2017. He will take on his new role in March 2018. In December 2017, Ilmarinen’s Board of Directors appointed as the new President and CEO Jouko Pölönen.

One key theme of the company’s strategy was achieving an energising work community, which was evident in a number of ways – individuals’ health and well-being, the operating culture and personal data management.

A preventive approach and long-term investment in occupational health continued to bear fruit and actively supported the work capacity of personnel. For example, absences resulting from musculoskeletal diseases fell 29 per cent. In addition, physical therapy treatment costs fell 20 per cent. This positive result is thanks to the activation coach hired by the company. The activation coach incorporates physical exercise into the workday, also helping individual passive employees find a way of being active that suits them. Adjustable electric desks, available to everyone, have prevented musculoskeletal diseases. Another key change compared to 2016 is the reduction in absences resulting from mental health issues by half (-53 per cent). This development is one of the results of preventive activities in occupational health care. All in all, absences due to illness based on diagnoses or notifications by employees fell by 14 per cent from 2016, which means more than EUR 150,000 in savings in sick leave costs. This same downward trend has continued for the past five years.

During the spring, the entire staff joined in a discussion on what type of operating culture is typical of the company and what things need more clarification. The conclusion was that Ilmarinen's value "succeeding together" needs the most reinforcement. The first concrete measure was for supervisors to define together what the criteria are for a good supervisor. In day-to-day operations, supervisory work is also supported by a new HR system service for managing and monitoring personal data, which was created in 2017 and rolled out in early 2018.

Also from the personnel's viewpoint, the latter part of the year was marked by preparations for Etera's merger into Ilmarinen. Co-determination talks on personnel impacts continued into January 2018. In addition to resources, they concerned reward practices and the merging of personnel benefits, among other things. The uncertainty brought about by the prepared integration did not impact the overall results of the workplace atmosphere survey carried out in September, which, on a scale of 1–5 remained at the same level (3.7) as in the previous year. Strengths included the personnel's belief in Ilmarinen's success (4.2). Also supervisory work received a high score (4.0). An improvement area identified by the company's management was that shared goals should, in future, steer shared success also across organisational borders.

13 OPERATING EXPENSES

The company's cost-effectiveness remained at a good level in 2017. Continuous improvement of operational efficiency is one of the company's strategic goals. The efficiency of operations benefits the company's customers in the form of client bonuses. The operating expenses financed using the loading income came to EUR 108.9 (107.6) million. The ratio of the above-mentioned operating expenses to the expense loading components available for them was 81.1 (74.9) per cent. The change in the ratio of operating expenses to expense loading components compared to the previous year resulted from a reduction of seven per cent in the expense loading component included in the earnings-related pension contribution.

Ilmarinen's total operating expenses were EUR 150.3 (147.2) million, up 2.1 per cent from the previous year. The rise in costs was the result of costs arising from preparations for the merger. Costs for Ilmarinen's core operations declined compared to the previous year. The loading profit was EUR 25.4 (36.1) million. The reduction in profit resulted largely from a change in the tariff.

The statutory charges, EUR 10.3 million, are financed through a separate part of the insurance contributions allocated to statutory charges. These charges include the share of the costs of the Finnish Centre for Pensions, the supervision charge of the Financial Supervisory Authority and the judicial administration charge.

Operating expenses for investment activities were EUR 26.2 (24.5) million, or 0.07 per cent of the total investment amount. They are financed using the return on investments. EUR 5.0 (4.7) million was spent on activities for maintaining well-being at work and work capacity, conducted together with clients and financed from the administrative cost component of the disability risk contained in the insurance contribution.

14 NON-FINANCIAL STATEMENT

Responsibility is one of the company's values and an integral part of all of our activities. Our statutory basic task means that we have a large responsibility in our society: we were responsible in the reporting year for the pension security of close to 900,000 Finns and the profitable and secure investing of the pension assets of current and future pension recipients. This task calls for responsibility from each and every employee, which is why responsibility is such a central part of our operating culture and the core of our business. We have set sustainability targets, the implementation of which we monitor using key performance indicators (KPI). Many of the sustainability indicators and key figures are the same ones that we use to measure business and set targets – this is an indication that sustainability is not a separate area, but part of our day-to-day operations.

The sustainability KPIs are available on our website.

We also publish an annual Sustainability Report drawn up based on the GRI framework, which outlines sustainability targets and their outcomes in all key areas. The report for 2017 will be released in March 2018.

Environmental issues

The key environmental impacts of the company's operations are indirect and linked to the use of investment assets on a global scale. By investing in companies that take environmental impacts into account and work to develop solutions, for instance for climate change challenges, we have the opportunity to participate in furthering sustainable development. On the other hand, we are subject to environmental risks through our investment portfolio, which may materialise in the form of financial losses or a loss of reputation.

We have outlined the targets and principles linked to our investment operations' environmental impacts in our responsible investment policy and Climate Policy. We have monitored the carbon footprint of our direct equity investment portfolio since 2015. At the end of 2017, the carbon intensity of the direct listed equity portfolio was 215.0 tonnes of carbon dioxide equivalents per million euros of net sales. This was 17 per cent less than the benchmark index. The carbon footprint of the direct listed corporate bond portfolio was 197.5 tonnes of carbon dioxide equivalents per million euros of net sales.

Climate change opens up new business opportunities for companies that generate energy-efficient or clean-tech solutions. At the end of 2017, our investments in sustainable development came to EUR 517 million. Sustainable development solutions also include business related to energy efficiency, nutrition, prevention of contagious diseases, water supply and education. These accounted for 7.5 per cent of the net sales of our investees at the end of the year. The target set out in our Climate Policy is to double our investments in sustainable development by 2020 from the 2016 starting point, provided that the financial criteria of the investments are also met. The target level is 12 per cent of the annual net sales of the equity portfolio's companies.

The company is also a significant real estate investor and our direct environmental impacts are above all linked to the energy efficiency of our properties and the other climate and environmental impacts of the built environment. We invest in resource-efficient buildings that are healthy and safe for their users and located along good public transit connections. In new construction projects, we review the opportunities available to use renewable energy, in particular geothermal heat and solar energy. We require a minimum of LEED Gold environmental certification or similar from new commercial real estate. During 2017, we started up a project with the goal of attaining LEED certification for a total of 12 of our existing properties, including Kiinteistö Oy Helsingin Lepakko in Ruoholahti, where Ilmarinen's head office is located. In connection with the rating process, an energy review will be carried out and improvements made in eco-saving operating models, including waste management and cleaning. The rating takes into account the activities of the property's occupants and experiences of the interior conditions of the building, which will be studied through a user survey. We annually calculate the carbon footprint resulting from our properties' energy consumption and the life cycle carbon footprint of our new construction projects. See our Sustainability Report for more details.

Social and personnel issues

The company's statutory task is to take care of the pension insurance of its client companies' personnel and self-employed persons and pay out pensions, which is a core component of social security. We carry out this basic task with the highest quality and cost-effectiveness possible. In 2017, we issued old-age pension decisions within 36 days on average.

Disability and retiring prematurely on disability pension is always a serious risk for employees, employers, pension insurance companies and the whole of society. Ilmarinen's sustainability includes the prevention of disability risk among its client companies' personnel and services for extending careers. These include vocational rehabilitation and well-being at work and work capacity management services, which we call our Better Working Life services. Through systematic co-operation, we reduce the disability risk of our client companies and support the management of personnel costs and productive work. In 2017, we organised 44 Better Working Life coaching events and altogether some 135,000 persons are included in our well-being at work projects. Of the people taking part in the rehabilitation, 68 per cent were available on the job markets once rehabilitation ended.

As a responsible employer, we wish to be an example within our company of how work and the work community can support the energy level of individuals. Developing an energising work community was one of the priorities of our strategy in 2017. On a scale of 1–5, the overall score for this priority in the employee survey was 3.8. This result was good, taking into account that the personnel experienced uncertainty during the year due to the upcoming merger. Practical measures for achieving an energising work community included the hiring of an activation coach, supporting personnel's exercise opportunities, offering occupational health care services beyond the statutory level and training and coaching. An equality and equal opportunities plan was adopted in 2017. The plan outlines our principles concerning the implementation of equality and equal opportunities in terms of age, gender, family status, origin and nationality, language, religion, opinion, political activity, trade union activity, health and sexual orientation.

Respecting human rights

Human rights issues appear on the company's agenda primarily through investment operations. We signed the UN's Principles for Responsible Investment (PRI) in 2006. We expect the companies we own to comply with, not only national legislation, but also the principles of the UN Global Compact and related international norms concerning human rights, labour rights, the environment and corruption.

Sustainability is an integral part of our investment decision-making. We use the rating systems of both external service providers and the sustainability ratings based on internal analysis, which portfolio managers monitor alongside financial key figures. The ratings cover more than 3,000 listed companies. Investing in companies with lower ratings always requires a separate account. This helps to prevent any human rights risks and other sustainability risks in advance. In addition, ESG benchmark indices are used in stock selection, which means that the results of portfolio managers are compared to the indices, which include the sector's and geographical area's most sustainable companies. This encourages our portfolio managers to place even greater emphasis on sustainable companies in their investment decisions.

Our external service provider reviews our securities investments biannually and reports any detected norm violations or suspicions thereof, including human rights risks. In the case of any human rights or other violations, our primary approach is to engage, either alone or together with other investors and partners, with the company to fix its operations. In 2017, 15 companies were subjected to an engagement process. Of the cases, eight were linked to human rights and respecting labour rights, involving forced labour and poor working conditions, the rights of indigenous peoples and the limitation of the freedom of association. If engagement does not end with the desired result, our last resort is to exit from the investment.

We discuss sustainability issues with our investees also outside actual engagement processes. In cases linked to human rights, we regularly raise the issue of working conditions in a company's subcontractor chain.

Combating corruption and bribery

Our way of operating is determined in the company's Code of Conduct. The Code of Conduct specifies, for example, that we comply with good insurance practices, condemn bribery, identify and prevent conflicts of interest, do not abuse insider information, know our customers and carry out responsible sourcing. The company's Board of Directors has approved the Code of Conduct and the more detailed supplementary principles and policies, such as the anti-bribery principles. The principles are based on the Business Principles for Countering Bribery and their application guide developed by Transparency International and published by the Finland Chamber of Commerce. We also expect all our business partners to commit to similar responsible practices. As a developer, we expect all of our partners to adhere to their obligation to combat the shadow economy. These public principles and policies concerning our operations can be found on our website. The principles help us to manage compliance risks, including risks related to misconduct and conflicts of interest.

The company has a full-time Compliance Officer, whose main task is to support the company's Board of Directors, management and business in the proper functioning and sufficiency of reliable governance and internal control, and in ensuring that regulations and business principles are followed. All of the company's employees complete the Code of Conduct training.The personnel have access to a Whistle Blowing channel, through which any suspicions of misconduct can be reported anonymously. No reports were made through the channel in 2017. We were not subject to any fines or non-monetary sanctions related to failure to comply with legislation or regulations in 2017.

We monitor any suspicions of corruption and bribery-related violations in the investments we own, just as we monitor human rights and other norm violations. Our primary strategy is to engage with companies to change their operations. During 2017, four engagement processes were underway that were linked to anti-corruption measures. Our last resort is to exit from ownership in a company.

15 GOVERNANCE

Ilmarinen's Annual General Meeting was held on 6 April 2017 and it approved the Financial Statements and Report on Operations and elected the members of the Supervisory Board replacing those set to resign. Ilmarinen's Extraordinary General Meeting was held on 14 September 2017. The meeting approved the merger of Ilmarinen and Etera as of 1 January 2018, in accordance with the merger plan, and amendments to the Articles of Association (e.g. to the number of members on governing bodies) and four new members were elected to the Supervisory Board. In 2017, the Supervisory Board had altogether 28 members and as of 1 January 2018, 32 members.

Chairmen of Ilmarinen's Supervisory Board in 2017:

Chairman
Matti Lievonen, President and CEO, Neste Oyj (until 6 April 2017)
Matti Kähkönen, Senior Advisor, Metso Corporation (as of 6 April 2017)

Deputy Chairman (first deputy): Salla Luomanmäki, Executive Director, Akava Special Branches

Deputy Chairman: Antti Herlin, Chairman of KONE Corporation's Board of Directors (until 6 April 2017), Ari Lehtoranta, President and CEO Caverion Corporation (as of 6 April 2017).

The Supervisory Board's full list of members is available at www.ilmarinen.fi/ilmarinen/hallinto-ja-organisaatio/hallintoneuvosto.

In 2017, Ilmarinen's Board of Directors had 12 members and four deputy members. As of 2018, Ilmarinen's Board of Directors has 14 members and four deputy members. The term of office of the members of the Board of Directors is four years between 1 January 2014 and 31 December 2017.

The composition of the Board of Directors 1 Jan–31 Dec 2017:

Chairman
- Mikko Helander, President and CEO, Kesko Corporation

Deputy Chairmen
- Jarkko Eloranta, President of the Central Organization of the Finnish Trade Unions SAK
- Jyri Häkämies, Director General of the Confederation of Finnish Industries EK

Members
- Sture Fjäder, President of the Confederation of Unions for Professional and Managerial Staff in Finland AKAVA
- Timo Kokkila, CEO, Pontos Group (as of 10 March 2017)
- Hille Korhonen, President and CEO, Nokian Tyres Plc
- Minna Korkeaoja, Executive Vice President and CFO, Northern Power Company

- Olli Lehtilä, Executive Vice President, OP Financial Group, Non-Life Insurance
- Hannu Leinonen, M.Sc., Engineering
- Katarina Murto, Director of Negotiations, The Finnish Confederation of Salaried Employees, STTK
- Kristian Pullola, Chief Financial Officer, Nokia Corporation
- Pekka Vauramo, President and CEO, Finnair Oyj

Deputy members

- Annukka Lantto, Deputy CEO, Antell Group
- Hannu Rautiainen, Director, Legal Affairs and Administration of the Confederation of Finnish Industries EK
- Kari Savolainen, President and CEO, Finavia Corporation (ordinary member 1 Jan–10 March 2017)
- Petri Vanhala, President, Finnish Paper Workers' Union

In its meeting on 17 November 2017, Ilmarinen's Supervisory Board elected the members of the Board of Directors for the next four-year term of office 1 January–31 December 2021. As of 1 January 2018, Minna Korkeaoja, Hannu Leinonen, Kari Savolainen, Petri Vanhala and Pekka Vauramo left the Board of Directors. New ordinary members were Tero Kiviniemi, M.Sc. Engineering; Leena Laitinen, Managing Director, Alko Oy; Juho Nummela, President and CEO, Ponsse Plc; Seppo Parvi, CFO, Stora Enso Oyj; Kyösti Suokas, Vice Chairman, Finnish Construction Trade Union and the deputy members were Marja Aarnio-Isohanni, Managing Director, Esperi Care Oy and Samu Salo, Chairman, Union of Professional Engineers in Finland.

In 2017, the chairmen of the Board of Directors made up the Nomination and Compensation Committee. As of 2018, the committee will be made up of the chairmen of the Board of Directors and one member of the Board of Directors.

In 2017, Kristian Pullola was Chairman of the Audit and Risk Management Committee and its members were Minna Korkeaoja, Katarina Murto and Hannu Rautiainen.

The Election Committee was made up of the following members in 2017:

Chairman Matti Lievonen until 6 April 2017 and Matti Kähkönen after said date.
Deputy Chairman Matti Harjuniemi

Members:
Sture Fjäder
Mikko Helander
Antti Herlin (until 6 April 2017)
Ari Lehtoranta (as of 6 April 2017)
Katarina Murto

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 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.

16 GROUP

At the end of 2017, Ilmarinen Group comprised 138 (137) subsidiaries and 46 (44) participating interests, of which 25 (22) 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 are also 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.

For a long time, Ilmarinen owned Suomi Mutual Life Assurance Company's guarantee capital in its entirety. As the guarantee shares did not give the right to vote, the company was not consolidated with the Group as an associated undertaking, instead it has been considered a participating interest. Suomi ended its operations in 2017 and returned its guarantee capital (EUR 504,563.78) to Ilmarinen.

17 EVENTS AFTER THE FINANCIAL YEAR

Etera merged into Ilmarinen on 1 January 2018 and Etera's employees transferred to Ilmarinen as existing employees. The first phase of the co-operation negotiations concerning the organisation of the merged company was completed in January 2018.

The merger of Ilmarinen and Etera will make Pohjantähti Mutual Insurance Company Ilmarinen's participating interest as of 1 January 2018.

18 FUTURE PROSPECTS

The outlook for the earnings-related pension sector has taken a turn for the better thanks to the dramatic recovery of the Finnish economy. According to forecasts, economic growth is set to continue. As a result of the growth, employment and payrolls are estimated to improve in 2018, thanks to which we can expect pension institutions' premiums written to develop more positively than in previous years.

Strengthened economic growth in industrialised countries and the good profitability of companies support the development of stock prices. Valuation levels are further supported by the European Central Bank's stimulating monetary policy, which is expected to continue in 2018. The development of the global economy and global politics does, however, involve considerable uncertainty.

Etera's merger with Ilmarinen requires consolidating numerous functions and dismantling any overlapping. In 2018, Ilmarinen will carry out changes targeting improved cost-effectiveness and service ability.

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 2017 amount to EUR 86,087,880.43, of which the profit for the financial year is EUR 5,199,024.56.

The Board of Directors proposes that a maximum of EUR 50,000.00 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 2019 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 5,149,024.56 be transferred to the contingency fund.

Helsinki, 6 February 2018

Mikko Helander

Jarkko Eloranta	Jyri Häkämies	Sture Fjäder
Tero Kiviniemi	Timo Kokkila	Hille Korhonen
Leena Laitinen	Olli Lehtilä	Katarina Murto
Juho Nummela	Seppo Parvi	Kristian Pullola
Kyösti Suokas	Timo Ritakallio President and CEO	

Today a report has been issued on the performed audit.

Helsinki, 27 February 2018

Ernst & Young Oy
auditors

Harri Pärssinen
Authorised Public Accountant