

REPORT ON OPERATIONS AND FINANCIAL STATEMENTS 2009

REPORT ON OPERATIONS 2009

Economic development

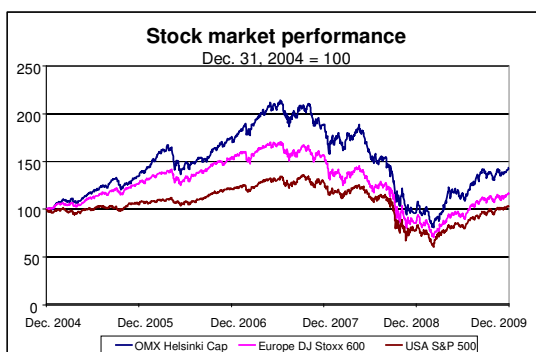
In 2009, the global economy was marked by the gradual easing of the financial crisis and a shift into a downturn in the real economy. Share prices declined further in January and February with no visible normalisation in the level of credit risk premiums. Share prices hit bottom in early March. Following this, share prices showed a brisk increase which continued for several months in all markets, while credit risk premiums for corporate loans took a downward trend. In autumn, share price development no longer showed a clear trend.

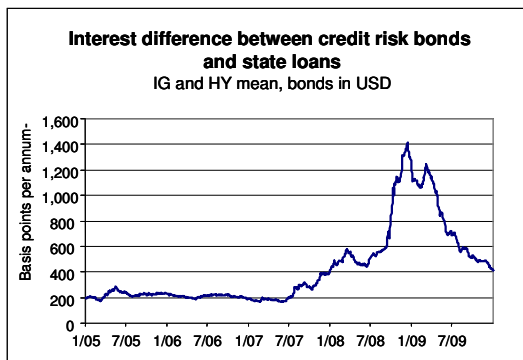
The strong undervaluation of securities, which had weighed down investment activities in late 2008, slowly yielded as a result of this development. The percentages for return on investments at current value were high and the calculated losses suffered by earnings-related pension investors during the previous year were compensated for the most part.

The forceful economic stimulus measures implemented on a global scale prevented the downturn from becoming a full-scale recession, but were incapable of preventing broad-reaching negative effects on the real economy. The real economy only began to recover slowly at the end of 2009, first in Asia and the US, then at a somewhat slower pace in Europe. The increase in the number of unemployed is only just beginning to take a turn for the better in developed countries.

According to preliminary data, Finland's real gross domestic product for 2009 was over 7 per cent lower than for the previous year. The slump in world trade resulting from the downturn in the global economy, in addition to the significant decline in Finnish exports destined for Russia, have weakened the country's export demand more than for other Euro countries. The pension insurance market was marked by a reduction in insured total payroll. The deterioration of the economic situation was also apparent in the reduced number of new business start-ups. Generally, the country's economy is expected to begin its ascent with a delay of several months in comparison to other European countries. Unemployment is expected to continue to rise even in 2010.

The interest rate level, on the whole, is very low following the implemented stimulus measures. Consumer prices were at a lower level at the end of 2009 than a year earlier, as a result of which real return on investments was even higher than nominal return in 2009.





Developments in the earnings-related pension system

Only minor changes were made to the determination of earnings-related pensions in 2009. The most noteworthy of these was the mitigation of the total effect of the life expectancy coefficient on disability pensions and the subsequent old-age pensions. It was decided that the composition of the total pension insurance would be altered according to a proposal by the SATA Committee for social security reform by adding a guaranteed pension to the total pension. Additional work, in the case of the smallest accrued pensions, will no longer increase the total pension amount following this change taking effect in 2011. In addition to the smallest pensions, also the largest pensions fostered debate over pension policies. The Ministry of Social Affairs and Health requested that the Finnish Centre for Pensions investigate the possibilities for limiting the largest pensions through the addition of a pension ceiling in the earnings-related pension system. The investigation proved that this method would be inefficient in achieving the set goal and would be poorly suited to the statutory earnings-related pension system.

On 22 January 2009, the central labour market organisations announced their proposal concerning changes to pension insurance contributions, certain earnings-related pension benefits and unemployment benefits over the next few years. Based on the proposal, the employment pension contribution would remain at the same level in 2010 as in 2009 but would rise between 2011 and 2014 by 0.4 percentage points annually, i.e. by a total of 1.6 percentage points. Abolishing the employer's national pension contribution was defined as a prerequisite for the proposal, and the labour organisations also required that the increase in the employee's pension contribution be recognisably compensated in income taxation in all income classes. The legislation governing the employer's national pension contribution and the pension insurance contribution for 2010 materialised according to the proposal.

This proposal, for its part, secures the long-term financing of earnings-related pension cover. The age structure of the Finnish population is increasingly shifting toward the elderly, this development being accelerated by the quickly rising average life expectancy. Over the next few years, the conditions for managing financial balance will continue to be impaired by a low employment rate resulting from the economic downturn. In November, the Finnish Centre for Pensions published new estimates concerning the development of the earnings-related pension system's costs, contributions and funds. The contribution level is expected to increase over the next twenty years to a somewhat higher level than predicted by earlier forecasts.

As a result, a broad consensus exists that it is necessary, from both the entire national economy's perspective and to finance earnings-related pensions, to extend work careers at both ends. There are, however, differences in opinion concerning the methods needed to achieve this goal. These differences surfaced in February when Prime Minister Matti Vanhanen made his proposal to raise the formal retirement age. Social partners felt that the proposal was unsuccessful both in its effects and its approach.

The dispute was resolved through an agreement between the social partners and Finnish Government signed on 11 March 2009. According to it, measures will be sought during 2009 to raise the expected retirement age by three years by the year 2025. It was agreed that the task would be taken up by two working groups consisting of labour market organisation members, in co-operation with State representatives. The change in age distribution and the incentives for delaying retirement which were included in the 2005 Pension Reform will create approximately half of the desired increase. The deadline for the working groups was extended until the end of January 2010. The working group handling the development of working life reached consensus on the measures. The working group investigating measures related to the pension scheme were unable to agree on to what extent other measures would be required to achieve the set goals. Following this, the Government reserved a month in which to commission assessments and to itself assess how far the agreed measures would carry. In any case, they can only be expected to bear fruit in a few years' time once the economic downturn's effect on employment levels has receded.

In November 2008, an act, in effect until the end of 2010, was passed which brought temporary relief to the solvency requirements on employment pension institutions. Its main rationale was that this would prevent the enforced sale of Finnish shares in employment pension institutions' investment portfolios, which would have accelerated the decline in share prices. Once the financial crisis began to ease up in the early months of 2009, it was possible to determine that the amendment had achieved the objectives set for it.

Solvency regulations had worked well during normal fluctuations in the investment markets. They were not, however, designed to bear exceptional share price declines such as those observed in 2008. In May, the Ministry of Social Affairs and Health created a broad-based working group and expert working group to investigate the long-term need for reforming solvency regulations. The working groups' deadline was set at the end of March 2010. The expert working group is expected to present concrete suggestions which the broad-based working group will then assess from the national economy's point of view, among other things. In autumn 2009, the expert working group presented a proposal for extending the validity of the temporary act by two years, i.e. until the end of 2012. The extension was viewed as necessary to ensure that the authorised pension providers, in order to plan investment operations, would have information on the framework conditions for investment operations far enough into the future. A bill according to this was presented to the Finnish Parliament on 12 February 2010. As the preparatory work has progressed, various views have been presented on whether the most appropriate way forward is a change in the structure of the solvency regulations or developing the existing solvency framework.

The investigation of the earnings-related pension system's competitive landscape continued during the course of 2009. The civil servants' working group led by the Ministry of Social Affairs and Health put together a proposal package related to the matter. Its proposals were discussed in consultation procedures during autumn 2009, in which few of the proposals received any significant support. The problem in several places was seen to be that the presented measures would not

increase cost-effectiveness or create the conditions for positive return on investment. Thus they would not be able to strengthen the system's ability to secure people's pension cover either. All in all, the investigation of the competitive landscape will probably eventually lead to legislative measures, the contents of which cannot be predicted as of yet.

Ilmarinen's result and solvency

2009 was a double-edged sword for Ilmarinen. On one hand, the receding of the financial crisis led to the speedy improvement of return on investment, but, on the other hand, the increasingly difficult real economy crisis occurring simultaneously caused a slight drop in the number of insured and the insured payroll.

The net return on Ilmarinen's investments, calculated at current value, was -15.8 per cent in 2009 (-17.7 per cent in 2008). Solvency capital, i.e. the difference between the company's assets and liabilities measured at current value, increased to EUR 4,876.9 million from EUR 2,673.0 million in the previous year. At the end of 2009, solvency capital amounted to 24.0 (14.0) per cent of technical provisions used in the calculation of solvency. The solvency capital was increased by the amount of provision for pooled claims comparable to solvency capital EUR 845.4 (792.9) million. Without this item, the solvency capital would have equalled EUR 4,031.5 (1,880.1) million and the company's solvency ratio 19.1 (9.5) per cent.

The solvency capital is intended to cover the risks inherent in investments. The solvency capital monitoring limits of authorised pension 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 border based on the classification. From the beginning of 2007, the classification has been made on the basis of the actual risk of the investment when this clearly deviates from the risk of the investment estimated according to its judicial nature. Ilmarinen's solvency capital at the end of the reporting period was 2.7 times the solvency border, compared to 2.0 a year earlier. Without the amount of provision for pooled claims comparable to solvency capital according to temporary legislation, the solvency position would have equalled 2.2 (1.3).

Ilmarinen's total financial result in 2009 was EUR 2,180.4 (-4,338.1) million. The underwriting result under the company's own responsibility was EUR -22.5 (76.4) million and its loading profit amounted to EUR 27.7 (34.7) million. The underwriting result is the difference between contribution components intended to cover risks and claims incurred. 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.

Net income from investment activities calculated at current value was EUR 3,410.4 (-4,571.5) million. The interest refunded on technical provisions was EUR 617.6 (660.2) million and the change in the equity linked buffer was EUR 617.7 (-782.5) million. The equity linked buffer ties the interest refunded on the technical provisions to the return on listed equities for ten per cent throughout the earnings-related pension system and thus transfers the equity risk to be covered by the entire earnings-related pension system. Thus the surplus from investment operations was EUR 2,175.2 million. The previous year's deficit from investment operations was EUR 4,449.2 million. The interest refunded on technical provisions in 2009 only corresponded to a three per cent discount rate because the pension liability supplementary coefficient was 0.

The underwriting result under the company's own responsibility will be transferred to the equalisation provision according to the criteria prescribed by the Ministry of Social Affairs and Health.

The amount allocated for discounts on TyEL insurance contributions, i.e. client bonuses, is determined based on the company's solvency capital and the loading profit. EUR 52.0 (31.0) million will be allocated for client bonuses. The transfer is 0.37 (0.21) per cent of the insured payroll and EUR 110 (65) per employee insured at Ilmarinen. The remainder of the total financial result will be used to strengthen the company's solvency capital, excluding the interest paid on guarantee capital following the adoption of the financial statements.

The above information concerning the result and solvency are based on the key figures and analyses calculated at current value presented in the notes to the financial statements. They show the company's financial result and position more clearly than the profit and loss account and balance sheet. The valuation of investments in official accounting is based on acquisition cost and the amount of profit in the profit and loss account is determined by the calculation base approved in advance by the Ministry of Social Affairs and Health. In 2009, the result in the profit and loss account was EUR 3.9 (6.0) million.

The following calculation depicts the connection of the result in the profit and loss account to the total financial result according to current value.

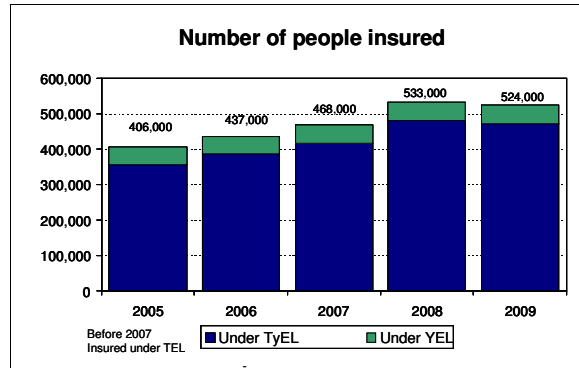
	2009	2008
Profit at current value	2,180.4	-4,338.1
Change in the difference between current value and book value i.e. valuation gain/loss	- 1,462.5	1,088.2
Change in depreciation difference	0.5	1.9
Change in technical provisions		
Change in equalisation provision	22.5	-76
Change in provision for future bonuses	-685.0	3,361.1
Transfer to client bonuses	-52.0	-31.0
Result in the profit and loss account	3.9	6.0

Insurance portfolio and premiums written

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

In 2009, the economic downturn affected the development of Ilmarinen's insurance portfolio which had been extremely positive during the previous year. The number of TyEL insurance policies at the end of 2009 was 35,840 (35,793), thus in practice the number of policies remained unaffected. In addition to employers with insurance contracts with Ilmarinen, 2,484 (2,054) temporary employers paid TyEL contributions to the company. At the end of the year, 472,000 (480,000) insured were covered by TyEL insurance policies, which was 1.7 per cent less than at the end of the previous

year. The average size of TyEL insurance policies in 2009 was 13 persons, remaining unchanged from 2008.

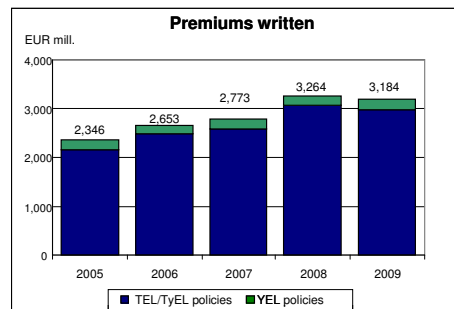


The TyEL payroll insured at Ilmarinen was EUR 14,041.0 (14,623.0) million. This was 4.0 per cent less than the payroll insured in the previous year. The market share calculated from the insured TyEL payroll amount is estimated to have remained unchanged, at minimum, in 2009.

Ilmarinen had 52,243 (52,814) YEL (Self-Employed Persons' Pension Act) insurance policies at the end of the year. Ilmarinen is clearly the largest insurer of self-employed persons, and its market share, measured in premiums written, has ranged from 30 to 31 per cent in recent years. The average annual reported income for YEL insurance policies was EUR 20,832 (19,866). It increased by about 4.9 per cent from the previous year, or by less than the wage coefficient to which YEL reported income is tied and which increased by 6.0 per cent.

In 2009, Ilmarinen's premiums written stood at EUR 3,184.1 (3,264.4) million.

EUR 2,966.4 (3,059.7) million in TyEL insurance contributions were received, i.e. TyEL premiums written decreased by 3.1 per cent compared to the previous year. In 2009, discounts in TyEL contributions, i.e. client bonuses, totalled EUR 31.1 million, compared with EUR 74.8 million in the previous year.



YEL premiums written stood at EUR 217.7 (204.7) million, an increase of 6.3 per cent.

Credit losses on unpaid TyEL insurance contributions equalled EUR 12.0 (8.7) million. No significant increase occurred in these despite the more difficult economic conditions. Credit losses on unpaid YEL insurance contributions were EUR 2.9 (3.3) 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.

Ilmarinen's co-operation partners OP-Pohjola Group and Pohjantähti enabled Ilmarinen's success, in particular in the acquisition of entrepreneurial customers and small and medium-sized company customers. The transfer of insurance policies between Ilmarinen and other authorised pension companies increased Ilmarinen's customer numbers and premiums written for both entrepreneurs and small and medium-sized companies and Ilmarinen strengthened its position as market leader in terms of customer numbers. During the year, several pension funds decided to transfer their pension portfolios to authorised pension companies. Three noteworthy liability transfer decisions strengthened Ilmarinen's position as an insurer of major customers.

A total of 3,886 new TyEL insurances were sold. This increases the annual TyEL premiums written by EUR 113.4 million. EUR 4 million of this amount came directly from customers who signed up for insurance through Ilmarinen's online and telephone services. Ilmarinen also achieved good results in TyEL insurance transfers from other pension companies. The result of these transfers, measured as net change, was positive, with 357 new policies and EUR 12.1 million.

A total of 4,797 new YEL insurance policies were sold. This increases the YEL premiums written by EUR 16.4 (16.8) million. Some EUR 2.7 million of the annual premiums written in new YEL insurance policies came from customers who signed up for insurance directly through Ilmarinen's online service. Ilmarinen was successful in the transfer of YEL insurance policies, the transfer resulting in 334 new policies and a gain of EUR 1.9 million.

Contribution level

The confirmed average TyEL contribution for 2009 was 22.0 per cent of an employee's salary or wages, i.e. 0.2 percentage points higher than in 2008. The share of contribution for employees under 53 years of age was 4.3 per cent and 5.4 per cent for those aged 53 and over. The average contribution for employers was 17.5 per cent of the payroll. The employer contribution level varies according to insurance policy as well as the client bonuses paid by authorised pension companies. Ilmarinen's client bonuses are on average 1.3 (3.1) per cent of the employer contribution. Small and medium-sized employers were additionally granted a discount, which equalled 1.0 percentage points at maximum, to reduce the equalisation provision relating to disability pensions. When this discount is taken into account, the employer contribution is on average 16.8 per cent.

The average confirmed TyEL contribution for 2010 is 22.0 per cent of an employee's salary or wages, i.e. the same as in 2009. Small and medium-sized employers are given a discount in order to decrease the financing surplus for unemployment pensions, which depends on the size of the employer and is at most 0.6 per cent. When this discount is smaller than in 2009, the employer's average contribution rises by 0.1 percentage points to 16.9 per cent. Also the employees' pension insurance contribution percentages increase. The share of contribution for employees under 53 years of age is 4.5 per cent in 2010, which is 0.2 percentage points higher than in the previous year. The

share of contribution for employees who have turned 53 is 5.7 per cent, an increase of 0.3 percentage points.

The YEL contribution for 2009 was 20.8 per cent of confirmed income. The YEL contribution of self-employed persons who turned 53 before the start of the accounting year was, however, 21.9 per cent. In 2010, the YEL contribution is 22.4 per cent for self-employed persons who have turned 53 before the start of the accounting year and 21.2 per cent for other self-employed persons. The former includes an increase of 0.5 and the latter 0.4 per cent.

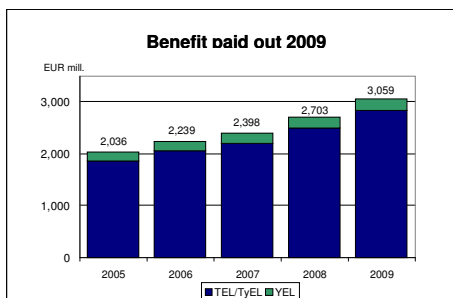
Pensions and maintaining working capacity

In 2009, Ilmarinen paid a total of EUR 3,059.1 (2,703.3) million in pensions.

Pension expenditure according to type in 2009, EUR million

	TyEL	YEL	Total	% of total pension expenditure
Old-age pensions	1,806.0	138.6	1,944.6	63.6
Early old-age pensions	183.9	17.6	201.5	6.6
Part-time pensions	29.2	7.2	36.4	1.2
Disability pensions	423.2	29.1	452.4	14.8
Individual early retirement pensions	0.0	0.0	0.0	0.0
Unemployment pensions	157.2	2.6	159.8	5.2
Survivors' pensions	240.3	24.2	264.5	8.6
Total	2 839.8	219.3	3,059.1	100.0

The figures in the table contain both items paid directly to pension recipients and items paid through the pay-as-you-go pool.



Number of pension recipients on 31 December 2009
Pensions in accordance with basic protection

Type of pension	TyEL	YEL	Total	%
Old-age pensions	151,975	18,984	170,959	60.4
Early old-age pensions	13,626	3,083	16,709	5.9
Part-time pensions	3,519	1,010	4,529	1.6
Disability pensions	35,893	4,252	40,145	14.2
Unemployment pensions	8,717	217	8,934	3.2
Survivors' pensions	35,143	6,563	41,706	14.7
Total	248,873	34,109	282,982	100.0

At year-end the number of pension recipients equalled 282,982, which is 3.4 per cent more than a year earlier when they numbered 273,605. At the end of 2009, 248,873 (240,522) pension recipients received TyEL pensions and 34,109 (33,083) received YEL pensions.

The majority of pension recipients, 66 per cent, were old-age pensioners. This share grew around two percentage points from the previous year. The proportions of pensioners on disability pensions and unemployment pensions both decreased by around one percentage point while the other pension recipient proportions remained unchanged.

Pension decisions in 2009

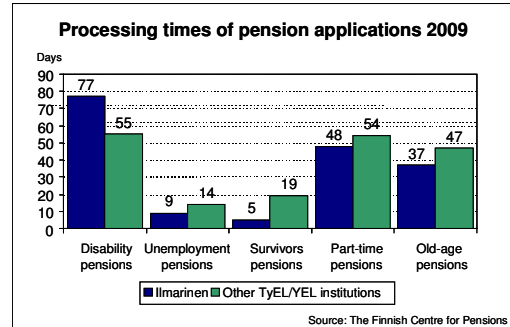
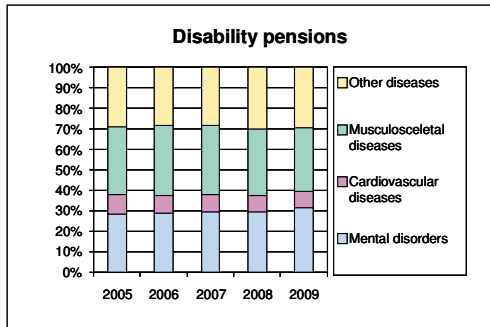
	2009	2008	Change %
New pension decisions			
Old-age pensions	8,446	6,842	23.4
Early old-age pensions	693	534	29.8
Part-time pensions	1,673	1,258	33.0
Disability pensions	6,086	5,985	1.7
Unemployment pensions	2,582	2,857	-9.6
Survivors' pensions	3,015	2,907	3.7
Total new pension decisions	22,495	20,383	10.4
Total pension decisions	37,993	35,183	8.0

During 2009, Ilmarinen made a total of 37,993 pension decisions, or 8.0 per cent more than during the previous year. The number of new pension decisions grew by 10.4 per cent and stood at a total of 22,495. The increase in the number of old-age pension decisions resulted from the fact that one of the baby boomer age groups reached the age of 63.

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. 93 per cent of pension decisions met the first criterion. The share of negative decisions among disability pension decisions was 22.6 (23.7) per cent. Of the Ilmarinen decisions

sent to appeal bodies, 7.9 (6.1) per cent of the decisions sent to the Pension Appeal Court (Työeläkeasioiden muutoksenhakulautakunta TELK) were amended against Ilmarinen's position, and 11.0 (12.3) per cent of the decisions sent to the Insurance Court were amended against Ilmarinen's position.

Year after year, the permanence of decisions has remained on a better level than on average with TyEL and YEL pension providers. Ilmarinen had faster processing times for pension applications in 2009 than on average in the peer group, excluding the processing time for disability pension decisions.



Ilmarinen remains the only pension company that offers its customers receiving negative disability pension decisions a guidance service on issues such as securing a livelihood and continuing in working life. The service is provided by rehabilitation research institutes and work clinics throughout Finland that have concluded co-operation agreements. Feedback received from customers, employers and service providers has been positive.

Ilmarinen is responsible for mailing pension records to approximately 727,000 insured persons. The records were mailed between April and October. Ilmarinen is the only Finnish pension company profiled through its own pension record service. Other companies rely on the työeläke.fi portal.

A total of 13,995 (17,856) individual pension insurances were reviewed in response to customer queries.

In 2009, Ilmarinen held a total of 25 seminars on well-being at work throughout Finland for individuals responsible for the operations, staff and development of its corporate clients. In addition to these events, numerous training sessions were held for corporate clients.

Ilmarinen continued to support the occupational rehabilitation of the personnel of its corporate clients by offering training in occupational rehabilitation and, during the rehabilitation planning stage, guidance and expert support for both employees seeking occupational rehabilitation and the staff of the corporate clients. During the actual rehabilitation period, the company pays benefits pursuant to earnings-related pension legislation, which support the individual's income during the rehabilitation and compensate for the costs resulting from the training. In 2009, Ilmarinen paid a rehabilitation allowance or a rehabilitation increment tied to a pension during occupational rehabilitation in 1,551 (1,457) cases. The number of these payments increased by 8 per cent from the previous year.

Underwriting business, technical provisions, portfolio transfers and fund transfers

At the end of 2009, technical provisions stood at a total of EUR 22,609.7 (20,612.8) million. Provision for future bonuses decreased by net EUR 688.3 million and stood at EUR 1,454.2 (765.9) million at the end of the year. The equity linked buffer increased by net EUR 617.7 million and stood at EUR -161.2 (-779.0) million at the end of the year. Otherwise, the increase in technical provisions was 3.4 per cent.

The underwriting result under the company's own responsibility was EUR -22.5 (76.4) million. The equalisation provision decreased by EUR 22.5 million to EUR 971.4 million.

A share of the return on investment, determined by the technical bases, is credited to technical provisions. Part of the yield requirement on technical provisions of authorised pension companies is tied to the average solvency of pension institutions, and the rest, 10 per cent from 2008 onwards, is tied to the average return on the listed equities owned by the pension institutions.

The share of the yield 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. In 2009, the pension liability supplementary coefficient was 0. The average return on the listed equities of pension institutions was 35.6 per cent. The interest refunded on technical provisions equalled 5.7 per cent.

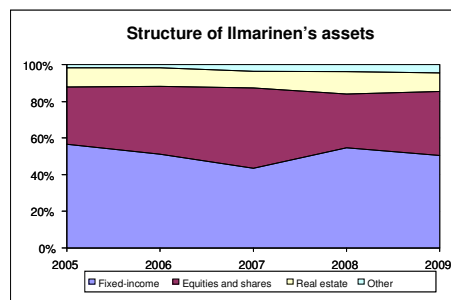
The technical rate of interest used in calculating insurance contributions was 3.0 per cent.

Assets covering technical provisions stood at EUR 25,137.5 (21,597.8) million.

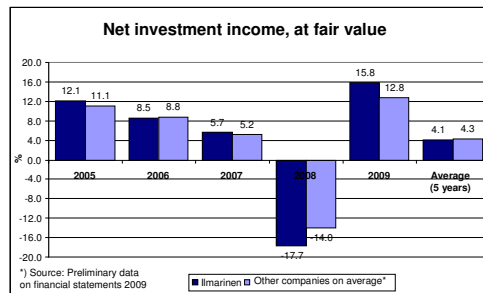
In 2009, one pension fund transferred its liabilities according to TyEL and YEL to Ilmarinen and a money transfer was made from Ilmarinen to one pension fund. The transferred liability was net EUR 26.1 million, of which provision for future bonuses made up EUR 3.0 million. Additionally, three pension funds made the decision to transfer their liabilities to Ilmarinen in 2010.

Investment activities

The objective of Ilmarinen's investment activities is to achieve the highest possible income in the long-term within the risk level defined by the Board of Directors. The basis for evaluating the risk level is the company's average solvency across business cycles. The recovery of asset values and decrease in risk premiums, following the exceptionally difficult investment environment in 2008, led to an extremely positive development during the accounting year.



At the end of 2009, Ilmarinen's total investments calculated at current value were EUR 25,179.8 (20,871.7) million. The return on investments at current value was 15.8 per cent. With the negative inflation, Ilmarinen's real return on investments equalled 16.4 per cent in 2009. This real return is the best in the company's history. In 2008, investment portfolio returns were -17.7 per cent, or -20.5 per cent in real terms. Calculated at current value, the average annual returns over the last five years have been 4.1 per cent, which corresponds to average annual real returns of 2.4 per cent. Calculated from 1997, the average annual returns at current value for Ilmarinen's investments have been 5.8 per cent per annum. This corresponds to an annual real return of 4.1 per cent.



The following breakdown of Ilmarinen's asset allocation and returns abides by the Finnish Pension Alliance TELA's income calculation working group's recommendations for the classification of investments according to market value. The breakdown according to the recommendations strives to increase the transparency of authorised pension companies' investment data by allocating assets according to real risk and presenting a risk allocation taking into account the effect of derivatives in addition to allocation by market value. Both the allocation of assets and their returns into different investment types according to official regulations, as well as the table according to the recommendations, are included in the notes to the financial statements.

Bonds, fixed-income funds and other money market instruments formed 37.8 (41.7) per cent of the total value of Ilmarinen's investment assets. Their total market value, taking into account market value derivatives, was EUR 9,533.4 (8,697.2) million and return at current value was 15.5 (-4.8) per cent. A total of EUR 3,477.4 (1,940.9) or 36.5 (22.3) per cent was invested in government bonds. Ilmarinen had EUR 579.1 (122.4) million or about 6.1 (1.4) per cent in money market investments, yielding 1.4 (4.6) per cent. The remaining 57.4 per cent were corporate bonds, emerging market bonds and investments in fixed-income funds. Most of the corporate bonds had a high credit rating. At the end of the year, the modified duration of the bond portfolio was 3.2 (3.6) years.

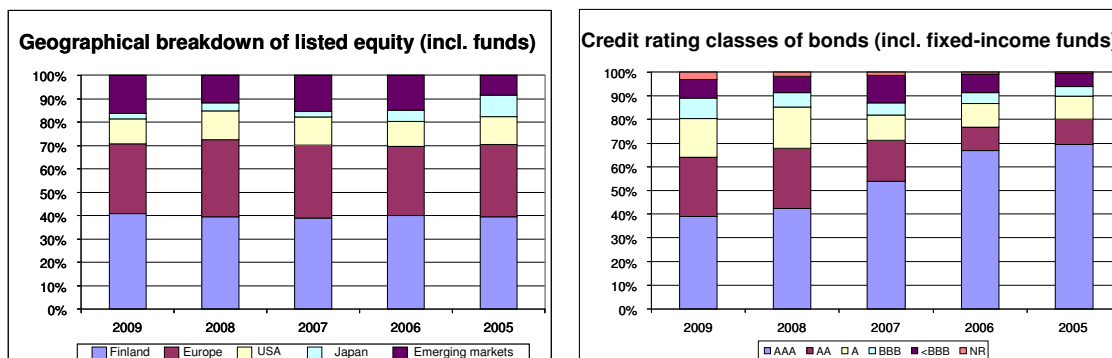
The portfolio for the loans granted by Ilmarinen's Corporate Finance department increased further in 2009; however the growth was significantly slower than during the previous year. At the end of the year, loan receivables made up 12.8 (12.9) per cent of investment assets. New loans equalling EUR 876.4 (1,687.9) million were drawn down during 2009. At the end of the year, the total loan portfolio was EUR 3,211.8 (2,695.6) million including accrued interest. The return on loan receivables was 4.0 (4.9) per cent.

Table: Corporate financing loan portfolio, EUR million

	1999	2004	2009	Return %
Premium loans	1,456.8	710.2	1,762.7	4.1
Lending other than premium loans	234.0	400.6	1,449.0	3.8
Total (includes accumulated interest)	1,690.8	1,110.9	3,211.8	4.0
Share of total portfolio, %	13	6	13	

The above-mentioned investments together make up the fixed-interest investment class. The investment portfolio share of all of these investments was 50.6 (54.6) per cent and their returns were 12.6 (-3.6) per cent.

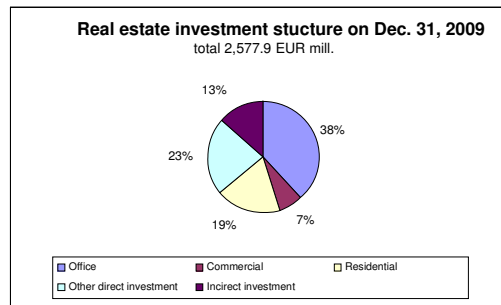
The investment share of listed and unlisted equities and shares as well as private equity investments was 34.7 (30) per cent. Their value increased to EUR 8,730.8 (6,168.8) million in 2009 as a result of rising share prices and share acquisitions. Investments in domestic equities made up about 41.1 (35.3) per cent of this, or EUR 3,218.2 (2,463.0) million. Domestic equities made up 40.9 (39.5) per cent of investments in listed equities and shares. The return on equities, calculated at current value, rose to 28.3 (-39.3) per cent.



Share, currency and interest derivatives are used both for hedging and for shaping asset allocation. As a result of using derivatives, the amount of equities and shares according to risk deviated at the end of the year from their amount according to market value. Calculated using the method agreed on by the employment pension institutions, their amount according to risk was EUR 8,133.3 million, i.e. 32.3 per cent of investments. The effect of interest derivatives is included in the modified duration of the bond portfolio reported above.

Ilmarinen's Ownership Policy also takes into account responsible investment principles. According to this policy, Ilmarinen will start an engagement process with a company if it fails to meet 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. In 2009, Ilmarinen was involved in active engagement processes with twelve different companies of which two were completed during the year.

Real estate investments at the end of 2009 equalled EUR 2,577.9 (2,509.5) million, a 2.7 per cent change from the previous year. The share of real estate investments was 10.2 (12) per cent, of which indirect investments made up 1.4 percentage points. The value of direct real estate investments was EUR 2,236.2 million. Despite the economic downturn, the utilisation rate of real estate owned by Ilmarinen remained high, equalling 95.8 (94.9) per cent at year-end.



The total return on the company's real estate investments was -0.6 (6.1) per cent. The return on direct real estate investments was 5.0 (8.3) per cent which includes a EUR -12.2 million adjustment to the real estate's current values. The return on indirect real estate investments was -27.1 (-5.2) per cent.

Commodity investments and investments in absolute return funds are classified as "other investments" according to TELA's income calculation working group's recommendations. At the end of the year, other investments made up about 4.5 (3.8) per cent of the market value of investment assets. The share of absolute return funds was EUR 2.2 million and commodity investments accounted for EUR 3.2 million. Absolute return funds yielded an average of 11.8 per cent on capital employed.

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. On the other hand, the objective is to enable the company to capture the opportunities offered by controlled risk-taking in business operations, especially in investment activities. It is important above all that the rights of the insured, pensioners and policyholders are secured in all situations.

The assets covering technical provisions are calculated at current value and the main objective of the regulations governing the assets is to avoid concentrations of risk. The classification of investments is carried out, both in these regulations and when calculating solvency requirements, according to the same principles and based on the actual risk of the investments. Ilmarinen carries the investment risk inherent to covering its technical provisions and return requirement. However, a share of the price risk for equity investments is carried at the level of the whole earnings-related pension system. From 22 December 2008 onwards, this share has corresponded to 10 per cent of all investments. The joint solvency rules for pension companies provide the framework for risk management of investment operations.

Ilmarinen has a risk management plan that covers the entire operations of the company and is approved annually by the Board of Directors. A Risk Management Committee is in place for the

company-level co-ordination and development of risk management, made up of business unit and support function representatives. The Risk Management Committee semi-annually updates the survey and evaluation of the risks facing the company with respect to its operations. The Board of Directors' Audit Committee and the Board of Directors discussed the risk analysis and approved the risk management plan in January 2010.

The 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 management from risk-taking functions. In order to develop company-level risk management, a comprehensive plan has been developed for the following years.

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

Personnel

An average of 658 people worked for Ilmarinen Group in 2009 compared to 655 in 2008. The average number of employees in the parent company Ilmarinen was 536 (529). This figure includes 72 (65) part-time employees, whose work contribution has been adjusted to correspond with the average working hours of full-time employees. An average of 52 (62) persons were on family leave or other unpaid leave during the year. At the end of the year, the parent company Ilmarinen employed 586 (573) persons, of whom 558 (539) were permanent employees.

Ilmarinen's values were updated in a value process in which the majority of personnel took part. The process was also augmented by Ilmarinen's Board of Directors and the Advisory Committees for Insurance Clients and the Insured. The new values are: openness, responsibility, success through teamwork.

The company's personnel strategy was updated and the implementation of its objectives was begun already in 2009. The central objectives of the strategy are good leadership, strategic personnel planning, remuneration in support of success, high awareness of the company and attractiveness as an employer as well as an innovative and evolving workplace community. Ilmarinen took part for the first time in the Great Place to Work study and was ranked second in the large corporation category. The development areas for 2010 have been identified based on the results from the study.

Information technology

During early 2009, options for developing pension decision activities and advice services were assessed and decisions were made on how to proceed with the preparations for the changes taking place in the operating and information systems in 2012. The first phase of the insurance production system renewal was completed and rolled out. A development programme for the operating and information systems, based on the strategic objectives, was completed in late 2009. The programme provides the basic framework for improvement projects and the controlled development of information technology in the future. The management and organisation of information technology were improved with an eye to company-wide development and the management of total costs by starting up an IT division serving the business units in early 2009. Simultaneously, new internal leadership practices and practices for service management and supplier guidance were implemented.

The joint operating services change project of OP-Pohjola Group, Ilmarinen and Tieto reached completion. Ilmarinen's operating services are now produced by joint venture Finanssidata, together with Tieto. The new arrangement has improved the reliability of Ilmarinen's IT services and brought cost savings, as planned. The co-operation with Tieto, involving the development and maintenance of IT systems, was assessed based on the basic contract period and in light of the changed market situation for IT services. In the autumn, a decision was made to create a new sourcing model which would make use of the market offering. The principles for continuing co-operation with Tieto and the future operations of TietoIlmarinen were decided based on the guidelines provided by the model.

Operating expenses

Ilmarinen's cost-efficiency during the reporting period remained good. The operating expenses financed using the loading profit increased by EUR 4.2 million, or 5.0 per cent. The ratio of the above-mentioned operating expenses to the expense loading components available for them was 76 (71) per cent. The efficiency of operations benefits Ilmarinen's customers in the form of client bonuses and rebates.

Ilmarinen's total operating expenses were EUR 121.4 (113.5) million, up 6.9 per cent from the previous year. Personnel expenses and IT service expenses both increased by approximately EUR 4 million, which explains the rise in total operating expenses. IT expenses were increased significantly by the expenses consumed by AREK, which rose to EUR 9.6 million, or 26 per cent. The statutory fees are financed through a separate part of the insurance contributions allocated to statutory fees. These fees include the share of the costs of the Finnish Centre for Pensions, the supervision fee of the Insurance Supervisory Authority and the judicial administration fee.

Operating expenses for investment activities were EUR 14.1 (11.2) million, or 0.6 per mille of the total investment amount. They are financed using the return on investments. The costs of maintaining work capacity, which are financed from the administration part of disability risk contained in the insurance contribution, were EUR 6.9 (4.9) million. The rise in this expense item is explained by the investments made in maintaining the work capacity of clients, for example training.

Corporate governance and organisation

In its meeting on 19 November 2009, Ilmarinen's Supervisory Board re-elected its Chairman and Deputy Chairmen for the term of office 2010. Jorma Eloranta, President and CEO, Metso Corporation, continues as Chairman of the Supervisory Board and the Deputy Chairmen will be Merja Strengell, Chairman of the Board of the Finnish Association of Graduate Engineers, and Antti Herlin, Chairman of the Board of KONE Corporation. Strengell will function as the primary Deputy Chairman.

Ilmarinen's Board of Directors' four-year term expired on 31 December 2009. The Supervisory Board, in its meeting on 19 November 2009, elected as new members Lauri Lyly, Chairman of the Board, Central Organisation of Finnish Trade Unions, Kristian Pullola, Vice President, Head of Treasury and Investor Relations, Nokia Corporation, and Anne Berner, Managing Director, Vallila Interior, as deputy member. Lauri Ihalainen and Jukka Hienonen left the Board of Directors. Arto Hiltunen resigned from the Board starting on 1 January 2010. Otherwise, the Board of Directors' composition remains as before.

The composition of the Board of Directors beginning 1 January 2010 is as follows: Jukka Alho, President and CEO (Itella Group), George Berner, Managing Director (Berner Ltd), Leif Fagnäs, Director General (Confederation of Finnish Industries EK), Reijo Karhinen, Executive Chairman (OP-Pohjola Group), Leila Kostainen, General Secretary (Finnish Confederation of Professionals STTK), Lauri Lyly, Chairman of the Board (Central Organisation of Finnish Trade Unions), Leena Niemistö, Managing Director (Dextra Medical Center), Kristian Pullola, Vice President, Head of Treasury and Investor Relations (Nokia Corporation), Hannu Syrjänen, President and CEO (Sanoma Corporation), Markku Vesterinen, President and CEO (Suomi Mutual) and Matti Viljanen, Chairman (AKAVA Confederation of Unions for Professional and Managerial Staff in Finland).

The Board's deputy members for the four-year term of office are Riku Aalto, Chairman (Finnish Metalworkers' Union), Anne Berner, Managing Director (Vallila Interior), Timo Parmasuo, Chairman (Meconet Ltd) and Hannu Rautiainen, Director, Business Law (Confederation of Finnish Industries EK). The deputy members of the Board of Directors are always invited to the Board meetings but they only have voting rights when the corresponding member is not present.

The Board of Directors re-elected Hannu Syrjänen, President and CEO, Sanoma Corporation, as its Chairman in its meeting on 27 January 2010. The Board elected Chairman Lauri Lyly and Director General Leif Fagnäs as its Deputy Chairmen. Lauri Lyly is the primary Deputy Chairman. The Chairman and Deputy Chairmen also function as the Board's Nomination and Compensation Committee.

The members of the Audit Committee are Managing Director George Berner as Chairman, Managing Director Leila Kostainen and Director Hannu Rautiainen.

In its meeting on 19 November 2009, Ilmarinen's Supervisory Board elected the members of the Election Committee. The term of the Election Committee began immediately and will end following the final Supervisory Board meeting of 2009.

Jorma Eloranta was re-elected as the Chairman of the Election Committee and Esa Vilkuna as the Deputy Chairman. The other Election Committee members are Chairman Antti Herlin, General Secretary Leila Kostainen, President and CEO Hannu Syrjänen and Chairman Matti Viljanen. Of the six members of the Election Committee, half are individuals nominated by representatives of policyholders on the Supervisory Board, and the other half are individuals nominated by representatives of the insured on the Supervisory Board.

Ilmarinen presents, in connection with the financial statements and the Report of the Board of Directors, a separate corporate governance statement.

Ernst & Young Oy and Harri Pärssinen, Authorised Public Accountant, have functioned as Ilmarinen's auditors.

Ilmarinen's organisation was altered beginning 1 January 2010. Insurance and claims operations as well as their related customer services were centralised in the Pension Insurance division and customer accounts in the Customer Accounts division. The Actuarial Services function and Risk Management were separated from the old Finance and Risk Management division to form their own division. The position of marketing has been strengthened by centralising functions related to it in the Customer Accounts division, which also handles issues related to well-being at work

development for corporate clients. The development of personnel, on the other hand, was focused on through internal changes in the Corporate Communication and Human Resources division.

The organisational change aims at creating a clearer connection to Ilmarinen's strategy. It also led to changes in areas of responsibility between certain members of the company's Executive Group. Work towards shaping the new operating model will continue in the various divisions during the spring. The aim is to have the final details in place by August 2010.

Group

In addition to the parent company Ilmarinen, Ilmarinen Group mainly includes real estate companies. Based on voting rights, TietoIlmarinen belongs to Ilmarinen Group as Ilmarinen's ownership of TietoIlmarinen's shares gives it control of 70 per cent of the votes, although Ilmarinen only owns 30 per cent of the share capital. The number of subsidiaries on 31 December 2009 was 151. Non-life insurance company Garantia is Ilmarinen's associated company.

Suomi Mutual Life Assurance Company and Pohjantähti Mutual Insurance Company are participating interests of Ilmarinen.

Guarantee capital

Ilmarinen has guarantee capital of EUR 22,994,653.31, which is divided into 13,672 guarantee shares. On 31 December 2009, the owners of the guarantee capital and their shares of the guarantee capital were as follows:

	Guarantee shares	% share
Suomi Mutual Life Assurance Company	13,412	98.1
Pohjantähti Mutual Insurance Company	260	1.9
Total	13,672	100.0

Outlook

Economies in most market areas have taken a positive upward turn. The starting level is, however, low due to the downturn and there is uncertainty related to whether the growth will be sustained or whether it will die down once the stimulus measures have been finalised. It is also difficult to predict how long it will take the Finnish national economy to catch up with this positive development. The rise in employment figures, vital for the finances of the earnings-related pension system, will probably only initiate once clear economic growth is achieved. The effects of the efforts to improve the ability to cope at work, the length of careers and well-being at work on delaying retirement depend on how quickly the economy recovers from the downturn.

Also the operating environment for investment activities is burdened with significant uncertainty factors. In 2010 so far, no significant changes have occurred in share prices, and Ilmarinen's solvency ratio has alternated between the year-end level and slightly above it. Share performance over the next few months will depend on how well confidence in the company's business growth and profitability in the aftermath of the economic downturn will be sustained in the markets. New

fixed-income investments are weighed down by a low nominal interest level and investments in bonds are threatened by the possible escalation of inflation once attempts to bring state budgets back into balance are initiated. If growth does not gain momentum, companies' operating environments will remain difficult. This entails the risk that credit losses resulting from insurance contributions will increase and the demand for real estate will subside.

In the present difficult operating environment, the company's success depends especially on its competitiveness. The company's key trump cards, in addition to the development of its own operations, include the partnership with OP-Pohjola Group which has a nationwide service network and an extensive selection of finance sector services.

Ilmarinen has honed its strategy and strengthened its systematic implementation, as well as adapted its organisation to support it. As one of the most solvent authorised pension companies, it has the capacity to continue its long-term investment activities which aim for good returns. One of the central objectives for the near future is further improving the company's cost-efficiency. Investment activities and improved cost-efficiency support the company's ability to grant significant client bonuses. Ilmarinen therefore believes that its relative position in the bonus competition between pension companies will remain good over the long term.

Proposal of the Board of Directors for the disposal of profit

According to the Articles of Association, the rate of interest on the guarantee capital is the technical rate of interest plus one percentage point. For 2009, the rate of return calculated in this fashion is 4.0 and the interest on the guarantee capital is EUR 919,786.13.

The parent company's distributable reserves in the financial statements for 31 December 2009 equal EUR 75,869,191.19, of which the profit for the accounting period is EUR 3,861,053.81.

The Board of Directors proposes that EUR 919,786.13 be distributed as interest on the guarantee capital for 2009, EUR 50,000.00 be reserved for use by the Board of Directors as donations for purposes of general interest and the remainder of the profit, EUR 2,891,267.68, be transferred into the contingency fund.

Helsinki, 23 February 2010

Hannu Syrjänen

Lauri Lyly

Leif Fagernäs

Jukka Alho

George Berner

Reijo Karhinen

Leila Kostiainen

Leena Niemistö

Kristian Pullola

Markku Vesterinen

Matti Viljanen

Harri Sailas
President and CEO