



ILMARINEN'S INTERIM REPORT

**1 JANUARY TO
30 JUNE 2017**

POSITIVE VIBE IN THE EQUITY MARKETS CONTINUED, STRONG HALF-YEAR FOR ILMARINEN

JANUARY–JUNE FINANCIAL PERFORMANCE IN BRIEF:

- In January–June, the return on Ilmarinen's investment portfolio was 3.8 per cent (-0.6 per cent in Jan–Jun 2016). At the end of June, the market value of investments stood at EUR 38.5 billion (30.6.2016: EUR 35.7 billion).
- The long-term average real return remained at a good level, at 4.2 per cent.
- Solvency continued to strengthen compared to the situation at the turn of the year. At the end of June, solvency capital was EUR 8,949 (7,386) million and the solvency ratio was 130.1 (126.1) per cent.
- Ilmarinen's customer acquisition went well during the year. Measured in premiums written, net customer acquisition was EUR 83 million during the first half of the year.
- Ilmarinen's customers were interested in the new partial early old-age pension: 1,766 decisions were made in the first half of the year.
- In June, Ilmarinen's Board of Directors approved a merger agreement, according to which Etera will merge into Ilmarinen as of 1 January 2018. The arrangement will require approval from both companies' general meetings and from the relevant authorities.

ILMARINEN

REVIEW BY PRESIDENT AND CEO TIMO RITAKALLIO



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“The first half of 2017 was strong in terms of Ilmarinen’s investment returns. The market value of investment assets grew by EUR 1.3 billion and stood at EUR 38.5 billion at the end of June. In the past 12-month period, Ilmarinen’s investments have yielded 9.1 per cent. The good investment result is especially attributed to the favourable development of share prices. Listed equity investments generated the best returns in January–June.

The average annual real return on Ilmarinen’s investments since 1997 is at a good level, at 4.2 per cent. This clearly exceeds the 3.0 per cent return assumption used by the Finnish Centre for Pensions in its calculations. Solvency also remained strong and the solvency ratio, i.e. pension assets in relation to technical provisions, rose to 130.1 per cent.

Along with the pension reform, partial early old-age pension was introduced at the start of the year and raised much interest among Ilmarinen’s customers. During the first half of the year, we made 1,766 decisions concerning partial early old-age pension. The new type of pension brings flexibility to the end of people’s careers, but when considering the options, it’s good to keep in mind that earlier retirement will reduce one’s pension permanently.

Ilmarinen’s customer acquisition showed strong growth in the first half of the year; measured in terms of premiums written, net customer acquisition amounted to EUR 83

million. Together with our customers we developed new services as part of the Wauhdittamo innovation accelerator, which culminated in a final event held in May. The mobile app Parempi vire (‘More energy’) was launched in the spring. It promotes an increase in work ability and well-being, and raised great interest: by the end of June, 550 client companies had ordered the service, and user accounts were activated for more than 20,000 employees. In April, we awarded Finland’s happiest entrepreneur. As part of the Workplace of the Future project, we also surveyed Finnish workplaces’ and employees’ readiness for change.

In investment activities, Ilmarinen’s efforts to take into account the impacts of climate change received international recognition. Ilmarinen received the highest AAA rating in the global climate organisation AODP’s index, which compares the carbon risk management of the world’s largest investors. We were the best Finnish company in the climate index of 500 investors, and came in ninth place overall. The environmental organisation WWF also ranked Ilmarinen and other Finnish pension companies at the top in Europe in terms of how well their investments are aligned with the goals of the Paris climate agreement. In our real estate investments, we broadened the environmental certification of our properties by including old properties. In the first phase, environmental certificate will be sought for the Lepakko building, which serves as Ilmarinen’s head office.

In June, a merger agreement was signed, according to which earnings-related pension insurance company Etera will merge into Ilmarinen as of 1 January 2018. The arrangement will require approval from both companies’ general meetings and from the relevant authorities. The merger will bring synergies and improved cost-effectiveness that will benefit the clients of both companies. By combining the companies’ strengths, the goal is to build an innovative and agile service company that offers even more diverse and higher-quality services than before. In addition, the entire Finnish earnings-related pension system and solvency overall will strengthen. The new company will manage the pension cover of more than 1.1 million Finns – and would thus be the largest earnings-related pension insurer in Finland’s private sector.”

OPERATING ENVIRONMENT

The first half of 2017 was favourable in the equity markets. Share prices rose in all important equity markets as expectations of economic growth and companies' earnings trends took a positive turn. The continuing low interest rate level supported share price performance. Emerging market economies showed the highest rise in share prices, followed by the US, Europe and Japan. The euro strengthened against both the dollar and yen. Thanks to a high supply, the price of oil, which had been rising since the first half of 2016, began to fall in the first half of 2017. There was little fluctuation in the prices of other commodities. The accelerated economic growth of industrial countries and the drop in unemployment have not, however, increased inflationary pressures.

The good earnings development of companies has also increased the air of positivity in the investment markets. The earnings figures reported by companies in key market areas for the first quarter showed not only growth in profitability, but also signs of a pick-up in net sales growth. Confidence in the ability of the new US government to implement market-supporting tax reform and infrastructure investment projects was strong particularly at the start of the year. The outcome of the French presidential election dispelled fears of the spread of populism and strengthened confidence in the future of Europe's common market. Britain's seemingly complicated EU exit did not cause particular restlessness in the markets.

The US central bank raised its key interest rate in the early

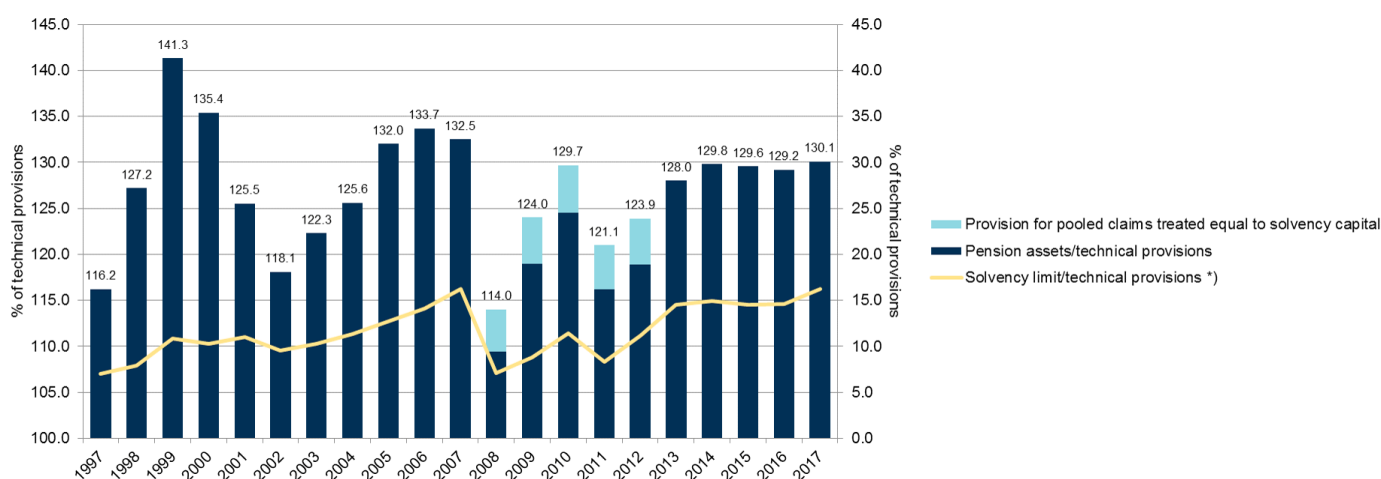
part of the year. The ECB, on the other hand, continued with its expansionary monetary policy measures and kept its key interest rate negative. Despite slightly tighter monetary policy, the interest rate on the ten-year US government bond remained almost the same during the first six months of the year. Interest on the German government bond increased from 0.2 per cent at the start of the year to 0.45 per cent. The rise in long-term interest rates in Europe right at the end of the six-month period caused many government bond indexes to slip into negative territory.

The growth that began in the Finnish economy in 2016 gained momentum in the first six months of 2017, thanks especially to the strong growth in construction and exports. The accelerated growth is also affecting employment, and the number of people working in the private sector is expected to grow compared to the previous year. This is expected to have a positive impact on payroll in the private sector in the current year and thereby also on the premiums written of earnings-related pension insurance companies.

RESULT AND SOLVENCY

Ilmarinen's net return on investments at current value in the first half of the year was EUR 1,405 (-213) million. The total result at current value was EUR 548 (-729) million. The investment result for the first half of the year was EUR 533 (-718) million. The underwriting result was EUR 3 (-26) million and the loading profit EUR 12 (16) million.

Solvency development



Solvency position was 1.9 (2.2).

Pension assets according to the scale on the left and solvency limit according to the scale on the right.

For previous years, the method of presentation for 2017 is applied.

*) The solvency limit changed on 1 January 2017 with the introduction of new legislation. The amount of solvency capital remained almost unchanged, but the principles for calculating the solvency limit changed. Consequently, the ratio of solvency capital to the solvency limit, which illustrates the solvency position, decreased.

Ilmarinen's solvency strengthened compared to the situation at the turn of the year. Solvency capital at the end of the quarter stood at EUR 8,949 (7,386) million. Ilmarinen's equity included in the solvency capital was EUR 106 (102) million, the valuation difference between current and book values was EUR 6,028 (5,488) million, and the provision for future bonuses was EUR 2,848 (916) million.

Ilmarinen's technical provisions amounted to EUR 32,555 (30,204) million. The solvency technical provisions of EUR 29,688 (28,352) million do not include the provision for future bonuses of EUR 2,848 (916) million, or the EUR 19 (19) million in earnings-related pension contributions that remain open receivables in the basic insurance under YEL.

Ilmarinen's solvency ratio on 30 June 2017 was 130.1 (126.1) per cent. As of the start of this year, solvency ratio means pension assets in relation to technical provisions. The previous definition of solvency ratio was solvency capital in relation to technical provisions.

The ratio of solvency capital to the solvency limit was 1.9 (2.2). The solvency limit changed on 1 January 2017 with the introduction of new legislation. The amount of solvency capital remained almost unchanged, but the principles for calculating the solvency limit changed. Consequently, the ratio of solvency capital to the solvency limit, which illustrates the solvency position, decreased. The figure illustrating the solvency position is thus not directly comparable with the figure of the comparison year.

INSURANCE OPERATIONS

Ilmarinen's insurance portfolio grew slightly compared to the end of 2016. As a result of policy transfers between pension companies, Ilmarinen's TyEL insurance portfolio decreased by 46 policies, and the impact of the transferred policies on premiums written was EUR 7 million negative. Ilmarinen's YEL insurance portfolio increased in the policy transfers by 324 policies and premiums written grew EUR 23 million. At the end of June, Ilmarinen managed 62,149 (61,558) self-employed persons' pension insurance policies and 38,519 (38,013) earnings-related pension policies taken out by employers.

At the end of June, 475,000 (473,200) insured employees were covered by Ilmarinen's TyEL insurance, which is some 0.4 per cent more than a year ago. The TyEL payroll insured at Ilmarinen is estimated to be EUR 16.7 billion in 2017 (final TyEL payroll in 2016: EUR 16.6 billion). Premiums written are expected to grow slightly in 2017 compared to 2016.

At the end of June, Ilmarinen had altogether 332,765 (324,857) pensioners, to whom a total of EUR 2,306 (2,263) million was paid in benefits since the start of the year. New old-age pension decisions were made to the tune of 6,191 (5,978), and 1,766 new partial early old-age pensions were granted. This is clearly more than the number of part-time pensions that were granted in 2016. The processing times of pension decisions were shortened compared to the situation at the end of last year.

Ilmarinen's asset allocation and return

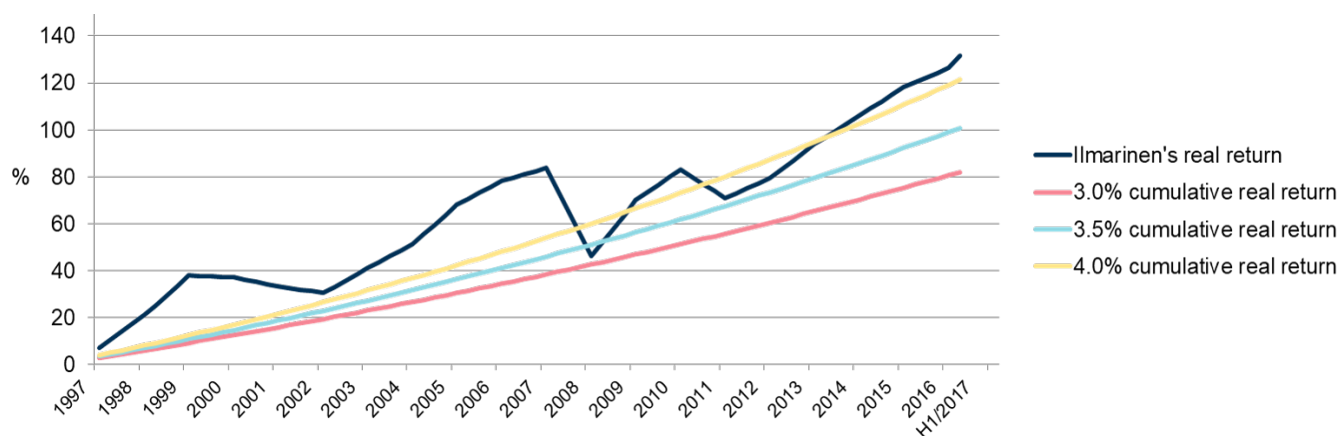
	Basic breakdown		Risk breakdown		Return		Volatility
	eur mill.	%	eur mill.	%	%		
Fixed-income investments	15,606.9	40.5	10,200.1	26.5	1.0		
Loan receivables	898.7	2.3	898.7	2.3	1.7		
Bonds	13,407.1	34.8	6,069.0	15.8	1.0		1.6
Public corporation bonds	4,094.3	10.6	3,477.4	9.0	0.2		
Other bonds	9,312.8	24.2	2,591.6	6.7	1.4		
Other money market instruments and deposits (incl. investment receivables and payables)	1,301.1	3.4	3,232.3	8.4	0.4		
Equities and shares	16,696.7	43.4	16,587.0	43.1	8.0		
Listed equities and shares	13,336.8	34.6	13,227.1	34.3	8.3		13.0
Private equity investments	2,392.9	6.2	2,392.9	6.2	6.9		
Non-listed equities and shares	967.0	2.5	967.0	2.5	5.7		
Real estate investments	4,384.7	11.4	4,384.7	11.4	1.6		
Real estate investments	3,954.3	10.3	3,954.3	10.3	1.3		
Real estate funds and joint investments	430.4	1.1	430.4	1.1	4.5		
Other	1,818.9	4.7	6,661.6	17.3	-2.9		
Hedge fund investments	774.7	2.0	774.7	2.0	-1.8		5.6
Commodity investments	7.2	0.0	93.6	0.2	-		
Other investments	1,037.0	2.7	5,793.4	15.0	-2.3		
Investments total	38,507.2	100.0	37,833.4	98.3	3.8		4.5
Effect of derivatives			673.8	1.7			
Investments at current value	38,507.2		38,507.2	100.0			

The modified duration of bond investments is 0.3 years

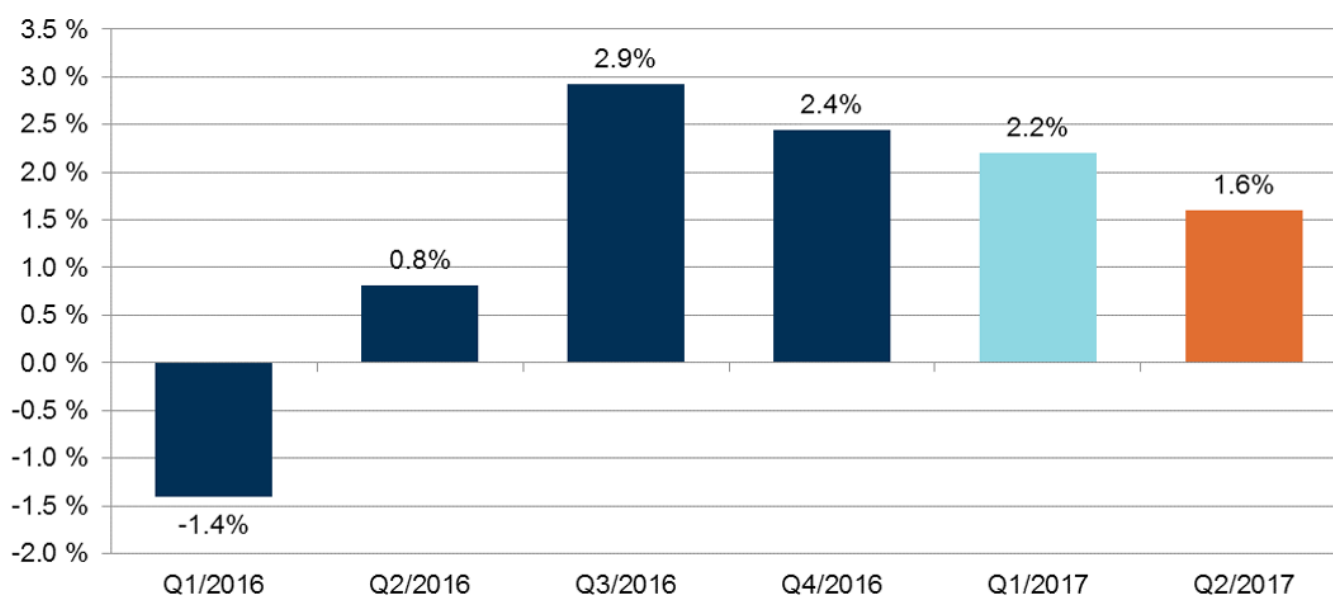
The open currency position is 22.7% of the market value of the investments.

The total return percentage includes income, expenses and operating expenses not allocated to any investment types

Cumulative net return on investments 1997–30.6.2017



Quarterly investments returns Q1/2016–Q2/2017



RETURN ON INVESTMENTS

At the end of the first half of 2017, Ilmarinen's total investments at current value were EUR 38,507 million (30.6.2016: EUR 35,744 million). The return on investments at current value was 3.8 (-0.6) per cent. The change in the consumer price index during the first half of the year was 0.1 per cent, and the real return on Ilmarinen's investments in January–June was 3.7 per cent. Calculated from 1997, the average annual return at current value on Ilmarinen's investments has been 5.9 per cent per annum. This corresponds to an annual real return of 4.2 per cent.

Fixed income investments accounted for a total of 40.5 (44.7) per cent of the investment portfolio and their return at current value was 1.0 (0.3) per cent. Their total market value was EUR 15,607 (15,995) million. Bonds accounted for a total of 34.8 (40.6) per cent of Ilmarinen's investment assets and their return was 1.0 (0.0) per cent. Other money market instruments and deposits totalled EUR 1,301 (280) million and accounted for 3.4 (0.8) per cent of the investment assets. Loan receivables made up 2.3 (3.3) per cent of the investment assets, with a return of 1.7 (1.9) per cent. The modified duration of bonds was 0.3 (0.9) years.

Listed and non-listed equities and shares as well as private equity investments made up 43.4 (38.6) per cent of all investments. Their value at the end of the six-month period stood at EUR 16,697 (13,807) million. In the risk breakdown, listed equities and shares accounted for 34.3 (25.6) per cent. Finnish equities made up 25.5 (26.2) per cent of investments in listed equities and shares. The return on equities and shares, calculated at current value, was 8.0 (-3.6) per cent. The return on listed equities and shares was 8.3 (-5.8) per cent.

Real estate investments at the end of the quarter stood at EUR 4,385 (4,043) million. They accounted for 11.4 (11.3) per cent of all investments, of which indirect investments made up 1.1 (1.4) percentage units. The total return on the real estate investments was 1.6 (1.7) per cent. The return on direct real estate investments was 1.3 (1.8) per cent.

Investments in absolute-return funds and commodities, and other investments made up 4.7 (5.3) per cent of the market value of the investments at the end of the quarter. Absolute-return funds amounted to EUR 775 (811) million and yielded a return of -1.8 (-1.3) per cent on capital employed.

OPERATING EXPENSES AND PERSONNEL

Ilmarinen's total operating expenses for the first half of the year amounted to EUR 76 (78) million. The operating expenses covered by the expense loading component included in the earnings-related pension contribution stood at EUR 55 (56) million. Loading profit, in other words the difference between the expense loading and the costs covered by it, amounted to EUR 12 (16) million. The expense loading component included in insurance contributions received by pension insurance companies was lowered at the start of 2017 by roughly 7 per cent compared to the previous year, as a consequence of which the loading profit for 2017 will be lower than it was the previous year, and the ratio of operating expenses to the expense loading components for 2017 will not be directly comparable with the figures of previous years. In addition, as of 2017, the loading profit can be refunded in full to customers as client bonuses, whereas before only half of the loading profit could be transferred to client bonuses.

The operating expense ratio, which measures the operational efficiency of Ilmarinen's activities, is expected to be around 81 per cent (75 per cent) this year, which corresponds to 75 per cent according to the old operating expense basis. The loading profit for the full year is expected to be approximately EUR 26 million (EUR 36 million in 2016).

The average number of employees working at Ilmarinen between January and June was 542 (532), measured in person years. The number of permanent employees fell slightly during the year, while the number of fixed-term employees grew.

OUTLOOK

In determining the investment outlook for the rest of the year, decisive factors are the growth rate of the global economy, combined with the development of inflation and the interest rate level. The continued rise in share prices will require earnings growth from companies and a sustained low interest rate level. The high level of share prices and the pressure to raise the historically low interest rate level increase the uncertainty in the market outlook. This environment emphasises the importance of strong solvency for earnings-related pension companies.

The strengthening of Finland's economy creates conditions for accelerated growth in payroll and thus also for Ilmarinen's premium income following several years of slow growth.

Ilmarinen's Board of Directors accepted a plan at the end of June to merge Etera with Ilmarinen. The implementation of the arrangement will require approval from both companies' general meetings and from the relevant authorities. The targeted starting date of the merger is 1 January 2018.

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