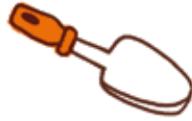


*stable and balanced
growth is important to us*



** A SOLVENT PENSION INSURANCE COMPANY HAS RISK BEARING CAPACITY

C CASE

Neste Oil transferred the management of its statutory earnings-related pension insurance from its own pension fund to Ilmarinen. The key factors behind the decision were the company's good solvency and risk management, explains **Ilkka Salonen**, Neste Oil's CFO.

I.S: Our pension liability is over EUR 600 million, the future pensions of thousands of people. We came to a point where the only option was either to significantly reinforce our own fund's resources or to handle our pension insurance through a pension insurance company.

It is obvious that maintaining a pension fund is not part of Neste Oil's core business. It was a wise move to transfer our pension management to a party with the best possible resources to prepare for the future. Transferring to pension company was the best option for securing risk management and solvency. Other significant factors were actuarial and investment competence.

T.R: We constantly focus our efforts on investment activities and risk management by developing know-how and by investing in IT systems supporting these functions. More than 80 per cent of Ilmarinen's investment

assets are handled internally, which is proof of solid, constantly maintained competence.

I.S: In our comparison of different companies, we paid special attention to solvency. Hundreds of millions of euro is no small amount, which is why a company managing our pensions needs to have a sufficient solvency buffer and expertise. These are things that we found in Ilmarinen.

In pension operations the time-span for financial monitoring is 30 to 40 years and decisions have far-reaching consequences. The key role is held by long-term activities which are not swayed by economic fluctuations.

T.R: Ilmarinen's long-term return on investment and client bonuses are the best of all the pension insurance companies. During the past 13 years the average real return on investments has been 4.1 per cent.



Interviewees: **ILKKA SALONEN** / Neste Oil
TIMO RITAKALLIO / Ilmarinen



RESULT-ORIENTED, RESPONSIBLE AND LONG-TERM INVESTMENT ACTIVITIES

The objective of Ilmarinen's investment activities is to achieve the highest possible return in the long term, while ensuring that the average risk of the investments is not too high in relation to the company's risk bearing ability. A long-term approach is essential in investing pension assets.

A good long-term level of returns can help to reduce the pressure for higher pension contributions in the future and allows Ilmarinen to offer competitive client bonuses. Short-term fluctuations in value are not significant in view of the basic task of investment activities as long as the targets set for solvency and an adequate solvency capital are achieved. The expected average long-term return on Ilmarinen's investment assets is 6 per cent, and the expected standard deviation of the return is 8 per cent.

Through its **active portfolio management**, Ilmarinen always strives for returns that exceed the overall market development. Ilmarinen aims to achieve high returns from investment activities with a well-diversified investment portfolio, professional evaluation of investment targets and management of investment risks. Ilmarinen carries investment risk in such a way that it balances out with risk bearing ability and, on the other hand, so that the expected returns on the investments are as high as possible.

The possibility to pay client bonuses is based to a large extent on the result of investment activities. Ilmarinen's client bonuses have been the best in the industry over the last ten years.

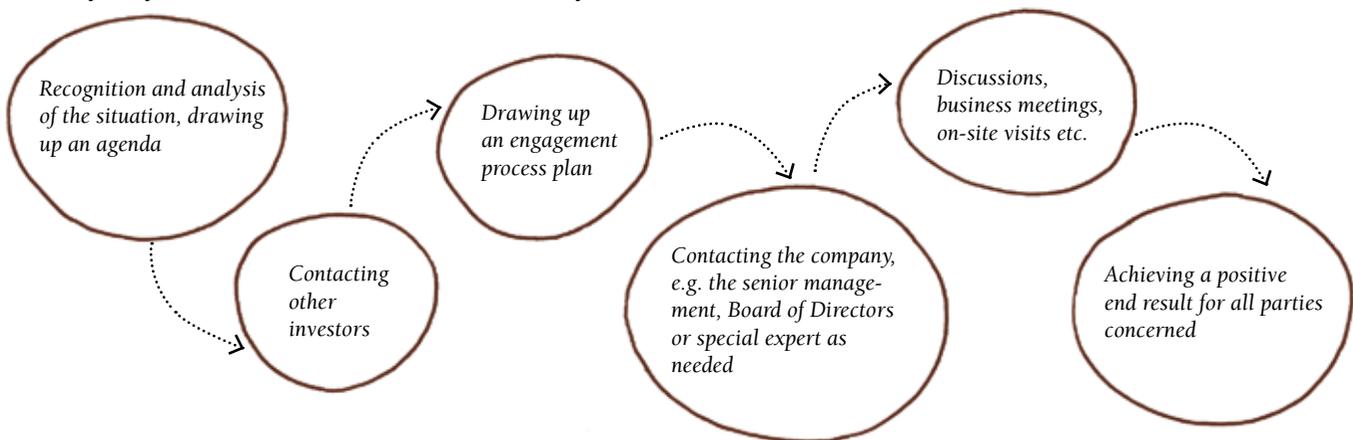
Ilmarinen wants to continue to stand out from its competitors with its competitive investment returns, and for that reason is

investing in strengthening the competitive factors of its investment activities. These include, for example, the continuous and diverse development of the investment organisation's competence to ensure timely allocation choices, the activeness and willingness for renewal in implementing new investment opportunities and instruments, pre-emptive risk management as well as reliable and efficient processes in investment activities.

The investment plan defines the weighting of asset classes, i.e. basic allocation, and the required return and risk level of investment activities. The company's Board of Directors approves the investment plan annually.

In addition to its own investment organisation, external investment service providers are utilised for certain investments such as

Engagement process stages:



emerging markets, private equity and hedge funds. The share of external asset managers is about 20 percent of the total assets.

Ilmarinen's ownership policy sets down the ownership principles approved by the company's Board of Directors. Ilmarinen believes that active ownership has a positive effect on the development of the value of holdings and lowers the risk inherent in investments. Ilmarinen promotes good corporate governance and management of the companies it owns by actively taking part in the selection of the members of the companies' Boards of Directors. In its public ownership policy memorandum, Ilmarinen offers its opinion on the management structure, dividend policy, and incentive programmes of the companies it owns.

Ilmarinen's representatives, as part of the company's active ownership policy, keep in regular contact with the managements of the companies it owns and take part in their Annual General Meetings. During 2009, Ilmarinen's participation rate in the Annual General Meetings of listed Finnish companies was 90 per cent.

The success of the Finnish pension system is dependent on the development of the country's national economy and Finnish companies. Ilmarinen wants to be an active

and diverse investor in the Finnish economy. In 2009, 42 per cent of all of Ilmarinen's investments, or more than EUR 10.5 billion, were invested in Finnish society in one form or another.

Part of Ilmarinen's ownership policy consists of principles for **responsible investment**. The policy defines, for example, the noneconomic principles required by Ilmarinen, as an owner, from its investments. These principles include, e.g., ILO's principles concerning working life and the UN's Global Compact.

Ilmarinen was the first Finnish investor to have signed the UN's Principles for Responsible Investment (UNPRI). According to these principles, Ilmarinen commits to taking into account economic factors, as well as social responsibility, environmental responsibility and governance related issues in its investment activities.

The responsibility of Ilmarinen's investment activities has fared admirably in the annual surveys of the signatories. In practice, responsibility is monitored in various ways in the different asset classes. For example in the case of listed securities, an external assessor audits Ilmarinen's portfolios semi-annually. Between these audits, Ilmarinen's own portfolio managers ensure the implementation

of the ownership policy in the company's own investments. An expert in responsible investment practices assists them in their work. When inadequacies are discovered, Ilmarinen starts up an engagement process and sells off its securities.

Over the past few years, engagement processes have shown positive results and it has been possible to reinstate companies into the investment universe. There can be a variety of reasons behind engagement processes. Discussions with the executive management have been held concerning, e.g. occupational and environmental safety or the procurement of natural resources from Western Sahara. Ilmarinen strives to co-operate with other investors in the engagement processes, ensuring a higher probability of success.

Ilmarinen's positive experiences with engagement processes have encouraged it to further strengthen its co-operation with institutional investors. Ilmarinen took part in establishing Nordic Engagement Cooperation (NEC), the purpose of which is to achieve better results through active collaboration.

* * *



For additional information concerning investments, see Ilmarinen's website (www.ilmarinen.fi).

PERSEVERANCE BROUGHT ILMARINEN RECORD RETURNS

Ilmarinen recovered from a historically difficult market situation faster than expected. The return on the company's investment assets in 2009 rose to 15.8 per cent, or around EUR 3.4 billion. In real terms, the investments brought in the all-time best result of 16.4 per cent.

The starting point for the year 2009, in the midst of a global financial and economic crisis, was anything but easy. Investors' belief in the future of the financing markets swayed as share prices dropped and credit risk margins grew. Faith in the ability of the international banking system to pull through was put to the test.

In March, the market situation began to gradually calm down. Share prices took an upward turn, the pricing of credit risk began to normalise and belief in the banking system began to improve. Additionally, a record-low interest level and a global, reinvigorating economic policy succeeded in turning the economy around again during the summer. During the latter part of the year the investment market continued to revive.

Both inflation and the price of oil

followed the development of the economy and rose towards the end of the year. Europe's consumer price inflation even fell into the negative in summer but ended up at a final 0.9 per cent at year-end. The price of oil sank to less than 35 dollars in early 2009 but rose again to around 79 dollars at the end of the year.

In order to support the financial markets and economy, the Federal Reserve kept its key interest rate unchanged throughout the year at 0.25 per cent. The European Central Bank lowered its key interest rate during the early part of the year from 2.5 per cent to

1.0 per cent. In the U.S., long-term interest rates on government bonds rose during the year by about 1.6 percentage points to above 3.8 per cent. In Europe, long-term interest rates on government bonds rose more moderately, ending up at 3.4 per cent.

Equities and shares brought in good returns although the global index for the equity market decreased by 22 per cent from the year-end level. Following the turning point in March, share prices finally rose by 26 per cent by the end of the year. In Finland, share prices rose 45 per cent. The most significant investment incomes were achieved in equities and shares in the developing markets, for which the share price development index rose by 75 per cent during the year.

In 2009, Ilmarinen increased its investments in listed equities and shares. At the end of the year, listed equities and shares equalled 29 per cent of the total investment assets. The return on listed equities was 35 per cent. Private equity investments were burdened by value adjustments and their income was 18 per cent negative. EUR 105 million in new investments were made in private equity funds, equalling 2.2 per cent of the total investment assets at the end of the year.

Ilmarinen's absolute return funds, i.e. hedge funds, brought returns of 12 per cent. Hedge funds benefited from both the recovery of the value of risk-prone asset items and from the easing of liquidity pressure on the financing markets. The share of hedge funds of the investment assets at the end of 2009 was 2.2 per cent.

Returns from **Ilmarinen's bond holdings** were 17 per cent in 2009. Bonds

with credit risk benefited from the decrease in required return in relation to government bonds, and their income rose to 20 per cent. The return on government bonds was 9 per cent.

Also the fluctuations in the currency markets continued in 2009. The dollar weakened by 3.4 per cent compared to the euro. The increase in the value of Ilmarinen's foreign currency denominated investments totalling EUR 5.3 billion was increased by currency hedging, which eliminated over half of Ilmarinen's currency risk. Currency hedging of foreign equities increased their returns by 0.9 percentage points to about 29 per cent.

Comment:
**TIMO RITAKALLIO, Deputy CEO,
Head of Investments:**

"2009 was a double-edged sword for investors: in the early part of the year, the value development of different asset categories was weak, but beginning in March, returns on equities and shares as well as fixed-income investments were exceptionally good.

Ilmarinen continued its long-term, equity-oriented investment policy also in 2009. We were able to utilise the economic cycles effectively and due to our good solvency we did not find it necessary to sell off our shares in a panic. We were successful in both the choices we made in our investments, as well as in our timing, guaranteeing ourselves an excellent investment income.

Ilmarinen's solvency was at a strong level at year-end and the company's return on investment was clearly the best of all the Finnish pension insurance companies in 2009."

The strong interest in TyEL premium loans continued especially in the early part of the year when the global financial crisis had already created problems in the availability of financing for Finnish companies. However, corporate loans levelled off towards the end of the year.

The total corporate credit portfolio at the end of 2009 equalled EUR 3.2 billion, including EUR 516 million in growth, i.e. 19 per cent. The return on the loan portfolio equalled 4.0 per cent. New loans worth EUR 876 billion were taken out, their interest equalling 3.6 per cent.

Real estate activity remained quiet in 2009 as international investors withdrew from the Finnish real estate market due to the financial crisis. The rents for offices and flats rose and the regional and property-specific differences in rent increased. The volume of new construction and number of new projects, however, remained low.

Ilmarinen's real estate investments generated returns of -0.6 per cent, of which direct real estate investments accounted for 5.0 per cent and indirect real estate investments for -27.1 per cent. The current values of direct real estate investments depreciated by EUR 12.2 million.

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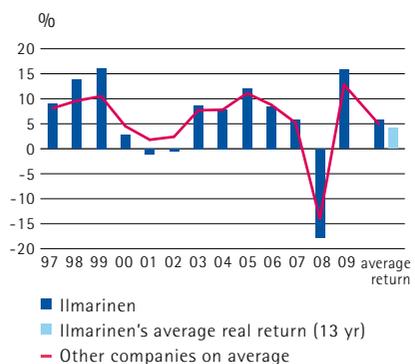
Ilmarinen's investments

31 December, 2009

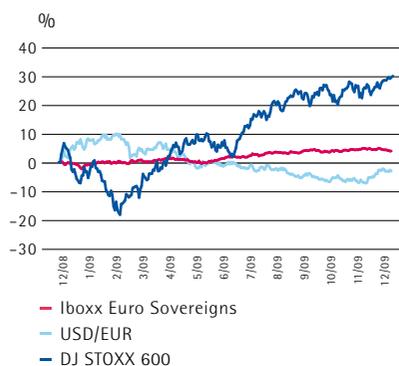
	Risk breakdown EUR mill.	Risk breakdown %	Return %
Fixed-income investments	13,160.6	52.3	12.6
Loan receivables	3,211.8	12.8	4.0
Bonds	8,569.7	34.0	17.1
Other money market instruments and deposits	1,379.2	5.5	1.4
Equities and shares	8,284.2	32.9	28.3
Listed equities and shares	7,411.4	29.4	34.8
Private equity investments	556.4	2.2	-18.3
Unlisted equities and shares	316.4	1.3	1.5
Real estate investments	2,577.9	10.2	-0.6
Direct real estate investments	2,236.2	8.9	5.0
Real estate funds and joint investments	341.7	1.4	-27.1
Other	1,157.1	4.6	13.5
Hedge fund investments	565.1	2.2	11.8
Commodity investments	34.4	0.1	-
Other investments	557.6	2.2	-
Total investments	25,179.8	100.0	15.8

figures

COMPARISON OF INVESTMENT INCOME



MARKET RETURNS IN 2009



SOLVENCY ON A SOLID BASIS

Ilmarinen's solvency strengthened during 2009 due to good return on investments. Strong solvency together with anticipatory risk management enables long-term investment activities.

The company's solvency grew strongly over the three final quarters of the year due to the significant improvement in the value of equities and shares and corporate bonds which began in March. Even during the early months of the year, Ilmarinen's solvency in proportion to risk did not weaken, instead the company's solvency position remained higher than double the solvency border.

Ilmarinen's position as an insurance company providing statutory pension insurance requires the company to secure its financial position and manage the risks connected to it. Especially in early 2009 it was important in investment activities to simultaneously prepare for the possible decline of the investment markets and maintain the long-term approach of the investment strategy. Ilmarinen achieved both.

The significance of risk management has increased as a result of the financial crisis. At Ilmarinen, risk management has long been an area of continuous development. Only in this way can we guarantee the continuity of the company's operations and secure the pensions of the insured.

Ilmarinen is a long-term investor, having to meet, at any given time, the binding obligations under the solvency regulations. Therefore, risk management must, for its part, reconcile the need to implement a long-term investment strategy with the need to abide by short-term restrictions. It is

essential to define the risk-taking level made possible by the company's solvency over the long and short terms as well as the necessary limits for risk-taking, however, in a manner that will not create any unnecessary restrictions on capturing opportunities.

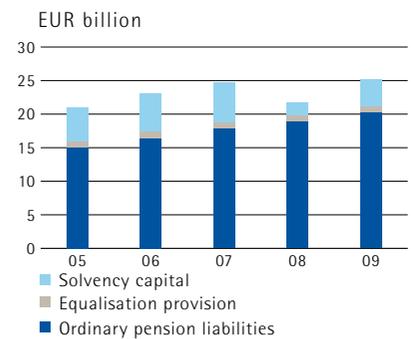
Read more about risk management on page 44 of the Report on Operations and pages 76–80 in the notes to the financial accounts or on the company's website at www.ilmarinen.fi.

The risks in the underwriting business are related to the sufficiency of the insurance contribution and technical provisions in relation to the current and new pensions insured with Ilmarinen. Over the long term, the most central uncertainty factor is life expectancy; over the short term, the greatest uncertainty is related to the number and size of new pensions.

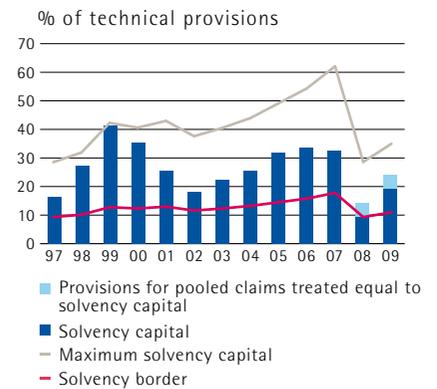
Risk management in Ilmarinen's underwriting business is based on the calculation bases meeting the prudence requirements of the law, according to which the insurance contribution and technical provisions are calculated, and on the company's own actuarial analyses. Contributions are identical for all employment pension insurance companies. In addition, according to the law, the company must grant all insurances applied for from it.

An equalisation provision is used to prepare for fluctuations in the annual underwriting result. This buffer, included in the technical provisions, has accrued from the underwriting surpluses of earlier years. The joint technical bases of pension insurance companies set limits for the equalisation provision according to risks in the under-

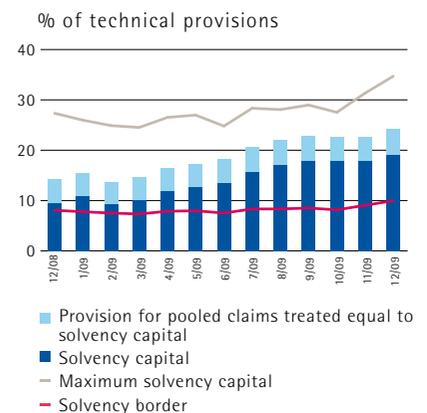
PENSION ASSETS



SOLVENCY, ANNUAL



SOLVENCY, MONTHLY



billion€ 2,2

Ilmarinen's investment result improved to an exceptionally good level.

writing business. Ilmarinen's equalisation provision is sufficient in relation to the extensiveness of the underwriting business.

The statutory solvency regulations

create a framework for risk management in investment operations. At the end of 2008, the Finnish Parliament granted some relief on the solvency requirements for pension insurance companies. The Ministry of Social Affairs and Health has prepared on an extension of the temporary act which is in force until 2010.

The solvency capital, comprising assets in excess of the company's pension liabilities and equalisation provision, serves as a buffer

against investment risks. The monitoring limits set for solvency capital in legislation depend on the company's investment risk-taking so that the more risk-prone investment activity requires a larger solvency capital. The company's Board of Directors decides on the overall level of risk in investment activities.

An annual interest must be credited to technical provisions, which depends on the average level of solvency of pension insurance companies and the average return on their equity investments. Part of the share price risk of pension institutions is thus carried by the entire earnings-related pension system. If investment income

Profit at current value	2009 EUR mill.					
		Underwriting business	Other business	Investment	Loading profit	Total
	Premiums written	548.1	2,519.8	1.8	114.4	3,184.1
	Net investment income at current value			3,430.7		3,430.7
	Claims paid	-645.2	-2,411.5			-3,056.7
	Change in technical provisions	94.4	-108.4	-1,240.6		-1,254.5
	Total operating expenses	-19.8		-14.1	-87.5	-121.4
	Other income and expenses				0.7	0.7
	Taxes			-2.7		-2.7
	Profit at current value	-22.5	0.0	2,175.2	27.7	2,180.4
	Change in equalisation provision					22.5
	Change in provision for future bonuses					-685.0
	Change in difference between current and book values					-1,462.5
	Change in accelerated depreciation					0.5
	Transfer to client bonuses					-52.0
	Net income for the financial year in the official income statement					3.9

exceeds the interest credited to technical provisions, the difference is added to the solvency capital, and in the opposite situation, the capital is decreased. A better solvency position also means larger client bonuses.

Ilmarinen's total financial result in 2009 was EUR 2,180.4 million, and the balance sheet total at current value was EUR 28,026.3 million. Key figures and analyses contained in the official financial statements are presented on pages 71–75.

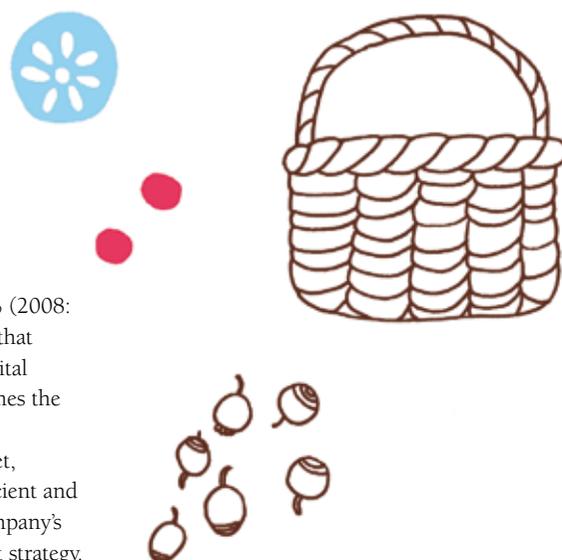
Ilmarinen's investment result improved to an exceptionally good level following the recovery of the financial markets from the previous year's crisis. The return on investments after the items credited to technical provisions was EUR 2,175.2 million. Solvency capital increased to EUR 4,876.9 million from EUR 2,673.0 million at the end of the previous year. The equity linked buffer rose to EUR –161.2 million as a result of increasing

share prices.

Solvency capital equalled 24.0% (2008: 14.0%) of the technical provisions that define the basis of the solvency capital requirements, and was 2.7 (2.0) times the solvency border.

In view of the investment market, Ilmarinen's solvency capital is sufficient and enables the continuation of the company's long-term, equity-based investment strategy. Technical provisions, equalisation provision, and solvency capital each contribute to securing pensions. Technical provisions have been calculated prudently. Technical provisions increase at a steady rate in line with the increase of the insurance portfolio, unlike the equalisation provision and the solvency capital, which are subject to fluctuations in the underwriting result and investment result. The company meets its legal obligations.

* * *



> Balance sheet at current value

31 December, 2009 EUR mill.

ASSETS		LIABILITIES	
Investment at current value	25,179.8	Capital and reserves after proposed distribution of profits	97.9
Receivables	2,749.6	Depreciation difference	7.8
Other assets	96.9	Difference between future and book value	2,474.5
		Provision for future bonuses	1,454.2
		Other solvency capital items	-2.9
			4,031.5
		Provision for pooled claims treated equal to solvency capital	845.4
		Solvency capital	4,876.9
		Equalisation provision	971.4
		Capital base	5,848.3
		Provision for current bonuses (to client bonuses)	52.2
		Equity linked buffer	-161.2
		Technical provision *)	19,447.8
		Other liabilities**)	2,839.3
Assets total	28,026.3	Liabilities, total	28,026.3

*) technical provisions excluding provisions for current and future bonuses, provision for pooled claims treated equal to solvency capital and equalisation provision
 **) includes the proposed distribution of profit deducted from the solvency capital, EUR 1.0 million, as well as other solvency capital items deducted from the solvency capital, EUR 2.9 million

CREATING GOOD SERVICE THROUGH CO-OPERATION

The entry of incorporated state enterprises and universities into the scope of the private sector earnings-related pension act at the start of 2010 brought some life to the earnings-related pension competition. After all, this turning point in the market meant significant new customer potential in the relatively stable pension fund market.

Preparing for this competitive bidding also put its stamp on the operations of Ilmarinen's Client Relations in 2009. Ilmarinen did well in the competitive bidding for enterprises, however not as well in acquiring universities as clients. Although a higher performance could have been achieved based on the client potential, Ilmarinen can still be satisfied with the result. Even those companies that chose otherwise gave Ilmarinen good feedback concerning its competitiveness, operating model and service offering.

All in all, the bidding process was an instructive and helpful experience for the personnel. As part of the bidding process, a customer service team was created which includes competence from throughout the company's service offering. It was essential for Ilmarinen to be seen as a single entity by its clients, providing easy-to-access services and assistance from a single source. In addition to improving its own operations, preparations for the bidding process gave birth to a new energetic team spirit within Ilmarinen, which will without doubt be helpful in the company's future sales efforts.

The dissolving of pension funds

was another distinctive feature of 2009. This trend, although not a new one, accelerated especially among publicly reporting companies, for example among listed companies.

Companies which transferred their pension liabilities to pension insurance companies based the decision to dissolve their pension funds on the fact that they would no longer need to bear the risks related to pensions and investments in earnings-related pension insurance, and thus would be able to better focus on their own core competences.

By inviting tenders on the management of their pension funds from pension insurance companies, the companies are presented with a solution which serves their needs in the best way possible. On the other hand, the competitive bidding between pension insurance companies furthers the effort to achieve good return on investments and cost-efficiency. Altogether four pension funds and industry-wide pension funds decided to transfer to Ilmarinen in 2009.

New business, in addition to existing companies, is an area in which pension insurance companies compete for clients. Ilmarinen's share of new company start-ups was good in 2009, although it did not quite reach the targets set for it. This resulted from the fact that the total number of new company start-ups remained lower than estimated due to the financial crisis, which meant that the target set for new business turned out to be rather demanding.

Ilmarinen's transfer result for the whole of 2009 was positive according to all indicators, both in euro and in quantity. Net transfers created an additional EUR 14 million in premiums written. Ilmarinen's insurance portfolio increased by 691 insurance policies. These included 357 TyEL clients and 334 YEL clients. The transfers strengthened Ilmarinen's market position

especially in small and medium-sized companies, however, the transfer result also included some larger clients.

Despite successful customer acquisition, **Ilmarinen's premiums written** in 2009 were almost three per cent lower than in the previous year, which will probably maintain the company's present market share. The decline in premiums written resulted from the difficult economic situation following the transformation of the financial crisis into a global real economy crisis.

The effects of the economic crisis also reflected heavily on Finnish companies and they were forced to adjust their operations to the present economic situation. This was perceivable as temporary lay-offs and job terminations in many sectors.

Client bonuses are regaining their previous good level. This owes to last year's excellent investment result as well as the company's cost-efficiency. Ilmarinen will transfer around EUR 52 million of the previous year's result to client bonuses, equalling 0.4 per cent of the insured payroll.

