



ILMARINEN

SUSTAINABILITY 2016

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President and CEO's Review:

ILMARINEN IN 2016

” Our goal is to be the most attractive earnings-related pension partner.

In 2016, we started implementing Ilmarinen's new strategy and made rapid progress towards the goals we had set. In accordance with our strategy, we focus on investing successfully, growing profitably, offering digital services and energising our work community.

Our new development concept called Wauhdittamo, designed to initially engage our own personnel in developing new services, provided us with new momentum. Towards the end of the year, we launched the second phase of Wauhdittamo which also involves our customers in generating ideas and developing services. Through bold, agile and open development Ilmarinen wishes to take on a new role in supporting the growth and success of Finnish companies.

Investing successfully

The operating environment in 2016 was in many ways challenging for pension insurance companies and investment operations.

The first part of the year was marked by a strong decline in share prices. In June, the Brits voted to leave the European Union and in late autumn, the US presidential election created suspense. Both resulted in share price volatility and uncertainty on the markets. Interest rates were at an all-time low, and long-term interest rates also sunk into negative territory for the first time ever. Global economic growth was modest.

Despite this difficult environment, we performed well. Our investments yielded 4.8 per cent (6.0 per cent in 2015) and their market value rose to EUR 37.2

– RAPID PROGRESS TOWARDS STRATEGIC GOALS



2016 was an eventful year not only for Ilmarinen, but also for the company's President and CEO Timo Ritakallio. In September, he became a Doctor of Science (Technology) and in November, he was elected President of the Finnish Olympic Committee.

Timo Ritakallio
President and CEO

(35.8) billion. The good result is attributable to our long-term investment strategy, according to which we continued the diversification of investments across various asset classes and geographic regions. We reduced fixed income investments and increased investments in real asset classes. In real estate investments, we continued the diversification of the portfolio outside of Finland. Ilmarinen's long-term real annual return on investments since 1997 has been on average 4.2 per cent.

Our solvency remained strong. By the end of the year, our solvency capital rose to EUR 8.5 (8.2) billion and our solvency ratio was 29.2 (29.6) per cent.

Ilmarinen is known as a forerunner in responsible investment, in both Finland and on an international scale. We continued this work by, among other things, adopting a new climate policy. The long-term energy savings targets for our properties were exceeded by 30 per cent. We are an active owner and want to help ensure that our investees operate sustainably. For us, responsible investment is part of risk management.

Growing profitably

Ilmarinen is a mutual pension insurance company owned by its clients. We develop our business operations and seek growth in a way that also benefits our existing customers.

More than 10,000 new companies or self-employed persons took out insurance with Ilmarinen last year, which we are par-

ticularly pleased with. In customer retention, however, we fell short of our target and will consider it our priority during the current year. At the end of the year, 563,500 (562,000) people were insured with Ilmarinen. Premiums written grew slightly and stood at EUR 4.3 (4.3) billion.

Close to 330,000 people received pensions from Ilmarinen at the end of the year. Last year, we paid a total of EUR 4.6 billion (4.4 billion) in pensions, of which around EUR 400 million (418) in disability pensions.

Our cost-effectiveness remained at a good level. Total operating expenses were

2.3 per cent lower than the previous year and the ratio of operating expenses to the expense loading components available for them, measuring cost-effectiveness, improved to 74.9 (75.5) per cent. Thanks to good solvency and cost-effectiveness, the amount of client bonuses rose to a record-

ILMARINEN'S VISION 2020

MOST ATTRACTIVE EARNINGS-RELATED PENSION PARTNER



high level, at 0.61 (0.59) per cent of the total payroll of the insured.

High-quality and cost-effective management of our statutory task is the cornerstone of our corporate responsibility. We are responsible for the pension cover of close to 900,000 Finns, and our task is to ensure that the personnel of our client companies receive the pension they earned from employment.

Offering digital services

We prepared for the pension reform that entered into force at the start of 2017 by renewing our information systems. The renewal of the pension processing system caused delays in the processing of pension applications early in the year, but towards year-end, the situation improved and we managed to clear the backlog. Thanks to the new system, pension processing will be automated, which will make it faster and will enable us to produce even better digital services for our customers.

A total of 26,500 (22,800) new pension decisions were made, an increase of more than 16 per cent on the previous year. This number can partly be explained by the renewal of the pension processing system, as it meant that the granting of new pension decisions was distributed unevenly.

2016 was another active year for well-being at work services. We organised 43 seminars on well-being at work for our customer companies throughout Finland,

attracting more than 2,500 participants. During the year, more than 2,100 (1,900) projects supporting well-being at work were underway and these covered 150,000 (160,000) people. The impact will further increase with the launch of new digital services.

We also support the management of disability risks and longer careers in our client companies through vocational rehabilitation. More than 6,300 benefit decisions related to rehabilitation were made in 2016, which was a 7.9 per cent increase on the previous year.

During the year, we launched a number of new digital services for our customer companies. The Better Working Life virtual control room supports companies' work capacity management and improves the predictability of disability risks. The 'Parempi viire' mobile app encourages employees to take care of their well-being.

Digital services make data protection all the more important. For us, data protection is a key area of corporate responsibility, and one that also our stakeholders place great importance on.

Energising our work community

We wish to be a responsible employer and show through our own operations that work can be a source of energy. An energising work community supports productivity and innovation and ultimately results in a better customer experience. In 2016, we complet-

ed the modernisation of our premises. The feedback on the modernised multi-purpose office space has been positive. According to surveys, the most positive aspects are straightforward interaction and improved flow of information.

The new premises have also had an impact on our operating culture. We have made the move towards an almost paperless office, telecommuting is increasingly popular and we have introduced a more agile development approach. Our new multi-purpose office space has also garnered interest among our customers. We openly share our experiences, which is yet another way for us to participate in developing Finnish working life.

We have supported our employees' well-being and good energy in a number of ways. For example, recruiting a full-time work community activation coach incorporates physical exercise into the workday, also helping individual employees find a way of being active that suits them. Employees' health developed very well, and approximately half of our employees were not absent from work due to illness at all during the year.

At Ilmarinen, responsibility is part of every employee's job profile. One testament to this is that each Ilmarinen employee completed the Code of Conduct training in 2016. In line with our values, we operate openly and responsibly and achieve success through teamwork. In this report, you

can learn more about how responsibility is integrated in our everyday work.

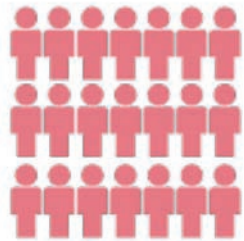
Timo Ritakallio
President and CEO

ILMARINEN IN BRIEF

Ilmarinen is a mutual employment pension insurance company. Our task is to ensure that our customers receive the pension they earned from employment. We also seek to improve working life and thus help our customers succeed. 'Mutual' means that Ilmarinen is owned by our customers.



WE TAKE CARE OF THE PENSION COVER OF CLOSE TO 900,000 FINNS



502,000
EMPLOYEES



38,100
TYEL
COMPANIES



61,500
SELF-EMPLOYED
PERSONS

PENSION CONTRIBUTIONS

**FOR PENSION PAYMENTS
TO 329,000
PENSIONERS**

**FOR INVESTMENT IN FUTURE
PENSIONS**

Ilmarinen provides two types of insurance: employees' earnings-related pension insurance (TyEL), which employers take out for their employees, and self-employed persons' earnings-related pension insurance (YEL), which self-employed persons take out for themselves. We serve all private companies and self-employed persons regardless of the size of the business activities or the sector. We provide insurance for more than half a million employees and 61,500 self-employed persons and pay pensions to close to 330,000 pensioners. In total, we are responsible for the pension cover of almost 900,000 Finns.

We also offer our customers comprehensive rehabilitation and work capacity

management services. In addition, we are a major real estate investor and we rent premises and flats. Our services also include corporate financing.

We take care of statutory earnings-related pension cover exclusively in Finland, operating a nation-wide service network jointly with OP Financial Group. We have invested almost 30 per cent of our investment assets of more than EUR 37 billion in Finland. Europe, the US and Asia are also important investment markets for us. Apart from one portfolio manager who monitors the Asian markets from Hong Kong, all of our employees work in Finland. (G4-4, G4-6, G4-8).

Ilmarinen's services SUCCESS, PRODUCTIVITY & WORK CAPACITY

**CONVENIENT
INSURANCE**

Digitally, flexibly
and proactively

**A BETTER
WORKING LIFE**

Impactful work
capacity management
and improvement of
working life quality

**MY
PENSION COVER**

Individual,
coherent and
convenient

**OFFICE PREMISES
AND HOMES**

Modifiable,
renewable and
energising
premises

Values guide our operations (G4-56)

OPENNES

- Open to new ideas
- Open to communication
- Open to listen

RESPONSIBILITY

- Responsibility for pension cover
- Responsibility for our own work
- Responsibility as a company

CO-OPERATION

- Together with clients
- Together with partners
- As one Ilmarinen

ILMARINEN'S MISSION

Our task is to ensure that our customers receive the pension they earned from employment.

Values guide our operations

During the 2016–2020 strategic period, we will focus on serving digitally, growing profitably, investing successfully and energising our work community. Our vision is to be the most attractive earnings-related pension partner. We operate openly and responsibly and achieve success through teamwork. We believe that responsibility in all of our operations strengthens our attractiveness as an earnings-related pension partner and supports efficient business.

Key figures and income distribution in society

In 2016, we received EUR 4.3 billion in premiums written from employers, employ-

ees and self-employed persons and paid EUR 4.6 billion in pensions. The value of our investment assets increased to EUR 37.2 billion. Ilmarinen employed 592 persons at the end of 2016.

The majority of Ilmarinen's income is paid as pensions to current pensioners. It is, however, equally important to prepare for tomorrow and ensure that there are sufficient assets also for future generations.

Donations and sponsoring

In addition to current and future pensioners, future risks, client bonuses and the expenses arising from our own operations, we allocated in 2016, as in the previous years, a small portion (around EUR 50,000)

KEY FIGURES OF ILMARINEN'S BUSINESS AND ORGANISATION

KEY FIGURES OF ILMARINEN'S BUSINESS AND ORGANISATION (G4-9)	2016	2015
Number of employment relationships at the end of the reporting period	592	573
Premiums written, EUR mill.	4,302	4,269
Net investment income at fair value, EUR mill.	1,743	2,071
Turnover, EUR mill.	5,573	6,885
Value of investment assets, EUR mill.	37,214	35,841

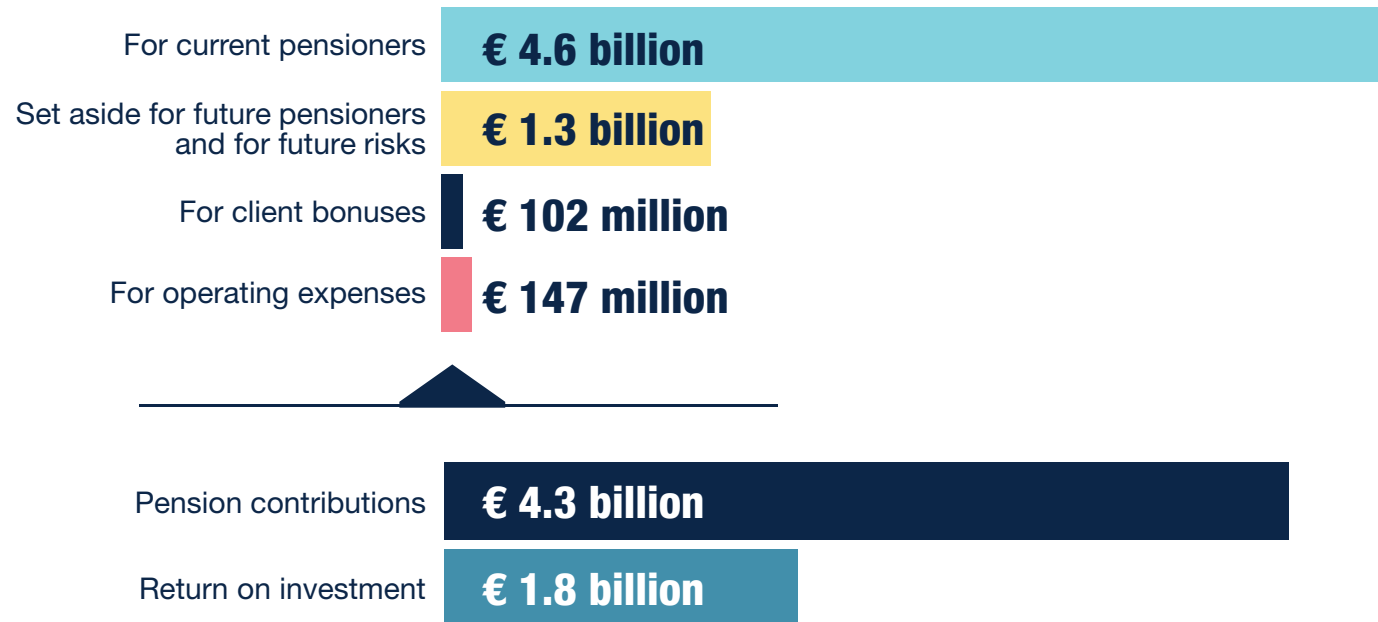
ILMARINEN'S SOCIAL INCOME DISTRIBUTION CALCULATION (G4-EC1)

INCOME FORMATION	2016	2015
Premiums written	4,301.8	4,268.7
TyEL, employer's contribution	2,947.8	2,927.2
TyEL, employee's contribution	1,015.7	997.4
YEL (self-employed persons)	338.3	344.1
Previous year's client bonuses	103.7	94.1
Net investment return excluding operating expenses	1,779.8	2,109.6
Other income and expenses	0.1	0.3
Total income	6,180.4	6,472.7

INCOME DISTRIBUTION	2016	2015
To pensioners	-4,594.1	-4,441.6
TEL pension recipients	-4,255.0	-4,099.2
YEL pension recipients	-339.1	-342.4
Provision for future pensions	-2,057.0	-1,047.3
Provision for future risks	732.0	-724.0
Buffering against fluctuations in investment return	611.0	-691.8
Buffering against fluctuations in underwriting result	121.0	-32.2
Client bonuses	-102.0	-98.0
Staff expenses	-51.4	-53.8
Other service providers	-95.8	-96.8
Taxes withheld at source	-12.0	-11.2
Donations	-0.1	-0.1
Total income distribution	-6,180.4	-6,472.7

WE TAKE CARE OF THE PENSION COVER OF CURRENT AND FUTURE PENSION RECIPIENTS

Ilmarinen's income distribution in 2016



of our revenues to gratuitous donations for purposes of general interest. We made donations to: Sydänlapset ja aikuiset ry, the Finnish Red Cross, Helsinki Deaconess Institute, Lions Club Finland's Punainen sulka drive, Veikko ja Lahja Hursti Laupeudentyö ry, Terhokoti, Save the Children, Aseman Lapset ry, Pro Eira ry, the Finnish Brain Foundation, Pääkaupunkiseudun Partiolaiset ry, Maanpuolustuksen Tuki ry and supported youths at risk of becoming marginalised through Tukikummit.

Sponsorship, on the contrary, is non-gratuitous activity and a part of marketing communication. In 2016 we sponsored Future Board ry, HENRY ry, speed skater Mika Poutala, Töölö Stadium, Badminton Finland, Suomen Tennisliitto, the Finnish Chamber Orchestra and the Finnish Association for the Welfare of Older People. Our principles of sponsorship as well as sponsorship and donation recipients are published each year on our [website](#).



ILMARINEN'S CORPORATE RESPONSIBILITY

Responsibility is one of our values and an integral part of all of our activities. Our statutory basic task means that we have a large responsibility in our society: we are responsible for the pension security of close to 900,000 Finns and managing the pension assets of current and future pension recipients. This task calls for responsibility from each and every employee, which is why responsibility is such a central part of our operating culture.

Furthermore we see that responsibility strengthens our reputation, supports our business and allows us to stand apart from

the competition. That is why it is directly linked to our strategy. Responsibility is not some separate issue thrown in as an afterthought, rather it is integrated into daily operations. This is also illustrated by the fact that many of the corporate responsibility indicators and key figures are the same ones that we use to measure our business and set targets.

The key performance indicators (KPI) of our corporate responsibility are published on our [website](#) and described in detail in this report.

The financial journalists who responded to the PR Barometer study conducted by Taloustutkimus in summer 2016 gave Ilmarinen the highest scores for responsibility.¹

When defining the various areas we identify and take into consideration the responsibility megatrends that stem from our operating environment.

On the basis of the responsibility megatrends and the special characteristics of our own business, we have identified responsibility aspects that are material for Ilmarinen. The materiality specification is based on a comprehensive survey carried out in 2015, which was supplemented with the 2016 stakeholder survey. All of our identified corporate responsibility aspects were considered to be at least fairly important and no new topics were brought up. The survey supports the fact that the corporate responsibility aspects we have defined contain important issues also for our stakeholders.

Material aspects of sustainability at Ilmarinen

SOCIETY

- Statutory basic task and its cost-effective and high-quality management

TRANSPARENCY

- Open stakeholder dialogue
- Consistent opinion-building
- Comprehensive sustainability reporting

RESPONSIBLE INVESTMENT

- Managing pension assets
- Active ownership
- Sustainability as part of investment decisions

SUSTAINABILITY AT ILMARINEN

BEST CUSTOMER EXPERIENCE

- Managing pension cover
- Services for extending careers

ETHICAL PRINCIPLES IN BUSINESS

- Compliance function to ensure compliance with regulations
- Key themes include data protection and sustainable customer work

ATTRACTIVE EMPLOYER

- Energising workplace
- Promoting diversity
- Fairness of remuneration and incentives

¹ <http://www.taloustutkimus.fi/ajankohtaista/uutiskirje/uutiskirje-lokakuu-2016/kuka-osaa-ja-mita-mediasuhteiden/> (in Finnish)

Responsibility megatrends

CLIMATE CHANGE

- Implementation of the Paris Climate Agreement and national targets
- Expectations of a reduction in negative climate impacts from business are growing
- Business opportunities for companies offering solutions

TAXATION

- International tax regulations and the automatic exchange of information give governments better conditions for collecting corporate tax
- Companies are facing ever-greater public pressure to pay their taxes

CYBER THREATS

- Cyber threats increasing
- The importance of data security and protection is growing

DIVERSITY

- EU directive requires reporting on diversity
- Migration flows are making workplaces increasingly globalised
- Careers are getting longer as the age of retirement rises
- Young people in particular have different expectations of work

RESPONSIBILITY REQUIREMENT

- The demands of customers and legislation are increasing the financial risks of irresponsible operations
- NGOs have started to investigate mid-sized companies and B2B companies, in addition to consumer brands

BEST CUSTOMER EXPERIENCE

Our basic task is to ensure that the personnel of our client companies receive the pension they earned from employment. The earnings-related pension system is a key component of Finnish social security and thus directly impacts the well-being of Finns.

We are responsible for the pension cover of approximately every third Finn

working in the private sector. We provide insurance for 61,500 self-employed persons and 38,000 companies which employ in total more than half a million employees. Last year, we collected EUR 4.3 billion worth of earnings-related pension contributions and paid pensions to 330,000 people worth close to EUR 4.6 billion.



MANAGING PENSION COVER

Our objective is to produce the best customer experience, which is why we wish to serve our customers as well as possible to ensure the easy and effortless management of their matters. In accordance with our strategy, over the next few years, we will focus our efforts on developing digital services in particular. Digitality enables faster and more individualised service and also allows us to increase, for example, the effectiveness of our well-being at work services.

Insurance services

We carry out our basic task – providing earnings-related pension insurance – in a way that meets the highest possible level of quality and is convenient for our customers. Last year, we succeeded in this better than before, with our insurance service customers giving us a Net Promoter Score (NPS) of +28 (on a scale where -100 is the worst and +100 is the best possible score), when last year our score was -3.

In 2016, we developed service paths for our website, so that customers will find the information they are looking for more quickly and the website will guide them in taking care of their insurance online. The online services' functionality has been improved based on insurance customers' wishes. The NPS score given by online service users was +31. In 2015, this NPS was just +3, which means a clear improvement from the previous year.

Today, employers can decide whether they wish to report their employees' earnings to the pension company each month or once a year. More than 40 per cent of our corporate customers have selected monthly notifications and the number is growing, but there are still more employers submitting annual notifications. The earnings-related pension contributions of employers submitting monthly notifications are calculated regularly so that the company can avoid any surprise adjustment invoices and filling out the laborious annual notification. In future, filing monthly notifications will become even more advisable when the national income register maintained by the Tax Administration will be taken into use in 2019. It will no longer be possible to submit annual notifications as the information will be reported to the income register in conjunction with the payment of wages and salaries. On the other hand, the employer will no longer need to report the same earnings data several times to different authorities, rather those who require the information, including pension companies, will be able to retrieve it directly from the income register.

At Ilmarinen we wish to ensure a smooth transition to the income register for our customers, which is why we encourage our client companies to transfer to monthly notifications well ahead of time. We support this through our service development and will make monthly notifications even easier to file, for instance, through continuous improvements to the online services.

ILMARINEN'S CUSTOMER RETENTION (KPI)	2016	2015
Average customer retention, %	95.1	96.0

TIMELINESS OF ILMARINEN'S PENSION DECISIONS (KPI)	2016	2015
Pension decisions issued during the month in which the pension began, %	69.5	88.7

NET PROMOTER SCORE GIVEN BY ILMARINEN'S CUSTOMERS (NPS, SCALE OF -100 TO +100) (G4-PR5)	2016	2015
NPS for online services	31	3
NPS for phone services	66	59
NPS for pension services	36	14
NPS for insurance services	28	-3

Net Promoter Score (NPS) reporting has changed at Ilmarinen. NPS measurements are carried out a few times a year and the figures reported here are the results for the final measurement of the year. The same reporting procedure is also in force internally at the company. In this table the figures for both years are presented in accordance with the new practice, which makes them comparable. However, the Sustainability Report for 2015 contains a cumulative figure, which differs from the figures presented here.

Pension services

Many of our pension customers only apply for pension once in their life. Which is why it is paramount for us to ensure that each and every pension service experience is an excellent one. In processing pension applications, we pay particular attention to speed (processing time) and quality and measure success in these areas. In 2016, the pension services received an NPS of +36 against +14 in 2015.

In 2016, we improved our online services for pension customers. In addition to old-age pension, it is now possible to also apply for disability pension or rehabilitation

online, and to monitor the progress of the pension application.

In 2015–2016, we took up a new pension processing system that will in future mean a more automated and thus faster processing of applications. The implementation of the new system resulted in some challenges during the transition, however, and lengthened the pension application processing times for some customers. Whereas in 2014 and 2013, around 94 per cent of our new pension decisions were issued at the latest during the month in which the pension began; in 2015 this percentage was only 89 per cent while in 2016 it was 70 per cent. We corrected any information sys-

tem problems during the year as they came up and hired temporary workforce to clear the backlog of applications. In late 2016, we were able to reinstate the previous level in processing times.

We informed customers of delays in pension processing through newsletters and by releasing processing time estimates on our website. It is, of course, understandable that the prolonged processing times have caused frustration and have also impacted our customer services.

Customer experience at the heart of our strategy

Customer experience is one of the focus areas in our strategy for 2016–2020. That is why Ilmarinen's Executive Group regularly monitors the development of the customer experience. We measure customer experience at various points of the customer service path and continuously carry out measures to improve the service experience. During the current strategy period we wish to find and implement digital services that boost our customers' success, productivity and work capacity. We will engage customers in this development work.

At the end of 2016, we launched the Wauhdittamo innovation process's second stage, in which client companies' representatives, in addition to our personnel, are able to participate in innovating new services to improve the earnings-related pension sector

and working life. In Wauhdittamo, development takes place through professionally facilitated team work. The innovation and development taking place through Wauhdittamo can be followed on a public platform at www.wauhdittamo.viima.com

Over the course of the year, we started up a chat service to support customers' online visits and the service will be expanded in 2017. In December, we began a regular customer service on social media – the first of its kind among Finnish pension companies. Our customer service personnel provide advice and answer questions on Ilmarinen's Facebook and Twitter accounts on weekdays from 8 am to 5 pm. Our Facebook service, in particular, has been in demand and we have received several messages a day. We will report more detailed figures on this in the report for 2017.

SERVICES FOR EXTENDING CAREERS

The management of client companies' disability risks is a key part of earnings-related pension insurance companies' operations. In addition to statutory rehabilitation services, customers expect Ilmarinen to be able to provide an increasing amount of expertise in developing work capacity management practices and the quality of working life. Through systematic co-operation we reduce the disability risks of our client companies and support the manage-

ment of personnel costs and productive work. Through these activities we contribute to the reduction of costs resulting from disability and the lengthening of careers. This has great significance for society. In the private sector alone, the costs resulting from disability were estimated last year to equal some EUR 4.3 billion.¹

Vocational rehabilitation

An employee or a self-employed person with impaired work capacity can apply for vocational rehabilitation in order to remain at work or return to working life. In 2016, we made around 3,400 rehabilitation decisions, which is up 10 per cent from the previous year. According to preliminary information, 70 per cent of rehabilitees returned to the labour markets after rehabilitation (78% in 2015). The motivation of the rehabilitee and their willingness to return to working life are also significant factors in ensuring the success of rehabilitation.

Ilmarinen's rehabilitation services include, for example, training provided to supervisors and advisory services as well as expert support for both supervisors and employees during the rehabilitation planning phase. A personalised rehabilitation plan is drawn up for each rehabilitee so that it accords with the requirements of both the person and the workplace. Each of our rehabilitees has a designated rehabilitation expert who provides support and advice

throughout the rehabilitation process. In drawing up the rehabilitation plans, Ilmarinen is assisted by its national network of service providers.

Work capacity activities

For Ilmarinen's work capacity management service, 2016 was a record-breaking year in terms of customer co-operation. We organised 43 'A Better Working Life' coaching sessions for our client companies throughout Finland, attracting more than 2,500 participants. The coaching sessions were focussed around, for example, the development of supervisory work, smooth work flow and community as well as the creation of a culture of early intervention at the workplace. During the year, Ilmarinen also had some 2,100 distinct coaching or co-operation projects underway with its clients. These projects involved approximately 150,000 persons, i.e. around a third of the employees insured with Ilmarinen. Their impact will further increase with the launch of new digital services.

Co-operation with clients is systematic and goal-oriented and the projects are always targeted at jointly identified challenges related to work capacity management. Co-operation is based on written agreements and the results produced by the services are monitored through indicators agreed on together with clients and customer surveys, for example.

¹ Report on lost labour input 2016

Detailed guidelines and specifications have been drawn up for work capacity activities at Ilmarinen. The activities are always based on an estimate of the client's disability risk and the actual need for work capacity management services. We set goals and indicators for every co-operation project and we pay particular attention to cost management. Our work capacity co-operation policies have been published on our [website](#).

The Financial Supervisory Authority issued, in spring 2016, new instructions concerning activities aimed at the management of disability risk. The new instructions will reduce the amount of money spent on work capacity activities and client companies will also be obliged to participate in the costs of the projects. We consider the new instructions to be good. Clear shared ground rules increase the reliability and transparency of the activities, and enforce the quality of services as a competitive factor.

We measure the quality of our work capacity management activities through the benefits our customers feel they gain from the co-operation and the willingness of our customers to recommend them. The results have been excellent. Ilmarinen's customers' assessment of the usefulness of well-being at work coaching was 4.0 (on a scale of 1–5) and the Net Promoter Score (NPS) given after the coaching was +70 (on a scale where -100 is the worst and +100

REHABILITATION AT ILMARINEN (KPI)	2016	2015
Number of preliminary rehabilitation decisions	3,399	3,090
Proportion of rehabilitees available to the labour market at the end of the rehabilitation, %	70	78

WELL-BEING AT WORK ACTIVITIES AT ILMARINEN (KPI / G4-PRI5)	2016	2015
Effectiveness of well-being at work projects (customer experience of benefit on a scale of 1–5).	4.0	4.1
Customer's willingness to recommend (NPS on a scale of -100 to +100)	70	80

the best possible score). The corresponding figures for 2015 were 4.1 and +80, which shows a slight decline, although the level of satisfaction is still high.

We wish to have an even stronger presence in our customers' daily lives and to support companies to improve working life, also outside the capital region. That is why we strengthened our resources last year by recruiting regional well-being at work managers in Oulu, Turku and Tampere. Also the new digital well-being at work and work capacity management services will increase the impact of well-being at work activities as we are able to place the services at the disposal of a much broader clientele than before.

SOCIETY COST-EFFECTIVE MANAGEMENT OF THE BASIC TASK

Our role in the society is to manage the pension cover. This requires us to operate cost-effectively. Cost-effectiveness is a major competitive edge for Ilmarinen and a key requirement in terms of the whole

system's sustainability and legitimacy. As a large actor we have a significant impact on the average cost-effectiveness of the entire pension system.



We finance our own operations through the expense loading component included in the earnings-related pension insurance contribution. The costs for the investment operations are covered through investment returns. How much money the organisation spends on handling its implementation duties and what results it produces for the benefit of its customers depends on the efficiency of the pension institution's operations. Ilmarinen strives to operate as cost-effectively as possible and to generate a large loading profit, which will benefit our client companies. The more efficiently we are able to operate, the larger the loading profit and the better the client bonuses we can pay. In addition to cost-effectiveness, also the solvency of a pension company impacts the amount of client bonuses.

The Ministry of Social Affairs and Health confirms the size of earnings-related pension contributions and they are the same regardless of the pension company. For client companies, the client bonuses refunded as discounts on contributions are thus a key competitive factor between different companies. The amount of client bonuses will grow in the future, as pension companies can return the entire loading profit to their customers. In addition, the calculation of client bonuses will, as of the beginning of 2018, switch to using company-specific bases, i.e. each pension company will decide how it distributes the bonuses to its clients. This change will foster competition and cost-effectiveness in the sector.

Ilmarinen's Board of Directors sets an annual goal for the company's cost-effectiveness. On that basis, Ilmarinen's management sets cost-effectiveness targets and draws up action plans for the various functions across the organisation and regularly monitors and assesses their implementation.

The indicator used for comparing the operational efficiency of pension insurance companies is the ratio of operating expenses to expense loading components. It describes the pension company's own operating expenses in relation to the loading income we receive from pension insurance contributions. So the lower the ratio of operating expenses to expense loading components, the better the cost-effectiveness of our pension insurance operations. In addition, we also measure Ilmarinen's operational efficiency through absolute operating expenses in euros. Our goal for the 2016–2020 strategy period is to reduce operating expenses each year. We report on the forecasts concerning the ratio of operating expenses to expense loading components and the operating expenses monthly to Ilmarinen's Board of Directors.

In 2016, we received EUR 143.7 million in loading income on earnings-related pension contributions and the operating expenses that it covers came to EUR 107.6 million, i.e. the ratio of operating expenses to expense loading components was 74.9 per cent. Total operating expenses (including investment operations) were

ILMARINEN'S RATIO OF OPERATING EXPENSES TO EXPENSE LOADING COMPONENTS AND OPERATING EXPENSES (KPI)	2016	2015
Ratio of operating expenses to expense loading components, %	74.9	75.5
Total operating expenses (EUR mill.)	147	151

EUR 147.2 million. They both fell from the previous year, i.e. our cost-effectiveness improved. Due to good cost-effectiveness, we were able to return a record EUR 102 million as client bonuses. They reduce the earnings-related pension contributions paid by customers by an average of 0.6 per cent in relation to the payroll.

RESPONSIBLE INVESTMENT

The earnings-related pension system is a key component of Finnish social security. Pension assets secure the sustainable financing of pensions. According to law, earnings-related pension assets must be invested in a profitable and secure manner. By taking care of the successful investing of the pension assets under our management we ensure that the employees of our client companies and entrepreneurs will receive the pension they earned from employment. It is about bearing responsibility in the long term – a pension insurance company's quarter is not three months but 25 years.



MANAGING PENSION ASSETS

In 2016, the return on the pension assets under Ilmarinen's management was 4.8 per cent and the market value of investments rose to EUR 37.2 billion. Our solvency capital rose to EUR 8.5 billion and our solvency ratio, i.e. the ratio of solvency capital to technical provisions, was 29.2 per cent. The solvency ratio was twice the solvency limit required by law.

Our real, i.e. inflation-adjusted annual investment return on pension assets has been 4.2 per cent on average since 1997. This exceeds the return level applied by the Finnish Centre for Pensions (ETK) when forecasting the development of the pension contribution. The estimate on the real annual return level previously applied by ETK in its calculations was 3.5 per cent, but in 2016, ETK downgraded its estimate temporarily to 3.0 per cent, as it expects the current very low market rates to lead to lower investment returns over the next few years.

In recent years, the earnings-related pension system's premiums written have lagged behind the development of the pension expenditure. Since 2012, Ilmarinen has also paid out more in pensions than we have collected in pension contributions. In 2016, the difference was close to EUR 300 million.

The resulting deficit is in line with forecasts and can be attributable to the retirement of baby-boomers. We have been aware of this development for a long time,

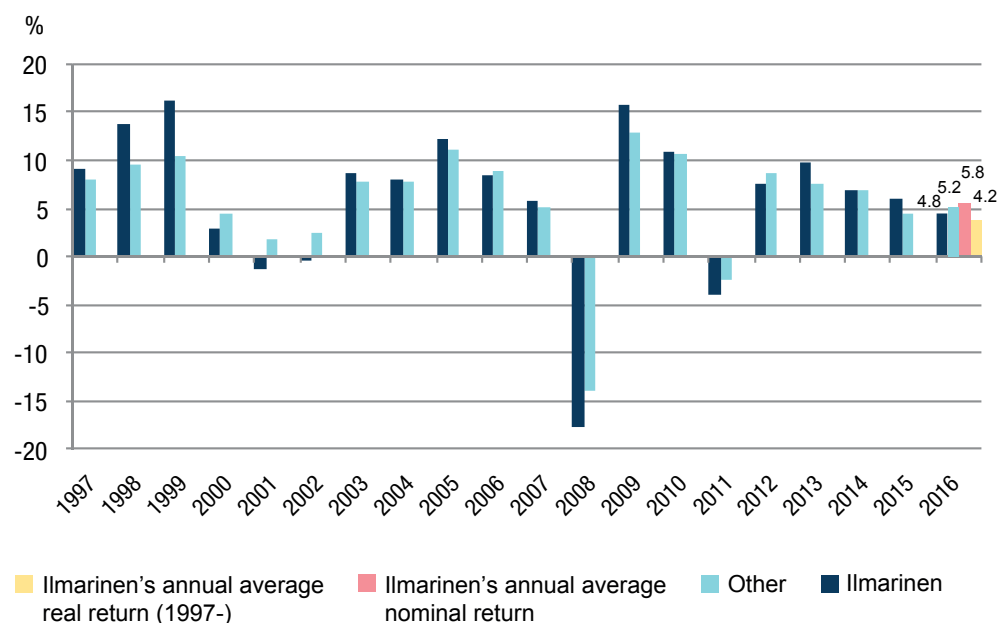
which is why we have prepared for the situation by funding pension assets. Most of the pension premiums written are used for paying current pensions, but on average one quarter of the earnings-related pension contributions are funded. We diversify these funds across various investments, such as equities and shares, debt instruments and real estate. Geographical diversification is also a way to protect investments when certain regions experience weaker market development.

Through professional risk management, we ensure that our solvency remains good and that we comply with the statutory solvency requirements. Good solvency protects pension assets against investment risks while at the same time enabling sufficient risk-taking with regards to the targeted investment return. In addition, good solvency means the ability to pay competitive client bonuses.

Ilmarinen's Board of Directors annually approves an investment plan that guides our investment operations and monitors its implementation on a regular basis. The investment plan lays down the targets for risk-taking and investment allocation in our investment operations. The Board of Directors also decides on investment authorisations. Ilmarinen's investment organisation is in charge of investment operations. We publish quarterly reports on the return on our investments and our solvency. (G4-EC8)

TOTAL RETURN ON ILMARINEN'S INVESTMENTS AND SOLVENCY RATIO (KPI)		
	2016	2015
ROCE, %	4.8	6.0
Solvency ratio, %	29.2	29.6

Long-term return on investment operations



Significance of earnings-related pension assets and Finnish ownership

Ilmarinen is a major player in Finnish society. Our operations and our investment and financing decisions have significant ripple effects throughout Finnish business and industry. Similarly, success in business and industry has direct impacts on Ilmarinen's operations.

Close to 30 per cent of Ilmarinen's investment assets of more than EUR 37 billion are invested in Finland. This gives Ilmarinen a major role in the capital supply of Finnish industry. Through our financing and corporate bond decisions we contribute to the development and growth of businesses. More than a quarter of our equity investments are invested in Finnish listed companies. We have real estate investments worth over EUR 3 billion in Finland and we continuously build new properties and develop our existing ones. In addition, we participate in improving companies' productivity by supporting the work capacity of our client companies' employees.

Similarly, the success of Finnish companies plays a significant role in the success of Ilmarinen's operations. The better Finnish companies succeed, the higher the employment rate and payrolls. Work carried out in Finland, for its part, is directly linked to Ilmarinen's pension contribution accrual and thus to the sustainability of the financing of the entire pension system. The success of Finnish companies also affects the returns on the pension assets managed by Ilmarinen,

for example, in the form of changes in the value of listed shares. (G4-EC8)

Pension assets and fairness between generations

In 2016, pension assets and the fairness between generations sparked a lively discussion in the public domain.

Suomen Senioriliike, a Finnish senior citizens' NGO, collected more than 80,000 signatures to back a citizens' initiative submitted to parliament on changing the pension index so as to put more weight on earnings development. The objective of the citizens' initiative drawn up by the president of Suomen Senioriliike, Kimmo Kiljunen, is to reinstate either the earnings level index used in the 1960s or the half-half index used in the 1980s, in which consumer prices and earnings development both held a 50 per cent weight in the pension index. The initiative seeks to guarantee faster earnings development for pensioners to ensure that their relative earnings level will not lag behind the development of employees' average earnings.

According to ETK's estimates, such a change would gradually lead to a significant increase in the earnings-related pension expenditure, which would have to be financed either by raising contributions or dissolving funds. This, in turn, would put a higher contribution burden on younger generations; in other words, it would lead to a transfer of income from younger generations to older generations. This cannot be

Ilmarinen's most significant Finnish listed equity holdings

EUR mill.	31 Dec 2016	31 Dec 2015
Kone Corporation	183	188
Stora Enso Oyj	177	143
Neste Corporation	176	181
UPM-Kymmene Corporation	171	123
Sampo plc	161	218
Citycon Oyj	148	152
Nokia Corporation	136	184
Fortum Corporation	116	143
Metsä Board Corporation	111	112
Nokian Tyres Plc	100	105

considered justified in terms of income distribution between generations. Parliament will deliberate on the initiative in its spring session 2017.

Other opinions were also voiced. In the autumn, Teemu Muhonen and Jari Hanska published a book by the name of Eläketurma (Vastapaino 2016), in which they strongly advocated for fairness between generations. The authors drew attention to the fact that younger generations receive a considerably lower return on their pension contributions than, for example, the baby-boomers who have already retired.

We joined the discussion about the future of pension assets, the pension index and the fairness between generations by, among other things, publishing [blog posts](#) and incorporating these matters in our stakeholder meeting agendas. As an

Percentage	31 Dec 2016	31 Dec 2015
QT Group Plc	14.62	
Digia Plc	14.58	14.58
PKC Group Oyj	12.15	12.16
Basware Corporation	11.18	10.76
Technopolis Plc	10.48	10.41
Martela Corporation	8.07	8.07
Munksjö Oyj	8.03	8.03
Componenta Corporation	7.92	7.15
Incap Corporation	7.61	7.61
CapMan Plc	7.60	8.32

implementer of pension cover we consider it important to be able to offer information and expertise to support public debate and responsible decision-making.

RESPONSIBILITY AS PART OF INVESTMENT DECISIONS

In Ilmarinen's view, responsibility is a central part of profitable and secure investment operations and effective risk management. Our investment decisions have an influence not only on our investment returns but also on the finances of many companies as a result of our decisions to participate in share issues, bond issues or other financing projects. Through our investment decisions, we have the opportunity to influence the development of the surrounding society. This also gives us great responsibility.

Responsible investment means that, in addition to economic aspects, we take into account aspects related to the environment, social responsibility and good governance (ESG) when making investment decisions. The environmental and social impacts and governance of business operations influence companies' profits, financing costs and reputation, and thus also have a major impact on Ilmarinen's investment returns and risks. We believe that a company that operates responsibly is a better investee in the long run.

According to law, pension assets must be invested in a profitable and secure manner. Responsible investment is not charity and it cannot mean compromising on return targets. A good cause is thus not enough to justify an investment decision; instead, decisions are based on return and risk assessments, while also taking into account responsibility issues. This way we are carrying out our basic task and securing pension assets also for future generations.

Monitoring violations of norms and ruling out investees

We signed the UN's Principles for Responsible Investment (PRI) in 2006. We expect the companies we own to comply, in addition to national legislation, also with the principles of the UN Global Compact and related international norms concerning human rights, labour rights, the environment and corruption.

Our external service provider reviews our securities investments biannually and reports any detected norm violations or suspicions thereof. This review covers Ilmarinen's direct investments in listed equities, corporate bonds and derivatives with a single company as the underlying security. At the end of 2016, 90 per cent of our direct listed equity investments, 93 per cent of our listed corporate bond investments and 35 per cent of our total investment assets had been screened for norm violations. We take the norm violations that we are aware of into account in making new investment decisions and regularly monitor new suspected violations. Norm violations can also lead to the exclusion of investees.

We also do not invest in companies that manufacture arms prohibited by international treaties, including cluster munitions and anti-personnel mines. In 2016, we also decided not to invest in companies that manufacture components for nuclear weapons. Furthermore, we decided to refrain from investing in companies manufacturing tobacco products (more than 50 per cent of net sales from tobacco) and in companies dependent on coal, unless the company has a credible plan for reducing its consumption of coal in the future. According to our definition, companies dependent on coal are those whose share of coal accounts for at least 30 per cent of their net sales or electricity production when at least 30 per cent of the company's net sales comes from electricity.

SCREENING OF INVESTEEES FOR GLOBAL COMPACT NORM VIOLATIONS (FS11)	2016	2015
Screening for norm violations, % / listed shares	90	91
Screening for norm violations, % / listed corporate bonds ^{*)}	93	79
Screening for norm violations, % / Ilmarinen's total investment assets	35	44

^{*)} The number of corporate bonds screened in 2015 was divided with the entire fixed income portfolio, which also includes government bonds. In 2016, the methodology was revamped to only use corporate bonds as the divisor.

Integrated sustainability analysis

At Ilmarinen, responsibility analysis has been integrated into the selection of investees, so it is not a separate function. When selecting investees, our portfolio managers view corporate responsibility ratings in our databases along with financial information. The basis of the rating system is a combination of corporate responsibility rating standards created by third parties, which we adapt with analyses and conclusions from internal and external sources. The analysis on which the corporate responsibility ratings are based involves a broad spectrum of risks and opportunities linked to corporate responsibility as well as already realised controversies and norm violations in corporate responsibility. Investing in companies with lower ratings always requires a separate permit, which can only be granted based on a more detailed assessment. Corporate responsibility ratings already cover 91 per cent of our listed equity investments.

At the beginning of 2017, we introduced, on a broad scale, ESG benchmark indices with a focus on responsibility. The ESG

index includes the companies with the best corporate responsibility rating in each sector and area that represent 50 per cent of the market value of the corresponding parent index. In addition, companies that manufacture, for example, tobacco products or controversial weapons, and companies that have committed serious breaches of international norms are excluded entirely from the ESG indices. The new ESG benchmark indices cover roughly half of Ilmarinen's portfolio of listed equities.

The introduction of the ESG benchmark indices takes responsibility a step further in day-to-day investment operations. The performance of Ilmarinen's portfolio managers is compared against the benchmark index and their incentives are partly tied to it. The ESG benchmark indices correspond better than before to Ilmarinen's own corporate responsibility ratings, and the purpose of the new benchmark indices is to encourage our portfolio managers to place an even greater emphasis on responsible companies in their investment decisions.

Responsible investment is developing

In 2016, one of our priorities was to develop the monitoring of our fund investments with regards to ESG. When making fund investments and selecting funds, we extensively assess the fund management company's responsible investment operations, as the external asset manager managing the fund investments has the decision-making power in the funds. In 2016, we introduced the new guidelines included in [the Responsible Investment Policy](#) concerning the responsibility of fund investments. In accordance with the guidelines, we expect asset managers to abide by the principles of responsible investment, define responsibilities and roles clearly, integrate corporate responsibility analysis into investment decisions and report to investors. The asset manager need not have all of the above-mentioned principles and processes in place when the fund agreement is signed. Instead, the asset manager may continue to develop them during the co-operation.

In 2016, we assessed the practices of our funds in various asset classes, with a particular focus on active equity funds. During the year, we conducted an analysis covering 18 active equity fund managers to assess how the asset managers meet our requirements and compared the companies selected for the funds in terms of corporate responsibility. We also reviewed the results with the asset managers to share best practices and encourage especially those asset managers who are only just beginning

to take into account corporate responsibility issues.

For the first time, we established the proportion of investments promoting the goals of sustainable development in our equity portfolio and we drew up a climate policy (read more about these in the [section concerning climate impacts](#).)

We also carried out broader studies on specific themes, such as separate analyses on governance issues on the US and Japanese markets and sector-specific analyses on corporate responsibility issues in the pharmaceuticals, oil and gas, and biotechnology sectors.

We looked into the offering of government bond sustainability analyses and the opportunities of impact investing. Our objective is to grow our investments in green bonds, i.e. corporate bonds used for environmentally friendly purposes, provided that the financial criteria set for the investments are also met.

In 2017, we will continue to identify opportunities related to sustainable development, among other things, and look into the development of the corporate responsibility analysis concerning our key investees, in particular.

Policy outlines and decision-making

At the end of 2016, we updated our [Ownership Policy](#) and [Responsible Investment Policy](#), which were approved by Ilmarinen's Board of Directors.

The ownership policy management team outlines the instructions for practical application. The team prepares, decides on and co-ordinates Ilmarinen's key ownership policy principles, such as voting in General Meetings and positions on the largest owners' joint statements and proposals prior to the General Meetings. The ownership policy management team includes the President and CEO and representatives of the investment and legal functions. It convenes at least 4–6 times a year and more frequently if needed.

The investment division is responsible for operational corporate responsibility analyses and their integration into the selection process as well as the responsibility monitoring of our investments.

ACTIVE OWNERSHIP

Ilmarinen is an important owner in Finnish companies and a key economic operator in Finnish society. We are an active owner, which entails, among other things, active participation in the General Meetings and Board nomination processes of the companies we own, active dialogue with their management and engagement to further their corporate responsibility.

In our [Ownership Policy](#), we disclose what we expect from Finnish companies as an owner and how we play our role as an active owner. For example, 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 specify our expectations concerning the agendas of General Meetings, the remuneration systems and the composition of the Board of Directors.

Participation in Nomination Committees, General Meetings and Board work

We participate in the nomination processes of the Board members of a number of Finnish listed companies. During the nomination process, we promote the professional governance and management of the companies we own. We also pay attention to that both women and men and people of different ages are represented on the Board of Directors of the companies we own. In 2016, we participated in the Nomination Committees of 23 companies. A list of all Nomination Committee memberships can be found on our [website](#) (in Finnish).

In 2016, we participated in the General Meetings of 70 listed Finnish companies, which equals 80 per cent of the listed Finnish companies we own. In addition, we participated in the General Meetings of all of the non-listed Finnish companies we own. We report on our participation in the General Meetings of Finnish companies and the votes we have given, if voting has taken place at the meetings. We expect any extraordinary motions to be explained in detail in the notice of meeting and the principles of the management's remuneration and

compensation plans, and any supplementary pension plans, to be presented at the meeting, among other things. Furthermore, a presentation of the tax policy and tax footprint is desirable. Our responsible investment specialist 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. In 2016, we contacted 14 companies prior to their General Meetings and held discussions concerning, among other things, the grounds for raising Board fees and the long duration and/or high dilution of share issue authorisations. In addition, we looked into the terms of office of auditors and asked for further information in cases where the same principal auditor had been serving for more than 7 years.

Ilmarinen's Board of Directors shall approve any and all memberships of Ilmarinen employees in the governing bodies of listed companies. In addition, the Board of Directors shall approve 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 shall approve all of the work-related memberships of the remaining personnel in the governing bodies of non-listed companies. The Board memberships of Ilmarinen employees are listed on our [website](#) (in Finnish).

Dialogue and engagement processes

We hold discussions with companies we own, directly with the company's management and, if need be, with the Board of Directors. In 2016, we regularly met with the management of the listed Finnish companies we own. In total, we met with the senior management of 54 companies. This equals 59 per cent of the companies we own that are listed in Finland. Considering all of Ilmarinen's direct holdings, we were in contact with 64 companies (15 per cent of the companies we own) with regards to corporate responsibility matters. The topics we discussed and asked for further information about included climate impacts and related reporting, recycling, freedom of association, working conditions in the supply chain, product safety, money laundering and anti-corruption measures.

If a company we own systematically fails to comply with the UN Global Compact principles, we will deepen our dialogue into an engagement process that aims at ending the undesirable activity and at the adoption of responsible procedures. If the undesir-

ILMARINEN'S PARTICIPATION IN GENERAL MEETINGS (KPI)	2016	2015
Number of General Meetings of companies listed in Finland in which Ilmarinen participated	70	75
Rate of participation in the General Meetings of listed Finnish companies (listed on the Helsinki stock exchange), %	80%	89%
Voting in the Annual General Meetings of foreign companies	10	11
Number of General Meetings of non-listed Finnish companies in which Ilmarinen participated	21	21
Rate of participation in the General Meetings of non-listed Finnish companies, %	100%	100%

ENGAGEMENT TO ADDRESS HUMAN RIGHTS VIOLATIONS

In 2015, French construction company Vinci was accused by NGOs to have allegedly violated the human rights of migrant workers on a construction site in Qatar. According to the accusations, the conditions on the construction site were poor, the workers were threatened and their passports were confiscated. In addition, it transpired that the workers had had to pay illegal fees to get the job.

Together with its Nordic partners (Nordic Engagement Cooperation), Ilmarinen decided to initiate an engagement process to remedy the issues. In 2016, we continued to be in contact with the company both directly and through NGOs and we voiced our concern about the treatment of the workers.

The construction site has taken steps in the right direction: working hours have been reduced and Vinci now collaborates with employment agencies and the authorities of the workers' countries of origin to avoid illegal fees from being collected. In summer 2016, the company adopted new guidelines on human rights and works with local suppliers to implement them.

Violations of human rights are often brought out in the open by active NGOs or trade unions, and the Vinci case is no exception. However, interest shown by investors and their demands for problems to be remedied also often play a major role. Companies listen to investors, and co-operation with other investors puts us in an even better position to make a difference.

able activity does not end as a result of the engagement process, our last resort is to exit from our ownership in the company.

Ilmarinen's investment organisation decides on the companies to be subjected to the engagement process and on the procedures. We engage with companies both alone and together with our service provider and other investors. We participate in Nordic Engagement Cooperation, through which we engage with companies jointly with the Norwegian company KLP and the Swedish company Folksam. We publish a separate annual report pertaining to this engagement work on our website.

In 2016, 13 companies were subjected to the engagement process on account of norm violations relating to working conditions, child labour, corruption and environmental impacts, among other things. Three engagement processes were completed during the year, as the issue that initially caused us to start the process was remedied. In addition, two observation processes related to the manufacture of nuclear weapon components ended as the investments in the companies in question were sold.

Over the course of the past year, we engaged, together with international investors, with construction company Vinci regarding the conditions of migrant workers in Qatar, with transport company Deutsche Post concerning the recognition of the freedom of association in India and with oil company Total in issues related to human rights in Morocco-controlled Western Sahara.

Responsibility grows when shared

Over the years, Ilmarinen has gained a wealth of competence and expertise in the field of responsible investment, and we are happy to share it with other companies. As an owner, we are on the companies' side – we are willing to be partners in fostering responsible ways of operating and in creating opportunities to share best practices between companies.

In April 2016, we hosted CDP's workshop on environmental reporting. CDP is an initiative launched by investors to foster high-quality and consistent reporting on environmental impacts by companies. In September, we provided our investees and customer companies with training on how companies can identify and manage human rights risks. Our partner in this was the international organisation Shift. In October, we organised, together with the Finnish corporate responsibility network FIBS, a breakfast event on the business opportunities created by climate change. In addition, our experts have given speeches at various events and shared their knowledge and insights in sustainability-related interviews, articles and blogs.

CLIMATE IMPACTS

Climate change is a significant and long-term threat to the future of humanity and ecological sustainability. It will alter how the economy and many companies operate in the coming years. Taking these changes into account is especially important for a

ILMARINEN'S INTERACTION IN ENVIRONMENTAL AND SOCIAL MATTERS WITH COMPANIES INCLUDED IN THE DIRECT EQUITY PORTFOLIO (FS10)	2016	2015
Interaction on environmental or social issues, number of companies in the portfolio	64	73
Interaction on environmental or social issues, % of companies in the portfolio	15%	17%

ENGAGEMENT PROCESSES WITH COMPANIES IN THE INVESTMENT PORTFOLIO	2016
Companies under an engagement process at year-end (Global Compact)	10
Engagement processes completed during the year (Global Compact)	3
Engagement in connection with proposals to General Meetings	14
Companies on whose nomination boards Ilmarinen has participated during the year	23
Engagement to promote CDP reporting	20
Engagement actions with companies, total	57

Climate policy road map 2016-2020



long-term operator such as Ilmarinen. We continuously develop our investment operations with the goal of establishing a progressive and systematic approach for taking climate change impacts into account.

In 2016, we adopted a [Climate Policy](#), which will help us to reach our investment targets and take into account the limits set by the climate on the economy. In the Climate Policy, we set ourselves concrete targets for mitigating climate change over the next few years. The Climate Policy also aims to guide the investee companies and asset managers to take corporate responsibility aspects better into account.

The targets of the Climate Policy are described in the roadmap.

Climate change is a significant financial risk for investment operations. The risk can be realised when the operating environment becomes challenging for companies due to global warming. The value of investments may also fluctuate as a result of legislation that creates new expenses for companies and the rapidly changing views in the markets on the impacts of climate risks. We sell the shares of individual companies if we identify in the company immediate negative financial impacts caused by climate risks. However, climate change also generates new business and investment opportunities.

The objective of the Climate Policy is to influence not just our own, but also our partners' operations, and thus support climate change mitigation. As an active

owner, we wish to ensure that our investee companies take the corporate responsibility aspects of their operations into account to an even greater extent as part of profitable business. We expect, for example, the companies we own to report on their carbon footprint and other climate impacts openly and comprehensively. It is also important for the companies to assess their strategic choices and investments from a climate change perspective.

In 2016, we joined other investors in making a shareholder's proposal to the General Meetings of mining companies Rio Tinto and Anglo American, requesting them to assess their business in a scenario where climate warming would be limited to two degrees and to report on the results. The motions were adopted in the General Meetings with an overwhelming majority. We also supported a similar shareholders' proposal in the General Meeting of oil company Exxon. The motion was not adopted, but close to 40 per cent of those present in the General Meeting supported it.

In Finland, too, we discussed climate impacts and related reporting with the companies we own. In addition, we participated in a joint initiative of investors, sending 20 companies we own letters where we urged them to report on their climate impacts through the international organisation CDP.

INVESTMENT PORTFOLIO'S CARBON FOOTPRINT IN RELATION TO NET SALES (G4-EN18)	31 Dec 2016	31 Mar 2016	30 Apr 2015
Direct equity portfolio's carbon intensity (tCO ₂ e/EUR 1 mill. net sales)	358.4	353.8	484.6
Direct equity portfolio's carbon intensity in relation to aggregate benchmark	-18%	-24%	-4%
Direct corporate bond portfolio's carbon intensity (tCO ₂ e/EUR 1 mill. net sales)	339.0	414.3	

Climate impacts of securities investments

In 2015, we calculated the carbon footprint of our direct equity portfolio for the first time. Based on the calculation, we carefully reviewed the carbon risk in our investments and sold our holdings in three carbon-intensive companies and increased investments in electricity companies that focus on renewable energy. In the calculations made in spring 2016, the equity portfolio's carbon footprint had decreased by 27 per cent. At the end of the year, the carbon intensity of the direct equity portfolio was 358 tonnes of carbon dioxide equivalents per million euros of net sales. This was slightly more than in the measurement carried out in March, but more than a quarter better than in the previous year and clearly below our benchmark index.

In 2016, we also analysed the carbon footprint of our fixed income portfolio for the first time. At the end of the year, the carbon intensity was 339 tonnes of carbon dioxide equivalents per million euros of net sales, clearly down (18 per cent) from the measurement carried out in March. Over the course of the year, we reduced corporate bond investments in carbon-intensive

sectors and, correspondingly, increased investments in the less carbon-intensive banking and telecommunications sectors, for example. In addition, our investments in renewable energy increased and those in coal decreased.

The carbon footprint is an important indicator, but it does not reveal the whole truth about climate impacts. Calculation methods vary and there are substantial differences between the various sectors. Usually, it is also not possible to take into account the full life cycle emissions. In terms of Finnish holdings, the carbon footprint alone is a particularly tricky indicator for a Finnish investor. Finland's industry is energy-intensive, and large holdings in Finnish forest and energy companies make up a significant part of Ilmarinen's carbon footprint.

On the other hand, our own forest reserves and those of the companies we own have an opposite impact by sequestering carbon dioxide. In 2015, our forest holdings totalled 129,000 hectares and the positive net impact of the carbon sequestered by the growth of these forests was 453,821 tCO₂ (the figure is reported every other year). As part of productive investment operations,

Carbon Footprint 2016 (G4-EN18)

CARBON FOOTPRINT: DIRECT LISTED EQUITY PORTFOLIO (SCOPE 1 DIRECT + SCOPE 2, 3 FIRST-TIER INDIRECT)

CO ₂ e intensity per million revenue (tonnes/EURm)			CO ₂ e intensity relative to benchmark			CO ₂ e intensity per million invested (tonnes/EURm)		CO ₂ e intensity relative to benchmark		Total CO ₂ e Apportioned Emissions (tonnes)	
Portfolio	Benchmark	(%)	Portfolio	Benchmark	(%)	Portfolio	Benchmark	Portfolio	Benchmark		
358.38	438.16	- 18.2%	325.92	389.84	- 16.4%	2,382,168	2,849,356				

CARBON FOOTPRINT: DIRECT LISTED EQUITY PORTFOLIO (SCOPE 1 DIRECT + SCOPE 2, 3 FIRST-TIER INDIRECT)

CO ₂ e intensity per million revenue (tonnes/EURm)			CO ₂ e intensity relative to benchmark			CO ₂ e intensity per million invested (tonnes/EURm)		CO ₂ e intensity relative to benchmark		Total CO ₂ e Apportioned Emissions (tonnes)	
Portfolio	Benchmark	(%)	Portfolio	Benchmark	(%)	Portfolio	Benchmark	Portfolio	Benchmark		
212.42	256.96	- 17.3%	193.19	228.62	- 15.5 %	1,411,993	1,670,977				

CARBON FOOTPRINT: DIRECT CORPORATE BOND PORTFOLIO (SCOPE 1 DIRECT AND 2, 3 FIRST-TIER INDIRECT)

CO ₂ e intensity per million revenue (tonnes/EURm)	CO ₂ e intensity per million invested (tonnes/EURm)	Total CO ₂ e Apportioned Emissions (tonnes)
338.98	169.92	864,465

CARBON FOOTPRINT: DIRECT CORPORATE BOND PORTFOLIO (SCOPES 1 AND 2)

CO ₂ e intensity per million revenue (tonnes/EURm)	CO ₂ e intensity per million invested (tonnes/EURm)	Total CO ₂ e Apportioned Emissions (tonnes)
230.55	115.56	587,944

The table reports the carbon footprint of companies contained in Ilmarinen's direct equity and fixed income portfolios. The calculation includes direct emissions (scope 1), purchased energy (scope 2) and other indirect emissions (scope 3), of which only tier 1 suppliers have been included. As a general rule, Ilmarinen applies this more comprehensive reporting method, which takes into account direct emissions and, regarding indirect emissions, tier 1 suppliers. For reasons of comparability, we also present a less comprehensive calculation that only includes scopes 1 and 2, as this is the method chosen by many other investors to report on their carbon footprint.

For the carbon footprint, we have reported the amount of carbon dioxide equivalents of all of our investee companies, i.e. the amount of all greenhouse gas emissions in tonnes in relation to the companies' net sales – our primary reporting method – and in relation to invested euros. In addition, we have reported the absolute greenhouse gas emissions of the investees in tonnes of carbon dioxide equivalents.

The emissions have been compared with an aggregate benchmark which corresponds to the geographical distribution of Ilmarinen's investments.

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

	31 Dec 2016	31 Mar 2016
Share of renewable energy of electricity production in direct equity investments, %	28.2	21.5
Share of coal of electricity production in direct equity investments, %	24.0	11.0
Share of renewable energy of electricity production in corporate bonds, %	24.7	16.0
Share of coal of electricity production in corporate bonds, %	18.1	34.7

our goal is to increase our forest investments and thus simultaneously increase the positive impact of our investments on the climate.

In addition to the carbon footprint, we established the share of renewable energy of the electricity production of investee power companies in 2016. The share of renewable energy of the electricity production of both equity and fixed income portfolio companies had grown year-on-year. In equity investments, the share of coal had also grown but was still lower than that of renewable energy. In corporate bonds, the share of coal declined markedly, and these investees also used clearly more renewable energy than coal.

Comparison of investments with the two-degree target

As part of assessing the climate risks of our investments, we have compared our equity investments against the target of limiting the global increase in temperature to a maximum of two degrees Celsius in line with the Paris Agreement. The analysis was performed by the 2° Investing Initiative,

a non-profit think tank, and it is part of a programme financed by the EU Commission. The analysis currently only includes three sectors, forming 8 per cent of the investments in our direct equity portfolio. New sectoral analyses are being developed constantly.

In the analysis, the investments in Ilmarinen's equity portfolio were compared with the International Energy Agency's (IEA) scenario extending until 2020 for an energy technology mix that will allow limiting the global increase in temperature to 2°C. Of the analysed sectors, our investments in power companies and fossil fuel producers were in line with the two-degree scenario, but car manufacturing companies were not.

Ilmarinen's investee power companies are estimated to use more renewable energy and hydropower and less nuclear power, gas and coal than meeting the two-degree target would require. With the current holdings, our equity portfolio would have, in 2020, approximately twice the minimum amount of renewable energy capacity required by the two-degree scenario, while

SHARE OF BUSINESS RELATED TO SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE SOLUTIONS OF THE NET SALES OF COMPANIES IN THE DIRECT EQUITY PORTFOLIO (KPI)	31 Dec 2016	31 Jul 2016
Share of business related to sustainable development solutions of the annual net sales of direct listed equity investments, %	5.7%	6.0%
Investments in sustainable development (direct equity investments in listed companies of whose business 50% or more is related to sustainability solutions)	€ 520 million	
Share of business related to climate change solutions of the annual net sales of direct listed equity investments, %	3.2%	2.9%
Investments in climate change solutions (direct equity investments in listed companies of whose business 50% or more is related to sustainability solutions)	€ 129 million	

the amount of coal would be a fraction of what the scenario would allow.

As for fossil fuels, our equity portfolio includes less coal and natural gas production and approximately as little oil production as the two-degree scenario would require, i.e. overall, our investments are aligned with the target. The estimate takes into account the maximum amount of fossil fuels that can be used by 2020 and the share of the companies producing them in relation to the size of the investment portfolio.

As far as the automotive industry goes, our equity portfolio contains too few manufacturers using low-carbon technologies (hybrid, electricity) and, correspondingly, too many companies manufacturing combustion engine cars. Hence, our investments are not in line with the two-degree scenario. In the automotive industry, all global car manufacturers are faced with the same challenge: none of the major car manufacturers is currently, or according to their plans extending until 2020, in line with the target.

Target: double the investments in sustainable development

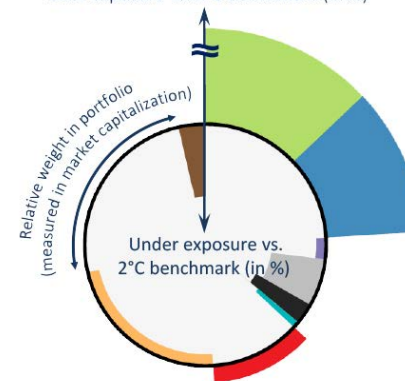
In our view, climate change entails not only risks but also opportunities for investors. Climate change opens up new business opportunities, for instance, for companies that generate energy-efficient or clean-tech solutions and thereby aim to mitigate climate change or help adapt to it. We actively seek investees whose business relates, for example, to renewable energy, clean water or improving resource efficiency. Companies that come up with solutions to global challenges as part of their business can enjoy faster growth than the markets and can thus also be good investments.

In 2016, we calculated how large a share of the net sales of our direct listed equity investments comes from solutions related to climate change and, on a broader level, to sustainable development. Business related to climate change solutions includes, among other things, technologies aimed at improving renewable energy and energy efficiency. At the end of the year,

Estimated 2°C alignment of the Ilmarinen equities portfolio in 2020

ILMARINEN EQUITIES PORTFOLIO

Over exposure vs. 2°C benchmark (in %)



2°C MISALIGNMENT IN %

	Ilmarinen Equities	Ilmarinen Equities	Ilmarinen Equities
Renewables	122.6%	Electric	-85.9%
Hydro	188.7%	Hybrid	-54.4%
Nuclear	-10.3%	ICE	18%
Gas	-57%	Gas production	-11.9%
Coal	-65.2%	Oil production	-1.7%
		Coal production	-75.2%

(Source: 2° Investing Initiative)

the share of these was 3.2 per cent of the net sales of our investees. In terms of euros, our investments to climate change solutions amounted to 129 million.

Sustainable development solutions also include business related to nutrition, preven-

tion of contagious diseases, water supply and education. These accounted for 5.7 per cent of the net sales of our investee companies at the end of the year. This is substantially more than our benchmark index, in which the share of sustainable develop-

ment net sales was only 3.6 per cent. We invested in sustainable development 520 million euros.

The target set out in our Climate Policy is to double our investments in sustainable development by 2020, provided that the financial criteria of the investments are also met (target 12 per cent). This requires us to actively look for and identify new investment opportunities, which will be one of our responsible investment priorities in 2017.

Climate impacts of real estate investments

The built environment causes significant climate impacts which need to be taken into account when assessing the development outlook of buildings. The carbon footprint of our real estate development (CRE 4) was 137 tonnes of carbon dioxide equivalents per million euros invested according to the calculation carried out in 2016. The carbon footprint consisted of the emission impacts of altogether seven housing projects. The figures include the emissions from the construction of parking facilities included in the housing construction.

The carbon footprint of our current Finnish direct real estate investments (CRE 3) in 2016 was 36 kg of carbon dioxide equivalents per square metre. The figure includes greenhouse gas emissions that arise from the energy consumption of the properties (consumption of electricity, heat and possible remote cooling). Our target is to reduce the carbon footprint of our real estate port-

folio by 10 per cent by 2020 from the 2015 level, and by 20 per cent by 2025.

In addition, we have calculated the life cycle carbon footprint of our 2016 housing starts, which includes, in addition to construction, the emissions caused during its use (useful life used in the calculation: 50 years) and demolition. Carbon footprint measurements will help us identify measures to reduce the greenhouse gas emissions resulting from construction. We believe that the carbon footprint of buildings also affects the users' choices.

The life cycle carbon footprint of a building largely arises during the building's use, but the majority of the choices affecting the greenhouse gas emissions during use are made in the construction phase. In building use and maintenance, the largest climate impacts come from energy consumption. In connection with new construction projects, we carry out energy simulations and chart the potential and profitability of renewable energy, especially geothermal heat, as the buildings' energy source.

In 2016, we installed Helsinki's biggest building-specific solar power plant on the roof of our own headquarters. At its best, it produces a quarter, and on an annual level, more than 5 per cent of the building's total energy consumption. The use of solar power is being looked into at Ilmarinen's other properties as well. We also draw on construction sector players' experiences with various low-emission construction ma-

CARBON FOOTPRINT OF NEW CONSTRUCTION (7 HOUSING PROJECTS IN 2016) (CRE4)	2016
Carbon footprint per square metre, kg CO ₂ e/net m ² , emissions	462
Carbon footprint per square metre, kg CO ₂ e/useful floor area m ² , emissions	608
Greenhouse gas emissions from construction in relation to annual net sales tCO ₂ e/million euros	137

CARBON FOOTPRINT OF REAL ESTATE INVESTMENTS (FINNISH DIRECT REAL ESTATE INVESTMENTS) (CRE3/KPI)	2016
Finnish direct real estate investments, carbon footprint kg CO ₂ e/m ²	36
<i>Emissions coefficients have been calculated for purchased energy; national coefficients for electricity and location based coefficients for district heating and cooling.</i>	

terials, such as wood, for our own structural engineering.

IMPACTS ON THE BUILT ENVIRONMENT

Ilmarinen is one of Finland's largest real estate investors, a major property developer and a significant buyer of real estate services. Our real estate assets in Finland total EUR 3.2 billion. Twenty two per cent of the properties we own are in residential use and 78 per cent are various business premises. The environmental impacts of buildings and the design and use of the built environment are key factors affecting societal well-being. We invest in resource-efficient buildings that are healthy and safe for their users and located along good public transport connections. Our development activities and the real estate services bought by us also create jobs and increase society's tax revenues.

In 2016, we launched an extensive housing construction programme aimed at building a thousand new rental flats in the Helsinki area, surrounding municipalities and Tampere. Construction work has already started on 600 flats. The investment was made possible by a temporary act which allows the use of debt financing also in fully-owned new rental flat projects.

In line with our investment strategy, we continued the diversification of our real estate investments outside of Finland. During the year, we invested in office properties in Frankfurt, Berlin and Amsterdam.

In 2016, we commissioned a [thesis](#) on responsible real estate investment. The thesis examined the integration of responsibility into the various processes of real estate investment, the benefits and ripple effects of a responsible approach in real estate investment and the measurement and verification of responsibility.

ENERGY INTENSITY OF PROPERTIES OWNED BY ILMARINEN, DIRECT FINNISH REAL ESTATE INVESTMENTS (CRE1)	2016	2015 ^{*)}
Energy consumption of flats, kWh/m ² /year	136	142
Energy consumption of office premises, kWh/m ² /year	174	173

^{*) The figures for the comparison year 2015 are different from those presented in the report for 2015, due to a change in the weather normalisation adjustment for 2015.}

WATER INTENSITY OF PROPERTIES OWNED BY ILMARINEN, DIRECT FINNISH REAL ESTATE INVESTMENTS (CRE2)	2016	2015
Water consumption of flats, m ³ /m ²	1.03	1.07
Water consumption of office premises, m ³ /m ²	0.24	0.28

CALCULATED EFFECT OF ENERGY SAVINGS MEASURES ON THE ENERGY CONSUMPTION OF PROPERTIES (KPI)	2016	2015
Calculated effect of energy savings measures on energy consumption, Mwh/year	2,020	1,099

Real estate maintenance and renovation

We take into account the entire life cycle of buildings in our operations. We maintain properties so as to retain their value. We promote the energy efficiency of buildings and reduce their detrimental impacts on the environment, such as water consumption.

We always seek the best expertise for real estate maintenance. In 2016, we introduced a new real estate management model, according to which we divided the service package into smaller units and switched from a single real estate maintenance and rental service provider to several expert service providers specialising in different fields. For example, energy management was segregated as a separate area within real estate maintenance and is now

managed by an energy manager. During 2016, we had a long-term energy-efficiency plan drawn up for each property with the goal of further improving the management of energy savings measures and of ensuring that energy issues are taken into account in connection with all repairs. We improved the management of daily energy consumption by connecting the most significant properties to the energy manager's remote management system.

During the energy efficiency agreement period that ended in 2016, we exceeded our energy savings target for both office properties and residential buildings by about 30 per cent. In our office properties, we carried out energy savings measures worth 8,600 MWh in 2008–2016. In residential

properties, we achieved savings of 4,200 Mwh during the period. In 2016, our energy savings measures generated savings of 2,020 MWh.

Energy savings are the result of long-term efforts aimed at improving energy efficiency. We have connected our business properties to district cooling where possible, replaced ventilation and lighting systems with more efficient ones and invested in real estate automation systems. In residential buildings, the savings are mainly the result of larger refurbishment projects where improving energy efficiency has played a key role. Examples include replacing roofs, windows and building services, improving the energy efficiency of lighting in outdoor and common areas, increasing the flat-specific measurement of water consumption and adjusting the flow of water fixtures.

We also joined the new energy efficiency agreement, and our target is to achieve additional savings of 10.5 per cent by 2025.

Property development

We are a long-term and responsible property developer, and for us, sustainable construction is responsible construction. Our design guidelines, which take into account, among other things, the long useful life of buildings and material and energy efficiency, guide our property development. We always seek the best expertise in property development and select our co-operation partners on a case-by-case basis.

As property developers, we require a LEED Gold or corresponding environmental label as a minimum standard. The label sets strict requirements on the selection of building materials, energy efficiency, water consumption, indoor air quality and the location of the building, for example.

In addition to environmental certification, we require all of our service providers to, among other things, abide by their contractor's liability, recruit foreign workers in accordance with the Finnish collective agreements and adopt safe working practices.

As a major property developer and real estate investor, Ilmarinen considers it important to do its part in combating the grey economy in the construction sector. Our operating guidelines for combating the grey economy are applied in all of our new construction projects and renovation and refurbishment projects, and they apply to all of our partners – in purchases of both goods and services. The obligations to combat the grey economy were updated in 2016, and they are available on our [website](#) (in Finnish).

We are involved in developing responsible practices in the real estate and construction industry, for instance, by participating in the working groups of the construction sector association RAKLI and taking part in public dialogue. We also monitor occupational health and safety indicators in property development.



ATTRACTIVE EMPLOYER

Our goal is to offer the best customer experience in the earnings-related pension sector. We believe that how employees experience their workplace is directly reflected in the customer experience – satisfied employees are thus a key in achieving our goal. Energising our work community is one of the four focal areas of Ilmarinen's strategy for 2016–2020.

ENERGISING WORK COMMUNITY

Ilmarinen's management is committed to developing the work community. A concrete example of this is the fact that the management's performance-based bonuses have been tied to the 'energising work community' index compiled from the work atmosphere survey. In 2016, the index score was 3.6 (on a scale of 1–5). The measures related to energising the work community have been compiled into a development programme that contains a broad spectrum of measures – from reviewing the management system to clarifying the operating principles based on the values and to choices related to exercise and healthy nutrition.

We want to be a role model in how work and the work community can support people's activeness. This target is supported by, among other things, our modernised premises, which became fully operational in spring 2016. The multi-purpose office space offers functional solutions for various work situations. Its primary objectives are to support activeness and well-being while promoting interaction and a culture of continuous improvement. The new premises and improved mobile tools have made our work more place-independent and remote working has also increased.

Even though moving from a private office to an open-plan multi-purpose space was a big change, our employees have embraced the new premises. In our employee survey, the claim "Our work spaces are

appropriate" received an average score of 3.8 (on a scale of 1–5). Our employees are particularly pleased to have their colleagues nearby and be able to communicate easily. The spaciousness, brightness and tidiness of the premises were also praised.

The way the employees feel about their work community also affects how innovative Ilmarinen is and how smart the practices and services are that we create together. Energetic and thriving employees help Ilmarinen grow profitably and operate productively and efficiently.

Employees' experience of the work community on a good level

An energising workplace requires a well-functioning and engaging corporate culture, good leadership and the ability to lead oneself. We measure these with an annual work atmosphere survey. As in the previous year, the overall index from the employee survey 2016 was at a fairly good level, at 3.8 on a scale of 1–5. Strong commitment (4.0) and the fact that work feels meaningful (4.1) continue to be the strengths of our work community. Employees also value the opportunity to learn and develop, scoring it 3.8.

Based on the results of the work atmosphere survey, the score given to supervisors by employees concerning the implementation of the leadership principles remained at a high level in 2016, equalling 3.9. Supervisors received especially good feedback for fairness and supporting success, which

ILMARINEN'S PERSONNEL TURNOVER (G4-LA1)	2016	2015
New employment relationships	61	41
Ended employment relationships	51	48
Turnover of permanent employees, %	6 %	6 %
New employment relationships/permanent	18	16
Ended employment relationships/permanent	33	30

AVERAGE RETIREMENT AGE OF ILMARINEN EMPLOYEES	2016	2015
Average retirement age	63.8	63.3

both achieved a score of more than 4. In addition, the survey gives employees the chance to voice their opinion on how engaging and reliable they consider Ilmarinen's Executive Group. This result remained on a par with the previous year, at 3.3, the lowest of the surveyed areas. This has prompted us to take action to strengthen the confidence by, among other things, increasing the openness and speed of the Executive Group's communications and by introducing short video summaries of the items on the agenda of the Executing Group's weekly meetings.

For 2017, we have identified the following development areas: strengthening an agile and communicative operating culture, increasing internal mobility and improving the quality of supervisory work and leadership so that it is consistently high in all operations. In addition, the working tools need constant improvement.

All in all, our personnel satisfaction is high: Ilmarinen employees remain with us for an average of 14 years. In 2016, the employee turnover among our permanent personnel was 6.1 per cent. Our employees retired at the age of 63.8 on average. In calculating the retirement age, we take into account disability pensions in addition to old-age pensions.

In 2016, we partnered in the Responsible Summer Job campaign, and our President and CEO Timo Ritakallio acted as the patron of the campaign. In the campaign, we committed to providing summer workers with proper induction, equal treatment and a decent salary. In our view, earnings-related pension insurance companies have a major responsibility for future employees as well, and by joining the campaign we wanted to showcase the diverse possibilities offered by a pension insurance company as a work environment. We offered summer jobs for a total of 27 summer workers,

ENERGISING OUR WORK COMMUNITY INDEX (ON A SCALE OF 1–5) (KPI)		
	2016	2015
Energising our work community index result	3.6	3.6

NUMBER OF TRAINING HOURS REPORTED BY ILMARINEN EMPLOYEES (H/PERSON) (G4-LA9)		
	2016	2015
Average training hours, entire personnel	19	13
Average training hours, women	21	15
Average training hours, men	16	10
Average training hours, Executive Group	8	8
Average training hours, middle management	13	12
Average training hours, group supervisors	20	13
Average training hours, salaried employees and specialists	19	19

whose job profiles ranged from investment analyst tasks to customer service, pension processing and rehabilitation.

We were very pleased with our summer workers and will recruit dozens of people again for summer 2017. Our summer workers were also satisfied with Ilmarinen as an employer. In a survey conducted as part of the Responsible Summer Job campaign, our summer workers scored their overall satisfaction at an average of 3.8 (on a scale of 1–4), which was clearly higher than in the companies participating in the campaign on average. Our summer workers were particularly satisfied with, among other things, how fairness and equality were implemented.

Activation coach supports good spirit

Recruiting an activation coach was part of the effort to energise the work community. Initially, we hired the work community

activation coach for the summer, but the feedback was so good that we decided to continue the trial for a year. The activation coach encourages Ilmarinen’s personnel to take care of their well-being through exercise and healthy nutrition. We have available, for example, personal training, break exercise sessions and lectures and exercise meets for the teams. According to our experience, the activation coach has also managed to encourage those who do not normally do any exercise on a daily basis to take on a more active lifestyle – unlike, for example, the traditional sports vouchers, which are most actively used by people who would exercise anyway. Hiring the activation coach was a strategic deed for Ilmarinen: our goal is to show that work and the work community can be a source of energy.

We also invest heavily in preventive occupational health care. One of the indicators

we monitor is the health percentage of our employees, i.e. the proportion of persons who have not been absent from work due to illness at all during the reporting year. In 2016, this proportion was around half of the employees.

Continuously developing competence

The competence development methods recommended at Ilmarinen are based on the idea that around 70 per cent of learning consists of learning on the job, 20 per cent of model learning (e.g. feedback, mentoring, coaching) and just 10 per cent of traditional training. We encourage our employees to build on their competence while working by, for instance, keeping abreast of the news and training offering in their own sector. We arrange actual training sessions based on identified needs and also have them tailored to our employees’ requirements. We have become aware that training tailored to actual needs is much more effective than choosing one of the ready-made training courses on offer. Employees can also take the initiative and, after agreeing with their supervisor, participate in training courses offered by external service providers that cater for the needs of their job

All new employees participate in on-boarding sessions for new hires where Ilmarinen’s executives explain Ilmarinen’s role as part of the earnings-related pension system, products and services, leadership and HR policy and other important aspects of our business. In 2016, new hires gave

these sessions an average score of 4.3 on a scale of 1–5. In addition to the on-boarding sessions, we offer new supervisors induction training tailored to their needs. Supervisors who take on a supervisory role for the first time also receive support from an external coach, if needed. In addition, all Ilmarinen employees have the possibility to receive internal mentoring. During the year, we provided all Ilmarinen employees with training in the Code of Conduct, information security and the new O365 cloud environment. We also trained our personnel in matters related to the 2017 pension reform and organised coaching in presentation skills, among other things.

Each of our employees spent an average of just under three work days in various training events in 2016. The figure only includes training events saved in the personal data system; in addition, our employees participate actively in external training sessions and seminars which are not necessarily included in the statistics.

NUMBER OF ILMARINEN EMPLOYEES BY EMPLOYMENT TYPE, EMPLOYMENT CONTRACT AND GENDER (G4-10)

	2016	2016 %	2015	2015 %
Number of employees				
Permanent employment contracts, total	540	91%	542	95%
Permanent employment contracts, women	351	65%	357	66%
Permanent employment contracts, men	189	35%	185	34%
Permanent full-time employment contracts, total	501	93%	492	91%
Permanent full-time employment contracts, women	321	64%	316	64%
Permanent full-time employment contracts, men	180	36%	176	36%
Permanent part-time employment contracts, total	39	7%	50	9%
Permanent part-time employment contracts, women	30	77%	41	82%
Permanent part-time employment contracts, men	9	23%	9	18%
Fixed-term employment contracts, total	52	9%	31	5%
Fixed-term employment contracts, women	40	77%	19	61%
Fixed-term employment contracts, men	12	23%	12	39%

GENDER DISTRIBUTION OF ILMARINEN EMPLOYEES AND GOVERNING BODIES (G4-LA12)

	Total (number)	Women's share	%	Men's share	%
Entire personnel	592	391	66%	201	34%
Salaried employees and specialists	513	343	67%	170	33%
Group supervisors	31	23	74%	8	26%
Middle management	40	21	53%	19	48%
Executive Group	8	4	50%	4	50%
Board of Directors	16	5	31%	11	69%
Supervisory Board	27	7	26%	20	74%

AGE DISTRIBUTION OF ILMARINEN EMPLOYEES AND GOVERNING BODIES (G4-LA12)

	Proportion of people under 30 years (%)	Proportion of people between 30-50 years (%)	Proportion of people over 50 years (%)
Personnel	7%	51%	42%
Board of Directors	0%	19%	81%
Supervisory Board	0%	22%	78%

PROMOTING DIVERSITY

We have a broad view of diversity; for us, it encompasses, in addition to gender equality, aspects such as taking into account employees with partial work capacity, from different cultural backgrounds or of different ages in leadership and personnel planning. We believe that the different competencies and capabilities, backgrounds and characteristics of employees are strengths that improve the company's innovativeness and earnings power.

In 2016, we drew up our first combined equality and equal opportunities plan which was adopted by the Executive Group in early 2017. The plan was prepared by the HR department together with the chief shop stewards and the equality officer appointed by the salaried employee association, and it is drawn up annually. The plan assesses the implementation of equality and equal opportunities in terms of age, gender, family status, origin and nationality, language, religion, opinion, political activity, trade union activity, health and sexual orientation. The employees' development opportunities, the assessment of the recruitment process from a diversity perspective and the narrowing of the pay gap between men and women were chosen as the most important development areas.

Diversity at Ilmarinen has thus far developed fairly slowly due to the low personnel turnover. However, gender equality is already at a fairly good level. At Ilmarinen, there are more women in executive posi-

tions than men: exactly half of the Executive Group members are women and women hold 53 per cent of the middle management positions. On the group supervisor level, the proportion of women is as high as 74 per cent. The proportion of women in executive positions has grown; meanwhile, the gender distribution of our entire personnel remains unchanged, with two thirds of our employees being women and one third men. The proportion of women in the company's governing bodies has also increased. Women account for 31 per cent of Ilmarinen's Board of Directors and for 26 per cent of its Supervisory Board.

The nationality or origin of the person plays no role in Ilmarinen's recruitment. However, mastering the Finnish language is required in the majority of our positions. For positions that do not require language skills (some of the ICT and investment positions), we could, in many cases, recruit more people who speak English.

Ilmarinen's premises are, for the most part, accessible and the furniture can be individually adjusted according to need. Employees have access to the services of an occupational physiotherapist in ergonomics matters.

The tables describe the number and distribution of Ilmarinen employees in terms of the employment relationship, employment contract, gender, age and organisation level. At the end of 2016, Ilmarinen had a total of 592 permanent and fixed-term

employees and their average age was 46.8 years.

FAIRNESS OF REMUNERATION AND INCENTIVES

Ilmarinen's Board of Directors decides on the company's remuneration and incentive policy and systems. The remuneration system was revamped in 2015 and its principles are described in the Declaration of Remuneration and Incentives, which is published on our [website](#).

According to the policy outlined by the company's Board of Directors, Ilmarinen's remuneration is competitive, fair and equal, steering and supportive. Incentives are also guided by the insurance sector's collective agreement which, with the exception of middle management and Executive Group members, covers Ilmarinen's personnel in its entirety, i.e. 92 per cent. (G4-11)

The objective of the remuneration and incentive systems is to encourage employees and management to commit to Ilmarinen and to motivate them to reach the company's strategic goals and live up to its values. Our goal is for remuneration to be based on how demanding a position is and on personal performance and competence. This contributes to the fairness of the remuneration – seen from the perspective of equality between men and women, among other things. We have set for us as a goal to narrow the pay gap between men and women. As a general rule, differences in the

pay are attributable to differences in the demands of the positions. This is particularly noticeable in the Executive Group. Of the four women in the Executive Group, three are in charge of a support function.

We monitor the development of remuneration and incentives against peer groups annually. The results are reviewed by the Executive Group and the Board of Directors. Ilmarinen's Board of Directors also assesses the performance of the incentive systems on a yearly basis, and an in-depth analysis of the incentives is carried out at least once during each strategy period.

Remuneration of senior management, members of the Board of Directors and the Supervisory Board

We report annually the fees paid to the members of Ilmarinen's governing bodies and remuneration and incentives and supplementary pension benefits paid to the senior management in the [Report on Remuneration](#) published on our website.

Ilmarinen's Annual General Meeting decided in 2016 to keep the fees of the members of the Supervisory Board unchanged. The Chairman of Ilmarinen's Supervisory Board is paid an annual fee of EUR 5,000, the Deputy Chairman is paid a fee of EUR 3,800, and other Board members are paid EUR 2,500. The meeting fee for the Supervisory Board meetings and supervision events is EUR 500. Absence from the Supervisory Board meetings results in

RATIO OF ILMARINEN'S FEMALE AND MALE EMPLOYEES' REMUNERATION (G4-LA13/KPI)	2016	2015
Women's average pay in relation to men's pay, Executive Group (excluding the President and CEO), %	78	79
Women's average pay in relation to men's pay, rest of the personnel, %	75	74

a deduction of EUR 750 per meeting from the annual fee. The Supervisory Board met twice in 2016.

Remunerations to Ilmarinen's Board of Directors are decided by the Supervisory Board. The remunerations of the Board of Directors remained unchanged in 2016. The annual fee of the Chairman of the Board of Directors is EUR 38,000, the fee of the Deputy Chairman is EUR 27,000, the fee of the Chairman of the Audit and Risk Management Committee is EUR 20,000, the members' fee is EUR 16,000 and the deputy members' fee is EUR 13,000. The meeting fee for the meetings of the Board of Directors and the Nomination and Compensation Committee is EUR 500. The meeting fee for the Audit and Risk Management Committee is EUR 750. The Board of Directors met 13 times in 2016.

In 2016, Ilmarinen's President and CEO Timo Ritakallio received a total of EUR 812,302.79 in annual remuneration consisting of the monthly salary including fringe benefits, annual bonus and the long-term

bonuses for senior management. More information about the remuneration of senior management and the governing bodies can be found in the Report on Remuneration 2016.

CODE OF CONDUCT

Good governance and responsibility are the foundation for Ilmarinen's operations. Complying with regulations, principles and values is an important part of all of the company's functions. This is particularly emphasised in the decision-making processes so that Ilmarinen's operations also appear responsible and reliable in the eyes of stakeholders.

COMPLIANCE

Ilmarinen has a full-time Compliance Officer. The task of the Compliance Officer

is to support the management and Board of Directors in arranging reliable governance and to ensure compliance with regulations within the company. In administrative terms, the Compliance Officer falls under the authority of the Senior Vice President, Legal Matters, but reports on his or her activities directly to the Board of Directors, Audit and Risk Management Committee and the President and CEO – regularly and as required. The Board of Directors annually approves the compliance action plan and monitors its implementation.



Ilmarinen's way of operating is determined in the company's [Code of Conduct](#).

The Code of Conduct specifies, for example, that we maintain the equality and safety of our personnel, comply with good insurance practices, condemn bribery, identify and prevent conflicts of interest, do not abuse insider information, take care of data protection, know our customers, carry out responsible sourcing and engage in responsible co-operation in the earnings-related pension sector. The company's strategy defines the right things to do, while the Code of Conduct ensures that we do things right.

Ilmarinen's Board of Directors has approved the Code of Conduct. The Code of Conduct and the public principles and policies concerning our operations can be found on our [website](#). Policies have been drawn up concerning, for instance, insider information, internal control, sourcing policy, anti-bribery principles, sponsoring and data processing. (G4-56)

Compliance with the Code of Conduct and the more detailed operating principles is required of all employees. In 2016, each and every Ilmarinen employee who was working completed the Code of Conduct training. The total number of participants was 560 (95 per cent of personnel), but when excluding those on parental leave and other longer leaves, the participation rate was, in practice, the full one hundred per cent. The training was a mandatory part of the induction of new employees. In addition, the Compliance Officer provides more

in-depth training as needed and assistance in interpreting practical issues related to the operating guidelines. (G4-SO4)

In 2016, a Code of Conduct training event was also organised for the Audit and Risk Management Committee of Ilmarinen's Board of Directors. The training video produced on the event was sent to all the Board members, and 93 per cent of the Board members participated in the training either at the Committee's meeting or online. (G4-SO4)

In 2016, Ilmarinen's Compliance Officer assessed that the company's overall risk level in terms of compliance risks was moderate. Ilmarinen was not subject to any fines or non-monetary sanctions related to failure to comply with legislation or regulations in 2016. (G4-EN29, G4-SO8)

In 2016, we launched a whistleblowing channel through which employees can anonymously report suspected misconduct. No reports were received through the whistleblowing channel during the year. (G4-SO11)

RESPONSIBLE CUSTOMER WORK

Competition for clients is more limited in the earnings-related pension industry than in many other sectors. Earnings-related pension insurance is a statutory, mandatory part of social security for companies, and the amount of the pension contribution is determined by the Ministry of Social Affairs and Health. It is the same for all companies. Means of competition between earnings-

related pension companies include the quality of services and client bonuses distributed to customer companies as discounts on contributions. Their size is impacted by the pension insurance company's solvency and cost-effectiveness. After the reform prepared in 2016, the calculation bases for the client bonuses will be determined on a company-specific bases, i.e. each pension insurance company decides how it will distribute the bonuses to its clients. This change will come into effect as of the beginning of 2018, and it will foster competition and cost-effectiveness in the sector.

Responsible customer work means following responsible practices in customer acquisition and the treatment of all customers justly and fairly and in a manner that does not result in unjust benefits to anyone. We comply with good insurance practices in our operations. In accordance with our sourcing policy, we base our business on market conditions that are compatible with fair practice. In addition, our investments must meet the prerequisites for productivity and security.

In 2016, the Compliance Officer organised a training event on responsible customer work for the employees of the Customer Accounts division. The event was attended by 22 people. In 2017, we will organise a similar training event for the Investment division's employees working at the customer interface.

New guidelines on well-being at work activities

Offering well-being at work services to customer companies is a central and traditional part of earnings-related companies' activities. Our services are targeted at reducing and preventing the disability risk of our client companies' personnel. Granting support is always based on charting needs and assessing risks. We assess the customer's situation both from the disability risk and personnel management and disability risk management perspective. The activities also involve a key societal objective: the lengthening of careers. Well-being at work activities must be appropriate and effective and we monitor the impacts of our well-being at work projects systematically.

The Financial Supervisory Authority issued, in spring 2016, new regulations concerning the management of disability risk in earnings-related pension insurance companies. In the future, we will be able to cover the costs of these activities only through the disability risk cost component included in the TyEL insurance contribution. In addition, the customer's financial input into the work capacity improvement project must always be at least equal to the monetary input from the earnings-related pension insurance company.

From Ilmarinen's perspective, the new guidelines are welcome. Clear ground rules increase the reliability and transparency of the activities, while at the same time emphasising service quality as a competitive factor.

Publicity of transactions

The law requires earnings-related pension insurance companies to report to the Financial Supervisory Authority on major or exceptional transactions carried out with their customer companies. According to the guidelines of the Financial Supervisory Authority, transactions to be reported include all transactions exceeding a million euros in value. According to the previous interpretation, well-being at work agreements were also reported regardless of the amount.

Previously, the Financial Supervisory Authority did not disclose the reports which contained the names of customer companies, as it has considered that they include information to be classified as the companies' business secrets. A reporter for the newspaper *Taloussanomati* filed an appeal with the Helsinki Administrative Court, which decided in August that the reports are fully public. After the court decision, the Financial Supervisory Authority disclosed the information to the requester to the extent where it considered the transactions to be major and exceptional. According to the Financial Supervisory Authority, the reports also contain information about ordinary transactions (e.g. well-being at work agreements), which it did not feel entitled to disclose. For this part, the Financial Supervisory Authority appealed the decision with the Supreme Administrative Court, where the matter was still being deliberated at the turn of the year.

From Ilmarinen's viewpoint, transactions concluded with client companies

are, as such, in no way exceptional. The reported transactions include well-being at work agreements and ordinary market-term investments, such as private equity investments, corporate bonds, contract agreements and real estate transactions. We respect the confidentiality of customer information and the business secrets of our agreement partners. Pension companies are such large players in the Finnish economy that they inevitably conduct business also with their customer companies. Almost every third Finnish company is a client of Ilmarinen's, and we have invested more than EUR 10 billion in Finland.

The legal proceedings concern the publicity of the documents of a supervisory authority – the Financial Supervisory Authority – and Ilmarinen is not a party to the proceedings. However, the decision of the Helsinki Administrative Court and the ensuing debate show that the activities of earnings-related pension insurance companies are under close public scrutiny and that they are required to be open. In due time, the Administrative Court will assess and take a stance on the relationship between the Act on the Openness of Government Activities and the protection of the business secrets of client companies.

DATA PROTECTION

Data protection at Ilmarinen, generally speaking, means the non-disclosure of personal and company data and their careful and systematic handling. For us,

data protection is especially important due to the large volumes of data we process and its confidential nature. Our stakeholders also consider ensuring data protection as one of the key areas of our corporate responsibility.

Data protection regulations will increase in the future when the EU's data protection regulation concerning the processing of personal data will enter into force as of 2018. As a result of the regulation, Ilmarinen, as a controller, will have many new obligations and any violations could lead to major administrative sanctions. Data protection problems would also damage the reliability of the entire pension system.

In addition to the Personal Data Act, we also apply sector-specific data non-disclosure provisions. Based on these, data pertaining to Ilmarinen, policyholders, the insured, pension applicants, pension recipients, partners and agreement partners must be kept confidential. We ensure that data protection is achieved through data protection procedures that secure information technology, premises security and the personnel's data protection know-how. These data protection procedures include, among other things, the identification of users through user IDs and passwords, access control and granting user rights based solely on work tasks. Our data protection procedures focus on the prevention of data protection issues. If needed, we later verify from our IT system log management that the use of data has been appropriate. Our IT systems and work processes and methods must meet the demands of non-disclosure and good data management.

The business units are responsible for the implementation of data protection in their operations and, ultimately, Ilmarinen's management is responsible for the legality of our operations, also in terms of data protection. The technical implementation of data protection issues is coordinated by the Data Protection Manager and the Security Manager coordinates the protection of the premises. The Legal Department monitors legislative projects and provides the management and business operations with legal support in data protection issues.

We regularly organise data protection and information security training for our employees. In 2016, nearly all Ilmarinen employees completed information security training as an online course. In addition, the training is a mandatory part of the induction of new employees.

In 2016, we did not receive a single complaint concerning the violation of a customer's confidentiality or the loss of customer data. (G4-PR8)

During the year, we conducted an extensive data protection review, based on which we launched a development programme comprising more than 30 different development areas. Our target for 2017 is to work on the development measures related to the EU data protection regulation, to bring our operations comprehensively in line with its requirements upon its entry into force. In addition, we will introduce a new information security policy and prepare a data protection procedure during the year.

TRANSPARENCY

A woman in a business suit is looking at a laptop screen in an office setting. The image is overlaid with a semi-transparent blue filter. In the foreground, a person's hands are holding a tablet displaying text. A coffee mug and a bag are also visible on a desk.

Ilmarinen's operations have major societal significance. We take care of the social security of a key slice of the Finnish population, and as a major investor, our operations have a considerable impact on Finnish business and industry.

OPEN STAKEHOLDER DIALOGUE

According to an established definition, stakeholders are all of the parties that the company's operations affect or whose operations affect the company. Due to the societal nature of our task, Ilmarinen has many kinds of stakeholders. For us to be able to improve our operations, we engage in open dialogue with our customers, their representatives and other stakeholders.

In addition to customers and our personnel, our key stakeholders include labour market organisations, societal decision-makers and officials because these groups affect the sector's laws or their preparation. Additionally, supervisory authorities and the media play a central role.

We are also closely involved with the sector's lobbyists. We participate actively in several working groups and committees of, for example, the Finnish Pension Alliance TELA, the Finnish Centre for Pensions, the Federation of Finnish Financial Services and the construction sector association RAKLI. In addition, Ilmarinen has representation in other parties such as on the Finland Chamber of Commerce's Legislation Committee and the Actuarial Society of Finland's Regulation Working Group.

As an active owner, we maintain contact with the companies we own in Finland and abroad. Due to our major societal impacts, we are regularly in touch with the media and participate in public dialogue in our role as a provider of earnings-related pension cover. (G4-25)

STAKEHOLDER ENGAGEMENT (G4-24, G4-26, G4-27)

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 rewarding. 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 the entire society.	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 the Federation of Finnish Financial Services. 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. Responsibility 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.

Actualisation of interaction and current issues

It is essential for us to examine our operating environment and understand which issues hold the greatest significance to our stakeholders and what is the best way to

handle them. Ilmarinen has a probing team in place, which draws up a quarterly review of what themes are current or rising on the agendas of various stakeholders. We organise stakeholder meetings and events on a regular basis. Naturally, we also participate

in the events organised by our stakeholders and respond to the meeting, interview and speaker requests we receive. The interaction is systematically implemented by Ilmarinen's management and specialists

and, where applicable, as a natural part of their work, the entire personnel.

In 2016, we held discussions with our stakeholders on, among other topics, the upcoming pension reform, the sufficiency of pension assets and investment returns in the long run, the pension index and the financing of pensions. NGOs were interested in responsible investment and particularly the impacts of climate change and taxation. The media, for its part, showed interest also in major international political events, such as the Brexit referendum and the US presidential election and their impacts on the global economy and investment operations. (G4-26, G4-27)

CONSISTENT OPINION-BUILDING

We collaborate with supervisory authorities, the sector's interest groups and organisations. We interact actively with decision-makers and labour markets organisations in order to reinforce the efficiency of the earnings-related pension system and to maintain a strong earnings-related pension cover. Due to Ilmarinen's considerable societal position, it is important for our messages to be uniform and our positions to be consistent.

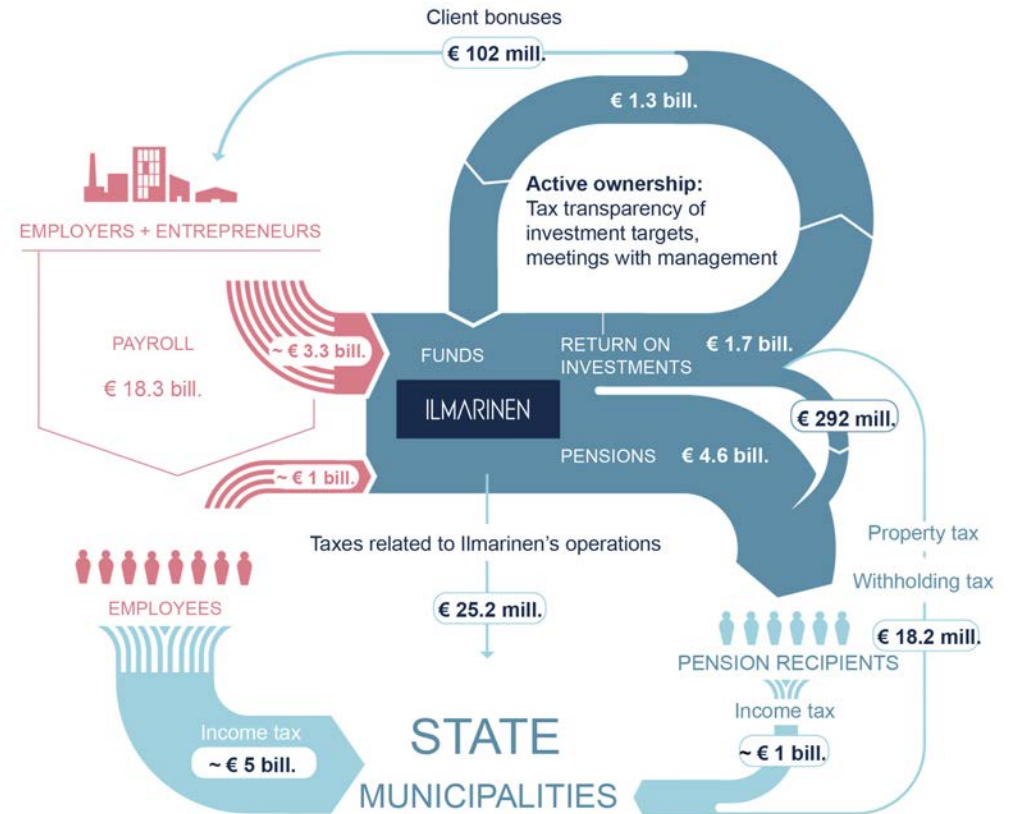
The Finnish Pension Alliance TELA, an interest group for pension insurers that manages statutory earnings-related pension cover, and the Federation of Finnish Financial Services (FFI) are important interest groups for us. In labour market issues we

operate in the FFI in the role of employer. In 2016, Ilmarinen's President and CEO Timo Ritakallio was the chairman of TELA's Board of Directors. Both TELA and the FFI have special expert working groups, such as the FFI's corporate responsibility working group, which involve Ilmarinen's experts. (G4-16)

Ilmarinen's experts have a wealth of knowledge concerning the earnings-related pension sector and investment operations, and the regulation of these sectors impacts our operations. In 2016, we received statement requests from, for example, the Ministry of Social Affairs and Health, the Ministry of Finance, the Ministry of the Environment, Tax Administration and the Financial Supervisory Authority. As a general rule, statement requests and the issuance of statements concerning the earnings-related pension sector are co-ordinated by TELA. We participate in the issuance of TELA's statements and, if required, we also issue statements directly. In addition, Ilmarinen's specialists directly respond to statement requests that are related to the more technical aspects of their areas of expertise, such as construction. We also participated in the EU's consultations concerning long-term responsible investment and corporate responsibility reporting, and in a national consultation on investments in clean technology.

In accordance with Ilmarinen's principles, we have not given financial support to political parties or made art or other purchases from them in 2016. (G4-SO6)

Ilmarinen's tax footprint 2016 (G4-EC1)



TRANSPARENCY OF TAXATION

Ilmarinen's tax footprint consists of the payment of taxes by our operations, our insurance and investment operations and the companies that we invest in. We promote transparent and sustainable reporting practices, not only in our operations, but also in those of our investee companies. 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 these matters also in the General Meeting.

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

The earnings-related pension contributions paid by employers, self-employed persons and employees are deductible in income taxation. When an employee or a self-employed person begins to receive pension, he or she pays income tax on it. In 2016, Ilmarinen paid close to EUR 4.6 billion in pensions, of which approximately EUR 1 billion in income tax was paid in the form of withholding tax.

Taxation of Ilmarinen's insurance and investment operations

The operations of an earnings-related pension company are subject to business income tax. Pension companies receive

returns on earnings-related pension contributions and investment operations. The majority of these returns are used to pay pensions to current pensioners. The remainder of the returns are funded for future pensions. A pension company's liability for future pension promises forms the company's technical provisions. 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.

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. An earnings-related pension company's result in the profit and loss account is determined according to the technical bases confirmed in advance by the Ministry of Social Affairs and Health, and its amount is determined by a reasonable return calculated on the guarantee capital or other capital and reserves.

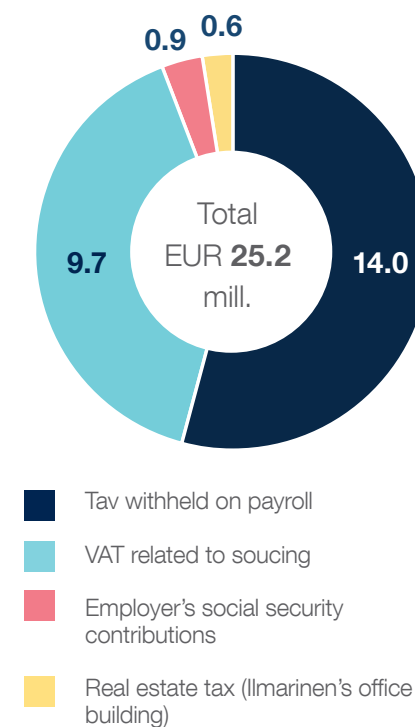
As a mutual company, Ilmarinen does not have any guarantee capital, and thus no profit distribution; instead, its capital and reserves belong entirely to the policyholders and the insured. Even though the calculated annual return is taxable income for the pension company, no tax payable has arisen, because 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 consolidated 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 2016, we paid EUR 13.7 million in tax withheld at source in accordance with tax agreements.

Ilmarinen invests 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 regards to Ilmarinen's beneficiaries, i.e. current and future pensioners. Changing legislation will, however, be likely to present these practices in a new light and shape the practices in the sector.

In 2016, Ilmarinen, as a major owner of real estate, paid EUR 6.8 million in property tax. To the extent where the properties' use is exempt from value added tax (e.g. residential properties), the management

Taxes related to Ilmarinen's own operations



costs and construction costs of properties are subject to so-called hidden value added tax, meaning value added tax paid on services and materials, among other things. The amount of hidden value added tax has not been monitored separately, because the number of taxable lease agreements varies monthly. To the extent where the operations are taxable, the received lease payments are subject to tax and the costs are deductible.

Taxation related to Ilmarinen's operations

We used EUR 147.2 million for our operating expenses in 2016. Approximately one third of the costs consisted of labour costs. We paid some EUR 14.9 million in withheld taxes and social security contributions on the wages and salaries and remunerations of our employees.

Pension companies' operations are predominantly free of value added tax. As a consequence, while Ilmarinen also pays value added tax on its acquisitions, it cannot deduct these paid taxes from the value added taxes it itself charges, unlike parties that engage in taxable operations. That is why Ilmarinen's purchases included around EUR 9.7 million in hidden value added tax in 2016.

Increased demand for transparency of taxation

International tax legislation is experiencing a shift. The OECD has, over several years,

prepared a comprehensive package of measures to prevent the erosion of the tax base and the shifting of profits to more tax-favourable jurisdictions (BEPS). The EU has a number of measures underway to combat tax evasion and the European Commission has also made a proposal on corporate taxation in the Single Market. Over the course of the year, tax havens were a topic of lively discussion also in the public domain. The discussion gained momentum following the leak of the Panama papers.

The ongoing changes in international tax regulation will also impact Ilmarinen's operations through fund structures in particular. To monitor these changes and assess their impacts, we established in 2016 a permanent tax working group consisting of representatives of Ilmarinen's investment, financial, corporate responsibility and legal functions. The tax working group reports to the ownership policy management team. During the year, the tax working group carried out a benchmark analysis on investors' published tax principles and commissioned a study on the ongoing international tax changes and their impacts on Ilmarinen's operations and investments. The international projects are still fermenting, which is why Ilmarinen did not reach its target of having its own tax principles in place in 2016. Work on the principles will continue in 2017. Our goal is to build a coherent view of what responsible payment of taxes linked to investments means for Ilmarinen.

Our stakeholders also consider the transparency of taxation as an important area of corporate responsibility. In February 2016, the NGO Finnwatch published an open letter addressed to pension insurance companies, in which it drew attention to tax arrangements and tax havens in investment operations. We have also held a dialogue with the NGO where we have presented our insights on taxation issues.

There is no unambiguous definition for a tax haven. Ilmarinen, like other pension insurance companies, has investments in countries that, according to some definitions, can be classified as tax havens. Such investments are practically impossible to avoid if the goal is to diversify the investment portfolio geographically and across asset classes. We publish all of our largest equity and fund investments, including the funds' domiciles in the notes to the consolidated financial statements.

The ongoing projects to reform international taxation will also place Ilmarinen in a new situation. The harmonisation of taxation practices and structures is primarily the task of authorities. We will 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.



OTHER CORPORATE RESPONSIBILITY INFORMATION

ILMARINEN'S SOURCING

Due to the service nature of our operations, Ilmarinen does not have long subcontractor chains. Our main acquisitions are related to IT systems and the construction and maintenance of real estate. We have also purchased a number of different work capacity management services. Other significant acquisitions are consulting services, cleaning, security and catering and sourcing related to company cars. Additionally, we source other services and materials needed to carry out our work. We apply our [sourcing policy](#) in all of Ilmarinen's sourcing operations.

We carry out sourcing based on good market practices and sourcing is, as a general rule, put out to tender. The selection criteria include the company's competence, reliability, responsibility, resources and competitive price of the delivery. There are ongoing efforts to develop the sourcing function and systematisation of the processes.

We apply the Act on the Contractor's Obligations and Liability when Work is Contracted Out when we function as a contractor or a customer when ordering renovation, management or maintenance services. The Act may also be applicable in lease work agreement and other assignment or subcontractor agreements if the employees of the party carrying out the work on Ilmarinen's premises or at Ilmarinen's worksite, and the tasks to be

ILMARINEN'S SOURCING AND SUPPLY CHAIN (G4-12)	2016	2015
Number of suppliers, operating expenses	1,060	705
Number of suppliers, real estate costs	822	1,307
Number of contract suppliers, operating expenses	250	115
Number of contract suppliers, real estate costs	125	172
Number of domestic suppliers, operating expenses	956	1,596
Number of domestic suppliers, real estate costs	816	1,299
Number of foreign suppliers, operating expenses	104	85
Number of foreign suppliers, real estate costs	6	8
Total purchases, operating expenses, EUR mill.	120	136
Total purchases, real estate costs, EUR mill.	139	174

carried out, are related to tasks normally carried out in Ilmarinen's operations.

MANAGING CORPORATE RESPONSIBILITY

Ilmarinen's President and CEO and Executive Group are responsible for our key responsibility policies. The Senior Vice President, Corporate Communications and Human Resources prepares responsibility issues for the President and CEO and the Executive Group.

In 2016, we adopted a new operating model in the operative coordination of corporate responsibility, which consists of a core corporate responsibility team and an internal network of specialists. In addition to the Senior Vice President, Corporate Communications, the core team for responsibility

includes Ilmarinen's responsible investment specialist, responsibility communications specialist and accounting manager. The core team helps to identify and find solutions to material responsibility aspects. The team is also responsible for the coordination of internal corporate responsibility network meetings, preparing the corporate responsibility concept and annually updating KPIs and reports on corporate responsibility. The promotion of the corporate responsibility targets and implementation of measures fall under the responsibility of the divisions.

The persons responsible for Ilmarinen's corporate responsibility aspects are part of the internal network of responsibility specialists. The network assembles according to need and, if required, based on specific themes. (DMA)

Laws, policies and network co-operation support responsible operations

We comply with applicable laws and regulations in all of our operations. Ilmarinen is politically and religiously independent. In addition to valid laws and regulations, we abide by the human rights determined in the UN's Universal Declaration of Human Rights, which include, among other things, freedom of opinion and religion, equality and the elimination of discrimination. As an employer, we follow the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work.

We are also party to a number of voluntary commitments. We signed the UN's Principles for Responsible Investment (PRI) in 2006 and annually report to PRI on our responsible investment operations. In 2015, we signed the Montreal Carbon Pledge that deals with the reporting of the carbon footprint and the Paris Pledge with the objective of limiting global warming. We support the CDP's reporting framework for reporting on impacts on the climate, waters and forests. (G4-15)

In addition, we have several policies that guide our business, such as a sourcing policy, obligations for combatting the grey economy and a communications policy. These are available on our [website](#).

Our investment operations are steered by the [Ownership Policy](#) and [Responsible Investment Policy](#).

As members, we participate in the activities of Finsif, Finland's Responsible

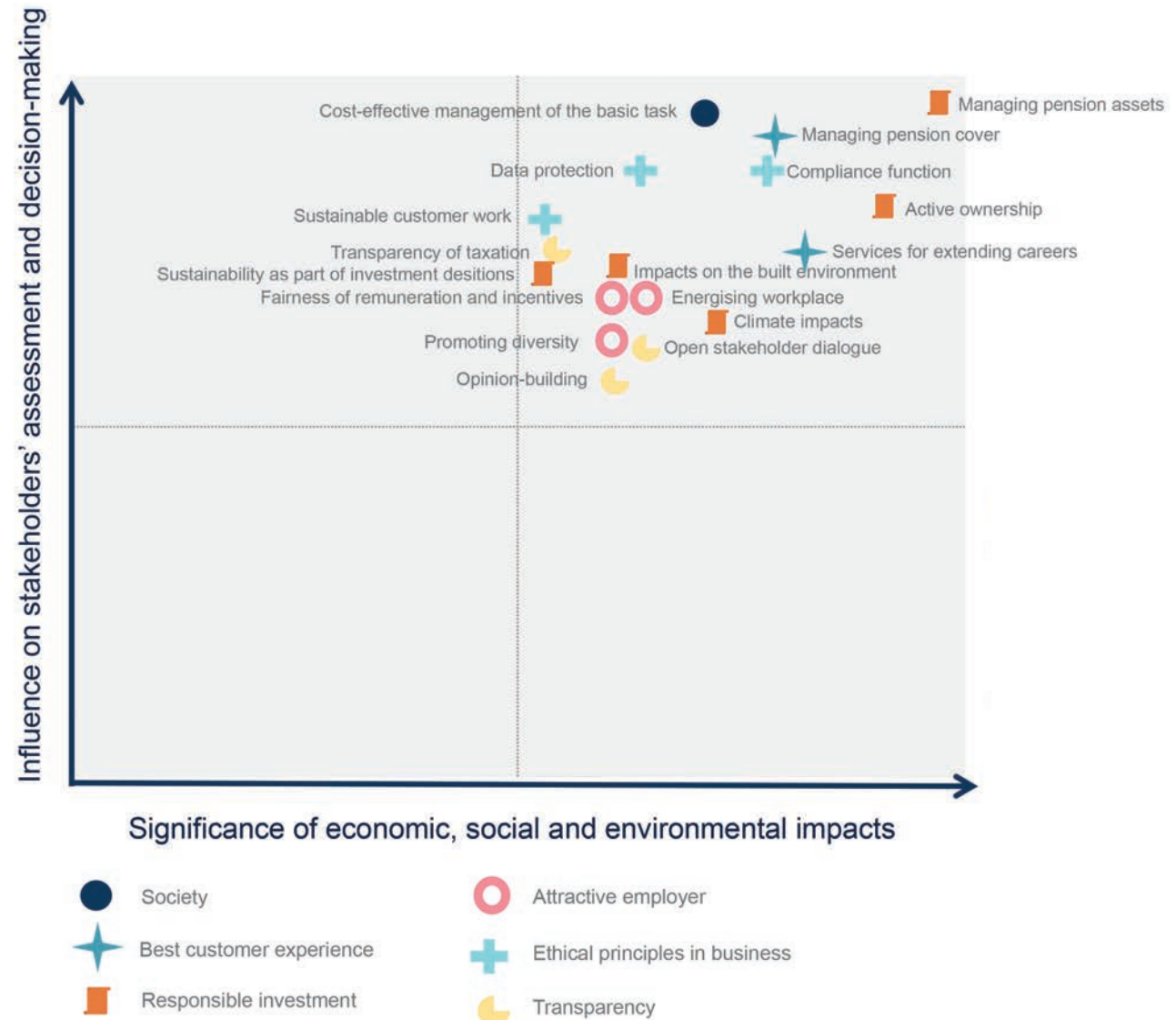
Investment Forum, the FIBS Corporate Responsibility Network and the Climate Leadership Council (CLC). In 2016, we had representatives on the Board of Directors of CLC (President and CEO Timo Ritakallio) and on the Board of Finsif (Senior Advisor, Responsible Investments, Tiina Landau). (G4-16)

REPORTING POLICY

Corporate responsibility develops continuously. The latest major update to Ilmarinen's corporate responsibility concept was carried out in 2015 when we reassessed Ilmarinen's material corporate responsibility aspects. In defining the material aspects we followed the GRI (Global Reporting Initiative) G4 reporting guidelines and, in addition to the General and Specific Standard Disclosures of GRI, we took into account the sector disclosures for Financial Services and Construction and Real Estate.

In 2016, we focused our attention on listening to our stakeholders. Our two-part stakeholder analysis began with an online survey. Altogether 163 representatives of our stakeholders responded, with a response rate of 19 per cent. In the survey, respondents were asked to assess 26 separate corporate responsibility areas in terms of importance on a scale of 1–5. Managing pension assets and pension cover and the cost-efficient execution of this basic task were, as expected, the most important from the corporate responsibility

Material aspect of sustainability at Ilmarinen (G4-19)



angle, also according to the stakeholders. The stakeholders rated information security and compliance as the next most important aspect. Of lesser importance were offering tailored services, active ownership and supporting Finnish industry.

In addition to the online survey, we organised stakeholder workshops, with altogether 15 participants representing our key stakeholders. Among the participants were representatives of sector organisations, labour market organisations, our investees, NGOs and research institutions. In the workshops, participants delved deeply into the various areas of corporate responsibility, their significance and their relative importance. The results of the stakeholder workshop confirmed the results of the survey. However, upon closer review, it was discovered that not all of the corporate responsibility issues were necessarily familiar to the stakeholders. For example, active ownership was rated lower in importance in the survey but when the contents of the concept were discussed in the workshop it was considered to be very important. This shows that even more communication in corporate responsibility issues is required than before.

All of the identified corporate responsibility aspects were considered to be at least fairly important (lowest average 3.36 on a scale of 1–5). The survey supports the fact that the corporate responsibility aspects we have defined contain important issues for our stakeholders.

We have assessed the materiality of the corporate responsibility aspects based on how important they are to our stakeholders and how large an impact they have as part of our operations. This forms Ilmarinen's corporate responsibility materiality matrix. All of the material aspects are described in this Sustainability Report together with any key figures and indicators.

The report has, for the most part, been created from the standpoint of Ilmarinen Mutual Pension Insurance Company (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.

Ilmarinen's consolidated financial statements cover the parent company and all subsidiaries in which the parent company, directly or indirectly, controls more than one-half of the voting rights. With the exception of the subsidiary that provides IT services for Ilmarinen, the company's subsidiaries are real estate companies.

The key figures for financial responsibility are based on Ilmarinen's financial reports, accounting and the 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 ac-

counting decree, the calculation principles and regulations approved by the Ministry of Social Affairs and Health, and with the regulations and guidelines of the Financial Supervisory Authority.

The key figures for environmental sustainability in real estate business operations are reported in terms of domestic direct real estate investments and they have been obtained from service providers.

The key personnel figures for social responsibility cover the personnel of Ilmarinen's parent company and key figures are calculated based on data from the company's personnel data systems. (G4-17, G4-20)

We have reported on Ilmarinen's financial, social and environmental responsibility since 2007. This is the second time that we are reporting according to the guidelines of the Global Reporting Initiative (GRI). We apply the Core GRI G4 guidelines in this report. The reporting partially exceeds the core guidelines, however. The Specific Standard Disclosures are reported with regards to those aspects that are material to Ilmarinen. The report is published in Finnish, Swedish and English and it is only available online. The report has been verified by Ernst & Young Climate Change & Sustainability Services.

The comparison of the report's contents with the GRI G4 guidelines is presented in the GRI Content Index. (G4-18)

ILMARINEN GRI CONTENT INDEX

DESIGNATION GRI CONTENT

REPORTING

GENERAL STANDARD DISCLOSURES

Strategy and analysis

G4-1	President and CEO's Review	Sustainability Report 2016, p. 3–5: President and CEO's review
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Organisational profile

G4-3	Name of the reporting organisation	Ilmarinen Mutual Pension Insurance Company
G4-4	Primary brands, products and services	Sustainability Report 2016, p. 7: Ilmarinen in brief
G4-5	Location of the organisation's headquarters	Porkkalankatu 1, FI-00180 Helsinki, Finland
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has operations or that are specifically relevant to the sustainability topics covered in the report	Sustainability Report 2016, p. 7: Ilmarinen in brief
G4-7	Nature of ownership and legal form of the organisation	Sustainability Report 2016, p. 6: Ilmarinen in brief
G4-8	Markets served	Sustainability Report 2016, p. 7: Ilmarinen in brief
G4-9	Scale of the organisation	Sustainability Report 2016, p. 8: Ilmarinen in brief
G4-10	Number of employees by employment type and employment contract, region and gender	Sustainability Report 2016, p. 34: Promoting diversity
G4-11	Personnel covered by collective bargaining agreements	Sustainability Report 2016, p. 35: Fairness of remuneration and incentives
G4-12	Organisation's supply chain	Sustainability Report 2016, p. 45: Ilmarinen's sourcing
G4-13	Significant changes regarding the organisation's size, structure, ownership, or its supply chain during the reporting period	No significant changes.
G4-14	Whether and how the precautionary approach or principle is addressed by the organisation	The precautionary principle has been addressed in Ilmarinen's investment risk management according to statutory requirements.
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Sustainability Report 2016, p. 45: Managing corporate responsibility
G4-16	Memberships in associations and advocacy organisations	Sustainability Report 2016, p. 41: Consistent opinion-building and p. 45: Managing corporate responsibility

Identified material aspects and boundaries

G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents	Sustainability Report 2016, p. 47: Reporting principles and Report on operations and financial statements 2016, p. 107–108
G4-18	Process for defining the report content	Sustainability Report 2016, p. 46–47: Reporting principles
G4-19	Material aspects	Sustainability Report 2016, p. 46: Reporting principles
G4-20	Aspect boundary within the organisation for each material aspect	Sustainability Report 2016, p. 47: Reporting principles and p. 48–51: GRI content index
G4-21	Aspect boundary outside the organisation for each material aspect	Sustainability Report 2016, p. 48–51: GRI content index
G4-22	Effect of any restatements of information provided in previous reports	No significant changes.
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	No significant changes.

DESIGNATION GRI CONTENT
GENERAL STANDARD DISCLOSURES

REPORTING

Stakeholder engagement

G4-24	List of stakeholder groups engaged by the organisation	Sustainability Report 2016, p. 40: Open stakeholder dialogue
G4-25	Basis for identification and selection of stakeholders	Sustainability Report 2016, p. 40: Open stakeholder dialogue
G4-26	Organisation's approach to stakeholder engagement	Sustainability Report 2016, p. 40-41: Open stakeholder dialogue
G4-27	Key topics and concerns raised through stakeholder engagement	Sustainability Report 2016, p. 40-41: Open stakeholder dialogue

Report profile

G4-28	Reporting period	1 Jan–31 Dec 2016
G4-29	Date of most recent previous report	The previous Sustainability Report was published on 22 March 2016.
G4-30	Reporting cycle	The report is published annually.
G4-31	Contact point for questions regarding the report or its contents	info@ilmarinen.fi
G4-32	GRI "in accordance" option	Sustainability Report 2016, p. 48–51: GRI content index
G4-33	Organisation's policy and current practice with regard to seeking external assurance for the report	The report was assured by an independent assurer.

Management

Governance structure and composition

G4-34	Governance structure and committees	Report of the Board of Directors and financial statements 2016, p. 21-22
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Ethics and integrity

G4-56	Values and codes of conduct	Sustainability Report 2016, p. 8: Ilmarinen in brief and p. 37: Compliance
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DESIGNATION GRI CONTENT		REPORTING	BOUNDARY DEVIATIONS
GENERAL STANDARD DISCLOSURES			
Disclosures on management approach			
	Generic disclosures on management approach (DMA)	Sustainability Report 2016, p. 45: Managing corporate responsibility. In addition, the management approach is described by aspect in connection with different aspects.	
Economic responsibility			
Economic performance			
G4-EC1	Direct economic value generated and distributed	Sustainability Report 2016, p. 8: Ilmarinen in brief and p. 41: Transparency of taxation	Paid property tax also takes into account the property tax paid by the Finnish real estate companies owned by Ilmarinen.
Indirect economic impacts			
G4-EC8	Significant indirect economic impacts and their extent	Sustainability Report 2016, p. 20–21: Managing pension assets	
Environmental responsibility			
Energy			
CRE1	Energy intensity of properties	Sustainability Report 2016, p. 30: Impacts on the built environment	Reporting covers direct Finnish real estate investments. Users' electricity consumption not included.
Water			
CRE2	Water intensity of properties	Sustainability Report 2016, p. 30: Impacts on the built environment	Reporting covers direct Finnish real estate investments.
Emissions			
G4-EN18	Greenhouse gas emissions intensity	Sustainability Report 2016, p. 26–27: Climate impacts	Reporting covers investments in the direct equity portfolio and investments in the direct corporate bond portfolio (Scopes 1 and 2 and Scope 3's first tier subcontractors' indirect emissions).
CRE 3	Greenhouse gas emission intensity of buildings	Sustainability Report 2016, p. 29: Climate impacts	Reporting covers direct Finnish real estate investments.
CRE 4	Greenhouse gas emission intensity of new and renovation construction	Sustainability Report 2016, p. 29: Climate impacts	Reporting covers the new construction of Finnish residential properties (Scope 3) for 2016.
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Sustainability Report 2016, p. 37: Compliance	

DESIGNATION GRI CONTENT GENERAL STANDARD DISCLOSURES	REPORTING
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Social responsibility			
Labour practices and decent work			
Employment			

G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Sustainability Report 2016, p. 32: Energising workplace	Personnel of parent company Ilmarinen. The age and gender distribution is not reported due to the low total number of new and ended employment relationships. The calculation does not include summer workers.
Training			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Sustainability Report 2016, p. 33: Energising workplace	
Diversity and equal opportunity			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Sustainability Report 2016, p. 34: Promoting diversity	Key figures describing diversity are not reported because the data is unavailable.
Equal remuneration for women and men			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Sustainability Report 2016, p. 35: Fairness of remuneration and incentives	

Society			
Anti-corruption			
G4-SO4	Communication and training on anti-corruption policies and procedures	Sustainability Report 2016, p. 37: Compliance	
Public policy			
G4-SO6	Total value of political contributions by country and recipient/beneficiary	Sustainability Report 2016, p. 41: Consistent opinion-building	
Compliance			
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Sustainability Report 2016, p. 37: Compliance	
Impact mechanisms of problems linked to societal impacts			
G4-SO11	G4-SO11 Number of problems registered, handled and solved through the complaint mechanism linked to societal impacts	Sustainability Report 2016, p. 37: Compliance	Reporting covers Ilmarinen's customers and personnel for 2016.

Product liability			
Product and service labelling			
G4-PR5	Results of surveys measuring customer satisfaction	Sustainability Report 2016, p. 14: Managing pension cover and p. 16: Services for extending careers	Reporting covers Ilmarinen's insurance customers.
Customer privacy			
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Sustainability Report 2016, p. 38: Data protection	
Active ownership			
FS10	Companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	Sustainability Report 2016, p. 25: Active ownership	Reporting covers direct equity holdings in listed companies.
Analysis and selection of investments			
FS11	Percentage of assets subject to positive and negative environmental or social screening	Sustainability Report 2016, p. 22: Responsibility as part of investment decisions	Reporting covers direct investments in listed companies and the bonds issued by them.



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.–31.12.2016 in Ilmarinen's Corporate Responsibility Report 2016 (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 Guidelines G4 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 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, organisation 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.

Helsinki, 17 March 2017

Ernst & Young Oy

Harri Pärssinen
Partner,
Authorized Public
Accountant

Jani Alenius
Leader of Climate
Change and
Sustainability



ILMARINEN

FOR A
BETTER
LIFE.