

ILMARINEN'S INTERIM REPORT

**1 JANUARY TO
30 JUNE 2019**

STRONG H1 FOR INVESTMENT OPERATIONS, COST-EFFECTIVENESS IMPROVED AND GROWTH CONTINUED

JANUARY–JUNE FINANCIAL PERFORMANCE IN BRIEF:

- Ilmarinen's total result in January–June grew to EUR 931 million (EUR -502 million in 1 Jan–30 Jun 2018), thanks to strong investment returns. Operating expenses decreased, loading profit improved to EUR 27 (20) million and the ratio of operating expenses to expense loading components stood at 71 (78) per cent.
- Premiums written for January–June stood at EUR 2.9 billion (EUR 2.7 billion). Measured in premiums written, the customer base grew by EUR 109 million (EUR 44 million). A total of EUR 3.0 billion (EUR 2.8 billion) in pensions was paid to 459,000 pension recipients.
- In January–June, the return on Ilmarinen's investment portfolio was 6.0 per cent (1.1 per cent in 1 Jan–30 Jun 2018), i.e. EUR 2.7 billion (EUR 0.5 billion). At the end of June, the market value of investments stood at EUR 47.8 billion (EUR 46.0 billion on 31 Dec 2018).
- The long-term average nominal return on investments was 5.7 per cent, corresponding to a 4.1 per cent annual real return.
- Solvency strengthened compared to the situation at the turn of the year. At the end of June, solvency capital was EUR 9,772 (8,918) million, and the solvency ratio was 124.9 (123.7) per cent.
- Ilmarinen's organisation was renewed and given a flatter hierarchy. The goal of the reorganisation is to make Ilmarinen more customer-oriented and operating models more agile, and to enhance the company's efficiency.

KEY FIGURES	1–6/2019	1–6/2018	2018
Premiums written, EUR mill.	2,907	2,682	5,410
Pension expenditure, EUR mill.	3,013	2,811	5,712
Activity-based operating expenses, EUR mill.	67	70	149
Operational efficiency, EUR mill.	27	20	30
Operational efficiency, %	71	78	83
Return on investment, %	6.0	1.1	-1.4
Total result at current value, EUR mill.	931	-502	-1,581
Value of investment assets, EUR mill.	47,759	46,287	46,024
Solvency capital, EUR mill.	9,772	9,781	8,918
Solvency ratio	124.9	126.6	123.7

The interim report result comparison figures are the figures for the corresponding period of 2018. Unless otherwise indicated, the comparison figures for the balance sheet and other cross-sectional items are the figures for the end of 2018.

ILMARINEN

PRESIDENT AND CEO JOUKO PÖLÖNEN'S REVIEW



The first half of 2019 was very strong for Ilmarinen. The return on investments was 6.0 per cent, and Ilmarinen's investment assets reached a record of close to EUR 48 billion, thanks to a strong equity market and fall in interest rates. Operating expenses decreased, cost-effectiveness improved and growth continued.

Premiums written during the first six months amounted to EUR 2.9 billion. Customer acquisition was successful and, measured in premiums written, the customer base grew by EUR 109 million. We paid a total of EUR 3.0 billion in pensions to 459,000 pension recipients. Our client companies switched to using the Incomes Register for their payroll notifications, and the backlog in customer service during the transition phase early in the year was resolved. Our customer service robot Ilmari was also introduced to provide customers with guidance in matters related to the Incomes Register. Since June, Ilmari has also fielded questions related to pensions on our website.

Investment returns developed well during the first half of the year. The most important factor was the surge in stock prices, which was bolstered by a global change in monetary policy and a drop in interest rates in both the US and Europe. In January–June, Ilmarinen's return on investments amounted to 6.0 per cent, or EUR 2.7 billion. Investment assets grew to EUR 47.8 billion. The return on equity investments was 10.9 per cent and on fixed-income investments 2.8 per cent. The long-term average annual return is 5.7 per cent, which corresponds to a real return of 4.1 per cent. The solvency ratio strengthened during the early part of the year to 124.9 per cent.

Synergies from last year's merger are evident as an

improvement in cost-effectiveness: loading profit rose to EUR 27 million and the ratio of operating expenses to expense loading components measuring cost-effectiveness improved year-on-year by 7 percentage points, to 71 per cent. Ilmarinen's total result grew to EUR 931 million, thanks to strong investment returns.

Our strategy, which was approved in April, emphasises responsibility, the customer experience and personnel experience. Our basic task is to ensure the earnings-related pension cover of our customers – altogether 1.2 million people. We want to take care of our task with even greater customer focus and efficiency. Our goal is to be the most attractive working life partner – responsibly, for you.

In a broad survey of 10,000 Finnish consumers, Ilmarinen was ranked as Finland's most responsible pension company. We want to be a forerunner in responsible investment also globally, and we took part in developing new ETF funds that invest in the sustainability benchmark index on the US and European markets. We invested a total of approximately EUR 2 billion in them.

In line with our strategy, we develop digital and scalable services to promote work ability, and we offer our customers data, expertise and best practices related to managing the work-ability risk. In the first half of the year, we implemented a total of 1,445 work-ability projects together with our client companies and co-operation partners. Ilmarinen's contribution in these projects amounted to close to EUR 2 million. At the same time, we paid out EUR 250 million in disability pensions. The focus should be on prevention: by preventing disability we can lengthen careers and lower the costs of disability for employees, companies and society. Maintaining work ability also plays an important role in improving the employment rate. The Finnish Government, which took office in June, has set an employment target of 75 per cent, which will require investments in competence development and employing people with partial work ability. The Government's programme also includes changes to pensions for the self-employed and survivors' pensions, as well as an increase in small pensions.

The implementation of our strategy also includes an organisational change, the goal of which is to make Ilmarinen more customer-oriented and operating models more agile, and to enhance the company's efficiency. We introduced a process management model alongside our traditional line management, we renewed our operating model for development and we created a flatter organisation by combining

middle management tasks. Between April and June, co-determination negotiations related to the reorganisation were carried out and the renewed organisation started up on 1 July. As part of the reorganisation, 70 old jobs were discontinued, but at the same time, 60 new jobs were created and mostly filled from inside the company. I would like to thank the entire personnel for the positive spirit of co-operation in the negotiations. The organisational change naturally caused some feelings of uncertainty among personnel, but the level of energy at work has nevertheless remained high. We will continue to reinvent our operating practices as well as our corporate culture, aiming to be among the best places to work in Finland.

OPERATING ENVIRONMENT AND INVESTMENT MARKET

Global economic growth remained relatively brisk in the first half of the year, despite the weakened growth expectations. Economic growth in the euro zone slowed down compared to last year. The International Monetary Fund (IMF) downgraded its global growth outlook to 3.2 per cent for 2019 and 3.5 per cent for 2020. Inflation and especially inflation expectations have dropped considerably, which has allowed the central banks' communication to move in a considerably more expansionary direction. Political uncertainty and central banks' measures were the main themes on the markets in the first half of the year. The trade war escalated beyond import tariffs to other trade barriers, such as import restrictions, quotas and administrative restrictions. The development is veering further and further away from the liberal globalisation that has shaped the past decades. The growing uncertainty related to the trade war comes at a vulnerable time in terms of economic cycles.

Although Finland's economy grew in the first six months of the year, growth is expected to be slower

than it has been in recent years, at around 1.5 per cent. According to Ilmarinen's monthly business cycle index, the number of employees in companies grew an average of 3.5 per cent in January–May, compared to the corresponding period last year. The positive trend in employment and payroll is reflected in the growth in pension providers' premiums written.

Interest rates have clearly fallen both in the US and in Europe, as the markets adjust the price of lending to lighter monetary policy. The US market interest rates, for example, forecast a more than one percent reduction in the key interest rate by the Fed by the end of next year, while in Europe, a 25 basis point reduction is forecast for the same period. Credit risk premiums have fallen in both good and weaker credit rating categories. The equity markets have benefitted from the fall in interest rates. In the first half of the year, for instance, the dollar-denominated global equity index has yielded roughly 16 per cent and the Finnish equity market approximately 12 per cent. As risk-free interest rates fall, investments seek out the equity markets.

INSURANCE OPERATIONS

Premiums written for January–June stood at EUR 2.9 billion (EUR 2.7 billion). The customer base has developed well, and the number of insurance policies at the end of June totalled 151,156 (147,813). The number of TyEL insurance policies was 76,348 (73,370). Customer acquisition also developed favourably. Measured in premiums written, net customer acquisition in the first half of the year was EUR 109 (44) million. Customer retention was above 95 per cent on an annual level.

At the end of June, Ilmarinen had altogether 458,643 (459,993) pensioners, to whom a total of EUR 3,013 (2,811) million was paid in benefits since the start of the year. Ilmarinen made a total of 17,558 (15,789) new pension decisions in January–June. New rehabilitation decisions came to 2,291 (2,264). The total number of

NEW PENSION DECISIONS 1 JANUARY–30 JUNE 2019

	1–6/2019	1–6/2018	Change, %
Old-age pensions	6,592	5,699	16
Early old-age pensions	1,908	1,478	29
Disability pensions	4,419	3,926	13
Survivors' pensions	2,340	2,413	-3
Right to rehabilitation	2,291	2,264	1
Years-of-service pension	8	9	-11
New pension decisions, total	17,558	15,789	11

pension decisions made was 32,751 (27,308).

Focus on improving the customer experience and boosting the efficiency of processes improved the processing times for old-age pension applications during the first half of the year, and this was reflected in the higher number of old-age pension decisions. The popularity of partial early old-age pension is on the rise again.

RETURN ON INVESTMENTS

At the end of the second quarter of 2019, Ilmarinen's total investments at current value were EUR 47,759 million (46,024). The return on investments at current value was (6.0) 1.1 per cent. Inflation at the end of June was 0.6 per cent, and the real return on Ilmarinen's investments amounted to 5.4 per cent in January–June. Calculated at current value, the average annual return over the last five years has been 5.2 per cent, which corresponds to an average annual real return of 4.5 per cent. Calculated from 1997, the average annual return at current value for Ilmarinen's investments has been 5.7 per cent. This corresponds to an annual real return of 4.1 per cent.

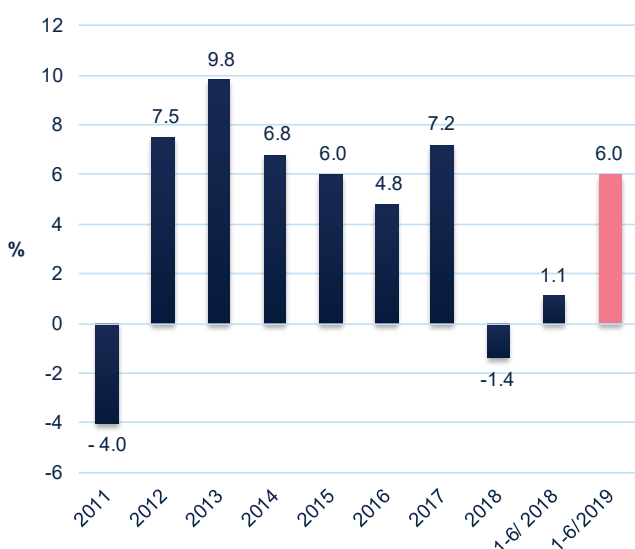
Fixed income investments accounted for a total of 33.5 (37.7) per cent of the investment portfolio, and their return at current value was 2.8 (-0.1) per cent.

Their total market value was EUR 15,983 (17,361) million. Bonds accounted for a total of 29.4 (31.9) per cent of Ilmarinen's investment assets, and their return was 2.9 (-0.2) per cent. Other financial market instruments and deposits accounted for 2.1 (3.7) per cent of the investment assets and their return was 1.6 (0.1) per cent. Loan receivables made up 1.9 (2.1) per cent of the investment assets, with a return of 1.7 (1.7) per cent. The modified duration of bonds was 1.8 (0.7) years.

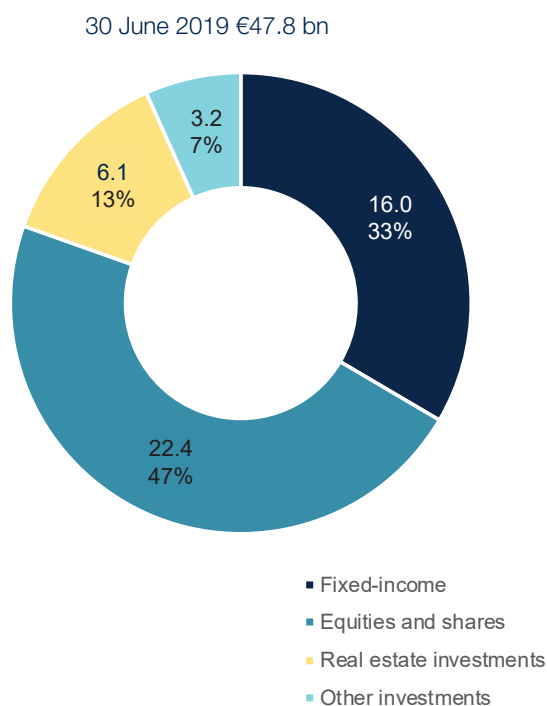
Listed and non-listed equities and shares as well as private equity investments made up 47.0 (42.8) per cent of all investments. Their value at the end of June stood at EUR 22,430 (19,692) million. In the risk breakdown, listed equities and shares accounted for 35.2 (32.5) per cent. Finnish equities made up 29.4 (26.9) per cent of investments in listed equity investments. The return on equity investments, calculated at current value, was 10.9 (2.4) per cent. The return on listed equity investments was 12.7 (1.1) per cent.

Real estate investments at the end of June stood at EUR 6,134 (6,096) million. They accounted for 12.8 (13.2) per cent of all investments, with indirect investments making up 1.2 (1.3) percentage units. The total return on real estate investments was 2.0 (2.9) per cent. The return on direct real estate investments was 1.9 (2.4) per cent.

RETURN ON INVESTMENTS 2011–Q2/2019



BREAKDOWN OF INVESTMENTS



Investments in hedge funds and commodities, and other investments made up 6.7 (6.2) per cent of the market value of the investments at the end of June. Their total return was -0.4 (-4.2) per cent, and their value at the end of June was EUR 3,211 (2,875) million.

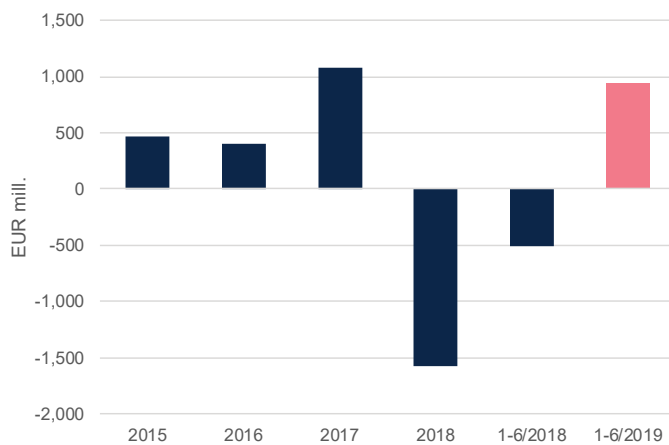
RESULT AND SOLVENCY

Ilmarinen's total financial result at current value in the first half of the year was EUR 931 (-502) million. Investment income at current value was EUR 922 (-523)

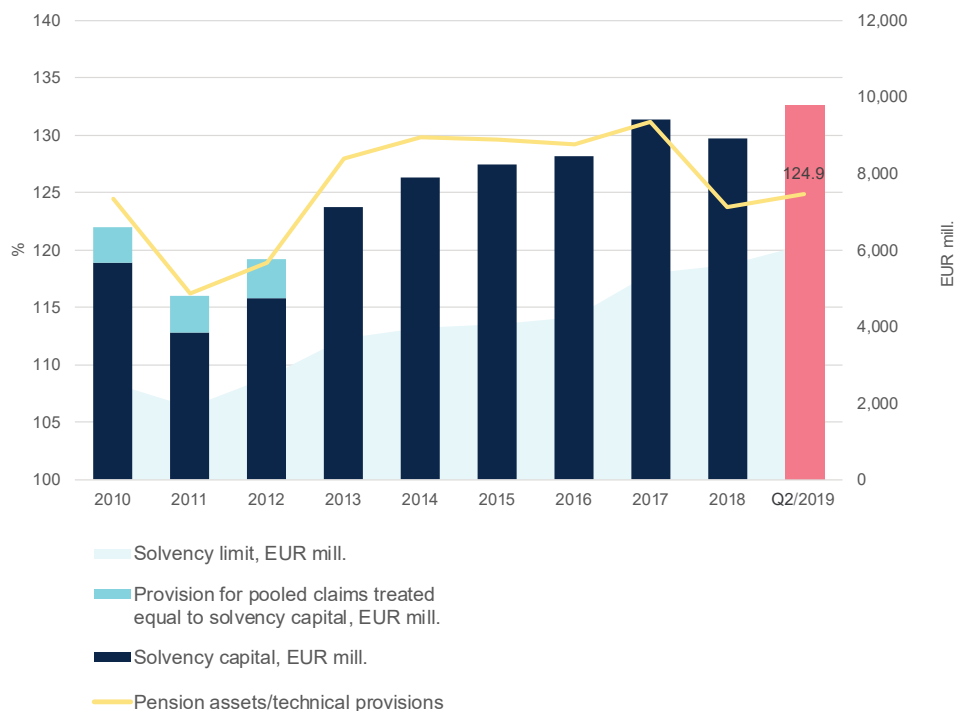
million, the underwriting result was EUR -18 (2) million, and the loading profit was EUR 27 (20) million. The ratio of operating expenses to expense loading components, a measure of cost-effectiveness, improved to 71 (78) per cent in the first half of the year.

Solvency strengthened by 1.2 percentage points compared to the situation at the turn of the year. Solvency capital at the end of June stood at EUR 9,722 (8,918) million. Capital and reserves included in the solvency capital were EUR 179 (174) million, the valuation difference between current and book values was EUR 7,351 (5,751) million, and the provision for future

TOTAL RESULT, EUR mill.



SOLVENCY 2010–Q2/2019



bonuses was EUR 2,291 (3,041) million.

The technical provisions amounted to EUR 42,213 (40,626) million. The EUR 39,219 (37,556) million in solvency technical provisions do not include the provision for future bonuses or the earnings-related pension contributions that remain open receivables in the basic insurance under YEL.

The solvency ratio at the end of June was 124.9 (123.7) per cent. The ratio of solvency capital to the solvency limit was 1.6 (1.6).

PERSONNEL

At the end of June, Ilmarinen had 635 (649) permanent employees. The energy level of Ilmarinen's personnel was monitored more closely in the first quarter through the Työvire pulse survey. According to the survey, the energy level was excellent in the first half of the year (4.0 on a scale of 1–5). Personnel's willingness to recommend their workplace (eNPS) was +10 in the survey carried out in June (on a scale of -100 to +100).

Personnel experienced some uncertainty as a result of the company's reorganisation, which took place during the second quarter of the year. As part of the reorganisation, 70 old jobs were discontinued, but at the same time, roughly 60 new jobs were created and mostly filled from inside the company. The goal is to make Ilmarinen more customer-oriented, operating models more agile and to create a flatter hierarchy, while at the same time enhancing efficiency. The renewed organisation started operations on 1 July.

One important aspect of a good personnel experience is ensuring a balance between work and family life. Personnel gave positive feedback on Ilmarinen's children's play area, where activities were organised for employees' children during the summer school holiday in June.

FUTURE PROSPECTS

Economic growth is expected to continue but slow down in 2019 in both Finland and other industrialised countries compared to 2018. The growth in Finland's employment rate is expected to slow down towards the end of the year. The payroll is expected to develop favourably, which will have a positive impact on pension providers' premiums written in 2019.

Trade and monetary policy news will continue to dominate the discussion on the financial markets. The escalation of the US–China trade war, Brexit, the state of Italy's public finances and the development of the

political situation between the US and Iran create uncertainty, which affects companies' investment appetites and economic growth outlook.

As a consequence of the negative interest rates, investors face a challenging investment environment. Returns offered by different asset classes and the compensation gained from additional risks are at an historically low level. A low-interest-rate environment pushes investments towards riskier and less liquid investment objects, favouring, e.g. the equity and real estate markets. The development of the equity markets is strongly conditional on the central banks' expansionary monetary policies and on companies' earnings growth remaining high.

The key risks affecting Ilmarinen's operations and the earnings-related pension system are related to the development of employment and payroll, uncertainty in the investment market and the development of demographics and the birth rate, which has been exceptionally low in recent years.

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TABLES

KEY FIGURES IN BRIEF	1.1.–30.6.2019	1.1.–30.6.2018	1.1.–31.12.2018
Premiums written, EUR mill.	2,906.7	2,683.0	5,409.9
Net return on investments at fair value, EUR mill.	2,743.7	525.2	-641.6
ROCE, %	6.0	1.1	-1.4
	30.6.2019	30.6.2018	31.12.2018
Technical provisions, EUR mill.	42,212.6	39,998.4	40,625.7
Solvency capital, EUR mill.	9,772.3	9,781.3	8,917.7
in relation to solvency limit	1.6	1.6	1.6
Pension assets, EUR mill. ²⁾	48,991.0	46,489.8	46,473.8
Solvency capital (solvency ratio)	124.9	126.6	123.7
TyEL payroll, EUR mill. ³⁾	22,009.9	20,344.7	20,568.0
YEL payroll, EUR mill. ³⁾	1,947.8	1,649.0	1,682.5

- 1) The ratio was computed as a percentage of the technical provisions used in calculating the solvency limit.
2) Technical provisions + differences between current and book value.
3) Estimated TyEL and YEL payroll for the whole year.

SOLVENCY	30.6.2019	30.6.2018	31.12.2018
Solvency limit	6,117.4	6,189.1	5,592.0
Maximum solvency capital	18,352.2	18,567.2	16,775.9
Solvency capital before equalisation provision	9,772.3	9,781.3	8,917.7
Solvency capital (solvency ratio) % ¹⁾	124.9	126.6	123.7
Solvency position ²⁾	1.6	1.6	1.6

- 1) Pension assets in relation to technical provisions as referred to in Section 11, item 10, of the Ministry of Social Affairs and Health's decree 614/2008.
All years are presented according to the new presentation method
2) Solvency capital in relation to solvency limit

RESULT ANALYSIS, EUR mill.	1.1.–30.6.2019	1.1.–30.6.2018	1.1.–31.12.2018
Source of profit			
Technical underwriting result	-18.1	1.8	-40.5
Return on investments at fair value	921.6	-523.1	-1,592.1
+ Net return on investments at fair value	2,743.7	508.4	-641.6
- Return requirement on technical provision	-1,822.1	-1,031.5	-950.5
Loading profit	27.4	19.7	29.9
Other profit	0.4	-	21.6
Total result	931.2	-501.7	-1,581.0

BREAKDOWN OF INVESTMENTS (CURRENT VALUE)	BASIC BREAKDOWN						RISK BREAKDOWN					
	Q2/2019		Q2/2018		2018		Q2/2019		Q2/2018		2018	
	EUR mill.	%	EUR mill.	%	EUR mill.	%	EUR mill.	%	%	%	%	
Fixed-income investments total	15,982.8	33.5	17,748.7	38.3	17,360.7	13,043.1	27.3	27.1	30.5	30.5		
Loan receivables ¹⁾	896.5	1.9	916.3	2.0	954.0	896.5	1.9	2.0	2.1	2.1		
Bonds	14,062.3	29.4	15,794.5	34.1	14,695.0	7,172.7	15.0	8.6	7.9	7.9		
Other money market instruments and deposits ¹⁾²⁾	1,024.0	2.1	1,038.0	2.2	1,711.7	4,974.0	10.4	16.4	20.5	20.5		
Equities and shares total	22,430.1	47.0	20,242.4	43.7	19,692.1	21,645.3	45.3	44.2	42.7	42.7		
Listed equities and shares ³⁾	17,613.6	36.9	16,185.7	35.0	14,997.4	16,828.8	35.2	35.4	32.5	32.5		
Private equity investments ⁴⁾	3,953.6	8.3	3,315.1	7.2	3,752.3	3,953.6	8.3	7.2	8.2	8.2		
Non-listed equities and shares ⁵⁾	862.9	1.8	741.5	1.6	942.4	862.9	1.8	1.6	2.0	2.0		
Real estate investments total	6,134.2	12.8	5,879.8	12.7	6,096.4	6,151.4	12.9	12.7	13.3	13.3		
Direct real estate investments	5,573.1	11.7	5,279.9	11.4	5,508.0	5,573.1	11.7	11.4	12.0	12.0		
Real estate funds and joint investments	561.2	1.2	599.9	1.3	588.4	578.3	1.2	1.3	1.3	1.3		
Other investments total	3,211.4	6.7	2,415.8	5.2	2,874.8	5,544.2	11.6	16.0	14.0	14.0		
Hedge fund investments ⁶⁾	2,307.4	4.8	1,582.4	3.4	2,000.2	2,307.4	4.8	3.4	4.3	4.3		
Commodity investments	11.3	0.0	-3.7	0.0	20.1	-86.8	-0.2	0.0	0.2	0.2		
Other investments ⁷⁾	892.7	1.9	837.2	1.8	854.6	3,323.7	7.0	12.6	9.4	9.4		
Investments total	47,758.6	100.0	46,286.8	100.0	46,024.0	46,384.1	97.1	100.0	100.4	100.4		
Effect of derivatives						1,374.5	2.9	0.0	-0.4	-0.4		
Investment return at current value total	47,758.6	100.0	46,286.8	100.0	46,024.0	47,758.6	100.0	100.0	100.0	100.0		

The modified duration of bond investments was 1.8 year.

- 1) Includes accrued interest.
- 2) Includes cash at bank and in hand and consideration receivables and debt.
- 3) Also includes mixed funds unless they can be allocated elsewhere.

- 4) Includes private equity funds, mezzanine funds and infrastructure investments.
- 5) Also includes unlisted real estate investment companies.
- 6) Includes all types of hedge fund units regardless of the fund's strategy.
- 7) Includes items that cannot be allocated to other investment classes.

NET ROCE OF INVESTMENTS	NET INVESTMENT RETURN MARKET VALUE ⁸⁾		CAPITAL EMPLOYED ⁹⁾		ROCE, %	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018	30.6.2019	30.6.2018
	EUR mill.	EUR mill.	EUR mill.	EUR mill.	%	%
Fixed-income investments total	452.1	16,365.1	16,365.1	16,365.1	2.8	-0.1
Loan receivables ¹⁾	16.3	935.5	935.5	935.5	1.7	3.4
Bonds	412.9	14,032.9	14,032.9	14,032.9	2.9	-0.3
Other money market instruments and deposits ¹⁾²⁾	22.9	1,396.7	1,396.7	1,396.7	1.6	1.3
Equities and shares total	2,204.1	20,192.5	20,192.5	20,192.5	10.9	2.4
Listed equities and shares ³⁾	1,970.1	15,496.6	15,496.6	15,496.6	12.7	-9.7
Private equity investments ⁴⁾	204.1	3,793.0	3,793.0	3,793.0	5.4	18.0
Non-listed equities and shares ⁵⁾	30.0	903.0	903.0	903.0	3.3	28.8
Real estate investments total	118.1	6,052.5	6,052.5	6,052.5	2.0	6.0
Direct real estate investments	102.7	5,478.3	5,478.3	5,478.3	1.9	5.3
Real estate funds and joint investments	15.4	574.2	574.2	574.2	2.7	11.8
Other investments total	-12.6	3,003.9	3,003.9	3,003.9	-0.4	-10.1
Hedge fund investments ⁶⁾	91.6	2,066.8	2,066.8	2,066.8	4.4	2.9
Commodity investments	6.3	-0.2	-0.2	-0.2	-2,905.5	151.9
Other investments ⁷⁾	-110.5	937.4	937.4	937.4	-11.8	-26.6
Investments total	2,761.7	45,614.0	45,614.0	45,614.0	6.1	-1.3
Unallocated income, costs and operating expenses	-18.0	0.0	0.0	0.0	0.0	0.0
Investment return at current value total	2,743.7	45,614.0	45,614.0	45,614.0	6.0	-1.4

- 1) Includes accrued interest.
- 2) Includes cash at bank and in hand and consideration receivables and debt.
- 3) Also includes mixed funds unless they can be allocated elsewhere.
- 4) Includes private equity funds, mezzanine funds and infrastructure investments.
- 5) Also includes unlisted real estate investment companies.

- 6) Includes all types of hedge fund units regardless of the fund's strategy.
- 7) Includes items that cannot be allocated to other investment classes.
- 8) Change in market value between the beginning and end of the reporting period less cash flows during the period. Cash flow means the difference between purchases/costs and sales/revenues.
- 9) Capital employed = market value at the beginning of the reporting period + daily/monthly time-weighted cash flows.