



TAKING CARE OF YOUR PENSION

ILMARINEN'S ANNUAL AND SUSTAINABILITY REPORT 2019

ILMARINEN

TAKING CARE OF YOUR PENSION 2019



Taking care of your income together. 3

The first section sheds light on why the birth rate is so important for your pension. Here you can also find our President and CEO's review and information on how efficiently we managed your pension cover.



When I grow up and go to work, I want to do something important. . . 8

This section provides you with information on how and when you start accruing your pension in gainful employment and how responsibility for the pension is divided between the employee and the employer. In addition, you will find a brief review of how we ensure that your information remains safe with us.



Dare to employ yourself – we have your back. 13

In this section, you can read about a self-employed person's pension cover. A self-employed person's pension insurance is much more than just a pension. You can find important information on how the pension contributions that you pay as an entrepreneur affect the level of your earnings-related social security. Also featured is the Happiest Entrepreneur of Finland.



We provide security in life's unexpected situations 17

The fourth section presents the security that earnings-related pension insurance provides you with during your career. We take a closer look into the reasons why it is worthwhile to maintain work ability already before it starts to decline. We reflect on the consequences of neglecting the maintenance of work ability for individuals and society as a whole.



When I grow up, I'll be a pensioner. 21

This section is the culmination of the story – the pension you receive for the work you have performed. You will also find information on today's pensioners: what their income level is and where they live.



We invest sustainably – to safeguard current and future pensions . . 26

This section is dedicated to future generations: how we secure the pensions of future generations by investing our shared pension assets productively, securely and responsibly. Furthermore, we reflect on how responsible investment is so essential in investing pension assets.



We work for you – to secure your pension 47

The last section gives you a picture of how we manage your pension cover and what kind of information we disclose concerning our work. We hope that open discussion about the goals of our work will continue at the latest once you have read this section.

Ilmarinen's GRI index. 55

The last section is a more detailed list of contents. The index helps to find information related to the GRI Standards reporting framework used for this report. You may also find **Independent Assurance Report** here.



TAKING CARE OF YOUR INCOME TOGETHER

In 2019, Finland registered the lowest number of births in the country's history. The birth rate has been declining over the decades, but many projections have been revised due to its accelerating pace.

The small age groups affect a number of areas. How many children will need daycare and schools? Will the birth rate decline at the same pace throughout Finland and which areas will see their population decrease fastest? And how much will each generation have to pay to finance pensions?

From the viewpoint of a new-born child, retirement may seem far away. However, pension system specialists today are focussing on children: how many were born and how many will be born in the coming decades? It all comes down to who will pay our future pensions.

THE PENSION SYSTEM NEEDS GENERATIONAL CONTINUITY

Smaller age groups and extended longevity mean that, in the future, an increasing proportion of the population will be pensioners. Society's old-age dependency will change, with the declining birth rate accelerating the reduction in the number of working-age people already in the 2040s, a decade during which those born in 2019 will largely complete their studies and enter working life.

Each and every person working in Finland has access to the statutory earnings-related pension system. Every working person accrues their pension through the pension contribution collected from their wages or salaries or, in the case of entrepreneurs, from their confirmed income. Part of the pension contribution is funded for the payment of current and future pensions.

Funding was started back in the 1960s when pension system special-

ists first were alarmed by the declining birth rate. The increasing standard of living and developing social security system meant that children's role in providing security for old age grew smaller and smaller. This, however, concerns children when they are seen from a narrow individual perspective.

The birth rate plays a role because, in the Finnish earnings-related pension system, pensions are mainly paid with pension contributions that are collected directly from persons who are working. This is called a pay-as-you-go system. People who were working in 2019 paid, through their pension contributions, the pensions of those who were pensioners in 2019. Because the amount of pension contributions collected was smaller than the amount of pensions paid, the payment of pensions additionally required using pension fund returns. Fund returns have been used to cover the difference since 2012.

Along with the development of em-

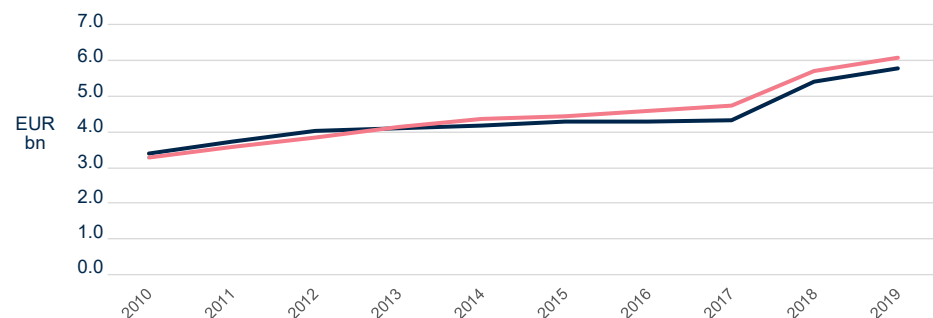
ployment and salaries, the birth rate is one of the most important factors in determining how much money will be available for the payment of pensions in future. Another parameter related to the development of the population size is immigration. For the time being, Finland's population is growing thanks to immigration, but the nation must compete for competent workforce with many other countries in the same situation. In its population projection, Statistics Finland estimates net immigration at only 15,000 persons a year. From the perspective of a person born in Finland in 2019, we should hope that we will succeed in making Finland a more attractive country to study and work.

At the same time, the Finnish

Government is struggling to meet its 75 per cent employment rate target. The target would entail 60,000 new employed people by 2023. In the long run, the employment target should be raised even further, with an increasing proportion of Finns being pensioners. This is the result of a low birth rate and an extending life expectancy.

The earnings-related pension system is under pressure to change; especially the dramatic decline in the birth rate and the resulting population projection update have changed the long-term outlook for pension financing. An exceptionally large number of extensive studies are underway to serve as a basis for developing the pension system.

ILMARINEN'S INSURANCE CONTRIBUTIONS AND PENSIONS PAID



PENSION COVER FOR YOU

We make sure that you will receive the pension you have earned through your work.

As an employment pension insurance company, Ilmarinen is part of Finland's social security system. We offer statutory and mandatory employees' pension insurance and self-employed persons' pension insurance for those who work in Finland. The target of earnings-related pension is to guarantee basic security in all life situations. (GRI 102-2, 102-4, 102-6)

We are responsible for the pension cover of close to 1.2 million people. The legal form of our company is a mutual employment pension insurance company. It means that Ilmarinen is wholly owned by the employers and self-employed persons who have taken out insurance and the insured employees. As part of managing statutory earnings-related pension insurance, we also offer vocational rehabilitation. (GRI 102-5)

To secure the financing of current and future pensions, we invest our shared investment assets amounting to approximately EUR 50.5 billion. The investments have been diversified, for example, across equities and bonds throughout the world. As part of its investment operations, Ilmarinen develops and rents apartments and office premises. In addition, Ilmarinen's investment activities include, among things, providing corporate financing through loans. (GRI 102-2)

PRESIDENT AND CEO'S REVIEW

From Ilmarinen's and our customers' perspective, 2019 was an excellent year. We updated our strategy, renewed our organisation and enhanced our operations. Reporting of payroll information transferred to the national Incomes Register. The decade's best investment return strengthened our solvency. The value of the pension assets that we invest to safeguard current and future pensions grew to EUR 50.5 billion. Cost effectiveness and the good investment result raised client bonuses to a record EUR 164 million.

We work for the success of our society and by achieving good results we also provide security in the coming years and decades. Pension cover is a matter that concerns us all.

Our customers' success is important to us too. Employment and economic growth have an impact on investment returns and paid wages. The development of the payroll is directly reflected in the pension contributions that we collect to finance pensions.

Employment will be one of the most important challenges in the next few years. New jobs must be created in Finland and more employment opportunities must be provided for the unemployed. At the same time, efforts must be made to ensure that current employees continue working and retain their ability to work as long as possible. People must have the possibility to extend their careers at the beginning, in the middle and at the end.



” We simply cannot afford to let 20,000 people leave working life prematurely due to disability every year.

It is very worrying that disability has begun to rise in the last two years after a long period of favourable development. Simultaneously, the more specific guidelines issued by the authority that supervises pension companies restrict the allocation of resources to the prevention of disability. The sums spent on work ability activities are, already now, marginal compared to the cost of disability.

It is precisely in the area of prevention that prompt action must be taken, as this is where the biggest benefits can be achieved. Each disability pension prevented is not only important on a human level, but it also saves our common assets. In Finland, approximately EUR 2.5 billion is

paid in disability pensions every year. Ilmarinen alone paid close to EUR 500 million in disability pensions in 2019.

If the level of disability pensions remains unchanged in the next few years, a total of 80,000 working-age people will leave the labour market prematurely during the current government term. By way of comparison, the total workforce should increase by 60,000 new employees in order to reach the 75-per-cent employment rate target. Tens of thousands of new employed people will thus be required just to make up for those that retire on disability pension. Without major efforts targeted at maintaining work ability and renewing competence, this equation seems impossible to solve. We

simply cannot afford to let 20,000 people leave working life prematurely due to disability every year.

In the longer term, the declining birth rate will accelerate the reduction in the number of working-age people already in the 2040s. Going forward, there will be fewer and fewer payers of pension contributions. If the current development continues, there will be significant pressure to raise pension contributions in the 2050s. We should not just sit and wait for all this to happen; we can influence the development already now. We can focus on family policy, work-based immigration, renewal of competence, employment and work ability.

In early 2020, the coronavirus has emerged as a new global concern. The virus pandemic challenges the whole of society and is pushing economies into a recession, but hopefully its impacts will be temporary. In emergency situations, the top priority is to safeguard health, safety and the continuity of income while securing workplaces. The solvency of pension companies creates a buffer against market volatility and enables long-term investing.

Work continues, and success through teamwork will bring us the best results. Earnings-related pension insurance will safeguard your income once you retire and bring security in life's twists and turns. When your pension insurance is with Ilmarinen, you are our customer and owner. We are there for you.

Jouko Pölönen

Ilmarinen's President and CEO

GRI 102-14

ILMARINEN'S SOCIAL INCOME DISTRIBUTION CALCULATION

GRI 201-1 & 203-2 & 102-7

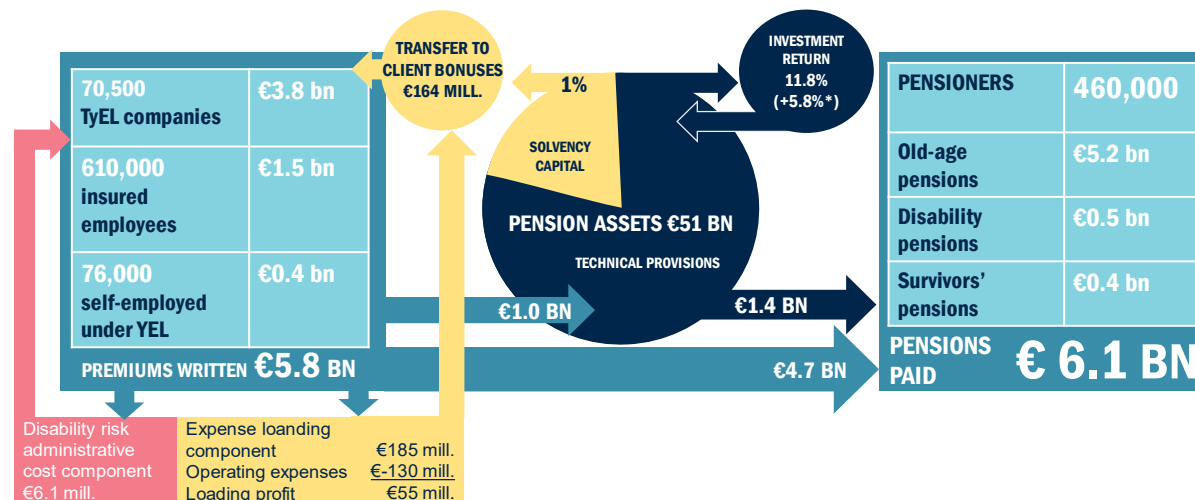
Social income distribution calculation, EUR million

Income information

	2019	2018
Premiums written	5,758.3	5,409.9
TyEL, employer's contribution	3,821.1	3,655.8
TyEL, employee's contribution	1,543.3	1,369.8
YEL (self-employed persons)	393.8	384.3
Previous year's client bonuses	119.7	136.4
Net investment return excluding operating expenses	5,420.5	-599.8
Other income and expenses	0.3	0.0
Total income	11,298.8	4,946.5

Income distribution

To pensioners	-6,077.8	-5,711.7
TyEL pension recipients	-5,672.6	-5,365.0
YEL pension recipients	-405.2	-346.7
Provision for future pensions	-1,167.9	-1,684.8
Provision for future risks	-3,695.3	2,778.1
Buffering against fluctuations in investment return	-3,695.3	2,617.5
Buffering against fluctuations in underwriting result	0.0	160.6
Client bonuses	-164.0	-120.0
Staff expenses	-61.2	-66.3
Other service providers	-114.0	-128.3
Taxes withheld at source	-18.6	-13.4
Donations	-0.1	-0.1
Total income distribution	-11,298.8	-4,946.5



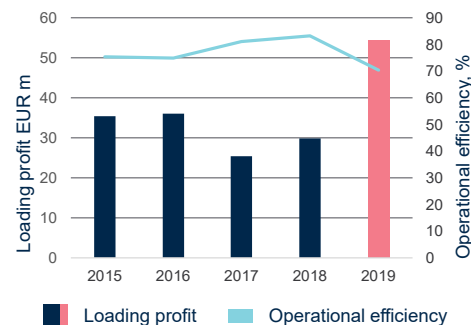
The income distribution calculation indicates what cash flows our operations consist of. An employment pension insurance company does not produce a profit for its owners, because the funds from pension contributions are meant to be used for providing pension cover. Premiums written describe how much we collected in pension contributions over the year. The employee pension contribution (TyEL) is comprised of two components: the component withheld by the employer on the employee's salary and the component paid by the employer. In self-employed persons' pension insurance (YEL), self-employed persons pay the contribution in full. The majority of the collected pension contributions go directly to paying current pensions. A small portion is funded, however. The difference between paid pensions and collected pension contributions is financed through investment returns.

Client bonuses are payments that we give back to employers. The amount of the bonuses depends on our solvency and on how much we use of the administrative cost component that is allocated for our operations in the pension contribution. The more efficiently we operate, the larger the client bonuses. The more efficient our operations, the smaller the costs arising from the earnings-related pension system for employers. Cost-effectiveness thus reduces the costs of employment in Finland and is a major competitive factor between pension companies. The target for the annual level of cost-effectiveness is set by Ilmarinen's Board of Directors. Based on the target, an action plan is set up by the management.

COST-EFFECTIVENESS (KPI 5)

Key numbers for efficiency

	2019	2018
Operational efficiency	70.5%	83.2%
Operating expenses, EUR m	175.2	194.6



Although we have improved our cost-effectiveness in recent years, we still have a lot to do. Our goal is for you to be able to take care of all matters related to pension cover as easily as possible, whenever it suits you. That is why we are developing digital services that enable you to view the accrual of your earnings-related pension or your self-employed person's pension contributions, or to monitor the development of your employees' work ability risk.

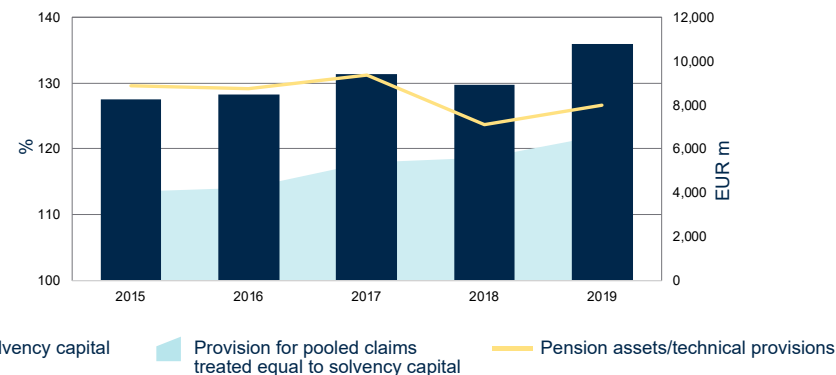
Mutual pension insurance company Etera merged with Ilmarinen in 2018. The objective of the merger was to make the management of earnings-related pension cover more efficient and cut duplicative operating costs.

All of the goals have not yet been achieved. The merger also required major investments in IT systems. Despite this, it is safe to say that the synergies sought through the merger have already been reached.

” I would say we have succeeded quite well in integrating the two companies. We have built a company that attracts customers, partners and employees.

Matias Klemelä, Ilmarinen's Chief Financial Officer

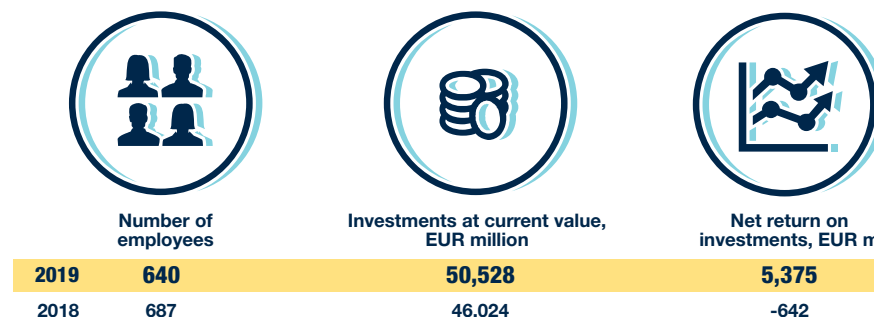
SOLVENCY



Solvency describes our ability to cope with the risks that are related to managing pension cover and pension assets. That is why solvency, or our ability to face investment risks, also affects the amount of excess assets that we can refund to employers.

A pension company's liability for future pension commitments forms the company's technical provisions. Technical provisions, in turn, consist of provisions for unearned premiums and claims outstanding. A return requirement is credited to technical provisions, which guarantees that the value of pensions is retained. Investment returns that exceed the return requirement accrue the solvency capital that acts as a risk buffer for investment operations.

GRI 102-7





WHEN I GROW UP AND GO TO WORK, I WANT TO DO SOMETHING IMPORTANT

Working life is slightly different for each generation. In the late 2010s, it became increasingly important for people to feel that their work is relevant.

After years spent at school and university, working life is a big upheaval for everyone, regardless of how flexible work is and how easily it can be combined with studies. One of the major upheavals takes place in the background: when you start working, you take responsibility for your income not only today but also after your career has ended.

Whether you are an entrepreneur or an employee, you participate in the management of pension cover. However, the perspective from which you view pension cover depends on your role. When you work as an employee or a self-employed person, you accrue your earnings-related pension. In your role as an employer, you see to it that the pension contributions for your employees are paid and the pension accrues. We support you all in achieving these targets: by promoting the maintenance of work ability, we help our customers secure their income now and in the future.

YOUR OWN INCOME ACCRUES PENSION

Did you know that pension starts to accrue from your very first paycheck?

There are some specific conditions for that, though. Pension starts to accrue if you have turned 17 and are not over 68. If you are self-employed, the lower age limit for pension accrual is 18.

In your first jobs, the earnings-related pension that is decades away may seem a distant notion. Even though pension appears to accrue slowly on paper, every euro that accrues pension will influence your income level in several decades' time.

In Finland, taking care of employee's pension contributions is the employer's responsibility. The employer can be, for example, a company, an association or a household. It is the employer's task to make sure that both the employee's and employer's share of the pension contribution is paid on the salary.

Pension contributions vary little from year to year. The labour market organisations negotiate them annually. Based on the outcome of the negotiations, the pension companies' actuaries submit an application, proposing the contributions for the next year. The Ministry of Social Affairs and Health confirms the contributions.

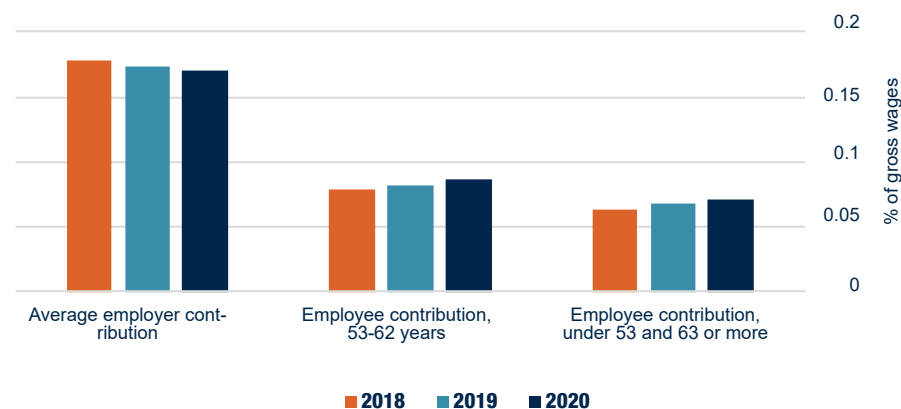
The basic idea of the Finnish earn-

ings-related pension system is that everyone accrues their pension from their own earnings. In addition, studies leading to a degree, some of the social benefits and childcare leave for children under three accrue pension.

You can see your future pension in our online service already while you are still working. From your pension record, you can check which employment relationships have accrued pension and how much. If you are at the beginning of your career, the pension accrual is almost inevitably small. Remember that pension accrues throughout your career. Therefore, you should check from time to time that your employers have fulfilled their obligations regarding pension cover.

- Check your pension record >

PENSION CONTRIBUTIONS (TYEL)



In 2019–2020, the pension contribution is on average 24.4% of an employee's wages. For example, if a 17-year-old employee was paid EUR 100 in 2019, he or she paid EUR 7.15 in pension contributions on those wages. The employer paid an average of EUR 17.25 on top of this.

The employer's contribution is an average because, in the case of larger employers, liability for employees who end up on disability pension, for example, influences the pension contribution. The pension company's client bonuses also affect the size of the final contribution.

” Successful engagement in working life has far-reaching impacts on young people's careers and well-being. The work community and the supervisor play an important role in supporting young employees' engagement in work and well-being.

Kristiina Halonen, Head of Work Capacity at Ilmarinen

Help a young person start their career

Each person experiences the transition into working life differently. Yet it requires everyone to get the hang of the work community culture and adapt to new kinds of social roles.

According to a study conducted by Ilmarinen and the Finnish Institute of Occupational Health, the support provided by workplaces at the early stages of working life is important. Engagement in social life largely takes place via work.

According to the supervisors interviewed for our study, young people's strengths lie in, for example, their openness to learn and their desire to develop themselves and develop their work. The interviewees also felt that young people see things from a new perspective. This meant, for example, an open culture of dialogue. Young people also received praise for their

IT skills.

One of the themes that often arise in studies is that young people want to feel that their work is meaningful. Mikko Nykänen, researcher at the Finnish Institute of Occupational Health, pointed out when the study was published that the feeling of meaningfulness can be reinforced by highlighting the impacts of the young person's actions on the whole workplace. This allows the young person to feel that his or work makes a difference and is relevant for the workplace.

At the beginning of their career, young people can, according to Nykänen, place too high expectations on their development. Supervisors play an important role as supporters. Nykänen encourages them to set realistic development targets that are achievable in a short enough time frame.

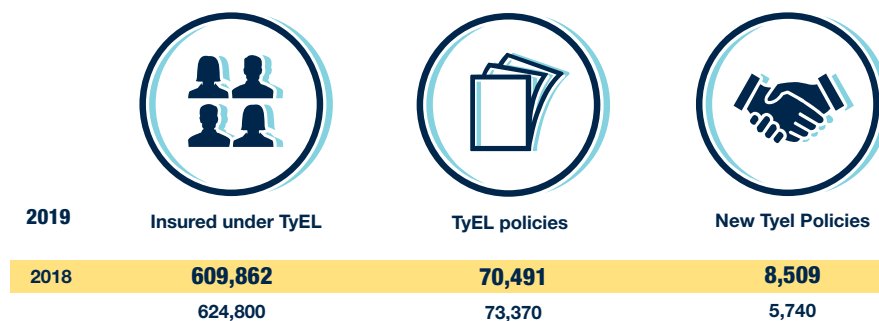
Five tips for supervisors: how to support young people at the start of their career

- Young people often see things at the workplace from a new perspective. Encourage them to make suggestions and tell them that their ideas are valued. It is motivating to feel that one can make a difference.
- Ask them regularly how they are doing. At the start of the employment relationship, it is a good idea to hold several discussions.
- Ask the young person what aspects of the work they find interesting. It helps them identify their sources of motivation.
- Review means to support well-being at work that are available to employees. Give examples of small meaningful things that we all can do to impact our work ability and well-being also outside work.
- Development opportunities are inspiring. Break down bigger targets into smaller ones.

Ilmarinen's and the Finnish Institute of Occupational Health's 'Nuoret onnistuneesti työelämään' (Young people successfully into working life) project was carried out in June-October 2019. The project surveyed, through individual and group interviews, practices related to young people in ten companies.

The target group included supervisors, HR specialists and the persons who participated in guidance and induction provided to young employees. A total of 20 people were interviewed.

The study looked into young people's learning on the job and work performance and into how young employees are guided and supported at the workplace. The interviews also addressed young people's well-being at work and young people as members of the work community.



MOST ATTRACTIVE WORKING LIFE PARTNER – RESPONSIBLY, FOR YOU

Our vision is to be the most attractive working life partner – responsibly, for you. By securing our customers' work ability, we secure their possibility to earn an income now and while retired.

When working life changes, the challenges it places on work ability also change. In capable hands, data becomes information, information becomes action and action becomes impact. And when the time comes, we are ready. We anticipate and are there to help, every step of the way. Throughout the career and retirement, our team is ready and poised to help.

- Ilmarinen's strategy ›

EASY AND RELIABLE EARNINGS-RELATED PENSION COVER

We offer just two products: employees' pension insurance, i.e. TyEL insurance, and self-employed persons' pension insurance, i.e. YEL insurance. Yet we have a number of different customers, some of whom are also our owners.

Ilmarinen's owners are all those whose TyEL or YEL insurance we manage. In addition, all employer companies who have taken out TyEL insurance for their employees with us are our owners. In addition, all pensioners are our customers.

The majority of the employers who take out insurance for their employees conclude an insurance contract with us. Those only employing temporary employees can, however, pay their employer contributions to us without signing an actual insurance contract. They are called occasional employers.

The national Incomes Register was introduced in Finland in early 2019. The introduction of the new system brought with it a number of technical challenges and a huge number of new things to learn for both us and employers. The Incomes Register revolutionised employers' payroll reporting practices. With the employer reporting wages and salaries within five days of payment, employees can quickly see their impact on, for example, their pension. As of 2021, the Incomes Register will also gather pension information in a single location.

As part of our efforts to develop more efficient digital services, we have endeavoured to move online as many of the messages we send to our customers as possible. The postal service strike in the autumn showed, however, that there is still a lot of work to be done. We continue to send by post many of the decisions related to the granting of benefits, for example.

- Insure your employees with us ›
- YEL brings you security ›



Logins to Ilmarinen's online service

2019	806,416
2018	813,917



Customer retention, employers and self-employed persons

2019	108,957
2018	133,248



Customer retention, employers and self-employed persons

2019	95.1%
2018	94.9%

When you handle the matters related to your earnings-related pension insurance and pension cover online, you can do so flexibly, whenever it suits you. Our operations related to pension and insurance management are fully financed with the administrative cost component included in the pension contribution. Cost-effectiveness reduces the costs of the pension system. This requires a balance between the resources used for service and the availability of customer service, for example.

In order to make handling matters online even smoother, we focussed our development work on digital services. In early 2019, we launched the Ilmari chatbot on our website, which initially answered questions related to the Incomes Register. In the summer, Ilmari started to also answer pension-related questions. Ilmari refers the questions to our customer personnel as required.

GRI 102-43



NPS for online services

2019	27
2018	33



NPS for phone services

2019	63
2018	67



NPS for insurance services

2019	22
2018	30



NPS for pension services

2019	38
2018	36

The worst possible NPS score is -100 and the best possible score is +100. NPS (Net Promoter Score) is a widely used method for measuring customer satisfaction in companies.

WE KEEP YOUR INFORMATION SECURE

We process the data of thousands of customers every day. If, for example, you apply for vocational rehabilitation or disability pension from us, you disclose information about your health to us. This type of information is called sensitive personal data. Data concerning companies falls within the scope of insurance secrecy.

Legislation that entered into force in 2018 tightened the rules for processing personal data and reporting errors to authorities. The respondents to a survey that we carried out in 2019 among our various stakeholders considered information security as one of the most important topics in our operations.

Information security covers everything that has to do with data processing. The basic requirement of information security is to ensure the retention, availability and integrity of the data and safeguard it against abuse. This means, for example, that sensitive data related to disability pension decisions is not disclosed to outsiders, while ensuring that it is available for making a pension decision, for example.

In 2019, no large-scale data leaks occurred in our operations. We also did not receive any complaints concerning breaches of customer privacy or loss of customer data from authorities or external parties. (GRI 418-1)

On a monthly level, we recorded a few isolated data protection incidents due to human errors. Five of the cases led us to submit a report to the Data Protection Ombudsman in accordance with our data protection policy. We handle data protection incidents in our Data Protection Committee. We assess all cases from a development perspective to avoid similar incidents in the future.

We report as data leaks cases that involve large-scale data leaks. In 2019 we did not receive any complaints concerning breaches of customer privacy or loss of customer data from authorities or external parties. On a monthly level, we recorded a few data protection incidents due to human errors. We handle cases like these in our Data Protection Committee. We assess all cases from a development perspective to avoid similar incidents in the future. (GRI 418-1)

Questions related to information security are an integral part of developing digital services. This means more than just working on the technical requirements, such as data encryption. Technical solutions are effective only if the people using them follow the correct practices. Technical solutions can reduce the risks related to human activity, but not eliminate them completely. That is why we maintain information security by regularly training our personnel to identify and control risks.

Information security also entails ensuring the accessibility of information. We have surveyed the accessibility of our online services, for example. The European web accessibility directive, whose requirements have been transposed into Finnish law in recent years, also steers us in this direction. We, however, take a broader view of the matter. Our objective is to serve all users and make taking care of matters related to one's own and one's employees' pension cover as easy as possible for everyone. This means, for example, services that anticipate users' needs.

- Information security in Ilmarinen ›
- Office of the data protection ombudsman ›



DARE TO EMPLOY YOURSELF – WE HAVE YOUR BACK

Are you doing temporary work alongside your regular job, or have you turned your hobby into a job? Have you been saving for a while to be able to make your long-planned business idea a reality? You can take a number of different routes to become an entrepreneur.

Regardless of how much planning it may or may not involve, self-employment always entails taking risks. Starting your own business, whatever its form or size, means taking responsibility for your income. A self-employed person's responsibilities range from inventing and realising a business idea to managing the company. In addition to all this, a self-employed person must also take care of their pension cover.

MORE THAN JUST A PENSION

When someone starts a new business, retirement is usually not uppermost in their mind. Nevertheless, anyone planning or starting a business must know the basics of self-employed persons' pension insurance: a self-employed person's pension is more than just a pension. The confirmed income that forms the basis for pension insurance has an impact on, among other things, the earnings-related social benefits, such as the sickness benefit and parental benefits.

From the perspective of earnings-related pension legislation, a self-employed person refers to those who have, under the self-employed persons' pensions act, the obligation to take out self-employed persons' insurance, i.e. YEL insurance, for themselves. YEL is the only mandatory insurance for all self-employed persons.

Whereas employees' pension contributions are calculated based on paid wages and salaries, a self-employed person's pension is based on the confirmed income, which is determined by the self-employed person. The confirmed income may be different from the actual income the self-employed person receives from the company in the form of earned income or capital gains. Confirmed income means the calculated value of an entrepreneur's work input: it

should be equal to the salary paid to an employee for the amount of work carried out by the entrepreneur during a year.

As a self-employed person, you are your own employer, which means that you are responsible for your pension contribution in its entirety. A self-employed person's pension contribution is roughly at the same level as an employee's contribution, when taking into account the portions paid by both the employee and the employer.

A self-employed person must take out YEL insurance no later than six months after the start of the entrepreneurial activity or when the value of the work input exceeds the minimum confirmed income specified by law. However, it is a good idea to deal with the matters related to pension insurance as early on as possible.

To make things easier for new entrepreneurs, every new entrepreneur is entitled to a 22-per-cent reduction in YEL contributions for the first four years. Despite the discount, pension and other social benefits accrue in the same way as for other entrepreneurs.

New forms of working are changing perceptions about entrepreneurship

Unlike in the employees' pension system, pension contributions collected under the self-employed persons' pension system are not funded. All self-employed persons' pension contributions that are collected now are paid directly to current retired entrepreneurs as pensions. Because more is being paid in current pensions than is collected in pension contributions, the state pays the missing part of entrepreneurs' pensions.

Working life is constantly evolving, and temporary work and self-employment have garnered a lot of attention. The total number of entrepreneurs who have taken out YEL insurance has increased from some 160,000 to slightly over 200,000 in twenty years. In addition to this, thousands of people employ themselves working as part-time entrepreneurs, often alongside other salaried employment. This type of entrepreneurial activity can be so small-scale that it does not trigger the obligation to take out YEL insurance. Small-scale employ-

” An entrepreneur's pension and other social security benefits are based on the self-employed person's YEL income.



YEL insurance policies

2019	76,063
2018	74,443



YEL contribution, % of earned income
Aged under 53 and aged at least 63

24.1%



YEL contribution, % of
earned income
Aged 53-62

25.6%

If an entrepreneur had set his or her confirmed income in 2019 at, for example, EUR 20,000, he or she paid EUR 4,820 or 5,120 in pension contributions. The full amount of an entrepreneur's pension contributions can be deducted either in the entrepreneur's personal taxation or in the company's taxation.

ers using invoicing services are often called ‘light entrepreneurs’. In 2019, up to 100,000 Finns worked as light entrepreneurs alongside salaried employment. The number has grown by some 20 per cent annually. Some of them meet the conditions for YEL insurance, some do not.

In recent years, self-employment as a form of entrepreneurship has also been shaped by new platform economy models where people work with an entrepreneur status, often for one client. Typical examples of sectors that make use of a digital platform as a marketplace include cleaning, transport or construction services. In the platform economy, a company provides an application through which other companies or private persons can operate or sell products and services. Well-known examples are companies that deliver restaurant food to people’s homes.

Even though light entrepreneurship has gained ground, it is good to remember that this form of work is not recognised by law. According to law, people are either employees or self-employed persons with their respective mandatory pension insurances. This division is also not expected to change in the foreseeable future. That is why light entrepreneurs or people otherwise engaging in small-scale entrepreneurial activities should also get to know the basics of self-employed persons’ pensions.

Can an entrepreneur take family leave?

The level of YEL insurance affects an entrepreneur’s social security benefits already before retirement: the sickness and parental benefits, unemployment security and the possibility to take out self-employed persons’ accident insurance.

Self-employed persons’ pension insurance also enables the entrepreneur to take a leave after the birth of a child. Entrepreneurs receive the same parental benefits from Kela as employees do. Kela’s benefits are based on the confirmed annual income.

Entrepreneurs are also entitled to earnings-related unemployment allowance when their entrepreneurial activity ends. This is, however, conditional on the amount of confirmed income and the length of the entrepreneurship. The entrepreneur must be a member of an unemployment fund. Membership requires a certain level of confirmed income. In 2019, the lower limit was EUR 12,816 and in 2020, EUR 13,076. In addition, the entrepreneurship must have lasted at least 15 months during the preceding four years while the enterprise was a member of an unemployment fund.

A law that took effect on 1 July 2019 brought changes to the unemployment benefits of an entrepreneur’s family member. The amend-



The lower limit for YEL income

2020	EUR 7,958.99
2019	EUR 7,799.37

ment improves and clarifies the unemployment security of an entrepreneur’s family members by putting them mainly in the same position as the other employees. Previously, an entrepreneur’s spouse who worked in the company without being an owner was largely equated with an entrepreneur.

The amendment makes it clearer which unemployment fund a person must belong to in order to accrue his or her right to earnings-related unemployment allowance. It also relaxes the conditions based on which a person is considered to be unemployed. The changes do not affect the unemployment security of those who have a holding or control in a family business, or who have been insured under the Self-employed Persons’ Pensions Act.

” The self-employed persons’ pension insurance already now offers a better level of benefits than a contribution of the same size would buy anywhere else. I hope the upcoming reform will improve entrepreneurs’ trust in the pension system.

BETTER PENSION COVER FOR ENTREPRENEURS?

Unlike employees, entrepreneurs can have quite a large influence on the level of their pension cover. In practice, this has led to many entrepreneurs setting their confirmed income at a too low level. This results in entrepreneurs often having weaker social security than employees in the same income category. When entrepreneurs have their confirmed income set at a level markedly below their actual income level, they under-insure themselves.

In 2017, the Ministry of Social Affairs and Health set up a working group to look into how the issue of under-insurance could be resolved. The working group published a report on the subject in spring 2019. Under-insurance affects not only the entrepreneur's final pension amount but also any disability pension, sickness benefit and parental benefit. The working group's report contains a number of proposals to improve the estimation of the YEL confirmed income.

A key observation was that entrepreneurs' confirmed income should be more clearly tied to the financial value of the entrepreneur's work input. This would bring the system closer to the employees' pension system, securing a decent standard of living for entrepreneurs even after

the end of their career.

Based on the report, there are no immediate changes to the self-employed persons' pension system on the horizon. In addition, the entrepreneurs' interest organisation Suomen Yrittäjät strongly disagreed with the report's conclusions. Its dissenting opinion expressed in the report reflected its members' critical stance on the YEL system. The system is perceived as complicated and costly. There should be more flexibility in determining the confirmed income and the lower limit should be raised. Changes in both directions will require legislative amendments.

Economist Jaakko Kiander, who left Ilmarinen to join the Finnish Centre for Pensions in August, pointed out in Ilmarinen's blog that the self-employed persons' pension insurance is better than its reputation. "The self-employed persons' pension insurance already now offers a better level of benefits than a contribution of the same size would buy anywhere else. I hope the upcoming reform will improve entrepreneurs' trust in the pension system," Kiander wrote.

- YEL brings you security ›



HAPPIEST ENTREPRENEUR OF FINLAND

Olli Ojamo from Merikarvia was awarded the title of Happiest Entrepreneur of Finland 2019 by Ilmarinen. The competition, which was organised for the seventh time, gathered a total of more than 17,000 votes from the public. Ojamo is a fishing entrepreneur at Eumer Finland Oy.

Our annual Happiest Entrepreneur of Finland competition awards entrepreneurs who create a positive atmosphere around them and bring special joy to their customers through their expertise and attitude. The 2019 vote was exceptionally close. The other finalists in addition to Ojamo were Jani Törmä from Oulu-based Salaojamestarit Oy and Miia Kalliomäki from Iltapäiväkerho Huvikumpu, a children's afternoon club in Klaukkala.



WE PROVIDE SECURITY IN LIFE'S UNEXPECTED SITUATIONS

Employees' and self-employed persons' pension insurances are more than just pensions. Both pension insurances also provide security against unexpected situations during the career, before the old-age pension age. Earnings-related pension insurance offers security if your work ability declines. When work ability has declined, we are there to help with vocational rehabilitation. You can receive support or assistance for, for example, planning a new career path, returning to work through a work trial, studying for a new profession or starting a business. The most efficient approach is to promote your work ability to avoid any problems.

LOST LABOUR INPUT COSTS BILLIONS

EUR 1.5 billion in annual savings. Roughly that amount could be saved in Finland by developing well-being at work, according to Terveystalo's annual review of lost labour input.

No detailed statistics are kept in Finland on the causes of short absences due to illness, but various seasonal colds, for example, are a major cause. However, the costs arising from thousands of Finns being forced to be temporarily absent from work due to various workplace accidents and musculoskeletal problems are even higher. Problems related to mental health or coping at work have also been on the rise.

These kinds of absences should be prevented for a variety of reasons. According to Terveystalo's review, the costs of lost labour for companies were slightly more than EUR 2,500 per person year in 2018. For large companies, this is 6.13 per cent of the payroll on average. Furthermore, if mental health problems or musculoskeletal problems persist, they can lead to a situation where the employee must apply for disability pension. This can happen if problems are not addressed early enough and the necessary changes are not made to the work.

The number of disability pension declined for several years, but took

an upward turn in 2018 and continued to grow in 2019. At the same time, the number of granted disability pensions has also increased. A cause for concern is that disability pensions granted to people under 40 for mental health problems have grown fastest, by 20 per cent year-on-year.

Anticipating and managing work ability risks can support coping at work and lengthen careers. Preventing disability thus benefits the whole of society.

Today, 87 per cent of Finnish workers rate their well-being at least as fairly good. However, maintaining that level is not a given; it requires some effort. There is plenty of room for improvement in companies' work ability management: only 14 per cent of companies take well-being at work strongly into account in their strategy work.

Work ability risks can be assessed at different time spans: the risks can be related to the near future or to issues that will only surface in many years' time. Severe illnesses and accidents, for example, can have a quick impact on work ability. Physical or mental strain affects health over a number of years. That is why work ability and factors influencing it should be looked into, in an effort to identify how a decline in work ability could be prevented beforehand. From a pension insurance company's perspective, this is a question of manag-

ing insurance risks.

Research has shown that in certain sectors, professions and workplace situations, the risks of declining work ability are higher. An individual's ability to resist physical and mental strain varies from person to person and according to age.

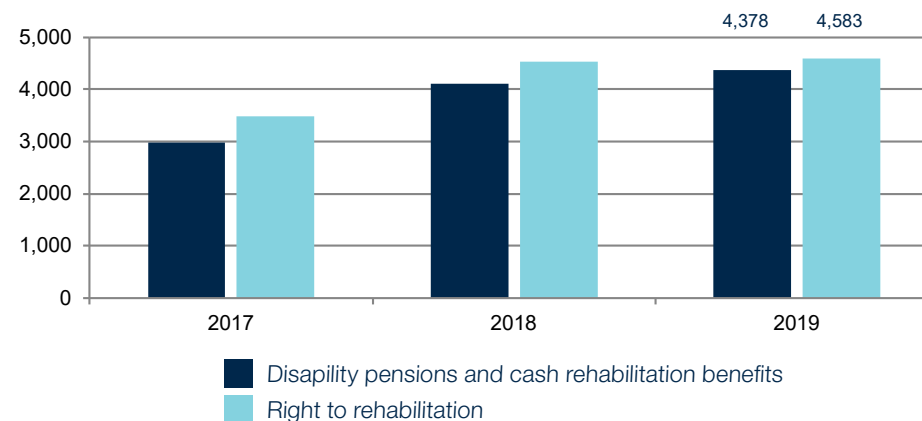
Maintaining work ability becomes even more important with the rising retirement age. When the retirement age approaches, physical strain in particular has a larger impact on a

person's coping at work. From an individual's perspective, it also makes a difference whether they are in poor or good health when retiring. Finns draw pension for an average of 22 years, roughly twice as long in the 1980s.

” Each disability pension prevented is not only important on a human level but it also saves our common assets.

Jouko Pölönen, Ilmarinen's President and CEO

DEVELOPMENT OF DISABILITY PENSIONS AND CASH REHABILITATION BENEFITS



WE PROMOTE WORK ABILITY

We promote the work ability of our client companies' employees together with our customers. The objective of work ability activities is to prevent the risk of insured employees ending up on disability pension. For the work to bring results, it must be systematic and goal-oriented. The projects are targeted at areas that have been identified, together with the customer, to reduce the disability risk of the client company's employees.

We monitor the effectiveness of the co-operation through, among other things, jointly agreed indicators and surveys. The results show that our services are successful in improving work ability and reducing our client companies' disability risk. The support granted to client companies for work ability projects is financed with the disability risk administrative cost component included in the pension contribution and reserved for this purpose. At Ilmarinen, this sum amounts to approximately EUR 6 million annually.

In October 2019, the Financial Supervisory Authority published a supervised entity release addressed to all earnings-related pension companies. It was accompanied by a memorandum which specified the supervisory authority's guidelines concerning the management of disability risk. The specification further restricts the operations of employment pension insurance companies.

In December, the Financial Supervisory Authority completed a year-long inspection where it reviewed our work ability activities.

In its inspection, the Financial Supervisory Authority paid particular attention to the limitation of work ability risk management services and to ensuring that they are offered on a risk basis as required. The inspection revealed that we had different interpretations than the supervisory authority, as a result of which our operations did not fully comply with the guidelines. We will carefully review the Financial Supervisory Authority's detailed guidelines and the demands and recommendations it raised in the inspection. We have already changed some aspects of our operations, and now we will remedy the detected problems. It is important to us that our operations comply with regulations and guidelines. There is no legal regulation concerning the management of disability risk, and some of the guidelines pertaining to it have been open to various interpretations. It is a good thing that the matter has now been thoroughly reviewed and the ground rules are being clarified.

According to the specified guidelines, employment pension insurance companies' disability risk management activities must be "educative in nature". According to the Financial Supervisory Authority's interpretation, the personnel costs allocated to the management of work ability risk "must not be substantial in relation to the disability risk administrative cost component".

There is no legal regulation concerning the management of disability risk, and some of the guidelines pertaining to it have been open to various interpretations. It is a good thing that the matter has now been

thoroughly reviewed and the ground rules are being clarified. As a result of the more specific guidelines, we will renew and reduce our work ability service offering. To implement the changes, we initiated co-termination negotiations in February.

Reducing the resources allocated to the prevention of disability risk is regrettable for our employees, our customers and the whole of society. The sums spent on work ability activities are small compared to the cost of disability. Each disability pension prevented is not only important on a human level but it also saves our common assets.

We believe that by renewing our operations and focussing on the biggest risks, we will be able to provide our customers with even more impactful support for the management of disability risks in the future. The prevention of disability calls for even closer co-operation that involves employees, employers, occupational health care services and other health care actors, Kela and pension institutions.

We will help our client companies identify work ability risks, prevent disability and support returning to work through vocational rehabilitation also going forward. Employment pension insurance companies have a wealth of knowledge and expertise concerning the factors behind disability.

EFFECTIVENESS OF WORK ABILITY SERVICES (KPI 3)

	2019	2018
Perceived customer benefit (1–5)*	4.7	4.6
NPS, Ilmarinen's own services	84	85
NPS, includes sourced services	72	75

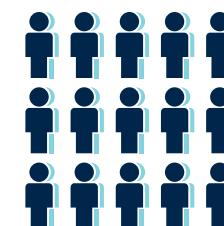
*) The perceived benefit was surveyed based on the following claims:

I am very satisfied with the service

The service met my expectations

I gained new insight

We can apply the lessons learned in our company



Ilmarinen's work ability projects covered
235,000 employees



Work ability projects together with customers
3,000



Work ability management coaching sessions
32



Participants in coaching sessions
2,200

Vocational rehabilitation

All disability cannot be prevented. If your work ability declines for one reason or another, you have the possibility to apply for vocational rehabilitation.

Vocational rehabilitation means support measures to enable the rehabilitee to be active in working life. The means include work trials, finding a new task or workplace, retraining for a new profession or starting a business. We can also support entrepreneurs to adapt their company's operations according to their work ability through a business subsidy. You can apply for vocational rehabilitation if an illness or injury makes working more difficult for you or threatens to take away your ability to work altogether.

Vocational rehabilitation is an employee's statutory right. Effective rehabilitation linked with work extends careers and creates an opportunity for a better working life. A person's

work ability is the sum of many factors. Work ability management is a team effort between the employer, HR, supervisors and occupational healthcare. The rehabilitee's own motivation is also paramount to the success of the rehabilitation process.

Vocational rehabilitation is also part of disability risk management. Through vocational rehabilitation, we train our client companies' supervisors. We advise them in the rehabilitation planning phase and offer them the support of our specialists.

„ Besides being a human tragedy for the individual, disability is also a costly option for society.

Kaisa Valppu, Rehabilitation Development Manager

DISABILITY PENSION DECISIONS UPHELD BY THE APPEALS COURT (KPI 2)

	2019	2018
Proportion of negative decisions	33.7%	30.1%
Proportion of decisions amended by the appeals court	14.2%	14.8%



EFFECTIVENESS OF REHABILITATION (KPI 4)

	2019	2018
Percentage of rehabilitees available to the labour market at the end of the rehabilitation	78%	75%



Disability pension application processing time in days (KPI 1)

2019	43
2018	74



Granting of right to rehabilitation in days

2019	20
2018	22



Positive preliminary decisions on support for change of profession or returning to work

2019	4,583
2018	4,522



Rehabilitation decisions in total during the year

2019	9,400
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WHEN I GROW UP, I'LL BE A PENSIONER

We all have different expectations and hopes for our retirement days. In Finland, the statutory earnings-related pension cover guarantees that you will receive pension until the end of your life.

Close to 80 per cent of the pensioners we pay monthly pensions to enjoy the old-age pension referred to above. Our pension system also offers the option of drawing partial early old-age pension or, in some cases, a years-of-service pension. In addition to this, there are the disability pension and the survivors' pensions, the granting of which is not tied to the applicant's age.

RETIREMENT AGE DETERMINED BASED ON BIRTH YEAR

If you were born in 1956, 2019 might have brought you one of the biggest changes in your life. When the age limit for old-age pension continued to rise as agreed on in the 2017 pension reform, the lower age limit for those born in 1956 was 63 years and 6 months. The retirement age continues to rise annually by three months until the lower limit is 65 years.

If you also applied for pension in 2019, you benefited from our work to speed up the processing of pension applications. We managed to shorten the waiting time for pension decisions by improving and automating the process. Towards the end of the year, our processing time was at the same level as in the employment pension sector on average. Our customers usually apply for pension just once, which is why pension services have to be a complete success in every service situation.

Submitting the application online is the fastest way to apply for pension. At the same time, you can check your up-to-date pension record, which shows your accrued pension before submitting the application. If the application contains all the necessary information and the granting of pension does not require any particular further clarifications, the decision is usually issued during the same day. You should also remember that your

employment relationship must end before your pension begins.

You can also monitor online in real time if the pension decision has already been issued. Usually, we issue a provisional pension decision based on the earnings data contained in the Incomes Register. Once the employer has reported the last earnings data to the Incomes Register, we issue the final pension decision. The difference in the size of pension is usually very small between the provisional and final decisions.







When you approach the retirement age, it is also a good idea to find out about other pension options. Partial early old-age pension means that you can start drawing part of your pension while working. This can result in additional income for the final years of the career but it will reduce the final amount of pension for the rest of your life. You can determine, together with your employer, your work input alongside the partial early old-age pension.

The years-of-service pension is intended for people aged 63 and over, who have had a long career in a tough and strenuous job and whose work ability has weakened due to an illness or injury. In 2019, we made fewer than 20 years-of-service pension decisions. In future, the old-age retirement age will rise gradually, so the significance of the years-of-service pension is expected to rise.



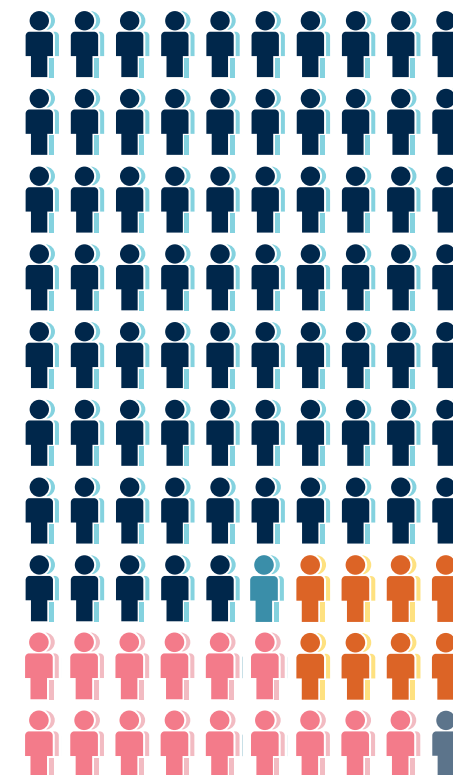
Old-age pension application processing time
in days, December average (KPI 1)

2019	13
2018	43

Old-age pensions	344,547	
Partial early old-age pensions	6,336	
Partial old-age pensions	108	
Disability pensions	38,495	
Survivors' pensions	70,444	
Years-of-service pensions	2	

**Total amount of
pensions 2019** **459,932**

The majority of our customers apply for pension just once. Receiving their first and only pension decision quickly ensures an uninterrupted income. Not only the speed of the first decision, but also that of any further decisions in appeal situations, for example, makes a difference.

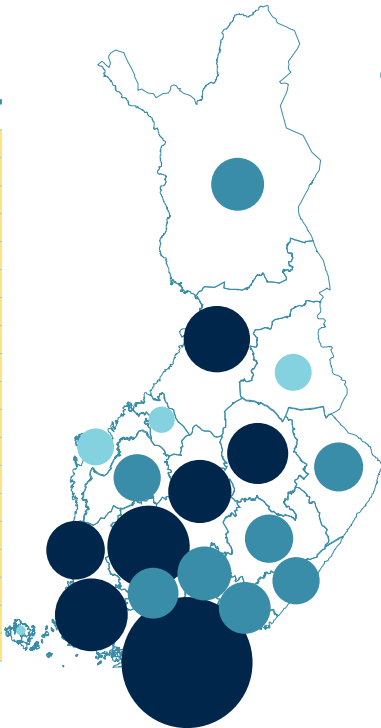


ILMARINEN'S PENSIONERS: AGE AND GENDER

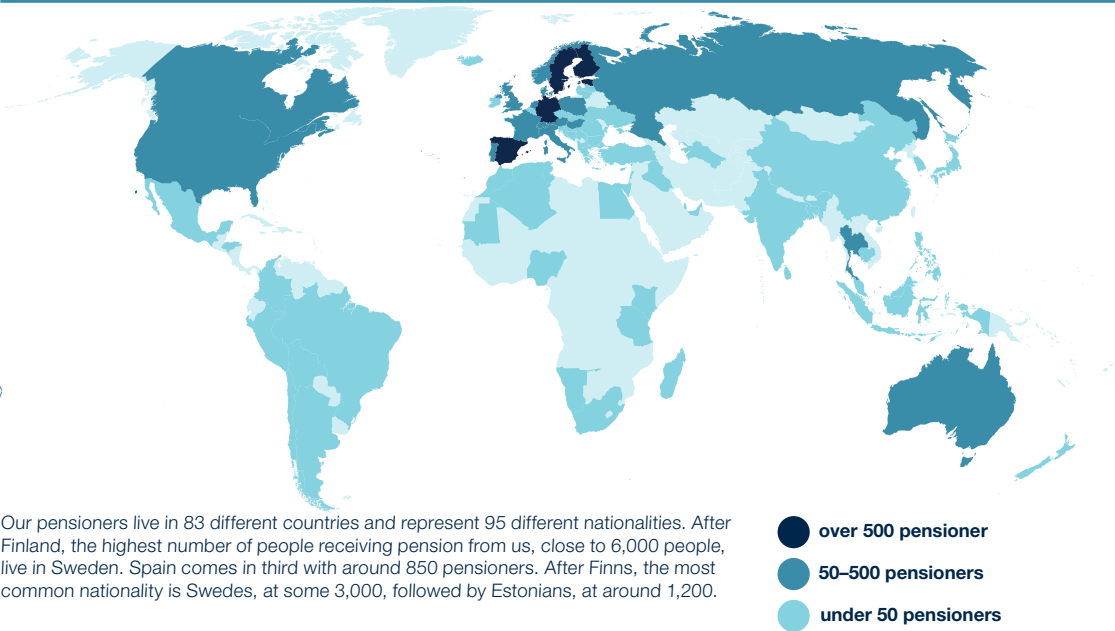


ILMARINEN'S PENSIONERS IN FINLAND BY REGION

Helsinki-Uusimaa	25%
Pirkanmaa	10%
Southwest Finland	8%
North Ostrobothnia	6%
Central Finland	6%
North Savo	5%
Satakunta	5%
Päijät-Häme	4%
Lapland	4%
Kymenlaakso	4%
Kanta-Häme	4%
North Karelia	3%
South Savo	3%
South Karelia	3%
South Ostrobothnia	3%
Kainuu	2%
Ostrobothnia	2%
Central Ostrobothnia	1%
Åland	< 1%



ILMARINEN'S PENSIONERS, GLOBAL DISTRIBUTION



Source of map © Karttakeskus

The pension level is based on the pensioner's earnings history

The basic rule of the earnings-related pension system is that all earnings accrue pension. In addition, studies leading to a degree, some of the social benefits and childcare leave for children under three accrue pension. The accrual rules and age limits, for example, have changed over the years.

The earnings-related pension is calculated using a wage coefficient that varies from year to year. It is used to adjust the annual earnings according to the level of the pension's starting year. In the wage coefficient, the portion of change in wages accounts for 80 per cent and the change in prices for 20 per cent.

The earnings-related pension index, in turn, is used to adjust the paid earnings-related pensions. When calculating the earnings-related pension index, the portion of change in wages accounts for 20 per cent and the change in prices for 80 per cent.

The financial situation of pensioners who have retired recently is good on average. The majority have prepared financially for their retirement. On the other hand, in our survey carried out in early 2019, we discovered that the gap between the haves and have-nots seems to be widening.

According to the survey, an increasing number of pensioners have prepared for their retirement by

investing. Most people prepare by buying a home (66%), saving money in an account (50%) or investing in funds, equities or real estate (40%). One out of four respondents have taken out supplementary pension for themselves.

However, 17 per cent of the respondents said that they had not prepared at all for their retirement. Those with the smallest pensions have prepared the least.

Based on our studies, people's perception about the sustainability of their finances has weakened since 2014. People are also slightly more concerned about their financial situation. Unexpected expenses, such as falling ill, can throw their budget out the window. 44 per cent of the respondents said that their finances could not withstand a severe illness. 37 per cent said their spouse's death would destabilise their finances and 30 per cent said a plumbing renovation would do that. One out of four claimed their finances would collapse if food or medicine prices were to rise or their car were to break down.

The average pension of the respondents was around EUR 2,000 per month. Women and single people received a smaller pension than average: in both groups, the monthly pension was approximately EUR 1,700.

The amount of money that was left from the average pension after the required expenses was some EUR

” Many pensioners must calculate what they can afford and what they will need to give up when retiring. So, if you are still in working life and have 5–10 years to go until retirement, now is the time to stop for a minute and ask yourself what kind of life you want to live as a pensioner.

Jouni Vatanen, Researcher at Ilmarinen

500. If the pension is less than EUR 1,700, the sum that remained for discretionary spending after the required expenses was less than EUR 300. For women and single people, this sum was smaller than average. A fifth of the respondents said that they did not have any money left after deduction of the required expenses.

Based on our survey, there were also significant regional differences in the amount of money left for discretionary spending. Among the regions, people in Satakunta had the most money at their disposal, EUR 614. In Espoo, that sum was EUR 677, while in Lapland and Kainuu it was only EUR 200.

Pension inevitably lowers the income level. However, preparing for it is possible but should be started early enough. It is easier to prepare when you know the level of your own pension well ahead of time. That

is why it is worrying to see that the majority of Finns do not know their pension cover at all, according to the Finnish Centre for Pensions' pension barometer. This perception increased with the age of the respondent.

The easiest way to check the amount of your pension is to log in to our online service and check your pension record. You can also use the calculator available in our online service to estimate the amount of your future pension. You can use the calculator to find out, for example, how much retiring on partial early old-age pension would permanently reduce your old-age pension or how much continuing to work longer than your minimum old-age pension age would increase your pension.

- Log in to Ilmarinen's online service ›

AN EVOLVING AND CHANGING PENSION SYSTEM

The earnings-related pension system is under pressure to change. Especially the dramatic decline in the birth rate and the population projection updated based on it have changed the long-term outlook for pension financing. An exceptionally large number of extensive studies are underway to serve as a basis for developing the pension system.

Changes will also be made to the survivors' pension. The surviving spouse's pension will also concern common-law spouses who have lived together for at least 5 years and have a child together. The pension will be granted for a fixed term of 10 years. According to plan, the changes will

apply to those born in or after 1975. The age until which a child's pension is paid will rise to 20 years.

One of the major changes in future might be that there would be only one earnings-related pension system in Finland. Currently, pension insurance for public sector employees has been provided under a separate act. In 2019, the working group tasked with looking into the division of the pension systems unanimously stated that it would be appropriate to merge the municipal and the private sector pension systems. The Ministry of Social Affairs and Health started preparing the legislation for the merger. The magnitude of the change is illustrated by the fact that the merger is not set to take place until 2027.

Despite the need for change,

Finns trust their pension system. A pension barometer survey is carried out annually to measure Finns' perceptions concerning pension cover and pensions. Trust grew by seven percentage points year-on-year. Pensioners (87%) and those aged 50–64 approaching the retirement age (74%) have the most trust in the pension system. More than half of young adults and middle-aged people find the pension system highly or somewhat reliable. A fifth of Finns have little or no trust in the pension system.

The survey carried out by the Finnish Business and Policy Forum EVA at the start of this year portrayed a different picture. According to it, as many as 44 per cent of Finns seem to fear that the pension system is on the verge of collapse. However, the system has been developed for decades and it has been built to guarantee the payment of earned pensions.

The ongoing debate around the declining birth rate has understandably increased concerns about future pensions. If the birth rate remains at the current level, pension contributions will be under pressure to rise at the latest in the 2050s. Reforms have been necessary in the past and will be necessary in the future. Finland's strength is that we are able to agree on changes together.

The Senior Deed of the Year was the Age Institute's Together in the Neighbourhood project

Ilmarinen and the Finnish Association for the Welfare of Older People granted the Senior Deed of the Year award to the Age Institute's Together in the Neighbourhood project. The project brings joy and a sense of community to buildings occupied by elderly residents. The residents plan, together with their neighbours, activities that take place in the housing company's communal facilities.

The two-year project aimed at increasing togetherness and reducing the experience of loneliness by bringing activities near elderly residents' homes. The communal activities take place in the housing companies' club rooms and nearby locations.

We grant the Senior Deed of the Year award together with the Finnish Association for the Welfare of Older People to a person or an organisation that has promoted the welfare of elderly people in a positive or innovative way, developed a successful model or method or otherwise contributed to increasing the well-being of elderly people.

The size of the Senior Deed of the Year award financed by Ilmarinen is EUR 5,000.

	Pensions paid total, EUR m	Pensions paid TyEL, EUR m	Pensions paid YEL, EUR m
2019	6,078	5,673	405
2018	5,698	5296	402

” Reforms have been necessary in the past and will be necessary in the future. Our strength is that we are able to agree on changes together.

Sini Kivihuhta, Ilmarinen's Deputy CEO



WE INVEST SUSTAINABLY – TO SAFEGUARD CURRENT AND FUTURE PENSIONS

Everyone accrues their own pension with their salary or confirmed income. However, the pension contributions that you pay are not themselves saved for your pension. They are used, for the most part, for the payment of current pensions. Part of employees' pension insurance contributions have been funded to finance future pensions.

In future, the number of working-age people will decrease and that of pensioners will grow. Simultaneously, the gap between the pension contributions collected and the pensions paid will grow. This gap can be closed by raising pension contributions or by using the returns on the pension funds. By investing our shared investment assets productively, securely and responsibly, we ensure that you and other future or current pensioners will receive the pension that you have earned by working.

We will succeed in this task only if we take into account the global risks inherent in investment operations. To protect our shared pension assets against these risks, we take into account the investments' impacts on the environment and human rights and act as an active owner. We pay special attention to climate change. It is a threat whose impact cannot be excluded. That is why we target carbon neutrality in the investment of pension assets by the end of 2035.

WE MANAGE OUR SHARED PENSION ASSETS

2019 was an exceptional year. At the end of 2018, global stock markets had come tumbling down. Many investors expected the year to be a gloomy one. Along with stocks, Finnish pension funds had also slid into negative territory.

During the year, global economic growth slowed to around three per cent, down from close to four per cent in the previous year. The year was marked by uncertainty over the trade relations between the United States and China, which depressed global trade volumes and the economic outlook. The uncertain prospects prompted the central banks in Europe and the United States to lighten their monetary policies again.

Supported by a lighter monetary policy, the global financial markets picked up: interest rates declined and stock prices rose. In the latter part of

the year, expectations of economic development again turned towards slightly slower growth. Nevertheless, the year was exceptionally good from the perspective of pension asset performance: our investment result was the decade's best.

Considering the future, though, good returns lower the expectations on future returns. The prices of many asset classes are very high and the interest rate level is at an all-time low. That means that investors' expectations on future returns are also low. Many investors are increasingly attracted to non-listed asset classes, such as real estate, infrastructure investments and non-listed companies. Of course, the shift also entails an increase in the price level and a decrease in the return expectation in these asset classes.

” 11.8 per cent was the decade's best investment result. Since 1997, this investment result is in the top five.

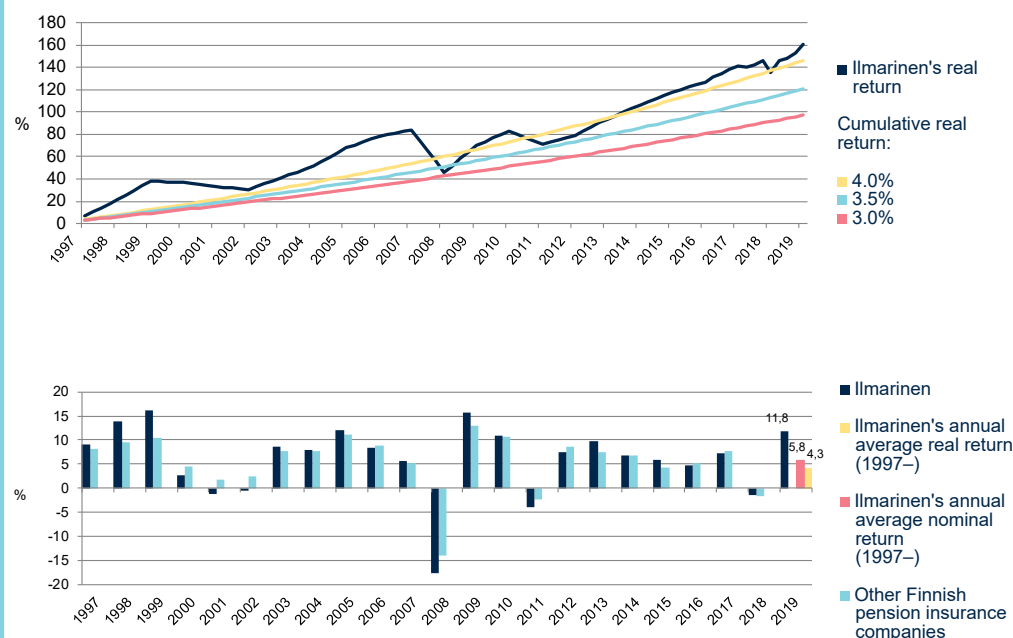
Mikko Mursula, Ilmarinen's Chief Investment Officer

ILMARINEN'S INVESTMENTS AND SOLVENCY

	2019	2018
Pension assets, EUR million	51,342.1	46,473.8
Investments at current value, EUR million	50,527.8	46,024.0
ROCE, %	11.8%	-1.4%
Solvency capital, % of technical provisions	126.6%	123.7%
Solvency capital, EUR million	10,791.8	8,917.7

The time horizon in managing pension assets is always longer than a year. Each year's result counts, but not every year can be exceptionally good. In investment operations, possible gains are always tied to risk. We must maintain a risk level that allows us to meet the requirement of productivity and security at all times. Success in this target can be measured through, for example, solvency and long-term returns on investments.

The long-term return is also used by the Finnish Centre for Pensions in forecasting future changes in pension contributions. The Finnish Centre for Pensions has estimated in its calculations that an average of 2.5 per-cent real return will be achieved on pension assets until 2028. After that, it predicts that the real return will rise to 3.5 per cent.



RESPONSIBLE AND SUSTAINABLE INVESTMENT DECISIONS

Ultimately, all our investment decisions are governed by the statutory requirement that pension assets must be invested profitably and securely. This is only possible if we prepare well enough for the risks involved in investment operations and are able to take into account all aspects related to the performance of our investees.

Our Board of Directors approves each year an investment plan that guides the investment operations and monitors its implementation. The plan lays down the targets for risk-taking and investment allocation, i.e. the distribution of investments across various asset classes. The Board of Directors also decides on investment authorisations. Ilmarinen's investment organisation is in charge of investment operations.

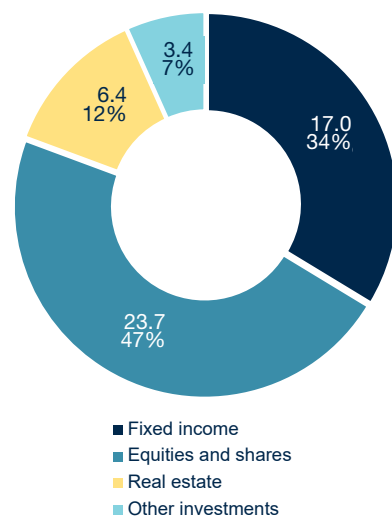
An essential part of investment risk management consists of identifying global and local developments that shape companies' operating environments and affect their opportunities and ability to produce economic added value for their owners. That is why we take factors related to the environment, human rights and ownership policy into account when making investment decisions. These aspects of responsible investments are often referred to as environmental, social and governance issues, or ESG issues.

Our view on responsible investment is described in our Responsible Investment Policy. It is a document approved by our Board of Directors, which also bears testa-

ment to its important role in our operations. It was last updated in late 2019. The Policy applies to all Ilmarinen's asset classes from listed investments to non-listed companies, corporate bonds and real estate. The special characteristics and requirements of each asset class are taken into account.

The update did not change our general approach to responsibility: our investment activities are still guided by compliance with international norms, active ownership and the integration of responsibility into portfolio management. The biggest change was that we decided to set an ambitious goal of investing the pension assets under our management carbon neutrally by the end of 2035. We set the same time frame for the target as the Finnish government, for example.

MARKET VALUE OF INVESTMENT ASSETS (EUR 50.5 BILLION) BY ASSET CLASS



Carbon neutral pension asset management seeks real emission reductions

In theory, the easiest way to build a carbon neutral investment portfolio is to remove the most polluting companies. However, this will have no impact on the real emissions, especially not in the short term. Our goal is to help ensure that our investees deliver real emission reductions, which result in a decline in total emissions.

Carbon neutrality in investments by the end of 2035 is a goal that gives special consideration to the risks and opportunities created by climate change for investors. Climate change and measures to combat it particularly impact the operations of companies that are dependent on fossil fuels. For example, changes in emissions trading and possible carbon duties between market areas influence companies' finances. To the extent that these measures increase the costs of business based on the manufacture or use of fossil fuels, they increase demand for renewable and low-carbon energy. Business related to climate change mitigation thus also opens up new investment opportunities.

Market mechanisms leading to a rise in the price of carbon were expected already last year. Market mechanisms, i.e. a global emissions trading system, are the last significant

item in the 2015 Paris climate agreement, under which it was agreed to limit global warming to 1.5°C. The Madrid climate summit in December failed to reach an agreement on the mechanisms; instead, it left the decisions to the Glasgow summit to be held this year.

The assumption is that these changes have not yet been factored into the prices of investment products. From an investor's viewpoint, it is not a matter of whether, but rather when governments will take climate action. And whether new legislation will enter into force or not, climate change is a risk and opportunity for investors. For example, global warming will extend the growth season in Finland, but on the flip side, drought and pests will increase forest damage. The increased frequency of extreme weather events, in turn, will influence operations and transports in various industries.

Carbon neutrality is an ambitious target

We favour lower-carbon companies in our portfolio and require our investees to make a move towards a lower-carbon society. In addition, we require our investees to incorporate the goals of the Paris climate agreement into their strategy and reporting. This entails, for example, setting Science Based Targets for reducing emissions.

As part of the carbon neutrality target, we do not invest in companies with carbon-intensive operations that are highly dependent on fossil fuels and do not have sufficient emission reduction targets.

We use carbon risk calculation to assess companies that are dependent on fossil fuels. In the calculation, the investee's business areas are divided into three categories: high carbon risk operations, medium carbon risk operations and low carbon risk operations. High carbon risk operations include the manufacture and use of fossil fuels. Fossil fuels include, among other things, coal, fossil oil and natural gas. The use of coal in energy production, for example, causes huge environmental impacts, while there are alternative solutions to replace it. Financial risk arises when several investors avoid the sector. However, coal is necessary for steelmaking, and there are no credible alternatives for steel in all applications.

If more than 30 per cent of a company's business consists of high carbon risk operations, we can only invest in the company based on a more detailed assessment. We will gradually lower the limit to 15 per

cent by the end of 2025. We carry out the assessment using MSCI carbon risk calculation and classification.

Our detailed assessment of the companies exceeding the limit concerns, among other things, changes in their strategy, the comprehensiveness of reporting and their emission reduction targets. In addition, the investment decision can be influenced by the company's position in its peer group; for example the size and time frame of its emission reduction targets compared to other companies operating in the same sector.

A transition towards renewable energy production, even if it happens gradually, also has significant impacts on human rights. Poorer and emerging economies are more dependent on fossil fuels than developed economies.

The assessment of human rights impacts as a whole is an important part of climate action. Combating climate change is also a prerequisite for maintaining a stable social situation and thus a condition for the long-term, productive and secure investing of pension assets. By incorporating climate factors into our investment decisions, we can participate in building a successful future based on a sustainable, just transition.

Our previous climate policy targets were adopted in 2016, and the targets were determined until the end of 2020. However, climate science and the understanding of investors' role in mitigating climate change have changed substantially since the previous policy was drawn up. None of the 2016 targets can or should be ignored, but there

INVESTMENT PORTFOLIO'S CARBON FOOTPRINT IN RELATION TO NET SALES

GRI 305-4

	2019	2018
Direct listed equity portfolio's carbon intensity (tCO ₂ e/EUR 1 m, net sales)	238	265
Direct listed equity portfolio's carbon intensity in relation to aggregate benchmark (per EUR m, net sales)	- 1%	- 31%
Direct listed equity portfolio's carbon intensity (tCO ₂ e/EUR m, invested)	145	277
Direct listed equity portfolio's carbon intensity in relation to aggregate benchmark (per EUR m, invested)	- 13%	2%
Direct listed equity portfolio's absolute emissions (tCO ₂ e, Scope 1+2)	1,579,240	1,660,031
Direct listed equity portfolio's absolute emissions (tCO ₂ e, Scope 1+2+3)	15,607,735	-
Direct listed corporate bond portfolio's carbon intensity (tCO ₂ e/EUR m, net sales)	170	316
Direct listed corporate bond portfolio's carbon intensity (tCO ₂ e/EUR m, invested)	286	371
Direct listed corporate bond portfolio's absolute emissions (tCO ₂ e)	678,258	831,691
Direct listed corporate bond portfolio's absolute emissions (tCO ₂ e, Scope 1+2+3)	6,267,656	-

We review the carbon risk of our investments by calculating the carbon footprints of our equity and corporate bond portfolios. The carbon footprint is a good indicator for bringing climate risks to the fore and making comparisons between companies operating in the same sector. However, they do not reveal the whole truth of the investments' climate impacts. Calculation methods vary and there are substantial differences between the various sectors. As a general rule, it is not possible to take into account the full life cycle emissions.

The table reports the carbon footprint of companies contained in Ilmarinen's direct equity and corporate bond portfolios. The calculation includes direct emissions (scope 1) and some indirect emissions (mainly purchased energy i.e. scope 2). (GRI 103-3)

For the carbon footprint, we have reported the amount of carbon dioxide equivalents, i.e. the amount of various greenhouse gas emissions of all of our investee companies, commensurated into carbon dioxide tonnes in relation to the companies' net sales. This is our primary reporting method. We also report the amount of greenhouse gas emissions in relation to invested euros. In addition, we report the absolute greenhouse gas emissions of the investees in tonnes of carbon dioxide equivalents.

The equity portfolio's emissions have been compared with an aggregate benchmark which corresponds to the combination of parent indices corresponding to the benchmarks used by Ilmarinen in its investment operations.

SHARE OF SDG AND CLIMATE CHANGE SOLUTIONS OF THE NET SALES OF COMPANIES IN THE DIRECT EQUITY PORTFOLIO (KPI 7)

	2019	2018	GOAL 2020
Share of SDG business of the annual net sales of direct listed equities	9.2%	7.9%	12%
Share of business related to climate change solutions of the annual net sales of direct listed equities	6.2%	4.5%	

An external party assesses the business volumes related to sustainable development solutions (SDG – sustainable development goals). We do not approve companies if part of their business significantly slows down the achievement of SDG goals, even if part of it were to support the goals. Reaching the goal has proven to be a challenge because it is difficult to find investees that meet the financial criteria.

was an obvious need for new targets.

This new knowledge will affect our goals also in the future. We have not yet decided on all the means that we will use to reach carbon neutrality. We will break the target down into shorter interim targets and monitor our journey. We will set the next interim targets once we get results for the targets that we have published now.

The environmental organisation Greenpeace assessed the climate policy of Finnish pension companies in late summer and named us a falterer in climate matters. Following the criticism from the NGO, we discovered that there was an error in the data used as the basis for investment decisions. As a result, our investment portfolio contained a company that did not meet the investment criteria that we had set ourselves. Once we became aware of what had happened, we took action: we conducted a critical review of our process and exited from our holding in the company in question. After these changes, Greenpeace upgraded us to the category “climate champions”.

Less coal in portfolio – 1.75-degree scenario requires more renewables

We have analysed Ilmarinen’s equity and corporate bond portfolio investments using the PACTA (Paris Agreement Climate Transition Assessment) methodology. This study is based on the International Energy Agency’s (IEA) transitional scenarios extending until 2024. The analysis was carried out for investments in fossil fuels, energy production and the automotive sector.

We also looked into how well our investment portfolios will be aligned with the 1.75-degree goal in 2024. The study, carried out a year ago, showed that Ilmarinen should increase corporate bond investments in renewable energy sources and reduce equity investments in oil production and corporate bond investments in coal production.

Compared to the situation one year ago, the corporate bond portfolio’s investments in coal have fallen significantly. Investments in renewable energy, on the other hand, must be increased in order for us to be in line with the goal. Investments in hydro-power are higher in both equity and corporate bond portfolios than in a market portfolio that is in line with the climate target.

With regard equity investments in oil production we are almost approaching the target level.

With regard to the automotive sector, we should increase investments in electric and hybrid vehicles in both the equity and corporate bond portfolios. Many car manufacturers have significantly increased the production of electric and hybrid cars, which means that the change will show up in our investment portfolio with a slight delay.

PERCENTAGE OF COMPANIES THAT HAVE REPORTED ON GREENHOUSE GAS EMISSIONS

	2019	2018
Percentage of companies that have reported on greenhouse gas emissions, listed equity investments	91%	81%
- of which have reported widely	86%	90%



	2019	2018
Percentage of companies that have reported on greenhouse gas emissions, corporate bond investments	68%	64%
- of which have reported widely	85%	97%



SHARE OF RENEWABLE ENERGY AND COAL OF THE ELECTRICITY PRODUCTION OF ILMARINEN’S INVESTEE POWER COMPANIES

	2019	2018
Share of renewable energy of electricity production in direct equity investments	31.5%	25.4%
Share of coal of electricity production in direct equity investments	5.0%	3.7%
Share of renewable energy of electricity production in corporate bonds	31.8%	22.1%
Share of coal of electricity production in corporate bonds	6.2%	17.1%

” Our goal is to help ensure that our investees deliver real emission reductions, which result in a decline in total emissions.

Mikko Mursula, Ilmarinen’s Chief Investment Officer

RESPONSIBILITY IS PART OF ALL OUR INVESTMENT DECISIONS

Sustainability analysis is part of the process with which we select our investees. When selecting investees, our portfolio managers can view sustainability ratings in our databases along with financial information. The basis of the rating system is a combination of sustainability rating standards created by third parties, which we adapt with analyses and conclusions from internal and external sources.

In 2019, we improved the integration of responsibility into our investment decisions by developing our own responsibility tool, which functions as a databank for portfolio managers.

The analysis on which the sustainability ratings are based involves a broad spectrum of risks and opportunities linked to the sustainability of business operations as well as realised business risks and norm violations. Investing in companies with lower ratings always requires a more detailed pre-assessment.

Investing in companies for which a norm violation has been established and which have failed to take corrective action is only possible if an engagement process is underway. If we end the engagement process without finding a solution, we will sell our holding if possible. If the company committing norm violations subsequently rectifies its activities, investing in it can be reconsidered through the normal investment process. (GRI 103-2)

Investment operations make use of ESG benchmark indices, which place an emphasis on sustainability. The ESG index is based on ratings created by MSCI. The index includes the companies with the best sustainability rating in each sector and area that represent 50 per cent of the market value of the corresponding parent index. Companies that manufacture, for example, tobacco products or certain controversial weapons, and companies that have committed serious breaches of international norms are excluded from the indices.

The introduction of ESG benchmark indices creates an even closer link between responsibility and investment practice. The ESG benchmark indices do not cover Ilmarinen's listed equity portfolio in its entirety. The market value or trading volume of many shares listed on the Finnish stock exchange, for example, is too small for them to be included in the indices. Consequently, non-inclusion in the index does not automatically mean that the company is irresponsible; therefore, it is important to use a variety of tools to obtain an overall assessment of a company's sustainability.

The responsible investment management team is in charge of drawing up and updating the Responsible Investment Policy and the related practical guidelines. The management team consists of the President and CEO, the Chief Investment Officer and representatives of the Investment division, Legal Affairs and Communications. Ilmarinen's investment organisation is in charge of implementing the policy.

The responsible investment manage-

ment team prepares, decides on and co-ordinates the key ownership policy principles, such as voting in General Meetings and positions on the largest owners' joint statements and proposals prior to General Meetings.

The Investment division is responsible for operational sustainability analyses and their integration into the selection process as well as the sustainability monitoring of our investments. The responsible investment team includes a responsible investment manager and two responsible investment analysts. The team operates under the head of allocation.

(GRI 103-2)

We report regularly on the management of pension assets and pension provision.

We publish quarterly reports on the return on Ilmarinen's investments and solvency. This allows our current and future customers and other stakeholders to monitor how we have managed pension provision.

In addition, we annually report information related to the impacts of our investments in our Sustainability Report. We draw up this report using the international GRI framework and use the international TCFD reporting.

One of the TCFD's key recommendations is that companies should take into consideration different global warming scenarios in a changing business environment and make use of scenario analysis. Ilmarinen is already using different climate scenarios in the background analysis of its investment operations. In our opinion, it is also important to carry out various scenario analyses concerning the investment portfolio structure, regardless of challenges related to the

” We hope that as many investors as possible will take climate change and its risks into account. The more investors join in, the easier it is for us to achieve our goals.

Anna Hyske, Ilmarinen's Head of Responsible Investments

analyses and calculation methods.

We assess that our operations largely comply with the TCFD's recommendations. However, the calculations and scenario analyses still involve challenges related to, for example, the reliability of information. These challenges occur, for example, in calculating the portfolio's carbon footprint, where it is possible to obtain different results depending on the calculation method. We wish to convey as realistic a picture as possible of our carbon footprint. The calculation method chosen for our report uses the industry averages for emissions for which no public, verified data is available.

Alongside the Sustainability Report, we release information on our engagement processes once a year and on the companies we engage with in connection with the annual Nordic Engagement Cooperation report. We draw up a separate report on our responsible investment practices based on the Principles of Responsible Investment (PRI) guidelines. (GRI 102-12)



We developed our own responsibility tool, which functions as a databank for portfolio managers. The work supports the achievement and monitoring of climate targets.



We will invest pension assets carbon neutrally by the end of 2035.

The first measures for achieving carbon neutrality were published in February 2020.



We shifted the focus of passively managed investments to sustainable and price-competitive index funds. We transferred in excess of EUR 3 billion to them from passive investments.



Ilmarinen's responsible investment team now has three members.



We rang the bell at the New York Stock Exchange in connection with the launch of a new sustainable index fund. We were actively involved in developing funds.



We excluded companies manufacturing cannabis for recreational use from our investees.



International investors evaluated our sustainability efforts as excellent. We ranked 22nd in the IIRI 2019 survey.

In the Principles of Responsible Investment (PRI) comparison, the grades given to Ilmarinen mostly varied from excellent to average.

We shifted the focus of passive investments to sustainable funds

In 2019, we transferred assets worth more than three billion euros to new, competitively priced passive funds integrating sustainability goals. We have investments in a total of four ESG-oriented ETFs, i.e. sustainable, exchange-traded index funds. These funds track the sustainability indices produced by MSCI.

The investments we made last year shifted the focus of the passively managed investments to sustainable and price-competitive index funds. We were actively involved in developing funds investing in the US and European markets. As recognition for our work, we were invited to ring the closing bell at the New York Stock Exchange in connection with the launch of a new sustainable index fund. The key reason for the recognition was that, due to our initial investment, the launch of the fund in question was the largest launch of an ETF fund in the history of the United States.

At the turn of the year, some 70% of the passive investments were in sustainable funds. This share rose in February 2020 when we participated in the launch of a new ETF that tracks a sustainability index investing in the emerging markets. Our goal is for more than 90 per cent of our passive investments to be in sustainable funds by the end of 2020.

- Responsible investment in Ilmarinen, download our principles ›

CLIMATE CHANGE IS A RISK THAT INVESTORS MUST TAKE INTO ACCOUNT

GOVERNANCE (G)

a. Board supervision in climate-related risks and opportunities

Our Board approves the Environmental Policy and the related Climate Policy. In the Climate Policy we have identified high-level risks and opportunities that are related to climate change. Ilmarinen's Board of Directors has approved the high-level carbon neutrality target to be achieved by the end of 2035. We present the results of the climate work to the Board of Directors at least once a year as part of reporting and approval of policies.

b. Executive management's role in assessing and managing climate-related risks and opportunities

The responsible investment management team is responsible for implementing the policies in our day-to-day work. The responsible investment management team provides guidance and defines how risks and opportunities are integrated into the process of making investment decisions. The team sets interim targets as part of achieving the carbon neutrality target.

STRATEGY (S)

a. Identifying and managing climate-related risks and opportunities with different time perspectives

The most significant and largest-impact climate risks and opportunities are related to our investment assets. In terms of our own operations, the impacts are minor. Indirect risks mainly arise through our customers' business.

We address climate-related themes as part of normal portfolio management in meetings with company management and in connection with engagement processes. We released new practical guidelines for responsible investment approved by the responsible investment management team in February 2020. The practical guidelines state how we will achieve the Climate Policy goals for the carbon neutral investing of pension assets by the end of 2035.

b. Impacts of climate-related risks and opportunities on business, strategy and financial planning

Our Board of Directors handles climate issues at the policy level and approves long-term climate targets. The responsible investment management team manages and identifies climate risks and opportunities and decides on the climate target's interim targets and measures within the framework of responsible investment.

The significance of climate impacts depends on, for example, the industry and geographical location of investees. As part

of the carbon neutrality target, we do not invest in companies with carbon-intensive operations that are highly dependent on fossil fuels and do not have sufficient emission reduction targets. We favour low-emission investees and examine the business opportunities resulting from climate change. Furthermore, we encourage our investees to set science-based targets and to incorporate the objectives of the Paris climate agreement into their strategies. Practical instructions for achieving carbon neutrality have been created for a five-year period. We continuously review the interim targets in light of our experiences and other information. More details on our climate action and carbon neutrality targets are available on page XX of this report.

c. Sustainability of the climate strategy under scenario analysis

We have made scenario analyses and more are needed. Calculation methods need to be developed before the scenarios can be used as a material part of portfolio management. At the moment, scenario analysis mainly provides useful information for meetings with investee representatives and engagement processes. They also help identify investees that require further investigation.

TCFD

TCFD is an international disclosure framework that helps companies incorporate climate-related financial disclosures into their reporting. Below is our analysis of our operations according to three themes as specified in the framework:

- governance (G)
- strategy (S)
- risks (R)

In addition to these, separate metrics and targets (M).

RISK MANAGEMENT (R)

a. The company's processes for identifying, assessing and managing climate risks

In addition to external service providers, we use in-house analysis for identifying and assessing climate risks. Our portfolio managers have at their disposal various databanks and analyses that also take into account other themes that are important for responsible investment along with climate risks.

In real estate investments, for example, we have applied the life-cycle approach in calculating the profitability of projects for a long time. We apply for LEED certification for all new construction projects. The minimum requirement is gold level.

b. The company's processes for integrating climate risks as part of overall investment risk management

At this stage, we are still focussing on making point one more systematic on the portfolio management level. After that, climate risks will be integrated into the whole organisation's overall risk management. We have discussed how climate risks could be taken into account more extensively, for example, as part of solvency calculation.

METRICS AND TARGETS (M)

a. The calculation methods used in assessing climate risks and opportunities

We use an external service provider for calculating the carbon footprint, for example. The figures for 2019 were calculated by Engaged Tracking.

The calculations are based on averages where no public, verified data on emissions is available.

In addition to carbon footprint calculation, we use data produced by various service providers to assess climate risks and opportunities. We regularly carry out different scenario analyses using the PAC-TA tool, for example.

b. Scope 1 and 2, also scope 3 where possible

We disclose our carbon footprint for both direct equity and fixed income investments (scopes 1 and 2 and separately scope

1+2+3) and report extensively on the climate impacts of our real estate investments, for example.

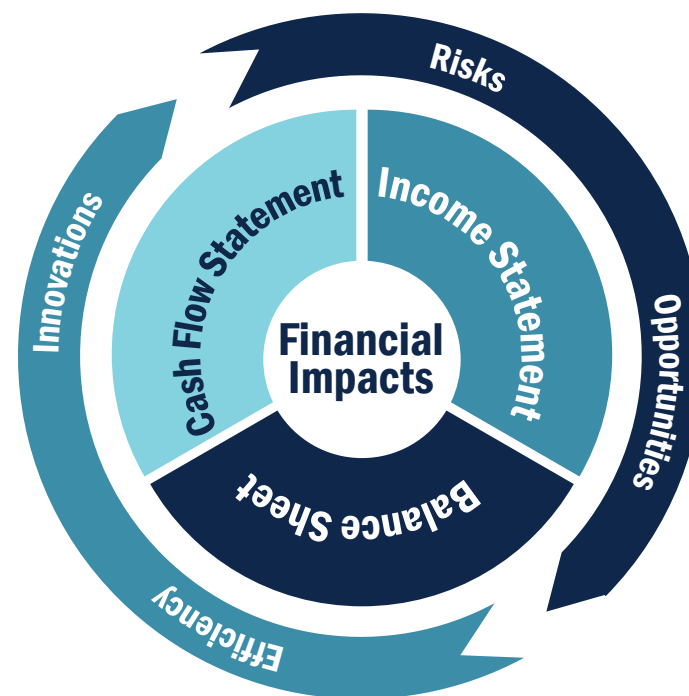
We have also calculated the scope 3 emissions of our investments. Variations in terms of different calculation methods are still high and the same emission sources are included several times over, which is why we take the figures and the resulting conclusions with a grain of salt.

c. Setting and monitoring of targets related to the management of climate risks and opportunities

We have published climate targets and a roadmap for 2020–2025. Our goal is to invest pension assets carbon neutrally by the end of 2035. The interim targets have been set for five years by the year 2025. As part of our corporate responsibility reporting, we monitor the realisation of the targets on an annual basis. The targets are regularly reviewed in light of our experiences and other information.

The identification of climate-related risks and opportunities is an essential part of the TFCF reporting framework. These risks and opportunities have financial impacts that investors should take into consideration. The impacts can affect the balance sheet, income statement and/or cash flows.

A strong balance sheet and a healthy cash flow make it easier for a company to develop its operations and respond to climate change challenges, while at the same time capitalising on the opportunities brought by climate change. The impacts can also be viewed the other way round: a company that is able to rise up to the challenges and opportunities of climate change is likely to reap the financial benefits better than its competitors.



GRI 201-2

Transition risks, i.e. risks that are related to the transition towards a lower-carbon society are related to, among other things, regulations, technology, market changes and reputation. The energy and automotive industries, for example, are particularly exposed to the impacts of transition risks.

The physical risks of climate change are divided into acute and chronic risks. Acute risks include risks related to extreme weather events, such as floods and hurricanes. Chronic risks include, for example, permanently higher temperatures and the ensuing sea level rise. Sectors particularly exposed to physical risks include the forest sector, agriculture and real estate, to name a few.

Climate change also brings about opportunities through, for example, improved efficiency, energy sources, new products and services and new markets. Climate change adaptation also creates business opportunities in various sectors.

We strive to identify these risks and opportunities in all sectors and factor them into our investment decisions.

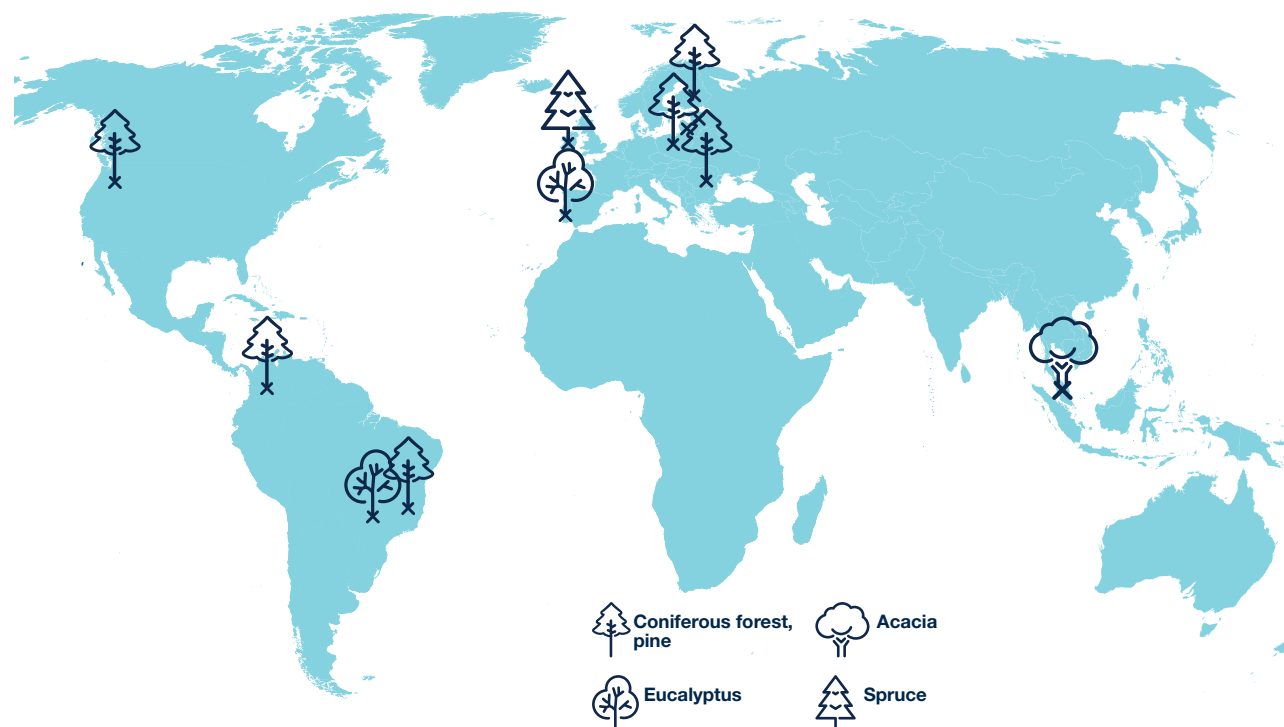
FOREST HOLDINGS' CLIMATE RISKS AND OPPORTUNITIES

We have a total of 210,000 hectares of forest holdings through various companies. This figure does not include investments in listed companies which own forests in addition to engaging in other business operations. Our forests are located throughout the world, as you can see on the map. We have not made forest investments in Australia or in the Amazon region which have been plagued by extensive forest fires, but climate change creates risks and opportunities for our holdings in other parts of the world. As part of the climate change risk survey, we have looked into our forest holdings, recording especially risks and opportunities related to climate change from a forest investor's perspective.

Climate change is shaping our environment in many ways, causing both negative and positive impacts for forest investors. The impacts depend on the location of the forest: for example, global warming causes drought in some parts of the world and extends the growth season in others. We have listed here some of the general climate change risks for forest investments:

- Drought exposes forests to fires
- Loss of biodiversity
- Disturbed growth
- Increase of pests
- Other land use needs
- Wind damage
- Problems caused by frost-free soil to roots
- Increase of snow damage (Northern Finland)
- Invasive species and fungi

ILMARINEN'S FORESTS GLOBALLY



Regarding the forests owned by Ilmarinen through companies, the longer growth seasons in Finland are offset locally by drought, excessive precipitation, damage caused by snow and wind and damage caused by pests and fungi. The negative impacts can be mitigated and minimised by, among other things, applying forest management methods that favour the diversity of tree species and promote the health of forests. The forest road network, active identification of beginning fires and availability of resources are significantly

reducing forest fire risks in Finland.

Forests are also not burned to any significant extent as part of land use, which would mean that the fires could spread. Drought and the ensuing forest fires are thus not a major problem for Finland, unlike for many other countries, as we saw during 2019. For example. But, in Finland, the milder winters resulting from climate change prevent the soil from freezing, which, together with increased rainfall and wind, causes more destruction during win-



Ilmarinen's forests, hectares

2019	210,000
2017	169,128

ter storms.

Milder winters and reduced frost make mechanical wood harvesting more challenging. Forest roads are soft, which may lead to transport problems and make access more difficult in the event of a forest fire. These risks can be reduced by better identifying the weak spots in both forests and road networks, by using appropriate machinery and by maintaining roads that have a sufficient load-bearing capacity.

Outside Finland, in Estonia, for example, thaw-weakening is a major challenge. In Romania, the forest company Tornator, which we own, has been building a forest road network and the company's forest roads are in better condition than the local level in general. Forest fires are a greater risk in these areas than in Finland due to, among other things, continuous cover forestry. On the flip side, continuous cover forestry increases the area's biodiversity.

Climate change also creates opportunities for forest holdings. It is thus not all about risks. Reaching carbon neutrality requires carbon sinks, alternatives for fossil fuels and materials and jobs as part of a lower-carbon society.

Forest investments' opportunities:






- Carbon sinks
- Maintenance of biodiversity
- A vibrant and healthy environment
- Cultural values
- The ability of wood and pulp products to replace other materials
- Increasing growth rate in, for example, Finland

Land use and forests are practically the only carbon sinks currently in use. While capturing carbon dioxide from the atmosphere on an industrial scale is still at the pilot stage, it is important, from a climate change perspective, to take care of our carbon sinks. This does not mean that the forest cannot be used. To strengthen the carbon sinks, we must ensure the growth and health of forests, increase their volume and improve the degree of processing of forests. Expanding the possible applications for wood creates opportunities for investors. Wood can replace more polluting materials in construction, as a raw material, and, in future, increasingly in the textile industry, among other applications. The majority of our US-based investee Lewis & Clark's products are used in construction, which sequesters carbon for a very long period. On the other hand, even short-term carbon sequestration can be useful in combating climate change, if it can replace high-emission materials and land use. An example of this is the use of wood pulp in the textile industry instead of cotton.

The use of wood is perfectly in line with circular economy thinking, where material can be recycled and reused several times over. In a low-carbon society, particular attention should be paid to the carbon cycle overall.

It is important for us that, in addition to legislation, the forest companies we own also comply with various certification criteria in managing their forest assets. Risks related to land ownership and land use must be taken into account as part

TABLE ON CLIMATE CHANGE DAMAGE IN FINNISH FORESTS

Risk*	Current situation	Future estimate	
Forest fire risk	0.2%	1.0%	
Utilisation ratio of destroyed trees	0%	0%	
Pest damage risk	3%	12%	
Utilisation ratio of destroyed trees	50%	70%	 
Root rot risk	10%	30%	
Utilisation ratio of destroyed trees	50%	70%	 

Risk = Probability of risk in the damage risk area as annually recurring damage.

Source: Tornator

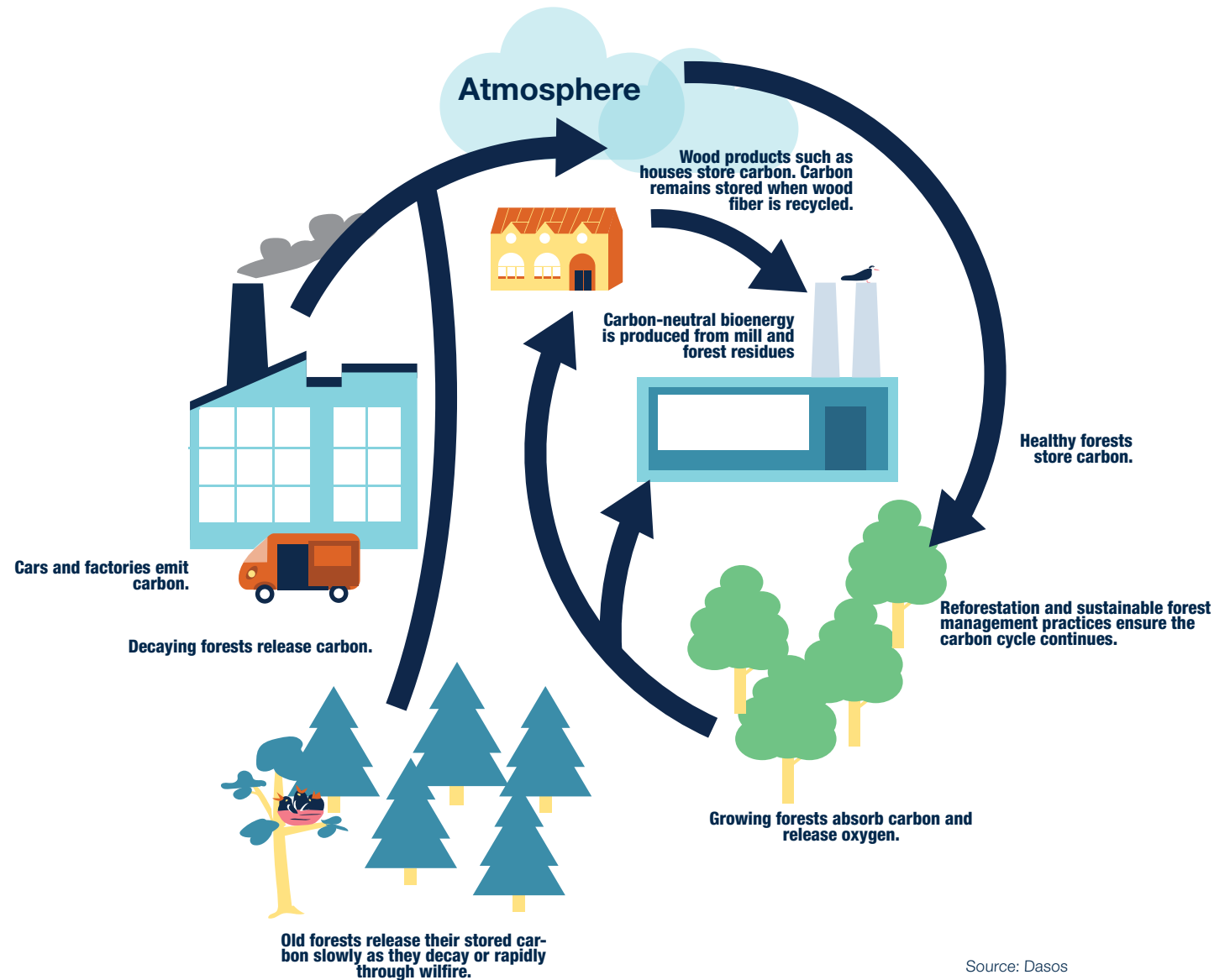
” To become interested in sustainability does not mean you need to be interested in the environmental perspective. It is enough to be concerned about the risk management of investment operations.

of forest investments. Risks arising from human activities and partly also from natural disasters can be reduced by training personnel, paying attention to the planning and execution of operations, understanding local conditions and engaging local communities. Comprehensive or financially sensible forest insurance is not available in all parts of the world to cover damage. As part of risk management, we have diversified our forest investments across geographical areas, different tree species and life cycle phases, as a result of which our forest investments fully meet our criteria for productive, secure and responsible investments.

In 2019, we surveyed climate change risks by, among other things, studying the impacts of the forests fires in the Amazon region on our direct and indirect investees and by organising two stakeholder dialogue events, one specifically related to forest investments and one related to carbon neutrality.

In order for us to reach our carbon neutrality targets, we must take care of our carbon sinks and grow them by taking economic and environmental aspects into consideration.

FORESTS AND CARBON CYCLE



Source: Dasos

OWNERSHIP MEANS POWER AND RESPONSIBILITY – WE ENGAGE WITH OUR INVESTEEES

For some time, active ownership has been a central aspect of our work as responsible investors. Our approach on how we operate as an active owner is defined in the Ownership Policy. Active ownership is our perspective on how we take into account issues related to the company's good governance, i.e. the ESG aspects' governance issues.

The focal point of our active ownership is Finnish ownership and direct engagement, which we implement, for instance, by participating in nomination committees and by voting in General Meetings. We engage in active dialogue with the management of the companies we own on, for example, sustainability issues. In the case of indirect ownership, fund management companies are responsible for active ownership. We regularly ask them about the implementation of active ownership, whether in writing

or in meetings.

The Ownership Policy is included in our Responsible Investment Policy. Among other things, it describes our expectations of companies. We consider it important that the companies openly report on their operations, disclosing, in addition to financial information, information about their governance, their corporate responsibility principles, their tax footprint and their diversity principles. We also outline our expectations concerning the agendas of General Meetings, the remuneration systems and the composition of the Board of Directors.

Ilmarinen's Board of Directors approves any and all memberships of Ilmarinen employees in the governing bodies of listed companies. In addition, the Board of Directors approves all other memberships of the President and CEO and the members of the Executive Group in the governing bodies of corporations outside of Ilmarinen. The President and CEO approves all of the work-related memberships of the remain-

SCREENING OF INVESTEEES FOR NORM VIOLATIONS REGARDING ENVIRONMENTAL AND SOCIAL ISSUES

	2019	2018
Screening for norm violations, percentage of listed equities	100%	100%
Screening for norm violations, percentage of listed corporate bonds	100%	100%
Screening for norm violations, percentage of Ilmarinen's total investment assets	65%	54%
Coverage of Ilmarinen's own sustainability ratings (percentage of direct listed equity investments)	90%	90%

In addition to national legislation, we require the companies we own to comply, among other things, with the principles of the UN Global Compact initiative and related international norms concerning, for example, human rights, labour rights, the environment and corruption.

An external service provider reviews our securities investments biannually and reports to us any detected and suspected norm violations. This review covers Ilmarinen's direct investments in listed equities, corporate bonds and derivatives with a single company as the underlying security and, where applicable, also funds. We take the norm violations that we are aware of into account in making new investment decisions. The primary approach in norm violations is to engage with the investee. Norm violations can lead to both existing and new investees being screened out.

We do not invest in companies that show indifference towards international norms. Investments are also not made in manufacturers of tobacco and recreational cannabis products or controversial weapons. We limit our investments in carbon-intensive companies.

ILMARINEN'S INTERACTION IN ENVIRONMENTAL AND SOCIAL MATTERS WITH COMPANIES INCLUDED IN THE INVESTMENT PORTFOLIO

	2019	2018
Interaction and contacts in environmental or social issues, companies included in the investment portfolio	161	101
Number of companies in Ilmarinen's direct equity portfolio	615	563
Interaction and contacts in environmental or social issues, percentage of companies included in the investment portfolio	26%	18%
Companies subjected to engagement measures	146	64
Companies under an engagement process at year-end (Global Compact)	16	12
Engagement processes completed during the year (Global Compact)	9	4
Engagement in connection with proposals to General Meetings	24	24
Companies on whose nomination boards we participated during the year	25	23

Interaction includes both Ilmarinen's own measures through engagement processes and other contacts through dialogue.

” We can't just walk away and wash our hands of it thinking it is someone else's problem. Ownership gives us power and it also gives rise to responsibility, even when everything is not as it should be.

Anna Hyske, Ilmarinen's Head of Responsible Investments

ing personnel in the governing bodies of non-listed companies.

As an owner, we participate in the nomination processes of the Board members of a number of Finnish listed companies. Through the nomination process, we promote the professional and responsible governance and management of the companies we own. As a member of Nomination Committees, we contribute to ensuring that the composition of the Board takes into account the company's business needs and development stages and the competence areas required by the Board of Directors and its committees. For us, diversity is one of the hallmarks of a well-functioning Board of Directors. (GRI 103-2)

We engage primarily in a positive way through active dialogue with our investees and by getting companies to change their operations. Simply excluding an investee does not necessarily create motivation for change in the short term. The significance of exclusion is only visible in the long term and only if a sufficient number of investors begin to avoid the company or sector.

Companies need change agents, wheth-

er external or internal. We engage with companies, together with investors and as part of a broader coalition. Our dialogue with companies is mostly confidential. The best results are achieved through dialogue and positive change, not publicly by putting their backs against the wall.

If continuing the dialogue poses a challenge, we can figure out alternative strategies. In spring 2019, we made a proposal as a shareholder to the oil company BP at its general meeting, which required the company to improve its integration of the Paris climate agreement into its future strategy. Getting proposals onto general meeting agendas is time-consuming and arduous. If the engagement does not lead to the hoped-for result, the last resort is to exit from ownership.

The situation in companies is rarely static: companies create new strategies, look for new opportunities in new sectors and sell their operations. A company showing poor performance can improve from a climate perspective or vice versa.

” Sometimes an investee may be pulling in the opposite direction to the owner. By lobbying against legislation intended to cut emissions, for example, the company may think it is securing its operations. However, if this occurs, it is easy to lose track of the big picture.

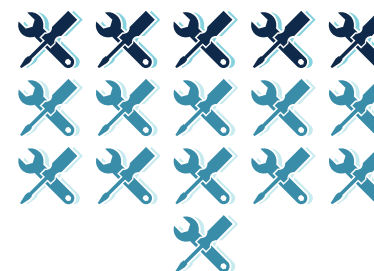
Anna Hyske, Ilmarinen's Head of Responsible Investments

ACTIVE PARTICIPATION IN GENERAL MEETINGS

	2019	2018
Number of General Meetings of companies listed in Finland in which Ilmarinen participated	107	93
Number of General Meetings of companies listed in Finland owned by us	113	105
Rate of participation in the General Meetings of companies listed in Finland (measured in numbers)	95%	89%
Rate of participation in the General Meetings of companies listed in Finland (measured in investment assets)	99%	99%
Voting in the Annual General Meetings of foreign companies	19	6
Rate of participation in the General Meetings of non-listed Finnish companies in relation to the value of the holdings	97%	-

We attend the General Meetings of the companies in which we are a major owner or where participation is appropriate, for instance due to a theme on the agenda. We annually report on our website on our participation in the General Meetings of listed Finnish companies and the votes cast. We expect any extraordinary motions to be explained in the notice of meeting. Our responsible investment organisation prepares voting instructions for each General Meeting. In drawing up the instructions, we take into account the principles outlined in our Ownership Policy, concerning, among other things, the independence of Board members, their remuneration and the authorisations sought in the General Meeting pertaining to share issues and the purchase of own shares.

If any of the General Meeting's motions are in deviation of our Ownership Policy, our primary goal is to hold discussions with the companies prior to the General Meeting and engage with them to reconcile the viewpoints.



During the year, Ilmarinen had a total of 16 on-going engagement processes, of which nine were completed. We continued active and proactive engagement through the Nordic NEC. The engagement process related to the textile industry was completed. We initiated an engagement process related to TCFD reporting with food producers.

Misconduct led to an engagement process

In early 2019, some cases of misconduct concerning the Finnish nursing services company Esperri Care came to light. Valvira closed one of the company's housing units for the elderly. The events sparked a widespread political debate concerning private nursing services in Finland.

In 2019, we were a minority shareholder in Esperri Care with a four per cent share. When the company's misconduct became known, we started an engagement process in accordance with our Responsible Investment Policy. The company began developing its operations and we have been monitoring its progress. The external quality group set up by the company released a report in January 2020 based on which the company will continue to improve the quality of its work.

In early 2020, as a result of discussions held with the company's main owner, Esperri Care will transfer into the ownership of Ilmarinen, Danske Bank and SEB. Through the arrangement, the lenders wished to secure the financing of the company's operations, which ensures that Esperri Care's

customers receive services, guarantees high-quality care for residents, improves the quality of operations and guarantees a supportive and stable work environment for the personnel. As a consequence of the ownership arrangement, our holding in the company grew to just under 20 per cent. Despite the change in our holding, we will continue the engagement process in accordance with our Responsible Investment Policy.

- Ilmarinen's Ownership Policy ›
- Nomination committee memberships and board positions of Ilmarinen employees (in Finnish) ›
- NEC Annual Reports ›



In 2019, the initiative Climate Action + 100 involved more than 450 investors with combined investment assets of more than EUR 40 trillion dollars. Investors have teamed up to engage with the 161 largest companies in various ways.

The international investor initiative aims at engaging with more than a hundred of the world's largest producers of greenhouse gas emissions. The emission data is based on data collected by Carbon Disclosure Project (CDP).



Ilmastokumppanit network created by the City of Helsinki and Finnish industry: The network of more than 60 companies and support members is committed to reducing their greenhouse gas emissions and mitigating climate change.



We also participate in the activities of the Finnish Climate Leadership Coalition and were one of the signatories of the resolution co-ordinated by the Coalition, in which Nordic companies, the financial sector and organisations demand that the EU and its member states agree on new, sufficiently ambitious climate goals to reinforce the Paris agreement.

” The risk levels of sustainable portfolios are lower than other portfolios. Sustainability can raise the return level or reduce the risk level.

Hanna Silvola, Associate Professor, Hanken

FINNISH OWNERSHIP

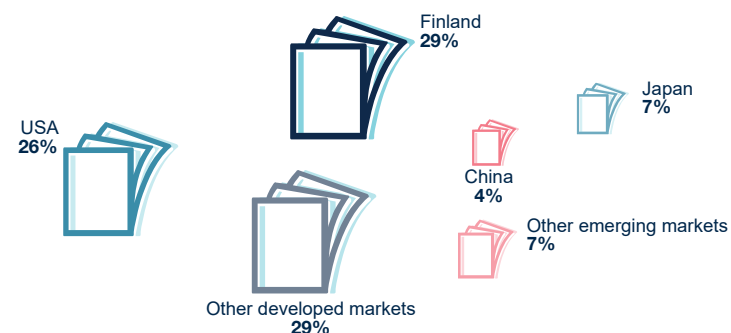
As an individual investor we hold an important position on the Finnish investment and financial markets. The success of Finnish companies affects the returns on the pension assets managed by Ilmarinen, for example, through the performance of listed shares. Around a quarter of the pension assets we manage are invested in Finland.

We are also one of the biggest developers in Finland. We build new business premises and residential buildings and develop our existing properties to meet our customers' needs.
(GRI 203-2)

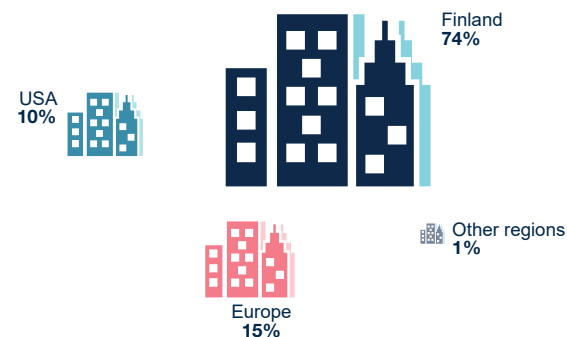
ILMARINEN'S MOST SIGNIFICANT FINNISH LISTED EQUITY HOLDINGS

		31 Dec 2019	31 Dec 2018
By value, EUR m			
Kojamo Plc	↑	455	264
Nordea Bank Plc	↑	282	190
Kesko Plc	↑	276	96
Sampo Plc	↑	269	155
UPM-Kymmene Plc	↑	269	200
Neste Plc	↓	264	274
Fortum Plc	↑	259	170
Kone Plc	↑	257	188
Stora Enso Plc	↑	257	216
Nokia Plc	↑	251	184
By share, %			
Nurminen Logistics Plc	↓	19.7%	19.8%
Digia Plc		14.6%	14.6%
Kojamo Plc	↓	11.3%	13.1%
Talenom Plc	↓	11.3%	17.2%
QT Group Plc	↑	10.2%	10.1%
Panostaja Plc		8.1%	8.1%
Martela Plc		8.1%	8.1%
Glaston Plc	↑	7.3%	7.2%
Citycon Plc		7.1%	7.1%
Capman Plc	↑	6.8%	7.1%

LISTED EQUITY HOLDINGS (EUR 18.5 BN) BY REGION



ILMARINEN'S REAL ESTATE (EUR 6.4 BN) BY REGION



In line with our investment strategy, we continued the diversification of our real estate investments also outside of Finland. Our goal is for 40 per cent of our real estate investments to be abroad.

WE BUILD THE HOMES AND WORKPLACES OF TOMORROW

We spend the majority of our lives at home and at work. The kinds of properties we build and maintain impact the lives of thousands of individuals.

In addition to people, buildings also have direct and indirect impacts on the environment. In Finland, around a quarter of consumed energy is used to heat buildings. Energy production, on the other hand, plays a significant role in terms of international emission reduction targets.

We invest in resource-efficient buildings that are healthy and safe for their users and located along good public transit connections. Our property development and the real estate services bought by us also significantly contribute to creating employment and increasing society's tax revenues. According to calculations by VTT and the Confederation of Finnish Construction Industries, for example one million euros invested in renovations will produce, on average, 16 person years. Ilmarinen invests some EUR 110 million in property development annually.



We committed to RAKLI's and the Ministry of the Environment's demolition green deal immediately at the start of 2020. Based on the agreement, we take the environmental impacts of real estate into account better than ever also at the end of the life cycle.



Our work to promote responsible and sustainable construction was recognised with RAKLI's Developer of the Year 2019 award. In property development, we take into account, among other things, the long useful life of buildings and material and energy efficiency.



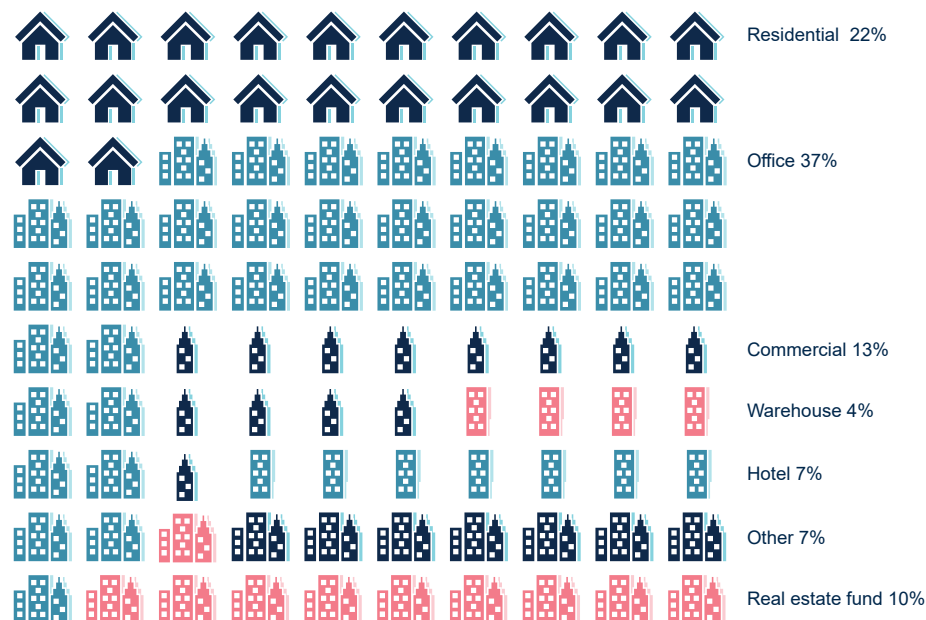
Visitor numbers to the second floor of Kämp Galleria have tripled and sales have grown significantly after the new sustainable and community-oriented Kämp Garden was opened.



The Mall of Tripla received the highest rating level of LEED environmental certification, platinum.

Sello in Espoo's Leppävaara achieved carbon neutrality in its operations and was selected as shopping centre of the year.

BREAKDOWN OF ILMARINEN'S REAL ESTATE INVESTMENTS (EUR 6.4 BILLION.): TYPES AND GEOGRAPHY





Customers' overall satisfaction
with leased office premises

2019	4.0
2018	4.0



Customers' overall satisfaction
with leasing, office premises

2019	3.8
2018	3.7

When measuring customer satisfaction, only the office buildings managed by us have been taken into account.



Completed homes (flats)

2019	368
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Overall satisfaction with real
estate maintenance

2019	4.0
2018	3.8



Overall satisfaction with real
estate development

2019	4.3
2018	4.3



Accessibility surveys in
Ilmarinen's flats

2019	500
2018	600

LEED-CERTIFIED PROPERTIES

Building	LEED
Building Operations and Maintenance	
Graniittitalo	Silver
Pääpostitalo	Gold
Grönqvistin talo	Gold
Aleksanterinkatu 17	Gold
Aleksanterinkatu 30-34	Gold
Aleksanterinkatu 44	Gold
Keilaranta 19	Gold

Building Design and Construction, new construction

Mall of Tripla	Platinum
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Building Design and Construction, major renovation

Mikonkatu 9	Gold
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LEED (Leadership in Energy and Environmental Design) is an international environmental certification system for buildings. The system is managed and maintained by the U.S. Green Building Council. LEED is the most extensively applied international environmental certificate for commercial buildings, which is used in 160 countries.

The certification has four levels of which LEED Gold is the second highest. Ilmarinen requires all of the new properties it has developed to achieve LEED Gold. Ilmarinen uses the LEED v4 tool kit version in its in-use certification, which is the strictest available version criteria-wise.

With LEED certification, properties' tenants can impact their own premises and develop their sustainability. At the same time, the involvement of the property's users is a requirement for receiving in-use certification: in addition to technical solutions, especially the daily activities of the property and its users are monitored. For example, as a result of the certification granted in December, the consumption of energy and water became more efficient and a larger proportion of waste is recycled.



Calculated effect of energy savings
measures on energy consumption
MWh/year

2019	5,252
2018	2,760

We have long worked to reduce the energy consumption of our properties. During the 2017–2025 term of the energy efficiency agreements managed by the Ministry of Economic Affairs and Employment, we participate in the agreement for rental flats (VAETS) and in the agreement for office buildings (TETS). Our goal is to achieve 10.5 per cent savings compared to the level reached during the previous term by the end of the agreement term.

The single largest factor in the growth of energy savings measures in 2019 was taking Leanheat into use as an energy consumption management method in the majority of properties. We also made many small energy efficiency improvement measures such as installing energy saving taps.

CARBON FOOTPRINT OF REAL ESTATE INVESTMENTS (KPI 7)

	2019	2018
Domestic real estate		
Finnish real estate total CO ₂ e/m ²	25	27
Warehouses kg CO ₂ e/m ²	17	14
Free-time residential buildings kg CO ₂ e/m ²	27	12
Offices kg CO ₂ e/m ²	27	32
Institutional care buildings kg CO ₂ e/m ²	25	26
Parking facilities kg CO ₂ e/m ²	18	6
Other kg CO ₂ e/m ²		23
Commercial buildings kg CO ₂ e/m ²	30	25
Hotels kg CO ₂ e/m ²	27	40
Residential buildings kg CO ₂ e/m ²	28	29
Foreign real estate		
Offices kg CO ₂ e/m ²	60	68
Commercial kg CO ₂ e/m ²	135	132
All real estate		
All buildings, kg CO ₂ e/m ²	37	42

CARBON FOOTPRINT OF NEW CONSTRUCTION

Carbon footprint per square metre (kg CO ₂ e/net m ² , emissions)	387	411
Carbon footprint per square metre (kg CO ₂ e/useful floor area m ² , emissions)	552	577
Carbon emissions from construction in relation to annual net sales (tCO ₂ e/EUR 1 million)	120	124

The figures include the greenhouse gas emissions arising from the energy consumption of the real estate portfolio. Our target is to reduce the carbon footprint of our real estate portfolio by 10 per cent by 2020 from the 2015 level, and by 20 per cent by 2025.

Emission coefficients have been calculated for purchased energy; national coefficients for electricity and location-based coefficients for district heating and cooling.

The life cycle carbon footprint of a building largely arises during the building's use. Energy consumption has the greatest impact on climate. The majority of the choices affecting greenhouse gas emissions during use are made in the design phase. In connection with new construction projects, we carry out energy simulations and assess the potential and profitability of renewable energy, such as solar and geothermal heat, as the buildings' energy source.

We calculate the carbon footprint of the properties we lease by dividing the building's total emissions by the leased area. For example, in a residential property being built at Punanotkonkatu 2 in Helsinki, the gross area of the building is approximately 9,700 square metres. The building's leased area is some 5,400 square metres, i.e. around 60 per cent of the gross area. In our office building the gross area of the building is some 57,000 square metres and the surface area of all of the leased premises is some 41,600 square metres, i.e. around 70 per cent of the gross area. The difference between the gross area and leased premises results from, for instance, lobby areas, stairwells and parking. By using the gross area as a divisor, we would get 30–40 per cent lower emissions intensity figures in these properties compared to the figures presented in the table.

WATER INTENSITY OF THE PROPERTIES OWNED BY ILMARINEN

	2019	2018
Water consumption of flats m ³ /m ² /year	1.07	1.09
Water consumption of office premises m ³ /m ² /year	0.26	0.21
Water consumption of foreign office premises m ³ /m ² /year	0.57	0.47

ENERGY INTENSITY OF THE PROPERTIES OWNED BY ILMARINEN

	2019	2018
Energy consumption of flats, kWh/m ² /year	155	142
Energy consumption of office premises kWh/m ² /year	198	180
Energy consumption of foreign office premises kWh/m ² /year	194	156

” As the end product of certification and the related development work, the tenants receive premises into which many of the factors linked to the building's functionality and environmental impacts have been incorporated better than before. It is important that our tenants can influence solutions that impact their day-to-day lives.

Niina Nurminen, Ilmarinen's Construction Manager

We annually measure the carbon footprint of our new buildings during their construction and throughout their lifecycle. If the buildings have parking spaces, these are also included in the calculations. As a result of our efforts, a declining trend can be observed in the carbon footprint of construction. In our life-cycle calculations, we use 50 years as the estimated useful life of a building. However, our design guidelines and execution are aimed at a useful life of 100 years. In the calculation of the carbon footprint of new buildings, we use the buildings' net surface area, i.e. the gross surface area calculated according to the inner surfaces of the buildings' outside walls. The difference compared to the calculation method for leased premises results from our service provider using building plans for calculating the emissions intensity of new buildings.

Our target is to reduce the carbon footprint of our real estate portfolio by 10 per cent by 2020 from the 2015 level, and by 20 per cent by 2025.

TAXATION OF PENSION ASSETS HAS SOCIETAL IMPACTS

The tax footprint describes tax revenue that accumulates for society from a company's operations. Companies' attitude towards taxes and how much tax they pay is under continuous societal debate. Our tax footprint consists of the payment of taxes by our operations, insurance and investment operations, and indirectly the investee companies.

Pension system taxation follows the same principles in Finland as in many other countries. A common feature is that all countries wish to avoid overlapping taxation on pension savings and thus support the accrual of pension funds. Overlapping taxation creates pressure to increase pension contributions.

The earnings-related pension contributions paid by employers, self-employed persons and employees are income-tax deductible. When an employee or a self-employed person begins to receive pension, he or she pays income tax on it.

Transfers of investment returns to the solvency buffer are also tax-deductible, which means that annual fluctuations in investment returns do not result in tax consequences. The calculation principles confirmed by the Ministry of Social Affairs and Health in advance define the earnings-related pension insurance company's profit in the profit and loss account. Its amount is determined by a reasonable return calculated on the guarantee capital or other capital and reserves.

As a mutual company, we do not have

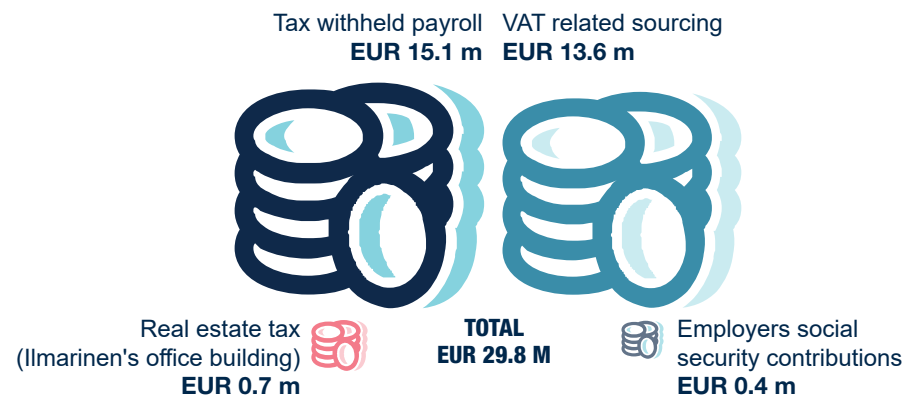
any guarantee capital, and thus no profit distribution. The company's capital and reserves belong entirely to the policyholders and insured. Even though the calculated annual return is taxable income for the pension company, no tax payable has arisen. The taxable income has been reduced by the tax buffers accumulated in the previous years.

Ilmarinen discloses all of its largest equity and fund investments with their domiciles in the notes to its financial statements. Investment returns from abroad, such as dividends, are subject to tax withheld at source in accordance with the tax agreements, which is tax payable on the returns to the country in question. The amount of the tax withheld at source and the applicable tax agreements vary from country to country and depending on the investment.

In line with our Ownership Policy, we wish the companies we own to report on their tax policy and their tax footprint and to present them in the Annual General Meeting.

We invest in non-listed foreign and some domestic companies as part of consortiums that include other Finnish and foreign investors. They often involve a tax specialist who plans an investment structure that is as tax-efficient as possible from the viewpoint of investors. This is a requirement of international investors in particular and the prevailing practice in the sector. The advance assessment of tax consequences is also important in order for us to be able to predict the net return on investment with regard to the beneficiaries, i.e.

TAXES RELATED TO ILMARINEN'S OWN OPERATIONS



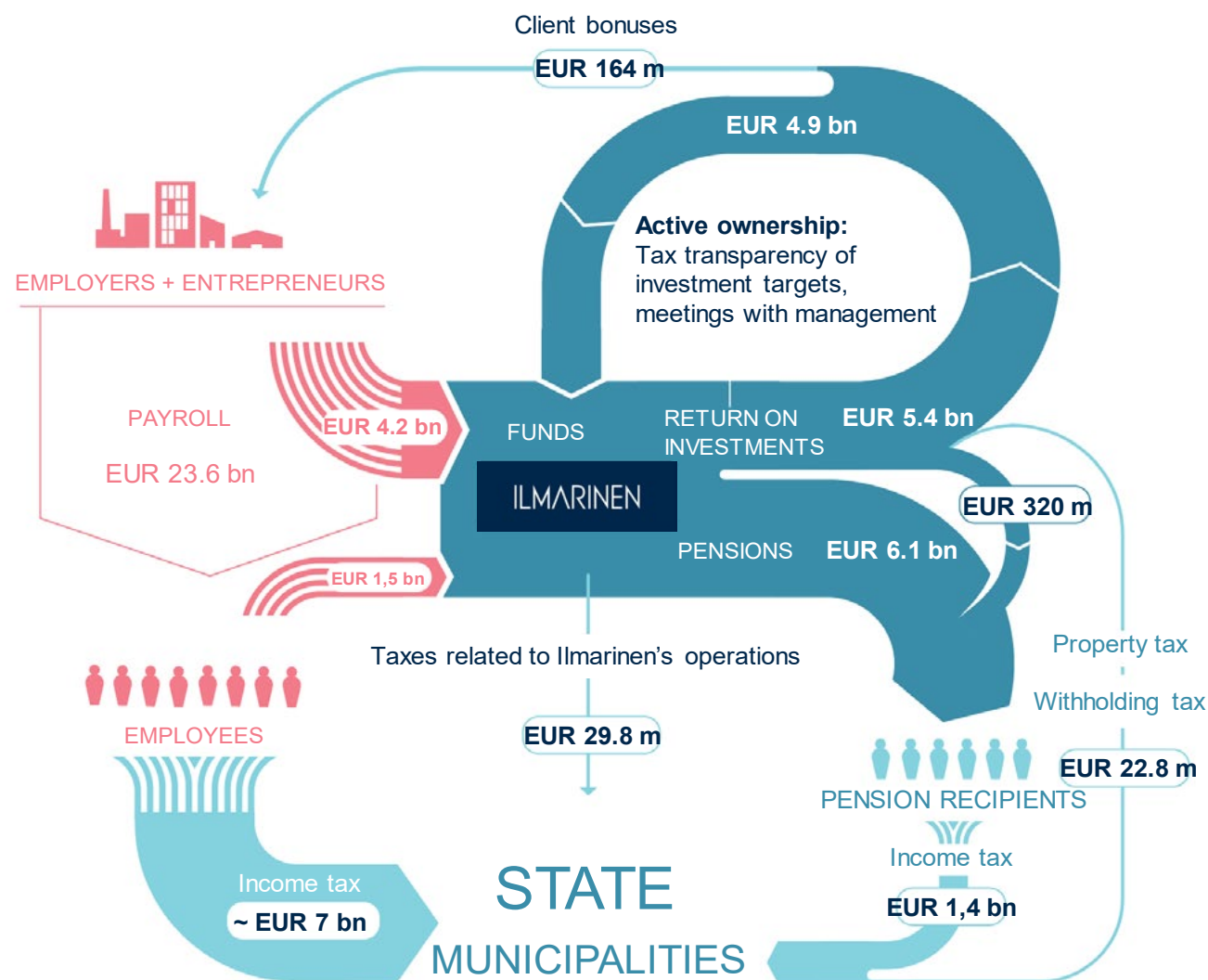
current and future pensioners. We monitor tax legislation and changes thereto to ensure compliance.

Ilmarinen, like other pension companies, has investments in countries that, according to some definitions, are considered tax havens. Such investments are practically impossible to avoid if the goal is to diversify the investment portfolio to a sufficient extent both geographically and across asset classes. We disclose all our largest equity and fund investments, including the funds' domiciles, in the notes to the financial statements.

The harmonisation of tax practices and structures is primarily the task of authorities. We keep a close eye on it and take it into account in our investment operations. The challenge with the existing structures is that an investor who wishes to act responsibly must significantly limit his or her choice of investment instruments.

Pension companies' operations are predominantly free of value-added tax. While Ilmarinen also pays VAT on its acquisitions, it cannot deduct these paid taxes from the VAT it charges, unlike parties that engage in taxable operations.

ILMARINEN'S TAX FOOTPRINT





WE WORK FOR YOU – TO SECURE YOUR PENSION

In the end, all of our work is intended to make sure you get the pension you have earned. To succeed in our mission, our team must have the best possible know-how to take care of your pension cover.

Managing pension cover is team work – between our employees and together with you and other stakeholders. Good co-operation requires openness and honesty. That is why we want you and all of our stakeholders to have sufficient information on how we operate.

WE MANAGE YOUR PENSION COVER RELIABLY AND TRANSPARENTLY – NUMBER ONE IN GLOBAL COMPARISON

When the Finnish Centre for Pensions looked into Finns' experiences concerning the pension system in its latest pension barometer, the result was clear as day: Finns know fairly little about the pension system. The older the respondent, the more they knew about pensions.

The lack of knowledge is not the result of a lack of available information. Last year, for the sixth time running, Finland's pension system was assessed to be the world's most reliable and transparent pension system in a comparison carried out by the Australian consulting firm Mercer. In the overall comparison our pension system came in fourth. The best points we received in the comparison were given for the reliability and transparency of administration.

Some improvement areas were also identified in the comparison. These included, for example, raising the minimum pension provision level, increasing the funding rate of earning-related pensions and the weak employment situation among the elderly. Also the sharing of spouses' pension rights would improve the scores in the comparison. It is easy to see from the list that the pension system is tightly tied in with many key

societal issues: for example the level of social security, employment and gender equality.

CODE OF CONDUCT STEERS GOOD GOVERNANCE

Openness and transparency are qualities that require continuous work if they are to be maintained. The basic level is to make available to everyone sufficient information on our operations. This gives our customers and other stakeholders the chance to assess our operations.

In addition to openness, important aspects include continuous development of good governance and a culture of full regulatory compliance. Ensuring regulatory compliance is often described as the compliance aspect of operations. Complying with regulations in day-to-day life requires us to be conscious of all regulatory changes related to our operations. The changes can apply directly to employment pension insurance companies or pension legislation, but equally to investment operations and related reporting in any marketplace where we have investments. Ilmarinen's lawyers support us in this work.

The compliance officer, who reports to the Senior Vice President of Legal Matters, plays a special role in ensuring good governance. He/she reports on his/her operational activities directly to the Board of Directors, the Audit and Risk Management Committee and the President and CEO. The Board of Directors annually approves the compliance action plan and monitors its implementation.

In the end, each employee is responsible for complying with regulations, regulatory guidelines and good governance principles and for intervening in any problems

they observe. There is an anonymous whistleblowing channel for our employees, through which they can report any suspected misconduct or other problems. In 2019, we did not receive any reports through the channel. The online Code of Conduct training, which provides guidance on good governance, is part of the introduction training for new employees. Around 67 per cent of employees starting with us in 2019 had completed the course by the end of the year. Also two members of our Board of Directors completed the course during the year. The Code of Conduct document is available to all on our website. (GRI 205-2)

Our guidance, for example, on related-party matters and transactions involving related parties, is more stringent than what is required by law. We monitor conflict-of-interest situations when preparing and making decisions involving the companies we own. The Board of Directors approved the related-party guidelines, which were renewed in May and its contents were taught to the personnel.

As an investor, we operate with care also when it comes to insider matters. Insiders are all of the persons who have the opportunity to influence decision-making involving the investment of the company's assets or who otherwise gain access to information related to investment decisions. Information on the holdings of insiders is available on Euroclear Finland's NetSire service.

- **Take a look at our Code of Conduct on our website ›**

WE VALUE YOUR INSIGHT – OPEN INTERACTION

The other side of openness is active dialogue and listening. Based on surveys and feedback, we easily seem distant to many of our customers and stakeholders. There is plenty to do in terms of improving people's knowledge of the pension system. For example, knowledge about their own pension, which is necessary for the long-term planning of their finances, is not very good.

In 2019, for the second time, Finns rated us as the most responsible pension company. The Sustainable Brand Index survey showed that attitudes towards pension companies' sustainability were positive. Awareness of what we do in practice to promote sustainability is lower than in many other sectors.

Pension cover concerns each and every employee and self-employed person, however. We work hard to promote responsible investing, for example, and strive to increase its prominence. We believe that interest in how people's own pension assets are invested is quickly growing, also in Finland.

We engage in dialogue with our stakeholders also in associations and other partner organisations. In 2019, we were a member of around 40 different associations. In addition, a few of our employees participated in the operations of trade associations closely linked to their work.

Key memberships in terms of our investment operations are, for example, the Carbon Disclosure Project (CDP), the Finnish Climate Leadership Coalition,

STAKEHOLDER	STAKEHOLDER'S KEY EXPECTATIONS	INTERACTION CHANNELS, FREQUENCY AND MEASURES
Customers	Best know-how in the sector. Manages issues openly, transparently and responsibly. Takes care of work capacity. Coherent and clear interaction and easy contacts.	Frequent meetings and co-operation with clients. Customer involvement in the development of services. High-quality work capacity services. Active development of customer services. Coherent customer material.
Personnel	Responsible personnel management, smooth interaction, equality, positive workplace atmosphere and working conditions as well as competitive remuneration.	Leadership that supports success and developing expertise. Clear goals, monitoring and remuneration. Comprehensive and evolving well-being at work activities. Close interaction.
Current and future pension recipients	Responsible and long-term management of statutory pension cover. Easy, coherent and fast pension service. Focussing efforts on the quality of working life.	High-quality customer service, providing understandable pension information, fast processing times, efforts to enhance work and securing pension assets. Continuous interaction through studies, surveys, events and customer service, among other things.
Authorities and decision-makers	Good co-operation and flow of information and interaction which facilitate decision-making. Common goal: decisions and reforms that benefit society as a whole.	Open dialogue with authorities and decision-makers. Regular meetings and communication through various working groups and events.
Labour market organisations	Good co-operation and good flow of information to support decision-making and negotiations. Shared goal: ensuring a good level of pension provision and retirement age as well as keeping the system's costs at a reasonable level.	Communication through Ilmarinen's Board of Directors, Supervisory Board and Advisory Committees. Regular meetings and other close-knit communication through, for instance, various working groups and events.
Industry organisations	Good, open co-operation. Ilmarinen's expertise made available to the entire industry. Shared goal of ensuring the sustainability and effectiveness of the pension system.	Comprehensive co-operation with, for instance, the Finnish Pension Alliance TELA, The Finnish Centre for Pensions and Finance Finland. Channels include working groups, regular negotiation groups and various events.
Media	Openness of communications, reliability of information and quick service. Ilmarinen's expertise made available for the media: introducing new perspectives, active statements and making difficult issues easier to understand.	Open and active communication through various channels. Regular meetings and communication. Quick and open response to media requests.
Educational and research institutions	Ilmarinen's expertise made available to educational institutions. Offering summer jobs and internships. Shared research projects and open flow of information. Developing the pension system and increasing its prominence.	Co-operation with students, e.g. in thesis work. Taking part in various university and school events. Recruiting summer workers.
Civil society	Open and active dialogue. Sustainability and reliability of business. Offering Ilmarinen's expertise for use through various communication channels. Minimising misconduct and adverse effects.	Open and active communication and willingness to engage in dialogue with stakeholders. Interaction at, for example, various seminars and meetings, and in the social media. Interaction also through the traditional media
Investments and investment partners	Open communication, clear objectives, competitive investment terms, professional and long-term operations, fast response times to questions.	Clear communication concerning investment criteria and the operations' principles and objectives, coherent investment strategy, fast decision-making. Interaction both regularly and as required.

Engaged Tracking, which promotes the management of climate risks, Finland's Sustainable Investment Forum (Finsif) and other memberships in the sector. As a real estate investor, our key memberships include the real estate sector co-operation organisation RAKLI ry, the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) and the Green Building Council Finland, which focuses on

the environmental impacts of construction. Our Construction Manager Niina Nurminen was elected as a member of GBC Finland's Board of Directors for a three-year term until 2022.

We are a member of the representative organisation Finance Finland and the Finnish Pension Alliance TELA. Of the insurance sector associations, we are also a member of the Actuarial Society of Finland.

Individual members are also involved in Suomen Vakuutusyhdistys. Our personnel have the opportunity to participate in the activities of the insurance and financial sector's sports club VUFI. We are also a member of the Association for Finnish Work.

RISK MANAGEMENT

The objective of risk management is to prevent the realisation of risks threatening our operations, minimise the financial and other damage caused by realised risks and to ensure the continuity of operations. Another objective is for us to be able to utilise the opportunities offered by controlled risk-taking in business operations, especially in investment activities: in investments risk and return always go hand in hand. The most essential goal is to secure the company's statutory operations and the rights of the insured, pensioners and policyholders in all situations.

The company has risk management system operating principles that cover its entire operations. The company's risk situation is regularly reported on to the Executive Group, the Board of Directors and the Board of Directors' Audit and Risk Management Committee for the company-level monitoring, assessment and development of risk management.

The company's risk management function, including monitoring of investment risks, and reporting to the Board of Directors fall under the responsibility of the Senior Vice President in charge of planning and monitoring the company's operations. Reporting on investment activities and risk monitoring are thus independent from the risk-taking function. The company's risk management function prepares, under the guidance of the Board of Directors, an assessment of the appropriateness of the risk management operations and, together with the operative management, the company's

risk and solvency assessment.

Ilmarinen's risk management is described in more detail in the notes to the Report on Operations and financial statements. (GRI 102-11)

- Find out how we manage risks related to our operations ›

Ilmarinen's sourcing (GRI 102-9)



Number of suppliers,
operating expenses

2019	1,313	1,214
2018	1,132	1,167



Number of suppliers,
real estate costs



Number of domestic suppliers,
operating expenses

2019	1,214	1,205
2018	1,023	1,161



Number of domestic suppliers,
real estate costs



Total purchases, operating
expenses, EUR million

2019	141	262
2018	142	321



Total purchases, real estate costs,
EUR million

HOW WE REPORT ON OUR OPERATIONS

We identified sustainability as a central theme in our new strategy approved by the Board in 2019. The main policies on the practical implementation will be made by the President and CEO and the Executive Group. We report on sustainability-related themes in this report as well as in our Report on Operations given by the Board.

Our Sustainability Manager is responsible for overall sustainability reporting and assembles the report together with our financial monitoring and other experts. The Sustainability Manager is also responsible for preparing updates to the key indicators for the Board of Directors. We call these indicators by their established name Key Performance Indicators or KPIs.

- Key performance indicators for sustainability ›
- Take a look at the principles that guide our operations ›

We create our Sustainability Report from the standpoint of Ilmarinen Mutual Pension Insurance Company, i.e. our parent company. If the calculation limit of a key figure contrasts with the parent company's limits, it is mentioned in the GRI Content Index in connection with the key figure. In addition to the parent company, Ilmarinen's corporate structure includes, for example, real estate companies linked to real estate investments. (GRI 102-46. 102-45)

The key figures for financial responsibility are based on Ilmarinen's financial reports, accounting and confirmed financial statements, which are prepared in accordance with the Accounting Act, the Companies Act, the Insurance Companies Act, and the Act on Employment Pension Insurance Companies. Ilmarinen's financial statements also comply with the Ministry of Social Affairs and Health's decree on the financial statements of insurance companies and related consolidated financial statements, the accounting decree, the calculation principles and regulations approved by the Ministry of Social Affairs and Health, and with the regulations and guidelines of the Finnish Financial Supervisory Authority.

The key personnel figures for social responsibility cover the personnel of Ilmarinen's parent company and they have been calculated based on data from the company's personnel data systems.

- Take a closer look at our corporate structure in our Report on Operations ›



Significance of economic, social and environmental impacts »

- Easy and reliable pension
- We invest responsible
- Reliable and transparent
- Meaningful work

We have drawn up this report in accordance with the GRI Standards of the Global Reporting Initiative (GRI). These guidelines involve the regular assessment of the materiality of different topics. We update the material sustainability topics in in-house workshops and through external stakeholder surveys, in alternating years. Last year we carried out an external stakeholder survey. The matrix illustrates the results of the stakeholder survey and the materiality analysis carried out internally in 2018 as a matrix. The matrix illustrates the mutual and relative order of the topics judged to be the most material. (GRI 102-47)

MEANINGFUL WORK

In the strategy, we set as an objective to be one of the best workplaces in Finland. We believe that the well-being of personnel directly impacts how well we achieve all of our other goals.

In addition to well-being and a good employee experience, we need expertise. Working life is a continuous learning process. The speed of change does not seem to be slowing down at least. When we digitalise our services, routine tasks are reduced and work that requires plenty of knowledge and expertise increases.

In 2019, we focussed in particular on identifying critical competence needs, working life skills and professional competence for our operations. We annually draw up a development plan for each employee.

Evolving tasks offer an excellent opportunity to learn at work, which is a clear focal area for developing expertise. We have also improved opportunities for job rotation, mentoring, model learning and coaching-style teaching. The role of traditional coaching has diminished but has not completely disappeared.

Working with pension cover is its own separate field in which it is possible to develop into a specialist in a number of different areas. For employees transferring from other sectors, this means assimilating a large amount of knowledge. We support this through comprehensive and job-specific tailored orientation packages. Orientation is offered as refresher courses and information updates also to employees returning from long parental leave periods.

When they are offered an extensive view of the sector, each employee knows what role they play in contributing to pension provision as a whole.

We also arrange comprehensive supervisor orientation to new supervisors to ensure consistent and fair supervisory services. Supervisory work is also developed annually through topical themes. In 2019, the main focus was on performance management, early intervention, rehabilitation and giving feedback.

In 2019, we also carried out a reform of our organisation. To this end we held co-determination negotiations in the spring of 2019. In the reorganisation, 70 old jobs were discontinued. At the same time, 60 new jobs were created and mostly filled from inside the company. The organisation was also flattened by removing at least one, and in places two, layers. The objective was to create a more agile and customer-driven company.

In autumn 2019, in its supervisory entity release concerning the entire sector, the Financial Supervisory Authority specified the guidelines concerning the management of disability risk and further restricted the activities of employment pension insurance companies in this area.

As a result of the more specific guidelines, we will renew and reduce our work ability service offering. The plan is to simultaneously renew customer account service models and reorganise operations. To implement these changes, in February 2020 we initiated co-determination negotiations covering 94 employees in positions related



Employees average age

Average retirement age

Average career length in Ilmarinen, years

2019	47.6	62.3	14.7
2018	47.9	62.6	14.8

Includes all forms of pension, also disability pensions.



Personnel satisfaction, survey result (KPI 8)

Vire score (0-5)

Ilmarinen's employees' health

2019	3.9	4	40%
2018	3.7		42%

Vire score measures the overall energy levels among personnel.

Investments in preventive occupational health care pay off. One of the indicators we keep track of is the health percentage of our employees, i.e. the proportion of persons who have not been absent from work due to illness during the reporting year.



Kilometrikisa (Cycling competition) 2019

115 active cyclists
78,000 kilometers
5,500 liters fuel saved
13,000 kg CO₂-emissions saved

We encourage all of our employees to maintain their work ability through various campaigns. Our work community activation coach supports our employees, encouraging them to exercise through advice and various campaigns. In 2019, we tested, for instance, a mobile app that encourages employees to exercise during breaks.

to customer account services and disability risk management. Based on a preliminary estimate, a maximum of 40 positions can be expected to undergo material changes or be discontinued. The change is also likely to open up a considerable number of new positions, thanks to which the number of potential redundancies is expected to be much lower.

We believe that by renewing our operations and focussing on the biggest risks, we will be able to provide our customers with even more impactful support for the management of disability risks in the future. The prevention of disability calls for even closer co-operation that involves employees, employers, occupational health care services and other health care providers.



Personnel covered by collective bargaining agreements (GRI 102-41)

2019	593, 92.7%
2018	637, 92.7%

Women's average pay in relation to men's pay, Executive Group (excluding the President and CEO) (GRI 405-2, KPI 9)

2019	90%
2018	95%

Women's average pay in relation to men's pay, all other employees (GRI 405-2, KPI 9)

2019	82%
2018	79%

” Employees can bring their children to the workplace childcare centre for a day or even a whole week. Especially families with just one parent might find this to be a real lifesaver during the school holidays.

*Saija Malm,
Ilmarinen's HR Specialist*

Our Board of Directors decides on our remuneration and incentive policy and systems. We have described our remuneration principles in the Declaration of Remuneration and Incentives.

Our goal, established by the Board, is for our remuneration to be competitive, fair, equal, steering and supportive. Remuneration is guided by the collective bargaining agreement for the insurance sector and comparison with the development of other employers. Remuneration is based on how demanding the work is and on personal performance and competence. We believe that this contributes to the fairness of the remuneration – seen from the perspective of pay equality between men and women, among other things. Our goal is to narrow the gender pay gap. Differences in pay mostly result from men and women being unequally employed in different functions.

Our General Meeting decides on the remuneration for the Supervisory Board, based on the votes used by our owners. The Supervisory Board then decides on the Board of Directors' remuneration and the Board of Directors on the management's remuneration.

- Read more about our remuneration and incentive policy »

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER (GRI 401-1)

	2019	2018
Number of employment relationships at the end of the reporting period	640	687
New employment relationships	68	48
Ended employment relationships	73	84
Turnover of permanent employees, %	7%	8.4%
New employment relationships/permanent	42	24
Ended employment relationships/permanent	44	58
Number of summer employees	32	30
Employment relationships that ended with Ilmarinen's and Etera's merger	45	65

GOVERNANCE BODIES AND EMPLOYEES BY AGE (GRI 405-1, KPI 10)

	2019	2019%	2018	2018%
Employees				
Under 30	37	6%	38	6%
30–50	331	52%	328	48%
Over 50	272	43%	321	47%
Board of Directors				
Under 30	0	0%	0	0%
30–50	7	41%	7	39%
Over 50	10	59%	11	61%
Supervisory Board				
Under 30	0	0%	0	0%
30–50	11	37%	7	22%
Over 50	19	63%	25	78%

AVERAGE TRAINING HOURS (GRI 404-1)

	2019	2018
Average training hours, entire personnel	19	17
Average training hours, women	21	18
Average training hours, men	16	16
Average training hours, Executive Group	21	19
Average training hours, middle management	25	24
Average training hours, group supervisors	30	31
Average training hours, salaried employees and specialists	17	16

GOVERNANCE BODIES AND EMPLOYEES BY GENDER (GRI 405-1, KPI 10)

	2019	2019%	2018	2018%
Entire personnel	640		687	
women	409	64%	444	65%
men	231	36%	243	35%
Salaried employees and specialists	560		604	
women	357	64%	392	65%
men	203	36%	212	35%
Group supervisors	33		33	
women	24	73%	23	70%
men	9	27%	10	30%
Middle management	37		40	
women	23	62%	25	63%
men	14	38%	15	38%
Executive Group	10		10	
women	5	50%	4	40%
men	5	50%	6	60%
Board of Directors	17		18	
women	4	24%	5	28%
men	13	76%	13	72%
Supervisory Board	30		32	
women	11	37%	11	34%
men	19	63%	21	66%

Share of entire personnel



We have fared relatively well in comparisons of the composition of the executive groups of listed companies. According to a study by the Finland Chamber of Commerce, fewer than 25 per cent of listed companies' executive group members were women. Of new members appointed to executive groups, 36 per cent were women. Every sixth executive group contained no women. The proportion of women in listed companies was clearly higher in support functions than at the head of business operations. Three of the heads of Ilmarinen's four business divisions are women.

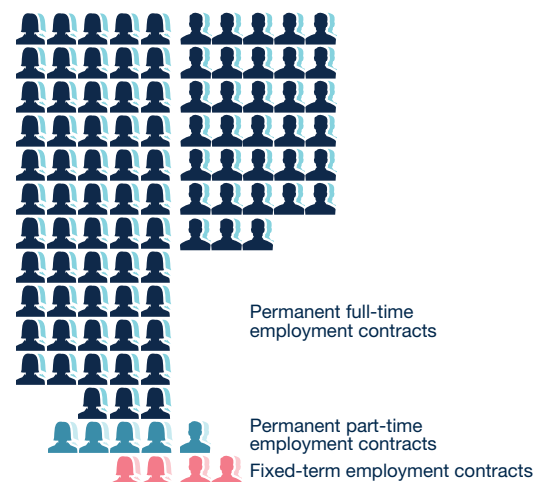
Let's give each other and the Earth a break while turning off the lights for the climate.

Ilmarinen supports Earth Hour 2019

NUMBER OF ILMARINEN EMPLOYEES BY EMPLOYMENT TYPE, EMPLOYMENT CONTRACT AND GENDER (GRI 102-8)

	2019	2019%	2018	2018%
Permanent employment contracts, total	612	96%	649	94%
women	396	65%	423	65%
men	216	35%	226	35%
Permanent full-time employment contracts, total	577	94%	613	94%
women	368	64%	398	65%
men	209	36%	215	35%
Permanent part-time employment contracts, total	35	6%	36	6%
women	28	80%	25	69%
men	7	20%	11	31%
Fixed-term employment contracts, total	28	4%	38	6%
women	13	46%	21	55%
men	15	54%	17	45%

Share of entire personnel





ILMARINEN'S GRI INDEX

We have used the international GRI Standards reporting framework for drawing up this report. Maintained by Global Reporting Initiative, the framework is one of the most widely used. In addition, we have made use of the international Task Force for Climate Change (TCFD) reporting framework, which aims to improve reporting on the impacts of climate change on business operations.

The GRI index compiles information related to the GRI Standards guidelines that we have reported. The index helps you find the information in our report and compare it with the information disclosed by other companies reporting under the GRI framework.

DISCLOSURE	NAME	REPORTING
General disclosures		
Organisation profile		
102-1	Name of the organization	Ilmarinen Mutual Pension Insurance Company
102-2	Activities, brands, products, and services	s. 4
102-3	Location of headquarters	Porkkalankatu 1, 00180 Helsinki, Finland
102-4	Location of operations	s. 4
102-5	Ownership and legal form	s. 4
102-6	Markets served	s. 4
102-7	Scale of the organization	s. 6, 7
102-8	Information on employees and other workers	s. 54
102-9	Supply chain	s. 50
102-10	Significant changes to the organization and its supply chain	s. 52
102-11	Precautionary Principle or approach	s. 50
102-12	External initiatives	s. 29, 31, 40, 43, 49
102-13	Membership of associations	s. 49
Strategy		
102-14	Statement from senior decision-maker	s. 5
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	s. 11, 48
Governance		
102-18	Governance structure	Financial Statement
Stakeholder engagement		
102-40	List of stakeholder groups	s. 49
102-41	Collective bargaining agreements	s. 53
102-42	Identifying and selecting stakeholders	s. 49
102-43	Approach to stakeholder engagement	s. 49
102-44	Key topics and concerns raised	s. 4, 10, 14, 15–16, 18, 19, 25, 30, 40, 48, 49
Reporting practice		
102-45	Entities included in the consolidated financial statements	Financial Statement
102-46	Defining report content and topic Boundaries	s. 51
102-47	List of material topics	s. 51
102-48	Restatements of information	No restatements.

102-49	Changes in reporting	<p>Changes in the names of indicators.</p> <p>We discontinued the use of the old sector-specific abbreviations that GRI no longer uses (FS10, FS11, CRE 1-4). We retained the contents of the indicators, as we judged their topics to be material for our operations. From now on, we will not report our net sales. An employment pension company's net sales is a calculated quantity and a poor measure of the company's cash flows, which are primarily made up of statutory pension contributions, pension payments and investment operations. Instead of net sales, we report various key figures describing our operations and their scope.</p> <p>KPI 1 reporting has been changed to better reflect the benefit perceived by the applicant. Going forward, we will report the processing time in days.</p> <p>For the greenhouse gas emissions of Ilmarinen's investments (GRI 305-4), we also report scope 3 emissions. As for the indicator measuring participation in annual general meetings, we altered the reporting on non-listed investments. From now on, we will report the participation rate in relation to the value of the holdings.</p>
102-50	Reporting period	1.1.–31.12.2019.
102-51	Date of most recent report	26 March 2019
102-52	Reporting cycle	We publish this report annually. We publish it in Finnish, Swedish and English and it is only available online.
102-53	Contact point for questions regarding the report	info@ilmarinen.fi
102-54	Claims of reporting in accordance with the GRI Standards	We have reported on Ilmarinen's financial, social and environmental sustainability since 2007. This is the fifth time that we are reporting in accordance with the GRI guidelines, applying the Core option of the guidelines. The reporting partially exceeds the Core criteria, however.
102-55	External assurance	s. 55–58
102-56	Ulkoisen varmuksen	s. 60. The report has been verified by EY's Climate Change & Sustainability Services. (GRI 102-56).
Management approach		
General requirements for reporting the management approach		
103-1	Explanation of the material topic and its Boundary	s. 11, 19, 28, 29, 31, 41, 42, 43, 44, 45–46, 48, 49, 50, 51, 52
103-2	The management approach and its components	s. 5, 6, 7, 11, 19, 28, 31, 38–39, 24, 43, 44, 48, 49, 50, 52, 53, 54
103-3	Evaluation of the management approach	s. 5, 6, 7, 12, 19, 28, 31, 35–37, 38–39, 40, 43, 44, 48, 49, 50, 54
Economic performance		
201-1	Direct economic value generated and distributed	s. 6
201-2	Financial implications and other risks and opportunities due to climate change	s. 34
Indirect economic impacts		
203-2	Significant indirect economic impacts	s. 4, 6, 7, 18, 15–16, 19, 22, 27,
Anticorruption		
205-2	Communication and training about anti-corruption policies and procedures	s. 38, 48
Environmental sustainability		
Emissions		
305-4	GHG emissions intensity	s. 29. The calculation includes direct emissions (scope 1) and some indirect emissions (mainly purchased energy i.e. scope 2). Calculation of scope 3 emissions is new.
Environmental compliance		
307-1	Non-compliance with environmental laws and regulations	No sanctions in 2019.

Employment

401-1	New employee hires and employee turnover	s. 53
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Training and education

404-1	Average hours of training per year per employee	s. 53
404-2	Programs for upgrading employee skills and transition assistance programs	s. 52

Diversity and equal opportunities

405-1	Diversity of governance bodies and employees	s. 53, 54. We do not report figures considering diversity, because they are not available.
405-2	Ratio of basic salary and remuneration of women to men	s. 53

Public policy

415-1	Political contributions	We do not contribute political parties or politicians.
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Socioeconomic compliance

419-1	Non-compliance with laws and regulations in the social and economic area	No sanctions in 2019.
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Customer privacy

418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	s. 12
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ILMARINEN'S KEY PERFORMANCE INDICATORS FOR SUSTAINABILITY

KPI 1	Uninterrupted income	Fast pension decisions – processing time of old-age and disability pension applications compared to other earnings-related pension companies	s. 20, 22
KPI 2	Accuracy of pension decisions	Disability pension decisions upheld by the appeals court	s. 20
KPI 3	A better working life – longer careers	Benefit of work ability management co-operation projects as experienced by customers (NPS)	s. 19
KPI 4	A better working life – longer careers	Effectiveness of rehabilitation (percentage of return to work after rehabilitation)	s. 20
KPI 5	We handle our basic task cost-effectively	Ratio of operating expenses to expense loading components, %	s. 7
KPI 6	Responsibility as part of investment decisions	Share of business solutions related to Sustainable Development Goals (SDG*) of the annual net sales of direct listed equity investments	s. 29
KPI 7	Responsibility as part of investment decisions, climate impacts	Carbon footprint of real estate	s. 44
KPI 8	We will succeed together	Personnel experience	s. 52
KPI 9	Fairness of remuneration and incentives	Women's average pay in relation to men's pay (Executive Group excl. President and CEO/rest of the personnel)	s. 53
KPI 10	We promote diversity/equality	Share of women in supervisory and leading specialist positions at least	s. 54

OTHER INDICATORS

Ilmarinen's insurance contributions and pensions paid	s. 4
Solvency	s. 7
Pension contributions, TyEL	s. 9
TyEL policies	s. 10
Key indicators for customer service	s. 11
Customer retention	s. 11
YEL insurance policies	s. 14–16
Disability pensions and rehabilitation benefits	s. 18
Ilmarinen's projects and coaching for work ability	s. 19
Keu indicators for rehabilitation	s. 20
Pensions	s. 22
Ilmarinen's pensioners, demographics	s. 23
Key indicators for pensions	s. 25
Key indicators for investments	s. 27
Market value of investment assets by asset class	s. 28
Percentage of companies that have reported greenhouse gas emissions	s. 30
Share of renewable energy and coal of the electricity production	s. 30
Ilmarinen's forests	s. 35; We have reported the carbon sink of our forests within two years. Because of changes of data providers we did not managed to calculate this figure for report. (GRI 102-49)
Screening of investees for norm violations regarding environmental and social issues	s. 38 Former GRI FS-indikator (GRI 102-49)
Ilmarinen's interaction in environmental and social matters with companies included in the investment portfolio	s. 38 Former GRI FS-indikator (GRI 102-49)
Active participation in general meetings	s. 39
Engagement processes ended during the year	s. 38–40
Ilmarinen's most significant Finnish listed equity holdings	s. 41
Listed equity holdings by region	s. 41
Ilmarinen's real estate by region	s. 42
Key indicators for real estate	s. 43
Calculated effect of energy savings measures on energy consumption	s. 43
LEED-certified properties	s. 43
Carbon footprint of new construction	s. 44
Water and energy consumption of the properties owned by Ilmarinen	s. 44 Former GRI CRE-indicators (GRI 102-49)
Tax related Ilmarinen's own operations	s. 45–46
Key indicators for sourcing	s. 50

INDEPENDENT ASSURANCE REPORT

(Translated from the original Report in Finnish language)

To the Management of Ilmarinen Mutual Pension Insurance Company

At the request of the Management of Ilmarinen Mutual Pension Insurance Company (hereafter Ilmarinen) we have performed a limited assurance engagement on the information presented for the reporting period 1.1.–31.12.2019 in Ilmarinen's Sustainability Report 2019 (hereafter corporate responsibility information).

Management's responsibility

The Management of Ilmarinen is responsible for the preparation and presentation of the corporate responsibility information in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards and Ilmarinen's internal reporting guidelines (hereafter the reporting principles).

Assurance Provider's responsibility

It is our responsibility to present an independent conclusion on the corporate responsibility information based on our work performed. We do not accept nor assume responsibility to anyone else except to Ilmarinen for our work, for the assurance report and for the conclusions that we have reached.

We have conducted the assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. The ISAE 3000 standard requires compliance with ethical requirements as well as planning and performing the assurance engagement to obtain limited assurance on whether the corporate responsibility information has been prepared, in all material respects, in accordance with the reporting principles.

Assurance Provider's independence and quality assurance

We comply with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the IESBA (International Ethics Standards Board for Accountants). We apply ISQC 1 (International Standard on Quality Control) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Limitations of the engagement

In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the Assurance Provider's judgment, including an assessment of the risks that the corporate responsibility information would not, in all material respects, comply with the reporting principles. We have planned and performed our engagement to obtain sufficient and appropriate evidence on which to base our conclusion.

We have performed, among others, the following procedures:

- a. An update of our knowledge and understanding of Ilmarinen's material sustainability reporting topics, organization and activities,
- b. An assessment of suitability and application of the reporting principles regarding the stakeholders' needs for information,
- c. Interviews with senior management to understand Ilmarinen's corporate responsibility leadership,
- d. Interviews with personnel responsible for gathering and consolidation of the corporate responsibility information to understand the systems, processes and controls related to gathering and consolidating the information,

- e. Reviewing corporate responsibility data from internal and external sources and checking the data to reporting information on a sample basis,
- f. Performing recalculation of information and reviewing the underlying data which is the basis of narrative disclosures related to the data.

Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for corporate responsibility information. This independent assurance report should not be used on its own as a basis for interpreting Ilmarinen's performance in relation to its principles of corporate responsibility.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the corporate responsibility information has not been prepared, in all material respects, in accordance with the reporting principles, or that the Information is not reliable, in all material respects, based on the reporting principles.

Terhi Mäkinen
Partner, Authorized
Public Accountant

Jani Alenius
Leader of Climate
Change and
Sustainability Services,
EY

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