ILMARINEN'S INTERIM REPORT

1 JANUARY–30 JUNE 2018

RETURN ON INVESTMENTS 1.1%, INTEGRATION PROCEEDED AS PLANNED

JANUARY–JUNE FINANCIAL PERFORMANCE IN BRIEF:

- In January–June, the return on Ilmarinen's investment portfolio was 1.1 per cent (3.8 per cent 1 Jan–1 Jun 2017). At the end of June, the market value of investments stood at EUR 46.3 billion (30 Jun 2017: EUR 38.5 billion). In the long term, investments have yielded an average annual real return of 4.2 per cent.

- Solvency weakened slightly during the first half of the year but remained good. At the end of June, solvency capital was EUR 9,781 (8,949) million and the solvency ratio was 126.6 (130.1) per cent.

- Premiums written for H1 stood at EUR 2.7 billion. Measured in premiums written, net customer acquisition was EUR 44 million during the first half of the year. Pensions were paid in a total amount of EUR 2.8 billion to 470,000 pension recipients.

- The implementation of the integration proceeded as planned and, based on the first six months, it appears that the synergy targets will be reached. Pension insurance company Etera merged with Ilmarinen as of 1 January 2018.

The 2017 comparison figures presented in the report are Ilmarinen's figures from before the merger with Etera.

ILMARINEN

PRESIDENT AND CEO STEFAN BJÖRKMAN:

"Fears of a trade war and other political risks shook the markets during the first half of the year. In the second quarter, investment returns became positive and during the whole of H1, investments returned 1.1 per cent. The best returns came from non-listed equity investments. The full equity portfolio returned 2.4 per cent and real estate investments 2.9 per cent. The return on fixed income investments fell to a negative –0.1 per cent. The long-term average real annual return was 4.2 per cent, which clearly exceeds the 3.0 per cent return assumption used by the Finnish Centre for Pensions in its calculations. The solvency ratio weakened slightly during the first half of the year but remained good at 126.6 per cent.

Premiums written for H1 stood at EUR 2.7 billion. Measured in premiums written, net customer acquisition was EUR 44 million during the first half of the year. At the end of June, the number of pension recipients came to almost 470,000 and we paid a total of EUR 2.8 billion in pensions in the first part of the year. OP Financial Group announced in June that OP-Eläkekassa, which manages the Group personnel's statutory pension insurance, has decided to begin negotiations to transfer some EUR 1,100 million in pension liability to Ilmarinen. The decision was preceded by competitive bidding. The final decision will be made during the summer, after which the transfer will require official approval.

Customer satisfaction in Ilmarinen's work capacity services is extremely high, with nine out of ten people saying they would recommend our services. We launched the new 'Energy in the work community' (Työyhteisövire) study that provides a comprehensive overview of the work community's strengths and improvement areas. The first Masters in Work Capacity trained by Ilmarinen graduated in April. The Master in Work Capacity training programme is designed for experts responsible for our customer companies' work capacity management models and their development. The training programme has been extremely popular and upcoming programmes are already fully booked.

Ilmarinen received global recognition for its promotion of responsible investment. Our Sustainability Report came second in the competition organised by the international publication Responsible Investor, which included 2,500 responsible investment reports from around the world. In addition, the AODP climate organisation's Winning Climate Strategies report highlighted Ilmarinen as a best practice example of taking climate issues into account in investment operations.

The implementation of the merger of Ilmarinen and Etera, which took place at the start of the year, moved ahead according to plan. The new organisation was launched on 1 March and the personnel arrangements related to the reorganisation were carried out mainly in the spring. For customers, the changes made in Q2 are visible as unified services. The web service for private customers and the customer service hours were unified in May. We now process new pension applications through a single IT system. The integration of IT systems will continue in stages during the remainder of this year and next year, while we also prepare for the introduction of the national incomes register. The finalisation of the integration still requires plenty of work, but will significantly increase the effectiveness of the operations.

The first half of the year has shown that the synergy benefits targeted through the integration are coming to fruition. Our objective is to annually save at least EUR 20 million in total expense loading and EUR 20 million in investment operation costs, beginning in 2020. Improving cost-effectiveness will materialise in the future as better client bonuses.

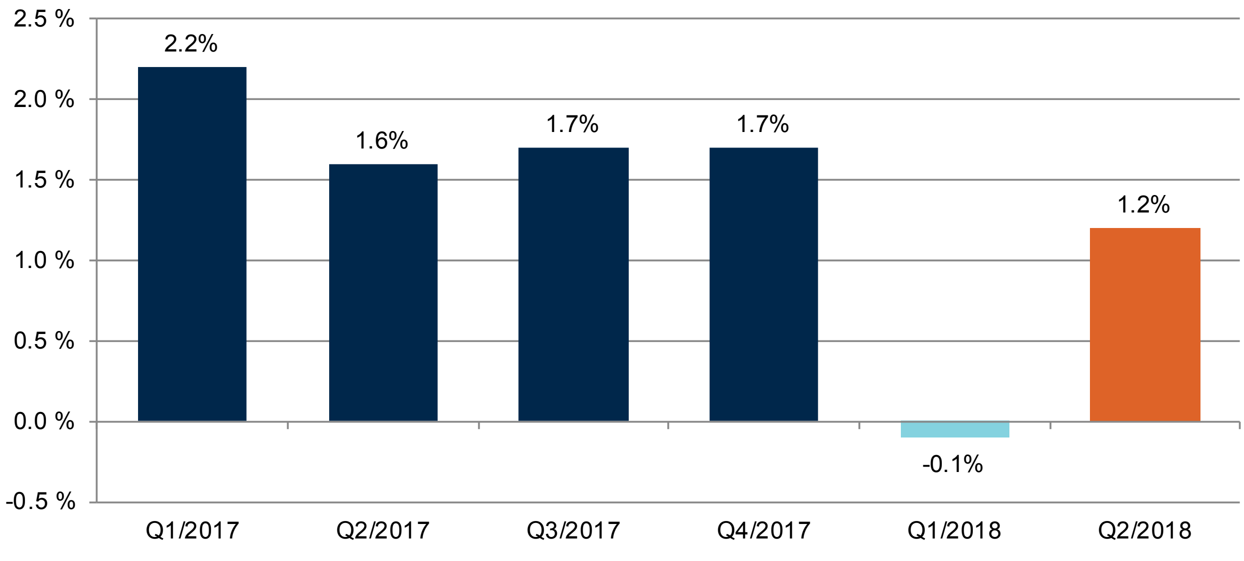
The role of President and CEO of Ilmarinen will transfer to Jouko Pölönen on 1 August 2018. My term as acting President and CEO is ending and I will take on a new position as head of Konstsamfundet during the autumn. I wish to extend a warm thank you to Ilmarinen's customers, personnel, administration and other partners for their invaluable co-operation. It has been a joy to help build Finland's leading pension company and I believe that Ilmarinen will continue its strong development."

Ilmarinen’s asset allocation and return

	Basic breakdown EUR mill.	%	Risk breakdown EUR mill.	%	Return %	Volatility
Fixed-income investments	**17,748.7**	**38.3**	**12,522.1**	**27.1**	**–0.1**	
Loan receivables	916.3	2.0	916.3	2.0	1.7	
Bonds	15,794.5	34.1	3,992.8	8.6	–0.2	1.5
Public corporation bonds	5,876.7	12.7	3,792.9	8.2	–1.6	
Other bonds	9,917.8	21.4	199.9	0.4	0.6	
Other money market instruments and deposits (incl. investment receivables and payables)	1,038.0	2.2	7,613.1	16.4	0.1	
Equities and shares	**20,242.4**	**43.7**	**20,455.0**	**44.2**	**2.4**	
Listed equities and shares	16,185.7	35.0	16,398.3	35.4	1.1	6.2
Private equity investments	3,315.1	7.2	3,315.1	7.2	7.0	
Non-listed equities and shares	741.5	1.6	741.5	1.6	8.1	
Real estate investments	**5,879.8**	**12.7**	**5,896.7**	**12.7**	**2.9**	
Real estate investments	5,279.9	11.4	5,279.7	11.4	2.4	
Real estate funds and joint investments	599.9	1.3	617.0	1.3	7.0	
Other	**2,415.8**	**5.2**	**7,418.8**	**16.0**	**–4.2**	
Hedge fund investments	1,582.4	3.4	1,582.4	3.4	2.9	4.3
Commodity investments	–3.7	0.0	–13.8	0.0	–	
Other investments	837.2	1.8	5,850.2	12.6	–13.9	
Investments total	**46,286.8**	**100.0**	**46,292.7**	**100.0**	**1.1**	**2.2**
Effect of derivatives			–6.0	0.0		
Investments at current value	**46,286.8**		**46,286.8**	**100.0**		

The modified duration of bond investments is 0.7 years.
The open currency position is 23.5% of the market value of the investments. The total return percentage includes income, expenses and operating expenses not allocated to any investment types.

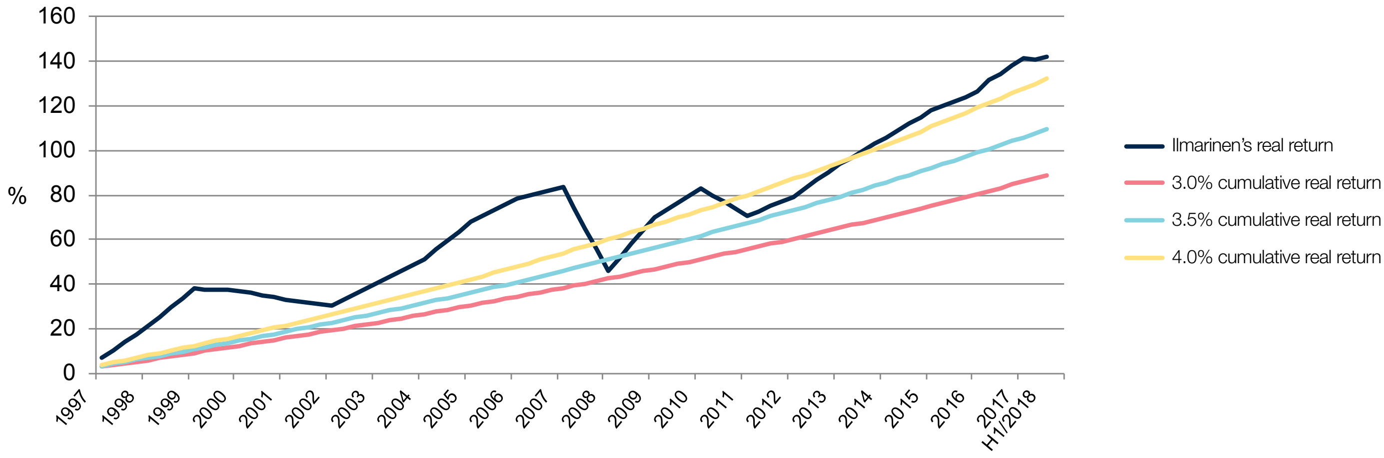
Quarterly investments returns Q1/2016–Q2/2018



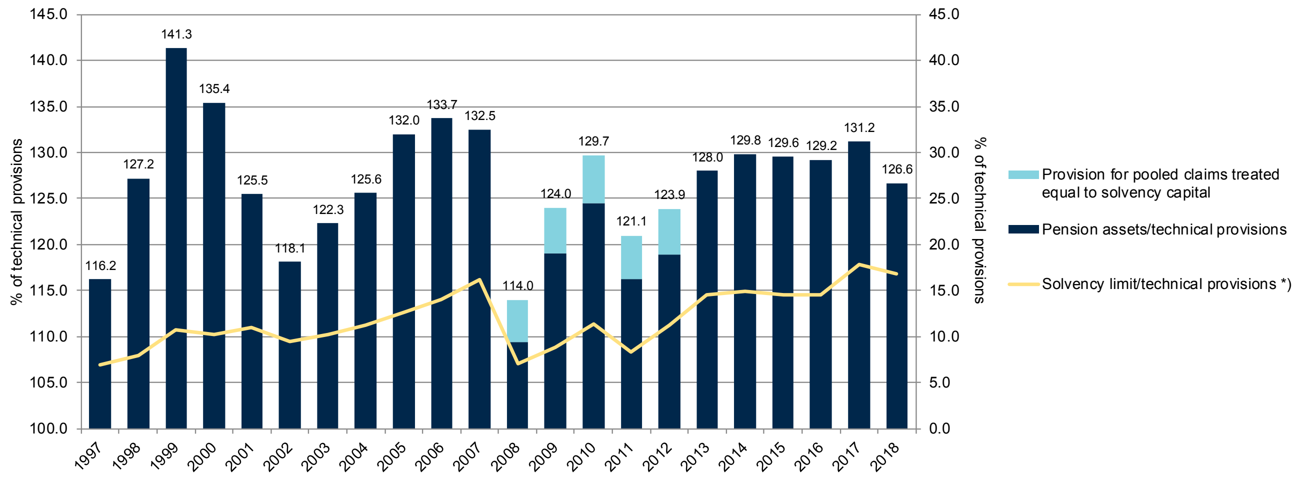
OPERATING ENVIRONMENT AND INVESTMENT MARKET

Indicators measuring economic forecasts fell from their peaks during the second quarter but the growth outlook appears to be positive from the perspective of economic fundamentals. Unemployment fell globally, companies’ earnings performance is strong and the inflation outlook remains stable, which enables a very gradual normalisation of central banks’ monetary policies. Political risks shook the markets dramatically in the second quarter: an escalating trade war and increase in trade barriers, fears linked to the formation of the new Italian government and the expansivity of its financial policy and uncertainty related to the unity of the EU caused significant volatility on the

Cumulative net return on investments 1997–30 June 2018



Solvency development



Solvency position was 1.6 (1.9).
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.

markets. Also in several developed economies, market movements were triggered by political events.

The equity markets developed well in the US where the threat of a trade war was counterbalanced by rising stock prices resulting from deregulation, the tax reform and investments in the energy sector. The US dollar appreciated significantly starting from the end of April, depressing emerging market fixed income and equity investments. Finland's equity market continued to yield well. The fixed income markets experienced major movements in the interest rates of government bonds in Italy, where the process of forming a government and especially the future path of the financial policy shocked the markets. For example, the interest rate on Italy's two-year government bond rose by as much as three per cent in May. Also the credit risk premiums on corporate bonds rose during the quarter.

RESULT AND SOLVENCY

Ilmarinen's net return on investments at current value in the first half of the year was EUR 508 (1,405) million.

Ilmarinen's solvency ratio on 30 June 2018 was 126.6 (130.1) per cent. The ratio of solvency capital to the solvency limit was 1.6 (1.9).

Solvency capital at the end of the quarter stood at EUR 9,781 (8,949) million. Ilmarinen's equity included in the solvency capital was EUR 173 (106) million, the valuation difference between current and book values was EUR 6,765 (6,028) million, and the provision for future bonuses was EUR 2,899 (2,848) million.

Ilmarinen's technical provisions amounted to EUR 39,635 (32,555) million. The EUR 36,708 (29,688) million in solvency technical provisions do not include the provision for future bonuses or the EUR 27 (19) million in earnings-related pension contributions that remain open receivables in the basic insurance under YEL.

The investment result, where the return requirement on technical provisions has been deducted from the net return, was EUR –523 (533) million in H1. The underwriting result was EUR 2 (3) million and the loading profit EUR 20 (12) million. The total result at current value came to EUR –502 (548) million.

INSURANCE OPERATIONS

Ilmarinen's insurance portfolio grew significantly compared to the end of 2017 thanks to the merger. At the end of June, Ilmarinen managed 73,497 (62,149) self-employed persons' pension insurance policies and 71,967 (38,519) earnings-related pension policies taken out by employers. As a result of policy transfers between pension companies, Ilmarinen's TyEL insurance portfolio decreased by 418 policies, and the impact of the transferred policies on premiums written was EUR 30 million negative. As a result of policy transfers, Ilmarinen's YEL insurance portfolio decreased by 474 policies and premiums written by EUR 2 million.

In 2018, 616,000 (503,800) insured employees are estimated to be covered by Ilmarinen's TyEL insurance, which is some 22 per cent more than in 2017. The TyEL payroll insured at Ilmarinen is estimated to be EUR 20.3 billion in 2018 (final TyEL payroll in 2017: EUR 16.7 billion). Premiums written are estimated to increase 24 per cent from 2017.

At the end of June, Ilmarinen had altogether 467,482 (332,765) pensioners, to whom a total of EUR 2.8 (2.3) billion was paid in benefits since the start of the year. In 2018, the amount of new pension decisions is forecast to rise by 16 per cent from 2017, with an estimated 12,970 (12,393) new pension decisions.

RETURN ON INVESTMENTS

At the end of the first half of 2018, Ilmarinen's total investments at current value were EUR 46,287 million (30.6.2017: EUR 38,507 million).

In H1, the return on investments at current value was (1.1) 3.8 per cent. The change in the consumer price index during the first half of the year was 0.8 per cent, and the real return on Ilmarinen's investments in January–June was 0.3 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 4.2 per cent.

Fixed income investments accounted for a total of 38.3 (40.5) per cent of the investment portfolio and their return at current value was –0.1 (1.0) per cent. Their market value was EUR 17,749 (15,607) million in all. Bonds accounted for a total of 34.1 (34.8) per cent of Ilmarinen's investment assets and their return was –0.2 (1.0) per cent. Other money market instruments and deposits totalled EUR 1,038 (1,301) million and accounted for 2.2 (3.4) per cent of the investment assets. Loan receivables made up 2.0 (2.3) per cent of the investment assets, with a return of 1.7 (1.7) per cent. The modified duration of bonds was 0.7 (0.3) years.

Listed and non-listed equities and shares as well as private equity investments made up 43.7 (43.4) per cent of all investments.

Their value at the end of H1 stood at EUR 20,242 (16,697) million. In the risk breakdown, listed equities and shares accounted for 35.0 (34.6) per cent. Finnish equities made up 27.2 (25.5) per cent of investments in listed equities and shares. The return on equity investments, calculated at current value, was 2.4 (8.0) per cent. Return on listed equity investments was 1.1 (8.3) per cent.

Real estate investments at the end of the quarter stood at EUR 5,880 (4,385) million. They accounted for 12.7 (11.4) per cent of all investments, of which indirect investments made up 1.3 (1.1) percentage units. The total return on real estate investments was 2.9 (1.6) per cent. The return on direct real estate investments was 2.4 (1.3) per cent.

Investments in absolute-return funds and commodities, and other investments made up 5.2 (4.7) per cent of the market value of the investments at the end of the quarter. Absolute-return funds amounted to EUR 1,582 (775) million and yielded a return of 2.9 (–1.8) per cent on capital employed.

OPERATING EXPENSES AND PERSONNEL

Ilmarinen's total operating expenses for the first half of the year amounted to EUR 96 (76) million. The operating expenses covered by the expense loading component included in the earnings-related pension contribution stood at EUR 70 (55) million. Loading profit, in other words the difference between the expense loading and the costs covered by it, amounted to EUR 20 (12) million.

The operating expense ratio which measures the operational efficiency of Ilmarinen's activities is expected to be at around 78 per cent (81 per cent) this year. The loading profit for the full year is expected to be approximately EUR 39 million (EUR 25 million in 2017).

The implementation of the integration proceeded as planned and, based on the first six months, it appears that the synergy targets will be reached.

Our objective is to annually save at least EUR 20 million in total expense loading and EUR 20 million in investment operation costs, beginning in 2020. Improving cost-effectiveness will materialise in the future as better client bonuses.

The average number of employees working at Ilmarinen between January and June was 701 (542), measured in person years.

OUTLOOK

When studying the investment outlook in the short term, the ongoing Q2 earning season and the discussion around the trade restrictions threatening global trade and their further tightening are taking centre stage in the markets. Due to valuation levels, the ability of the equity market to withstand negative surprises is weak. In the longer term, the positive economic and earnings development is largely dependent on the speed of normalisation of the central banks' monetary policies. The gradual escalation of inflation enables a slow normalisation of monetary policy: according to its current guidance, the European Central Bank will raise its key interest rate for the first time late in the summer of 2019.

According to forecasts, the Finnish economy will continue to grow and employment rates will rise, which will also improve the prospects of growth in premiums written. However, growth is expected to slow down next year when the strongest growth period in exports, investments and housing construction is over.

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