

# SUSTAINABILITY 2017

ILMARINEN

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# ILMARINEN IN 2017

## ” SUCCEEDING TOGETHER

2017 was a milestone year for Ilmarinen. The Boards of Ilmarinen and Etera signed a merger agreement in June, and after the decisions of the General Meetings and permission from the Financial Supervisory Authority, we were able to start up our operations as Finland's largest private sector earnings-related pension provider at the start of 2018. From now on, we will be responsible for the pension cover of more than 1.1 million Finns.

Being large is not an end in itself, however. The purpose of the merger is to offer our customers even more diverse services and the best client benefits. We will make

this a success by combining the strengths and competence of both companies and by utilising the improved cost-effectiveness resulting from the merger. Together, we wish to mould Ilmarinen into an agile and innovative service company that will spur on the entire earnings-related pension sector.

We modified our strategy in connection with the merger. Our goal is to be the most attractive earnings-related pension partner, built on the best customer experience, efficient operations and strong solvency. In order to achieve these goals, the next few years will be focussed on offering the best client

*At the beginning of March 2018, President and CEO Timo Ritakallio took on his new position as President of OP Financial Group.*

KUVA: ANTTI KARPPINEN / KEKSI



benefits, serving digitally, investing profitably and succeeding in the merger.

### We offer the best client benefits

We are a mutual company owned by our customers – we exist for them. At the end of 2017, 38,800 companies had insured their employees with Ilmarinen. The total number of insured was 566,900. Employees' share of this was 503,800 and self-employed persons' 63,100. Premiums written stood at EUR 4.3 billion. After the merger the number of insured rose to 690,000.

At the end of the year, Ilmarinen paid out pensions to 336,700 people in a total amount of EUR 4.7 billion. From the start of 2018, we will pay pension to 470,000 people.

Together we are responsible for the earnings-related pension cover of more than 1.1 million Finns.

Our cost-effectiveness was at a good level as in previous years and operating expenses, less costs arising from merger preparations, fell from the previous year. The expense loading component was 81.1 per cent.

Thanks to good solvency and cost-efficiency, bonuses paid to client companies rose to a record-high level at EUR 120 million, which is 0.7 per cent of our client companies' payroll.

The synergies gained through the merger will result in improved cost-effectiveness and, in turn, even better client bonuses for upcoming years. Our objective is to annually save at least EUR 20 million in total expense loading and EUR 20 million in investment operation costs, beginning in 2020. All of the savings in expense loading will be transferred to customers.

### Offering digital services

In line with our strategy, we developed new digital services to support the well-being at work and work capacity management of our customers. We restructured our Better Working Life services into three areas: ➔ Luotaamo offers the Parempi Vire application and insight into the work community's state of well-being through pulse surveys, Valmentamo supports work capacity management, and through Ohjaamo (Virtual Control Room), customer companies can forecast and manage disability risks. Through these areas, we wish to improve the quality of working life, increase companies' productivity and prevent disability together with customers. We also involved our customers in service development through the Wauhdttammo innovation programme.

We organised 44 Better Working Life coaching sessions for our client companies throughout Finland, attracting close to 3,000 people. During the year, almost 2,400 projects supporting well-being at work were underway and these covered 135,000 people.

We also support the management of disability risks and longer careers in our client companies through vocational rehabilitation. More than 7,000 decisions related to rehabilitation benefits were made in 2017, which was a 10.7 per cent increase on the previous year. The objective of the well-being at work services and rehabilitation is to reduce the costs arising from disability.

In honour of Finland's centennial, we organised a campaign called 'A hundred deeds for a better working life'. Through the campaign, we challenged companies to come up with and do good deeds that increase the well-being and activeness of their personnel,

improve work capacity and create positive energy. The deeds were collected on the campaign website, which also continues to function as an open portal for improving working life, available to all.

As the sector's largest player, we wish to take on an even stronger role in supporting work capacity, productivity and success in Finnish companies. In 2018, we promise to build a better working life together with our customers. The merged company offers even better opportunities and even more diverse services to further this end.

We also offer digital services to our pension customers. In recent years, we have invested in the automation of pension processing and in developing electronic services.

57 per cent of old-age pensions were applied for online and we were able to process applications in four minutes, at our fastest. We issued altogether 28,600 new pension decisions during the year. This was 11 per cent more than a year earlier. This growth is the result of a new pension type that came out of the pension reform, the partial early old-age pension, for which we made around 3,000 decisions.

### We invest profitably

The global economic situation developed favourably during the year. Economic development was supported by the stimulating monetary policies of the main central banks, which kept the interest rate level at

**IN 2018, WE PROMISE TO BUILD A BETTER WORKING LIFE TOGETHER WITH OUR CUSTOMERS.**

## AN ENERGISING WORK COMMUNITY SUPPORTS PRODUCTIVITY AND INNOVATION AND ULTIMATELY RESULTS IN A BETTER CUSTOMER EXPERIENCE.

an uncommonly low level. Also companies managed to improve their earnings and stock prices continued to rise in all the main market areas.

For Ilmarinen's investment operations, the year was excellent. Our return on investments equalled 7.2 per cent, or EUR 2.7 billion.

Of the main asset classes, equity investments generated the best return at 14.8 per cent. Return on non-listed equities rose to as much as 26.8 per cent. Fixed income investments returned 1.6 per cent and real estate investments 5.0 per cent. In real estate investments, we continued to diversify onto the international real estate markets, in accordance with our strategy.

Ilmarinen's long-term real annual return on investments since 1997 has been on average 4.3 per cent. This clearly exceeds the current

3.0 per cent return assumption used by the Finnish Centre for Pensions in its long-term calculations.

Thanks to a good investment year, our solvency continued to strengthen. At the end of 2017, Ilmarinen's solvency capital was EUR 9.4 billion and the solvency ratio was 131.2 per cent.

The investment assets of the merged Ilmarinen came to EUR 45.8 billion at the start of 2018.

Our long-term efforts to further responsible investments and, in particular, take climate impacts into account received international recognition. We were placed in the highest AAA rating in the global climate organisation AODP's index, which compares the carbon risk management of the world's largest investors. The environmental organisation WWF

also ranked Ilmarinen and other Finnish pension companies at the top in Europe in terms of how well their investments are aligned with the goals of the Paris climate agreement. In our real estate investments, we broadened the environmental classification of our properties by including old properties.

### **We will succeed in the merger – with positive energy**

For Ilmarinen's personnel, 2017 and the merger brought with them a lot of new things, but also uncertainty concerning the future. The autumn was busy with preparations for the merger, in which work both current and future Ilmarinen employees went above and beyond. Towards the end of the year, we started up co-operation negotiations concerning the personnel impacts of the merger, which continued into January 2018. The negotiation process took place openly and responsibly, in line with our values.

Our third value, succeeding together, was present throughout the year as we thought about how to streamline our operating culture. This became more concrete through the merger when we were joined by our new colleagues.

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. We will continue to gain energy from working together and learn smart ways of working from one another. This is how we will achieve a successful merger and capitalise on the benefits of integration.

We support our employees' well-being and good energy in a number of ways. Our

remodelled office space is ergonomic and practical. We focus on healthy nutrition and our activation coach activates and helps individual employees find a way of being active that suits them. The work has paid off: absences due to illness among personnel have declined by 14 per cent from the previous year.

We came second in the Responsible Summer Job competition and received praise particularly for a good application process. We organised recruitment coaching for people who had applied for a summer job, through which we wanted to acknowledge the applicants who were not selected this time round. Lengthening careers, also at their beginning, fits in perfectly with the role of earnings-related pension companies.

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One era in Ilmarinen's history comes to a close at the end of February when I give up my position as President & CEO and take over the reins at OP Financial Group. I wish to extend a heartfelt thank you to Ilmarinen's customers, personnel, governing boards and other partners for the past years and I wish Jouko Pölönen, the new President & CEO, all the success in the world. Our co-operation will undoubtedly continue also in our new roles – succeeding together in the future!

Timo Ritakallio  
President and CEO (until 28 February 2018)



# ILMARINEN IN BRIEF

Ilmarinen is a mutual employment pension insurance company owned by its customers. Our task is to ensure that the employees and self-employed persons insured with Ilmarinen receive the pension they earned from employment. We also seek to improve working life and thus help our customers succeed.

Ilmarinen is a mutual employment pension insurance company. Our task is to ensure that our customers receive the pension they earned from employment. 'Mutual' means that Ilmarinen is owned by our customers. (GRI 102-5) By seeking to improve working life, we help our customers succeed.

Ilmarinen provides two types of insurance. Employers take out employees' earnings-related pension insurance (TyEL) for their employees. Self-employed persons take out self-employed person's pension insurance (YEL) for themselves. We serve all private companies and self-employed persons regardless of the size of the business activities or the sector. In 2017, we provided insurance for more than half a million employees and 63,000 self-employed persons. We paid pension to about 337,000 pensioners. As of the start of 2018, due to the merger with Etera, the number of insured rose to almost 690,000 and the number of pension recipients to nearly half a million. Altogether we manage the pension cover of more than 1.1 million Finns and are the largest earnings-related pension insurer in Finland's private sector, measured in customer numbers. (GRI 102-10)

We 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 pension cover exclusively in Finland, operating a nation-wide service network jointly with OP Financial Group. We have invested close to 30 per cent of our investment assets 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. (GRI 102-4)

### Values guide our operations

Due to the merger, we updated our strategy in autumn 2017. The next few years will be focussed on offering the best client benefits, serving digitally, investing profitably and succeeding in the merger. 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 2017, we received EUR 4.3 billion in premiums written from employers, employees and self-employed persons and paid EUR 4.7 billion in pensions. Our investment activities generated a net return of EUR 2.7 billion. At the end of the year, the value of our investment assets increased to EUR 39.4 billion. Ilmarinen employed 567 persons at the end of 2017.

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 pension assets for future generations. The income distribution calculation (Table 2) shows the more precise figures for Ilmarinen's operations on their own.

## OUR VISION IS TO BE THE MOST ATTRACTIVE EARNINGS-RELATED PENSION PARTNER.



TABLE 1.

KEY FIGURES OF ILMARINEN'S BUSINESS AND ORGANISATION (GRI 102-7)	2017	2016
Number of employment relationships at the end of the reporting period	567	592
Premiums written, EUR million	4,312	4,302
Net investment income at fair value, EUR million	2,693	1,743
Turnover, EUR million	6,805	5,573
Value of investment assets, EUR million	39,355	37,214

Ilmarinen's values (GRI 102-16)



### OUR BASIC TASK

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

TABLE 2.

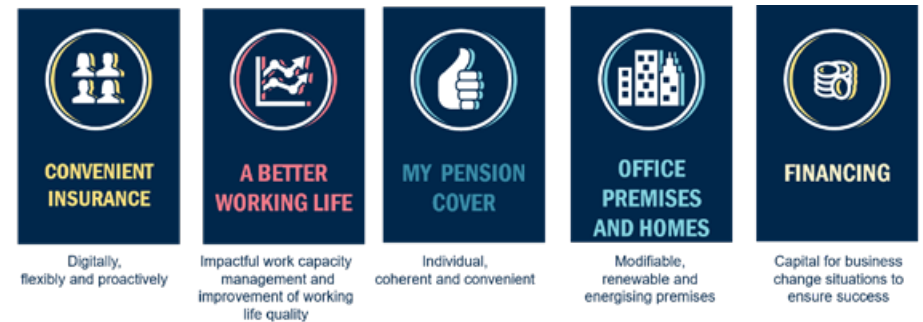
## ILMARINEN'S SOCIAL INCOME DISTRIBUTION CALCULATION (GRI 201-1)

### SOCIAL INCOME DISTRIBUTION STATEMENT, EUR MILLION

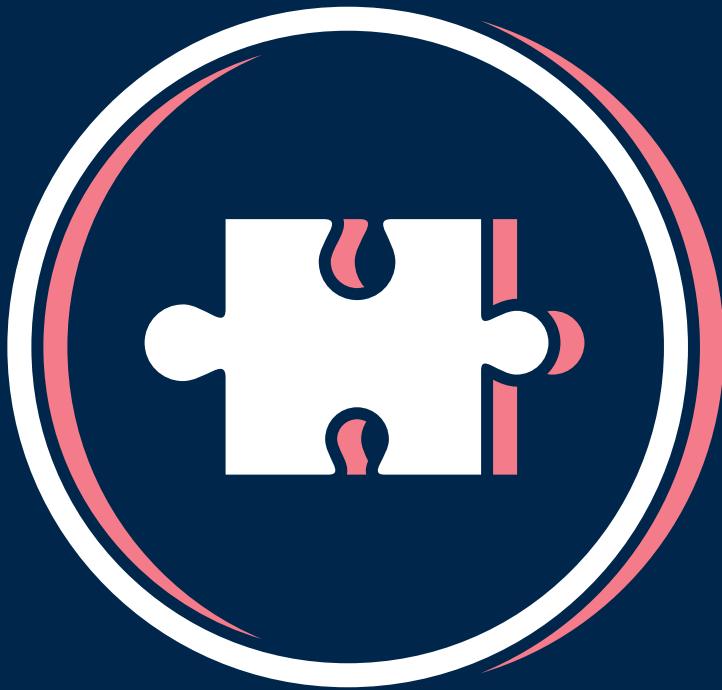
INCOME FORMATION	2017	2016
Premiums written	4,311.6	4,301.8
<i>TyEL employer's contribution</i>	2,885.3	2,947.8
<i>TyEL employee's contribution</i>	1,081.0	1,015.7
<i>YEL (self-employed persons)</i>	345.2	338.3
Previous year's client bonuses	102.1	98.6
Net investment return excluding operating expenses	2,730.7	1,779.8
Other income and expenses	0.0	0.1
<b>Total income</b>	<b>7,144.3</b>	<b>6,180.4</b>
INCOME DISTRIBUTION	2017	2016
To pensioners	-4,721.8	-4,594.1
<i>TyEL pension recipients</i>	-4,372.7	-4,255.0
<i>YEL pension recipients</i>	-349.1	-339.1
Provision for future pensions	-813.8	-2,057.0
Provision for future risks	-1,327.2	732.0
Buffering against fluctuations in investment return	-2,254.9	611.0
Buffering against fluctuations in underwriting result	927.6	121.0
Client bonuses	-120.0	-102.0
Staff expenses	-50.8	-51.4
Other service providers	-99.5	-95.8
Taxes withheld at source	-11.1	-12.0
Donations	-0.1	-0.1
<b>Total income distribution</b>	<b>-7,144.3</b>	<b>-6,180.4</b>

Ilmarinen's services (GRI 102-2)

Work capacity, productivity & success.







# ILMARINEN'S SUSTAINABILITY

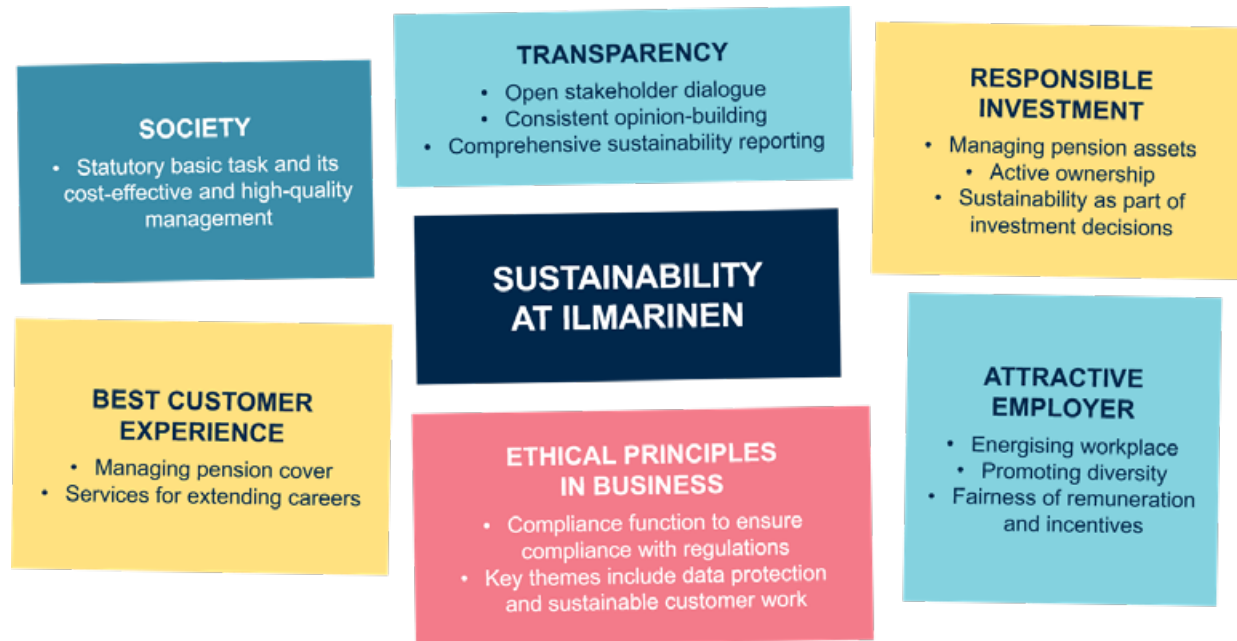
Through our statutory basic task, we manage an essential part of the social security in Finland. This task calls for responsibility from each and every employee. As we see it, sustainability also strengthens our reputation, supports our business and allows us to stand apart from the competition. We use a number of sustainability indicators to measure day-to-day business and set targets.

Sustainability 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 more than 1.1 million people in Finland and manage the pension assets of current and future pension recipients. This task calls for responsibility from each and every employee, which is why sustainability is at the core of our operating culture.

Many of the sustainability indicators and key figures are the same ones that we use to measure our business and set targets. Sustainability is not some separate issue thrown in as an afterthought; it is integrated into daily operations. Sustainability 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.

When defining the various areas, we identify and take into consideration the sustainability megatrends that stem from our operating environment and themes raised by our stakeholders. We outlined the material aspects of our sustainability through an extensive study in 2015. The study was followed up by a stakeholder survey in 2016.

### Sustainability at Ilmarinen



➔ Key Performance Indicators, [ilmarinen.fi](http://ilmarinen.fi)

➔ KPI: GRI Content Index



# **BEST** **CUSTOMER** **EXPERIENCE**

Our goal is to offer the best customer experience in the earnings-related pension sector to client companies, the insured and pensioners alike. Most of us apply for pension just once. That is why pension services have to be a complete success in every service situation.

## Managing pension cover

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 directly impacts the well-being of Finns.

In 2017, we were responsible for the pension cover of approximately every third Finn working in the private sector. We provided insurance for 63,052 self-employed persons and 38,766 companies which employed 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 337,000 people worth more than EUR 4.7 billion.

### Ilmarinen's insurance and pension services

Our goal is to offer the best customer experience among earnings-related pension companies. We develop our services to ensure that insurance-related matters are easy and effortless for our customers. In accordance with our strategy, we have focused our efforts on developing digital services. Digitality enables faster and more individualised service. Digitalisation helps us grow the effectiveness of our work capacity services, for example.

### Insurance services

We continuously improve our services linked to our basic task. We wish to offer customers insurance services that are as effortless as possible.

In 2017, we continued to clarify and facilitate the online service paths. We want customers to find the information they need easily and quickly. Our aim is to enable them to take care of all their insurance matters online when

it suits them. The Net Promoter Score (NPS) given by online service users continued to grow. Already in 2016, the scores rose considerably for the online service and the phone service for pension customers when we were able to fully adopt the new pension system. The worst possible score is -100 and +100 is the best possible score. The results are described in Table 4.

We informed our customers about the changes that would result from the adoption of the national incomes register in 2019. We encourage our customers to transfer from making annual notifications to monthly notifications. The earnings-related pension contributions for customer making monthly notifications are calculated in real time. The company can thus avoid surprise adjustment invoices and filling out laborious annual notifications. By informing our customers about the benefits of monthly contributions, we support our client companies in managing their contributions. In the worst-case scenario, an unexpected adjustment invoice can lead to payment problems. Collecting pension contributions is part of our responsibility towards insured employees. Ilmarinen's credit losses in bankruptcies have been reduced in recent years. Once the incomes register becomes operational, annual notifications will no longer be possible. The information will be reported to the incomes register in conjunction with the payment of wages and salaries. The key benefit of the system is that the employer only needs to report the information once.

### Pension services

Most of our pension customers apply for pension just once. That is why pension services have to be a complete success in every

TABLE 3.

CUSTOMER RETENTION (KPI 12)	2017	2016
Customer retention percentage	94.5%	95.1%

TABLE 4.

NET PROMOTER SCORE (NPS) GIVEN BY ILMARINEN'S CUSTOMERS (GRI 102-43)	2017	2016
NPS for online services	33	31
NPS for phone services	74	66
NPS for pension services	31	36
NPS for insurance services	34	28

service situation. In processing pension applications, we pay particular attention to speed, or processing time, and quality. We measure success in these areas. In 2017, the NPS score given by pension decision recipients, 57, was the highest score we measured. The share of critical customers fell to less than one tenth of respondents.

The introduction of the new pension processing system between 2015 and 2016 caused a bottleneck in pension processing. The majority of the backlog was cleared already in 2016 and finally returned to its normal level in early 2017. Thanks to automation and the stabilisation of the use of the new system, processing times have declined steadily. A large proportion of the automatically processed decisions are made within a day. At our fastest, we make a decision on an application arriving online within four minutes. Close to two-thirds of old-age pension applications arrive online and, all in all, just under

one-third of old-age pensions are processed automatically. We monitor the automated pension processing using spot checks and monitor unusually large pension decisions more closely.

The processing times of disability pensions have also declined. In 2016, processing took an average of 116 days and in 2017 76 days. Despite this, we did not reach our desired speed. Processing times and notifications about the progress of processing were also given prominence in the survey for pension decision recipients. The number of people who considered the processing time to be too long declined from last year.

We use KPIs to monitor the timeliness of pension decisions, i.e. the share of pension decisions given up to and within the month in which the pension began. For 2017, we reported, alongside timeliness, on fast pension decisions, meaning the share of decisions given before the first pension month of all

pension decisions. As of 2018, we report as a KPI the speed of pension decisions, i.e. processing times, as days. The target is to maintain the level of pension decisions in 2017.

Pension legislation was renewed at the start of 2017. In future, the retirement age will rise gradually and the pension accrual in all age classes will be 1.5 per cent annually. As a responsible insurer, we notify our customers about changes to the pension age and remind customers that continuing work until the target pension age always has a positive impact on their pension security. A longer career compensates for the lower accrual.

The pension reform resulted in two entirely new pension types, the partial early old-age pension and the years-of-service pension. The partial early old-age pension makes it possible for a person to draw part of their pension even before they retire on the actual old-age pension. It is possible to draw 25 or 50 per cent of the final pension amount. The pension recipient can continue working full-time or part-time alongside the partial early old-age pension. Another option is quitting work. Drawing the partial early old-age pension reduces the final old-age pension by 0.4 per cent for each early pension month. The reduction for early retirement is calculated for the months preceding the lowest retirement age. The partial early old-age pension replaces the partial pension. In 2017, the partial early old-age pension was clearly more popular than its predecessor. We made 2,996 pension decisions during the year.

Using a survey, we looked into the reasons people applied for partial early old-age pension and their life situations. The majority of applicants applied for pension for additional

income and continued to work alongside their pension. In particular men continued to work alongside their pension. Self-employed people worked part-time more often than others and senior salaried employees worked full-time.

We encourage applicants to carefully assess whether the partial early old-age pension is a suitable option for them. The partial early old-age pension can result in additional income for the final years of the career but it does reduce the final amount of pension for the rest of the pensioner's life. People who have applied for pension can cancel the pension decision by a specific cut-off date.

The years-of-service pension is intended for people 63 years of age and up, who have had a long career in a tough and strenuous job. The popularity of the years-of-service pension was still low in 2017, as expected; we gave one positive preliminary decision. The pension is available at the earliest at the age of 63, which was also the lowest old-age retirement age in 2017. The years-of-service pension can start at the earliest in 2018, when the retirement age rises by three months. Even then, the years-of-service pension can only be drawn for three months before the final old-age pension. In future, the old-age retirement age will rise gradually, however, so the significance of the years-of-service pension is expected to rise.

#### Customer experience at the heart of our strategy

Customer experience is one of the focal areas in our strategy for 2016–2020. We measure and monitor customers' experience at several points of the service path. We develop the service experience based on the information we collect. During the current

TABLE 5.

SPEED OF PENSION DECISIONS (KPI 13)		2017	2016
Pension decisions issued prior to and during the month in which the pension began		69.5%	69.3%
Pension decisions issued before the start of the pension (fast pension decisions)		42.6%	35.0%

TABLE 6.

DISABILITY PENSION APPLICATION DECISIONS UPHELD		2017
Percentage of negative decisions of disability pension decisions		34.9%
Percentage of decisions amended by the Pension Appeal Court		15.6%

*The percentage of negative decisions of disability pension decisions is calculated based on the disability pension decisions issued by Ilmarinen during a year (new full and partial disability pension applications). The percentage of decisions amended by the Pension Appeal Court is calculated based on the decisions that have been taken before the Pension Appeal Court.*

strategy period, we are looking for and implementing digital services that improve the work capacity, productivity and success of our client companies.

The first round of the internal Wauhdittamo innovation process strengthened our perception of how important it is to involve customers even more in developing services. Around 30 representatives of client companies were involved in the second round of Wauhdittamo in spring 2017. Our customers were inspired to take part especially in the agile development processes. Also the investors' group analysing the teams' pitches consisted of customers' and Ilmarinen's representatives. Investors selected two proposals from among the teams' pitches for the development pro-

cess: the first dealt with pioneering leadership and the second with transparent service processes for SMEs. The development process was temporarily halted at the turn of the year due to the merger with Etera. Thanks to positive experiences, the following round of Wauhdittamo will begin in 2018. The innovation process will be developed further based on feedback from the participants.

During the year, we received positive feedback on how we managed our customer service work on social media. The key channel has become Facebook, through which we received around 27 customer-service-related messages per month. Only a few messages arrived for our customer service via Twitter.

## 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. We reduce the disability risks of client companies through systematic co-operation. We support the management of personnel costs and productive work. We contribute to the reduction of costs resulting from disability and the lengthening of careers. In the private sector alone, the costs resulting from disability were estimated last year to equal some EUR 3.5 billion. During 2017, we have increased the clarity of the services offered to our client companies by assembling them into the Better Working Life service package. The package consists of activities maintaining work capacity and vocational rehabilitation preventing and managing disability.

### Vocational rehabilitation

Vocational rehabilitation is available to employees and self-employed persons whose work is made more difficult by an illness or injury or if it threatens to completely undermine their work capacity. The number of applications for vocational rehabilitation has increased in recent years. We have actively communicated the benefits of rehabilitation. Rehabilitation is an effective way of reducing the costs resulting from disability pensions. For this reason, we hope to see the growth in rehabilitation application numbers continuing. In the long term, our goal is to reduce the number of applications through preventive work ca-

capacity activities. The number of rehabilitation decisions issued by us in 2017 grew by more than two per cent. The volume of different rehabilitation benefit decisions grew by more than ten per cent.

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 personal rehabilitation plan is created for the rehabilitee, which suits both the rehabilitee and the workplace. Each of our rehabilitees has a designated rehabilitation expert who provides support and advice during the rehabilitation process. In drawing up the rehabilitation plans, Ilmarinen is assisted by its national network of service providers. Additional support is needed by small employers who accumulate very little experience of vocational rehabilitation practices.

Traditional vocational rehabilitation methods have been determined to work best when the weakening of work capacity results from a weakening of physical performance. In the Ponnahduslauta (springboard) project, which ended in 2017, we sought new ways of applying vocational rehabilitation to mental health rehabilitees in particular. We carried out the project together with Orton Pro and Varma. In particular, highly trained people were selected for the project. Their group is most likely to seek vocational rehabilitation due to mental health issues. Of the participants, 48 per cent were fully rehabilitated and returned to working life. Some participants in the project had rehabilitation periods lasting up to six years behind them and serious mental health problems. Both reduce the chances of returning to working life. The results are

TABLE 7.

PRELIMINARY REHABILITATION DECISIONS (KPI 14)	2017	2016
Number of preliminary rehabilitation decisions	3,485	3,399

TABLE 8.

EFFECTIVENESS OF REHABILITATION (KPI 15)	2017	2016
Proportion of rehabilitees available to the labour market at the end of the rehabilitation	69%	70%

expected to improve when operating models are developed based on the trial for rehabilitees at an earlier stage of rehabilitation.

As of the start of 2015, direct decisions on the right to vocational rehabilitation have been issued to persons applying for a disability decision, without separate application. According to a study by the Finnish Centre for Pensions, 30 per cent of pension recipients who received automatic decisions discontinue their rehabilitation. Of persons applying for rehabilitation, 15 per cent discontinue. In the spring, we launched a new service that offers persons who have received an automatic decision the chance to take part in personal guidance. The rehabilitee is encouraged to select a suitable service provider with which to discuss their possibilities for returning to work and their vocational rehabilitation options. A slow start to the process following the preliminary decision increases the risk of premature retirement.

As part of the motivation of persons who have received a rehabilitation decision, we launched a pilot project together with Vetrea Terveys. In the pilot, activation and exercise measures can be linked to the rehabilitation, the purpose of which is to improve work

capacity and thus speed up the return to work. Adding elements related to physical performance to rehabilitation is a new feature because they were earlier considered to fall outside the possibilities of vocational rehabilitation. Insight into how physical performance is linked to coping at work has grown in recent years, however. We assess the appropriateness of the service for the vocational rehabilitation process, monitor the effectiveness of rehabilitation, the development of a rehabilitee's work capacity and the impact of exercise on rehabilitation and returning to work. The pilot project is specifically targeting rehabilitation following musculoskeletal diseases.

### Work capacity activities

We clarified our services related to the management of disability risk by assembling old and new disability-risk-management services into the Better Working Life service package. The package is made up of Luotaamo, Valmentamo and Ohjaamo. Luotaamo helps customers assess the work capacity situation of their company. It offers, for example, the Parempi Vire (work capacity improvement) service. Valmentamo offers new information

and ideas for improving the work capacity of our customers, both digitally and through face-to-face studies. Ohjaamo offers services for monitoring the development of work capacity. In the long term, the services provide unique insight into Finnish working life. We hope that this can benefit the whole of society in the future.

Detailed guidelines and specifications have been drawn up for work capacity activities carried out together with client companies at Ilmarinen. The starting point is always an estimate of the customer's disability risk and the need for work capacity management services. We set goals and indicators for collaborative projects. Special attention is paid to cost management. Our work capacity co-operation policies have been published on our website.

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

During the year, we launched two Vire services linked to Luotaamo for our entire clientele. The Parempi Vire mobile service offers employees and self-employed people guidance and diverse well-being improvement measures. Työvire is a compact 12-part personnel survey that measures the personnel's work capacity and well-being. The survey helps the employer discover what needs improving in the work community and to focus measures correctly.

The Sopiva työ service, adopted in autumn 2016, received positive feedback during

2017. Large companies in particular have embraced the service, which takes an early intervention approach to challenges in coping at work. The service helps to ensure that individual employees can continue in working life for as long as possible. We provide the service in collaboration with the employment agency Barona.

Behind the need to digitalise services is the growing need to improve the efficiency and effectiveness of services. The new instructions issued by the Financial Supervisory Authority in spring 2016 on managing disability risk led to a decline in the financing of work capacity activities and an increase in the responsibility of customers. The instructions have clarified the shared rules and increased the transparency of operations. The cost-effectiveness and quality of services are more important competitive factors than ever before.

We have reduced the use of external service providers in our work capacity activities and focussed on developing our own services for client companies. 2017 was the first full year for our three regional well-being at work managers. The activity of work capacity operations has expanded significantly in regional terms. In Tampere, Turku and Oulu, Ilmarinen's experts organised more than 400 sparring sessions.

The attractiveness and clarity of work capacity activities has also been improved by the new Työkykymestari project that began in autumn 2017. Work capacity information which, according to customer feedback, has been fragmented, has been assembled under one course. People participating in the training build a work capacity plan for their companies, under the supervision of

Ilmarinen's experts. Measured in the number of participants, the training was deemed a success even before it began. The first course was filled up in record time, mostly by representatives of large and medium-sized companies. We also hope to attract smaller client companies. At least two new courses will start in 2018.

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 Net Promoter Score (NPS) given by customers participating in the work capacity projects

grew clearly in 2017. The figures are presented in Table 9.

Our goal is to increase our customers' awareness of issues linked to maintaining work capacity also through the media. During the year, the Finnish TV channel MTV presented two seasons of the Duunikunto series in connection with the Huomenta Suomi morning show. We contributed to the series through our experts. A fifth season of the series will be produced during 2018.

→ Disability Risk Management Policies

TABLE 9.

<b>EFFECTIVENESS OF WORK CAPACITY SERVICES (KPI 16)</b>	<b>2017</b>	<b>2016</b>
Effectiveness of work capacity projects (NPS customer experience of benefit)	4.5	4.0
Customer's willingness to recommend (NPS)	82	70



# **SOCIETY** **COST-EFFECTIVE** **MANAGEMENT OF** **THE BASIC TASK**

Taking care of the pension cover requires cost-effective operations. Cost-effectiveness is also an important competitive factor. It forms the basis for the whole system's sustainability and social licence to operate. As a major player, we have a large impact on the average cost-effectiveness of the Finnish pension system.



Responsible management of the pension cover requires cost-effective operations. It is a major competitive edge for us and a key requirement in terms of the whole system's sustainability and legitimacy. As a major player, we have a large impact on the average cost-effectiveness of the pension system.

We finance our 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. Efficiency is reflected directly in the operations' costs and the operations' impacts on the customer. 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 company's own operating expenses in relation to the loading income. The more efficiently we 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.

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 organisation's functions and monitors and assesses the implementation of these targets. In 2017, we covered our operating expenses with the expense loading component included in earnings-related pension contributions, which stood at EUR 108.9 million. The loading profit was EUR 25.4 million and the ratio of operating expenses to expense loading components was 81.1 per cent. The calculated ratio of operating expenses to expense loading components grew from 2016 although the expenses covered by loading income remained almost unchanged. In 2016, Ilmarinen's ratio of operating expenses to expense loading components was 74.9 per cent. This change resulted from a decline of some 7 per cent in the expense loading component included in the pension insurance contribution.

The pension insurance contributions confirmed by the Ministry of Social Affairs and Health are the same regardless of the pension company. This is why one of the key

competitive factors between pension companies is the amount of client bonuses paid to customers as discounts. As of the start of 2017, pension companies can return the entire loading profit to their customers. Due to good cost-effectiveness, we were able to return a record EUR 120 million in client bonuses, some EUR 18 million more than in the previous year. The client bonuses reduce the earnings-related pension contributions paid by corporate customers by an average of 0.7 per cent in relation to the payroll.

Although we were able to pay our customers a record amount in client bonuses, we wish to improve our result even more. The merger of Etera into Ilmarinen at the start of 2018 is intended to further improve cost-effectiveness. Ilmarinen's Board of Directors set in its merger decision the goal of reducing operating expenses by EUR 20 million by 2020. The savings have been calculated based on the total operating expenses in 2016. We will increase cost-effectiveness, for instance, by dismantling overlapping functions in the companies. In addition to savings in expense loading, our annual goal is EUR 20 million

in savings in investment expenses. Savings in expenses increase the effectiveness of the entire Finnish earnings-related pension system. The benefits of cost-effectiveness will increase following the entry into force of the new client bonus principles at the beginning of 2018. The reform implemented a change to company-specific client bonus calculation bases. Client bonuses based on the new bases will be paid in 2019. In future, pension companies will decide on the distribution of client bonuses to customers.

In addition, we also measure Ilmarinen's operational efficiency through absolute operating expenses in euros. We report on the forecasts concerning the ratio of operating expenses to expense loading components and the operating expenses to Ilmarinen's Board of Directors. Total operating expenses (including investment operations) were EUR 150.3 million. The growth in total operating expenses resulted from the expenses related to the merger of Ilmarinen and Etera at the start of 2018. Expenses used for actual operations declined.

**” DUE TO GOOD COST-EFFECTIVENESS, WE WERE ABLE TO RETURN A RECORD EUR 120 MILLION IN CLIENT BONUSES.**

TABLE 10.

<b>ILMARINEN'S RATIO OF OPERATING EXPENSES TO EXPENSE LOADING COMPONENTS AND TOTAL OPERATING EXPENSES (KPIS 1 AND 2)</b>	<b>2017</b>	<b>2016</b>
Ratio of operating expenses to expense loading components	81.1%	74.9%
Total operating expenses (EUR million)	150.3*	147.2

\*) The total operating expenses for 2017 include EUR 5.6 million in costs resulting from the merger of Ilmarinen and Etera.

# FINNS INTERESTED IN THE EFFECTIVENESS OF THE PENSION SYSTEM

The Finnish earnings-related pension system has been judged internationally to be one of the best in the world. We placed fifth in the international Mercer Global Pension Index comparison in 2017. In the portion measuring the transparency of the system, Finland received the best points four times in a row. In the overall comparison, Finland was preceded only by Denmark, the Netherlands, Australia and, as a new contender, Norway. Next on the list after Finland was Sweden.

Our earnings-related pension system is strongly supported by Finns. This is clear from a survey that we carried out together with TELA. The majority of Finns support the basis for the earnings-related pension system, such as earnings-relatedness, vested pension rights and financing based on joint responsibility between generations. A forum was arranged concerning the survey results at the social SuomiAreena event in July. The title of the event "Would you have your mother-in-law live with you?" refers to a situation in which Finland would not have a pension system like today's.

Trust in the earnings-related pension system is closely linked to the discussion surrounding the sustainability of the earnings-related pension system and fairness between the generations. The global economy has grown and Europe's economy has turned around following a long downturn. In particular, the growth in employment and thus the payroll has improved the sustainability of the entire earnings-related pension system. If the employment figures and payroll for young people, in particular, begin to grow, it can narrow the gap between premiums written and paid pensions. Since 2012, the Finnish pension system has paid out more in pensions than it has received in earnings-related pension contributions.

In August, a public discussion broke out on the sufficiency of pension assets after the speech of Bengt Holmström, Professor of Economics at MIT and Nobel laureate, has expressed concern about the sufficiency of Finnish pension assets at the 100th anniversary seminar of the Finnish Chambers of Commerce. Questions raised in the discussion were also recognised within the pension system. In Finland, preparations for the negative population development in terms of the pension system were already begun in the 1980s with the funding of pension assets. This is why it has been possible to cover the negative difference between pension contributions and pensions with the return on the funds. In addition, the system has succeeded in raising the

average retirement age. Pension contributions are also at a level that corresponds with the long-term sustainability target. The life expectancy coefficient taken into use in 2010 serves to stabilise the pension system's finances. For now, the return on the pension funds has meant that each generation has received more pension than they have paid in earnings-related pension contributions.

Suomen Senioriliike, a Finnish senior citizens' NGO, saw the situation completely differently and the citizens' initiative it had submitted was rejected by the Finnish parliament in March. The purpose of the initiative was to change the pension index so as to put more weight on earnings development. According to the viewpoint of the Finnish Centre for Pensions, a change such as that suggested in the initiative would gradually lead to a significant growth in pension expenditure. It would have to be covered by raising contributions or dissolving funds, and would increase the burden on the younger age groups. This cannot be considered justified in terms of income distribution between generations. One of the key challenges for the pension system currently is a fall in the birth rate. If it becomes a permanent phenomenon, it can lead to earnings-related pension contributions being raised at the latest in the 2060s.

The discussion about the fairness of the YEL system for self-employed persons remained current this year in social media in particular. In several comments, YEL insurance was equated with long-term investments. Fundamental problems are linked to the monitoring of pension contributions' return expectations, however. YEL insurance is part of the Finnish social security system and above all social insurance. We encourage our customers to decide on a realistic self-employed person's confirmed income, which serves as the basis for YEL insurance. Self-employed persons can thus ensure for themselves a decent social security even in surprising situations.

➔ Mercer Global Pension Index

# 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 pension assets, we ensure that the employees of our client companies and self-employed persons will receive the pension they earned from employment. Our responsibility extends far into the future. It is safe to say that a pension insurance company's quarter is not three months but 25 years.



TABLE 11.

**Managing pension assets**

By successfully investing 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. We bear responsibility in the long term. It is safe to say that a pension insurance company's quarter is not three months but 25 years. Productive and secure investing of pension assets is also provided in law.

In 2017, the return on the pension assets under Ilmarinen's management was 7.2 per cent. The market value of investments rose to EUR 39.4 billion. Our solvency capital grew by around EUR 1 billion and amounted to EUR 9.4 billion at year-end. Solvency ratio, i.e. pension assets in relation to technical provisions was 131.2 per cent. The solvency ratio was 1.8 times the solvency limit required by law.

Our real, i.e. inflation-adjusted annual investment return on pension assets has been 4.3 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. In 2016, ETK downgraded its estimate temporarily to 3.0 per cent, as it expects the current very low market rate level 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 2017,

the difference was approximately EUR 410 million.

The deficit between premiums written and the pension to be paid is in line with forecasts. This can be explained by the retirement of baby-boomers, but partly also by the poor development of the economy and the employment. This situation has been prepared for by funding on average a quarter of the earnings-related pension contributions.

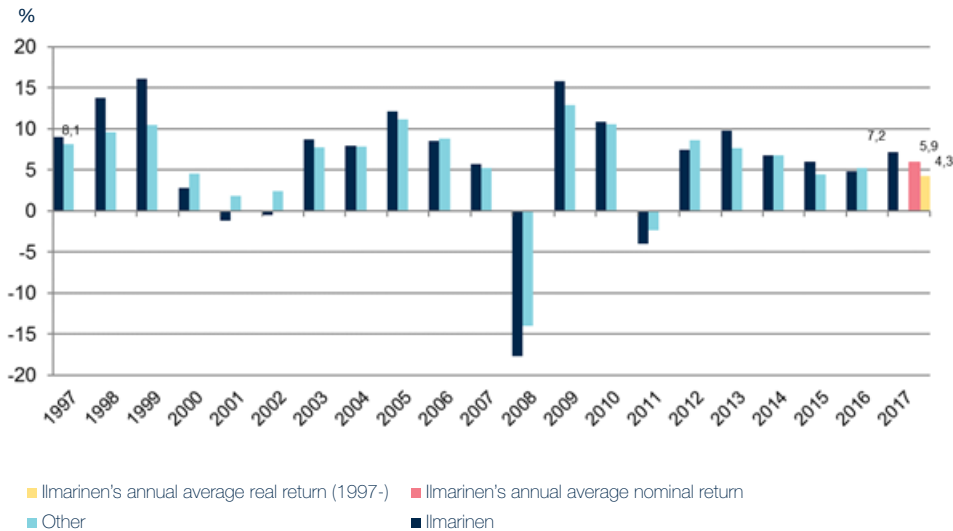
Most of the premiums written are used to pay current pensions. We diversify the assets across various investments, such as equities and shares, debt instruments and real estate. Geographical diversification is a way to protect investments when one region experiences weaker market development.

Through professional risk management we maintain good solvency and fulfill the statutory solvency requirements. Good solvency protects pension assets against investment risks while also enabling sufficient risk-taking with regards to the targeted investment return. Furthermore, good solvency enables higher client bonuses.

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

TOTAL RETURN ON ILMARINEN'S INVESTMENTS AND SOLVENCY RATIO (KPIS 3 AND 4)		
	2017	2016
ROCE	7.2%	4.8%
Solvency ratio, i.e. pension assets in relation to technical provisions	131.2%	129.2%

Long-term return on investment operations



**GOOD SOLVENCY PROTECTS PENSION ASSETS AGAINST INVESTMENT RISKS.**

## 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. This is a two-way relationship. The success of Finnish companies affects the returns on the pension assets managed by Ilmarinen, for example, in the form of changes in the value of listed shares.

We improve companies' productivity by supporting the work capacity of our client companies' employees. The better Finnish companies succeed, the higher the employment rate and payrolls. Work carried out in Finland is directly linked to Ilmarinen's pension contribution accrual and to the sustainability of the financing of the entire pension system.

Close to 30 per cent of Ilmarinen's investment assets are invested in Finland. This means that Ilmarinen holds a major role in the capital supply of Finnish industry. Through our financing and corporate bond decisions we enable business development and growth. Close to a quarter of our equity investments are invested in Finnish listed companies. At the end of the year, we had real estate investments worth EUR 3 billion in Finland and we continuously build new properties and develop our existing ones. (GRI 203-2)

## Responsibility as part of investment decisions

In our view, responsibility is integral to profitable and secure investment operations and effective risk management. Investment decisions have an influence not only on invest-

Ilmarinen's most significant Finnish listed equity holdings

	EUR mill.	31 Dec 2017	31 Dec 2016
↑	Neste Corporation	250	176
↑	Stora Enso Oyj	246	177
↑	KONE Corporation	187	183
↑	UPM-Kymmene Corporation	182	171
↑	Sampo Plc	169	161
↑	Wärtsilä Oyj Abp	157	94
↓	Citycon Oyj	136	148
↓	Nokia Corporation	123	136
↓	Nokian Tyres Plc	111	111
↓	Fortum Corporation	102	110

ment returns but also on the finances of many companies. Companies' finances are affected by participation in share issues, bond issues or other financing projects. Through our investment decisions, we contribute to the development of the surrounding society. This entails great responsibility.

For us, responsible investment means that, in addition to financial aspects, we take into account environmental, social and governance (ESG) aspects when making investment decisions. The ESG impacts of business operations are reflected in the company's income, financing costs and reputation. They, in turn, have a direct influence on our investment returns and risks. We believe that a responsible company is a better investee than an irresponsible one 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 does not mean compromising on return tar-

gets. Investment decisions cannot be based on mere good intentions. Decisions are based on a financial assessment of returns, risks and sustainability. This way we bear our responsibility for securing pension assets for future generations.

## Monitoring violations of norms and exclusion of investments

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 initiative 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

	Percentage	31 Dec 2017	31 Dec 2016
↑	Nurminen Logistics Plc	19.84	0.00
↑	Digia Plc	14.59	14.58
↓	QT Group Plc	14.28	14.62
	Martela Corporation	8.07	8.07
	Incap Corporation	7.61	7.61
↓	CapManPlc	7.48	7.60
	Citycon Oyj	7.13	7.13
↑	Suominen Corporation	6.99	6.29
↑	Gofore Plc	6.73	0.00
	Tulikivi Corporation	6.21	6.21

as the underlying security. At the end of the year, only the holdings that we have acquired after the screening are unscreened. 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 investees being screened out.

We do not invest in tobacco companies or companies that manufacture arms prohibited by international treaties, including nuclear weapons, cluster munitions and anti-personnel mines. We also do not invest in companies that are dependent on coal (share of coal more than 30 per cent), unless the company has a credible plan for discontinuing the use of coal. We have developed risk identification and the related information systems by, for example, expanding the scope of our criteria.

TABLE 12.

**Integrated sustainability analysis**

At Ilmarinen, sustainability analysis is part of investee selection. When selecting investees, our portfolio managers can view sustainability ratings in our databases along with financial information. The basis of the rating system is a combination of sustainability rating standards created by third parties, which we adapt with analyses and conclusions from internal and external sources. The analysis on which the sustainability ratings are based involves a broad spectrum of risks and opportunities linked to sustainability as well as realised controversies and norm violations. Investing in companies with lower ratings always requires a more detailed pre-assessment.

At the beginning of 2017, we introduced, on a broad scale, ESG benchmark indices with a focus on sustainability. The ESG index is based on ratings created by MSCI. The index includes the companies with the best sustainability rating in each sector and area that represent 50 per cent of the market value of the corresponding parent index. Companies that manufacture, for example, tobacco products or controversial weapons, and companies that have committed serious breaches of international norms are excluded from the indices. The new ESG benchmark indices cover roughly half of Ilmarinen's portfolio of listed equities.

The introduction of ESG benchmark indices creates an even closer link between sustainability and investment practice. We compare part of the investment returns internally against the benchmark. On a global scale, ESG indices are rarely used this extensively. That is why our decision garnered positive attention in the global media early in the year.

**Responsible investment is developing**

In 2017, we continued, among other things, to identify investment opportunities related to sustainable development, and looked into the development of the sustainability analysis concerning our key investees.

In summer 2017, we drew up a report on green bonds. The debt capital raised by the issuer is earmarked for environmentally friendly projects related to, for example, energy efficiency or renewable energy. We examine each green bond individually and make investment decisions based on return expectations and risks. We believe that green bonds are currently significant because they can highlight the importance of sustainability in a company's strategy. We increased our investments somewhat over the course of the year by investing in green bonds of new issuers.

In 2017, we drew up an extensive sustainability analysis on 11 Finnish key investees. For this, we approached ten companies with follow-up questions. We also conducted similar analyses on 11 international investees and carried out more detailed comparisons between seven mining companies from the sustainability perspective.

Our experts have given speeches at various events and shared their knowledge and insights in sustainability-related interviews, articles, public events and blogs.

In 2018, we will develop sustainability analyses on selected sectors and continue identifying investment opportunities related to sustainable development. In addition, we will map out opportunities to expand the ESG tools used in investment operations and further develop the sustainability expertise of the investment organisation. Our merger with

SCREENING OF INVESTEEES FOR NORM VIOLATIONS REGARDING ENVIRONMENTAL AND SOCIAL ISSUES (FS11)*	2017	2016
Screening for norm violations, percentage of listed equities	98%	90%
Screening for norm violations, percentage of listed corporate bonds	96%	93%
Screening for norm violations, percentage of Ilmarinen's total investment assets	46%	35%
Coverage of Ilmarinen's own sustainability ratings (per cent of direct investments in listed equities)	88%	91%

\* ) In 2017, the calculation method was made more precise in terms of coverage of norm violation screening.

Etera increases the need to integrate and reinforce sustainability practices.

**Policy outlines and decision-making**

At the end of 2017, we updated our Ownership Policy and Responsible Investment Policy. We refined our definition of independence. Principally, the majority of the Board members must be independent of the company. The interests of shareholders and the Board of Directors should be aligned by paying part of the Board fees in shares. The recommended share issue authorisation limit was set at 20 per cent of the number of shares issued by the company per share series. This practice is in line with the voting recommendations of international service providers. The remuneration of the Audit Committee's chairman should take into account the increase in the difficulty of the position in recent years.

In our Responsible Investment Policy, we set as our goal to exclude companies that manufacture controversial weapons or tobacco from our capital, infrastructure and private debt funds. This also applies to companies for which the manufacture or sales of coal for energy production accounts for 30 per cent of their turnover. This has previously applied to our direct listed investments. However, many other investors have also started to

screen out such investees. Therefore, it appears conceivable that this will be possible also in non-listed investments in the form of funds. As for hedge funds, we expect the funds to have a dedicated compliance officer.

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 Meeting. The Ownership Policy management team convened three times in 2017. The meetings were chaired by the President and CEO and, in the future, will be chaired by the Chief Investment Officer. The management team included representatives from Investment Operations, Legal Matters and Communications.

The investment division is responsible for operational sustainability analyses and their integration into the selection process as well as the sustainability monitoring of our investments. Ilmarinen has a full-time respon-

- ➔ Sustainability Benchmark Indices
- ➔ Ownership Policy
- ➔ Responsible Investment Policy

sible investment expert who reports to the director in charge of non-listed investments. Our investment organisation employed two responsible investment trainees for a total of seven months, which was our contribution towards training vital future professionals.

### Active ownership

For us, active ownership 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. Through the nomination process, we promote the professional governance and management of the companies we own.

As a member of Nomination Committees, we contribute to ensuring that the composition of the Board takes into account the company's business needs and development

stages and the competence areas required by the Board of Directors and its committees. As part of our Nomination Committee work, we chart each company's long-term needs, including Board member successor planning. We do our part in ensuring that a person elected as a Board member has the competence required for the task and sufficient time for performing it. In selecting Board members, our goal is to ensure that the Board of Directors as a whole supports the development of the company's current and future business. For us, diversity is one of the hallmarks of a well-functioning Board of Directors. By diversity, we mean, for example, the Board members having complementary competencies, training and experience from different professions and sectors and from businesses at different development stages. We also pay attention to the fact that both women and men and people of different ages should be represented on the Board of Directors. In 2017, we participated in the Nomination Committees of 24 companies. A list of all Nomination Committee memberships can be found on our website (in Finnish).

We annually report on our website on our participation in the General Meetings of listed Finnish companies and the votes cast, if any. We expect any extraordinary motions to be explained in the notice of meeting and that the principles of the management's remuneration and compensation plans, and any supplementary pension plans, will 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 2017, we contacted 20 companies prior to their General Meetings and held discussions concerning, among other things, the long duration of share issue authorisations, the dilution, i.e. relative reduction in ownership share in connection with share issues, the gender distribution of the companies' Board of Directors and Board members that are independent from the company.

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.

One of our Ownership Policy goals for 2017 was to communicate to the companies we own our policies related to ownership policy, concerning, among other things, the General Meetings. For this purpose, we organised, together with Director's Institute Finland (DIF), an event for board professionals. We also communicated our principles in a blog and in face-to-face discussions with companies.

TABLE 13.

ACTIVE PARTICIPATION IN GENERAL MEETINGS (KPI 9)	2017	2016
Number of General Meetings of companies listed in Finland in which Ilmarinen participated	84	70
Holdings during the General Meeting period of companies listed in Finland	91	88
Rate of participation in the General Meetings of companies listed in Finland	92%	80%
Voting in the Annual General Meetings of foreign companies	5	8*
Number of General Meetings of non-listed Finnish companies in which Ilmarinen participated	23	21
Holdings in non-listed Finnish companies during the General Meeting period	24	21
Rate of participation in the General Meetings of non-listed Finnish companies	96%	100%

\*) In the 2016 report, the reported figure 10 was erroneous.

### Dialogue and engagement processes

In 2017, we engaged with a total of 90 investees to promote sustainability or good governance. We carried out engagement activities alone, through nomination committees and as part of international engagement co-operation. Ilmarinen's investment organisation decides on the companies to be subjected to the engagement process and on the procedures.

We have been involved in Nordic Engagement Cooperation since 2008. Through NEC, we engage with companies together with Norwegian company KLP, Swedish company Folksam and Danish company PFA Pension which joined the co-operation in 2017. Through this co-operation, we engaged with ten companies. The engagement process with construction company Vinci ended when the company rectified the problems in its operations to a sufficient extent.

NEC's new engagement theme for 2017 was the textile industry, with sustainable cotton production at its core. There are often shortcomings in the working conditions of those working in cotton production. The cotton cultivation also often damages the environment. The goal of the engagement is to increase the use of cotton that has been produced sustainably and the transparency of the supply chains. We also participated in the engagement visit to Deutsche Post's headquarters in Germany concerning the freedom of association, organised by NEC. We publish a separate annual report pertaining to the NEC engagement work on our website.

Our engagement efforts through NEC gained publicity when Finnwatch wrote about Ilmarinen's holdings in Italian energy company ENI. The company was subjected to an engagement

process since 2016 because it was accused of bribery in connection with a Nigerian oil field transaction. The company co-operated with Shell on the acquisition. NEC's engagement work is still underway. In addition, the companies' operations are being heard in court.

We also hold discussions directly with the management and, if need be, the Board of Directors of the companies we own. In 2017, we regularly met with the management of the listed Finnish companies we own. We held discussions and asked for further information about, for example, reporting on environmental impacts, renewable energy, rights of indigenous peoples, diversity, chemical safety, restoration of environmental damage and prevention of bribery.

If a company we own systematically fails to comply with the UN Global Compact principles, we will deepen our dialogue into an engagement process intended to end the undesirable activity and result in the adoption of responsible procedures. If the undesirable activity does not end, our last resort is to exit from our ownership in the company. In 2017, 15 companies were subjected to an engagement process. Ten of them were carried out through NEC and five through GES, a company providing responsibility-related services. Eight of these cases were related to respecting human rights. The problems were linked to, among other things, forced labour and poor working conditions, the rights of indigenous peoples and the limitation of the freedom of association.

Towards the end of the year, we began analysing how our work would be affected if we used the UN's human rights principles to help us prioritise our engagement work. This analysis will be carried on in 2018.

## LONG-TERM CO-OPERATION IN GERMANY IS PAYING OFF

The problems related to the freedom of association among Deutsche Post's employees captured Nordic Engagement Cooperation's (NEC) attention in 2015. The company with global operations has been accused of violating employees' rights in, for example, Latin America and India.

We continued discussions with the company in 2017. In February, we met with the company's management as part of NEC's delegation at Deutsche Post's headquarters in Bonn. Previously, the company had refused any attempt to discuss the issue. This time round, the discussions were constructive.

Soon after the meeting, the company changed direction, however. It refused to disclose its practices related to safeguarding the freedom of association in its global operations. The fact that Deutsche Post asked for investors' insights and perspectives for their corporate responsibility report can be considered to be a positive outcome of the meeting.

Another major step forward was taken in autumn 2017, with Deutsche Post and international workers' federations ITF and UNI extending their agreement signed in 2016 on mutual interaction. For several years, Deutsche Post, ITF and UNI have clashed on issues related to labour rights. In November, ITF confirmed that it has no unresolved issues with Deutsche Post.

The final assessment of the engagement outcome will be carried out in the first quarter of 2018. Deutsche Post's Swedish subsidiary proved, in a telephone conference, that the company has means for resolving the issues at hand. Unfortunately, the parent company has not been willing to share more detailed information. We would like the parent company to disclose more openly how it monitors the implementation of its Code of Conduct on a global level.

NEC is likely to end the engagement process with Deutsche Post in 2018, provided that the company commits no more violations. Deutsche Post must also show greater openness and transparency in its future reporting. The company's next report will be published in March 2018.



TABLE 14.

<b>ILMARINEN'S INTERACTION IN ENVIRONMENTAL AND SOCIAL MATTERS WITH COMPANIES INCLUDED IN THE INVESTMENT PORTFOLIO (FS10)</b>	<b>2017</b>	<b>2016</b>
Interaction and contacts in environmental or social issues, companies included in the investment portfolio*	86	64
Number of companies in Ilmarinen's direct equity portfolio	567	431
Interaction and contacts in environmental or social issues, percentage of companies included in the investment portfolio	15%	15%
Companies subjected to engagement measures	90	57
Companies under an engagement process at year-end (Global Compact)	13	10
Engagement processes completed during the year (Global Compact)	2	3
Engagement in connection with proposals to General Meetings	20	14
Companies on whose nomination boards we participated during the year	24	23
Engagement to promote CDP reporting	37	20

\*) Interaction includes both Ilmarinen's own measures through engagement processes and other contacts.

TABLE 15.

<b>MEETINGS WITH THE MANAGEMENT OF FINNISH LISTED COMPANIES (KPI 10)</b>	<b>2017</b>	<b>2016</b>
Meetings with the management of Finnish listed companies in the investment portfolio	48	54
Number of Finnish listed companies in the investment portfolio	92	92
Meetings with the management of Finnish listed companies, percentage of companies included in the investment portfolio	52%	59%

## 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 long-term operator such as Ilmarinen. Changes always increase business risks, while at the same time also creating new opportunities. We continuously develop our investment operations with the

goal of establishing a systematic approach for taking climate change impacts into account.

The risks inherent in climate change can be realised in investment operations when the operating environment becomes challenging for companies due to global warming. The value of investments may also fluctuate as a result of rapidly changing views in the markets on the impacts of climate risks, and as a result of legislation that creates new expenses. In Finland, for example, the government has

outlined that coal will be phased out in energy production through legislation by 2030.

The Climate Policy steering our investment operations was adopted in 2016 and updated in October 2017. The policy helps us to reach our investment targets and take into account the limits the climate sets on the economy. In the Climate Policy, we have set concrete targets for mitigating climate change over the next few years. The Climate Policy also guides the investee companies and asset managers to take sustainability aspects better into account.

We automatically give a weak sustainability rating to companies for which coal related to energy production accounts for at least 30 per cent of their net sales or energy production, in cases where at least 30 per cent of the company's net sales comes from energy production. We give a weak sustainability rating if the company in question does not have a credible plan for reducing the use of coal. We also chart the new business opportunities offered by climate change.

In 2017, in accordance with the policy, we joined the Climate Action 100+ co-operation that will be launched in 2018. The international investor initiative aims at engaging with more than a hundred of the world's largest producers of greenhouse gas emissions. The emission data is based on data collected by Carbon Disclosure Project. At the early stage, the initiative involves 225 investors with combined investment assets of more than EUR 26.3 trillion dollars. We also joined the Climate Partners network created by the City of Helsinki and Finnish industry. The network of more than 60 companies and support members is committed to reducing their greenhouse gas emissions and mitigat-

ing climate change. We participated in the activities of the Finnish Climate Leadership Coalition (former Climate Leadership Council), and our President and CEO Timo Ritakallio was a member of the association's Board of Directors. In his speech given at the autumn meeting of the association, Ritakallio pointed out that investors have many opportunities to mitigate climate change.

Observers have also noted our efforts to advance sustainable development. In the World Wildlife Fund's comparison, we ranked among the top six European investors. The comparison was based on companies' investments in renewable energy, coal and mining operations. We rose to the top by all indicators, together with Finnish pension companies Varma, Elo and the State Pension Fund of Finland. In the Asset owners Disclosure Project's comparison, we received the best AAA rating. We were placed in ninth position among the world's 500 largest investors, i.e. rising by about 200 places. It was the biggest rise from the previous year and the best Finnish result in the whole comparison.

→ Ilmarinen's Climate Policy

TABLE 16.

### Climate impacts of securities investments

We calculate and measure the carbon footprints of our equity and corporate bond portfolios. Based on the results, we review the carbon risk of our investments.

The share of coal in the investment portfolio and the carbon footprint are important indicators. However, they do not reveal the whole truth of the investments' climate impacts. Calculation methods vary and there are substantial differences between the various sectors. 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.

Our own forest reserves and those of the companies we own have the opposite impact by sequestering carbon dioxide. As part of profitable investment operations, our goal is to increase our forest investments and simultaneously increase the positive impact of our investments on the climate.

INVESTMENT PORTFOLIO'S CARBON FOOTPRINT IN RELATION TO NET SALES (GRI 305-4)	31 DEC 2017	31 DEC 2016
Direct listed equity portfolio's carbon intensity (tCO <sub>2</sub> e/EUR 1 mill. net sales)	215.0	212.4
Direct equity portfolio's carbon intensity in relation to aggregate benchmark (per EUR 1 mill. net sales)	-16.9%	-17.3%
Direct listed equity portfolio's carbon intensity (tCO <sub>2</sub> e/EUR 1 mill. invested)	163.0	193.2
Direct listed equity portfolio's carbon intensity in relation to aggregate benchmark (per EUR 1 mill. invested)	-18.0%	-15.5%
Direct listed equity portfolio's absolute emissions (tCO <sub>2</sub> e)	1,164,757	1,411,993
Direct listed corporate bond portfolio's carbon intensity (tCO <sub>2</sub> e/EUR 1 mill. net sales)	197.5	230.6
Direct listed corporate bond portfolio's carbon intensity (tCO <sub>2</sub> e/EUR 1 mill. invested)	85.2	115.6
Direct listed corporate bond portfolio's absolute emissions (tCO <sub>2</sub> e)	299,013	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) and some indirect emissions (mainly purchased energy i.e. scope 2). We have altered the extent of our calculation: previously, we reported direct emissions and, for indirect emissions, first tier suppliers. We reduced the extent of reporting to improve the comparability of the results with those of other investors.*

*For the carbon footprint, we have reported the amount of carbon dioxide equivalents, i.e. the amount of various greenhouse gas emissions of all of our investee companies, commensurated into carbon dioxide tonnes in relation to the*

*companies' net sales. This is our primary reporting method. We also report the amount of greenhouse gas emissions in relation to invested euros. In addition, we report the absolute greenhouse gas emissions of the investees in tonnes of carbon dioxide equivalents.*

*The equity portfolio's emissions have been compared with an aggregate benchmark which corresponds to the combination of parent indices corresponding to the benchmarks used by Ilmarinen in its investment operations. The sustainability indices have not been taken into account in the comparison, because they are one frequently used means in reducing carbon footprints.*

TABLE 17.

PERCENTAGE OF COMPANIES THAT HAVE REPORTED ON GREENHOUSE GAS EMISSIONS	31.12.2017	31.12.2016
Percentage of companies that have reported on greenhouse gas emissions, listed equity investments	81%	81%
Percentage of companies that have reported on greenhouse gas emissions, corporate bond investments	77%	85%

TABLE 18.

SHARE OF RENEWABLE ENERGY AND COAL OF THE ELECTRICITY PRODUCTION OF ILMARINEN'S INVESTEE POWER COMPANIES	31 DEC 2017	31 DEC 2016
Share of renewable energy of electricity production in direct equity investments	24.4%	28.2%
Share of coal of electricity production in direct equity investments	7.9%	24.1%
Share of renewable energy of electricity production in corporate bonds	25.5%	24.7%
Share of coal of electricity production in corporate bonds	12.1%	18.1%

TABLE 19.

CARBON SINK IMPACT OF FOREST INVESTMENTS	2017	2015
Forest holdings, ha	169,128	129,000
Positive net impact of carbon sequestered by forest growth, CO <sub>2</sub> tonnes*	466,323	453,821

*The carbon sink impact of forest investments is calculated every other year. The previous reported figure is from 2015.*

*\*) The calculation does not include information pertaining to The Forest Company.*

AODP AAA



ASSET  
OWNERS'  
DISCLOSURE  
PROJECT

2017 GLOBAL CLIMATE INDEX  
THIS FUND RANKS AMONG THE TOP 3%  
OF ASSET OWNERS IN THE WORLD WHEN  
IT COMES TO MANAGING CLIMATE RISK.

### Comparison of investments with the two-degree target

As part of charting 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 Climate Agreement. The analysis was performed by the 2° Investing Initiative, a non-profit think tank which is part of a programme financed by the EU Commission. The analysis currently only covers three sectors in a way that allows for comparisons, forming nine per cent of the investments in our direct equity portfolio. New sector analyses are continuously being developed.

In the analysis, the investments in Ilmarinen's equity portfolio were compared with the International Energy Agency's (IEA) scenario extending until 2022 for an energy technology mix that will allow limiting the global increase in temperature to no more than 2°C. Of the analysed sectors, our investments in energy companies and fossil fuel producers were in line with the two-degree scenario, but car manufacturing companies were not.

Ilmarinen's investee energy companies are estimated to produce more energy using renewable sources and less coal than meeting the two-degree target would require. For gas, we fell slightly short of the target. Gas is present in our power companies' energy sources to a slightly higher degree than in the two-degree scenario. With the current holdings, our equity portfolio would have, in 2022, approximately 140 per cent of renewable energy capacity compared to the minimum requirement of the two-degree scenario. The amount of coal would be a fraction of what the scenario would allow.

In terms of fossil fuels, our equity portfolio includes less coal, oil and natural gas production than the two-degree target would require. Overall, our investments are in line with the target. The estimate takes into account the maximum amount of fossil fuels that can be used by 2022 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 2022, in line with the target.

### Target: double the investments in sustainable development

In our view, climate change entails 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

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 2017, we identified investees that promote the goals of sustainable development. Sustainable development solutions also include business related to nutrition, prevention of contagious diseases, water supply and education, among other things. In our Climate Policy, we set as a goal to raise the share of these solutions of our investments to 12 per cent. All investments must also meet financial criteria. We have already invested extensively in companies that meet our targets. These solutions accounted for 7.5 per cent of the net sales of our investees at the end of 2017. This is 1.8 percentage points more than in the previous year. The percentage is affected by changes in the solutions' share of the investee's net sales and changes in the value of Ilmarinen's investments in the companies. We will continue identifying these investees in 2018.

### Climate impacts of real estate investments

The built environment causes significant climate impacts. They need to be taken into account when assessing the development outlook of buildings. We believe that environmental issues will play an increasingly important role in the future when people select their homes and companies select their business premises.

Environmental ratings granted by external players are one way of indicating the environmental friendliness of a property. As a result of long-term responsibility efforts, Ilmarinen was one of the first companies to be included in the LEED Volume Programme v4 rating programme. During 2017, we started up a project with the goal of attaining LEED certification for a total of 12 of our existing properties. These include several valuable old properties in the centre of Helsinki and Kiinteistö Oy Helsingin Lepakko in Ruoholahti, where Ilmarinen's head office is located. In connection with the rating process, an energy review will be carried out and improvements will be made in eco-saving operating models, including waste management and cleaning. The rating takes into account the activities of the property's occupants and experiences of

TABLE 20.

SHARE OF BUSINESS RELATED TO SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE SOLUTIONS OF THE NET SALES OF COMPANIES IN THE DIRECT EQUITY PORTFOLIO (KPI 11)	31 DEC 2017	31 DEC 2016	Goal 2020 (Climate policy)
Share of business related to sustainable solutions of the annual net sales of direct listed equities	7.5%	5.7%	12%
Investments in sustainable development (direct equity investments in listed companies of whose business 50 per cent or more is related to sustainability solutions) (EUR million)	517	520	
Share of business related to climate change solutions of the annual net sales of direct listed equities	4.5%	3.2%	
Investments in climate change solutions (direct equity investments in listed companies of whose business 50 per cent or more is related to climate change solutions) (EUR million)	153	129	

TABLE 21.

the interior conditions of the building, which are studied through a user survey.

Since 2016, we have analysed the carbon footprint of our new properties annually. This includes the carbon footprint arising during construction and the entire lifecycle of the building. The carbon footprint arising during the construction of new buildings is presented in Table 21. The calculations also include the parking solutions of each building. In our life-cycle calculations, we use 50 years as the estimated useful life of a building. However, our design guidelines and execution are aimed at a useful life of 100 years. The analyses have provided us with valuable insight into what the carbon footprint of construction is made up of. This insight can be used for buildings that are already at the design stage, but also when designing future buildings.

In addition, we measure and report the carbon footprint of our direct real estate investments. The figures in Table 22 include greenhouse gas emissions that arise from the energy consumption of the properties (consumption of electricity, heat and possible district cooling). Our target is to reduce the carbon footprint of our real estate portfolio by 10 per cent by 2020 from the 2015 level, and by 20 per cent by 2025.

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

In Helsinki's Jätkäsaari, we participated in the construction of the Airut ecological block of flats. The carbon footprint arising during use of this block of flats, due for completion at the end of 2018, has been minimised. It means, for example, that part of the building's energy is produced using the solar power plant installed on the building's roof. In early autumn 2017, a 10-flat-building without its own solar power plant was completed for Ilmarinen in the block.

In our head office in Helsinki's Ruoholahti, we have produced part of the required electricity with solar power since 2016. The calculated annual return on the capital invested in Helsinki's largest building-specific solar power plant has been seven per cent. The annual electricity production corresponds to the electricity consumption of around 80 flats. We are studying the implementation of solar power plants in our other buildings and the opportunities to benefit from demand-side management.

In autumn, the shopping centre Puuvilla in Pori was elected as Shopping Centre of the Year in Finland by the Nordic Council of Shopping Centers. The election criteria included, for example, environmental matters. During the year, a solar power plant – one of Finland's largest – was installed on the shopping centre's roof and the electricity purchased by the centre is produced using wind power. Geothermal energy is used for heating and cooling. Ilmarinen owns half of Puuvilla.

<b>CARBON FOOTPRINT OF NEW CONSTRUCTION (CRE 4)*</b>	<b>2017</b>	<b>2016</b>
Carbon footprint per square metre, kg CO <sub>2</sub> e/net m <sup>2</sup> , emissions	417	462
Carbon footprint per square metre, kg CO <sub>2</sub> e/useful floor area m <sup>2</sup> , emissions	581	608
Carbon emissions from construction in relation to annual net sales tCO <sub>2</sub> e/EUR million	114	137

\*) The figures for 2017 include seven projects started in 2016 and two started in 2017, a total of nine projects. All projects started in 2016 continued in 2017.

TABLE 22.

<b>CARBON FOOTPRINT OF REAL ESTATE INVESTMENTS (FINNISH DIRECT REAL ESTATE INVESTMENTS) (CRE 3 / KPI 8)*</b>	<b>2017</b>	<b>2016</b>
<b>FINNISH REAL ESTATE:</b>	<b>2017</b>	<b>2016</b>
Finnish real estate total CO <sub>2</sub> e/m <sup>2</sup>	35	36
Warehouses kg CO <sub>2</sub> e/m <sup>2</sup>	15	19
Free-time residential buildings CO <sub>2</sub> e/m <sup>2</sup>	9	24
Offices kg CO <sub>2</sub> e/m <sup>2</sup>	53	50
Institutional care buildings CO <sub>2</sub> e/m <sup>2</sup>	24	43
Parking facilities kg CO <sub>2</sub> e/m <sup>2</sup>	1	44
Other kg CO <sub>2</sub> e/m <sup>2</sup>	45	60
Commercial buildings CO <sub>2</sub> e/m <sup>2</sup>	31	41
Hotels kg CO <sub>2</sub> e/m <sup>2</sup>	50	44
Residential buildings CO <sub>2</sub> e/m <sup>2</sup>	42	38
<b>FOREIGN BUILDINGS:</b>	<b>2017</b>	<b>2016</b>
Offices kg CO <sub>2</sub> e/m <sup>2</sup>	48	44
<b>ALL BUILDINGS:</b>	<b>2017</b>	<b>2016**</b>
All buildings, kg CO <sub>2</sub> e/m <sup>2</sup> g	38	36

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

\*\*) The 2016 analysis includes 149 Finnish buildings.



**THE CALCULATED ANNUAL RETURN ON THE CAPITAL INVESTED IN HELSINKI'S LARGEST BUILDING-SPECIFIC SOLAR POWER PLANT HAS BEEN SEVEN PER CENT.**

## Impacts on the built environment

Ilmarinen is one of Finland's largest real estate investors. We are a major property developer and a significant buyer of real estate services. 17 per cent of the properties we own are in residential use and the rest are various business premises. In 2017, a 10-flat block of flats and a renovated residential building were completed. No commercial or office buildings were completed during the year.

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 transit connections. Our development activities and the real estate services bought by us also create jobs and increase society's tax revenues.

In line with our investment strategy, we continued the diversification of our real estate investments outside of Finland. Our goal is for 40 per cent of our real estate investments to be abroad by 2020. We started new strategic co-operation with New York Life insurance company on the US real estate market. In addition, we made real estate investments in Germany, the Netherlands and the UK. The exit from the European Union planned by the UK creates uncertainty on the market but has also lowered real estate prices to an interesting level. We estimate that the opportunities are greater than the risks.

At the start of 2018, Ilmarinen's real estate holdings expanded following the merger with Etera. This year, we will have to review our goals regarding, for example, the carbon footprint of our properties. The merger led

to an increase in direct Finnish real estate investments, in particular.

### 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 have long worked to reduce the energy consumption of our properties. The term of the energy efficiency agreements managed by the Ministry of Economic Affairs and Employment came to a close at the end of 2016. We joined the agreement for rental flats (VAETS) and office buildings (TETS) for the new agreement term 2017–2025. Our goal is to achieve 10.5 per cent savings compared to the level reached during the previous term by the end of the agreement term.

In addition to energy efficiency, buildings also have other impacts on their users. In spring, we started charting the accessibility of our properties together with the Finnish Association of People with Physical Disabilities. The work was started from residential buildings. We own around 3,600 flats and 100 commercial and office buildings. We want to make sure that tenants can live and work in our properties as long as possible. With the ageing population, accessibility and assistive solutions are rapidly becoming increasingly important as competitive advantages, for example. We are also preparing for the legislation that will bring clarity to accessibility regulations, which will take effect in 2018.

We are constantly looking for means to develop the use of our buildings. In early

2018, a co-working space was opened in Postitalo in Helsinki, based on the international Spaces concept. The shared space meets the needs of changing working life and adds flexibility to the use of space. The new service has been so popular that our partner is planning on expanding it.

We monitor the customer satisfaction of our office tenants through regular surveys. The surveys measure the satisfaction of the tenants regarding, for example, the functionality and adaptability of the spaces, indoor air quality, location and traffic connections. Over-

all satisfaction with our premises is at a good level, at 3.81 (on a scale of 1–5). The satisfaction has improved thanks to the extensive renovation programme carried out over the past few years, in which we have focussed on modern, pleasant, energy efficient and healthy office premises. The questions concerning landlords are related to, among other things, understanding the tenant's needs, the smoothness of services and the landlord's competence, flow of information and communication. Customer satisfaction has clearly improved in this area as well during the past

TABLE 23.

ENERGY INTENSITY OF PROPERTIES OWNED BY ILMARINEN, DIRECT FINNISH REAL ESTATE INVESTMENTS (CRE1)	2017	2016
Energy consumption of flats, kWh/m <sup>2</sup> /year	145	136
Energy consumption of office premises, kWh/m <sup>2</sup> /year	176	174

TABLE 24.

WATER INTENSITY OF PROPERTIES OWNED BY ILMARINEN, DIRECT FINNISH REAL ESTATE INVESTMENTS (CRE2)	2017	2016
Water consumption of flats, m <sup>3</sup> /m <sup>2</sup>	1.08	1.03
Water consumption of office premises, m <sup>3</sup> /m <sup>2</sup>	0.22	0.24
Water consumption of foreign office premises, m <sup>3</sup> /m <sup>2</sup>	0.39	–

TABLE 25.

CALCULATED EFFECT OF ENERGY SAVINGS MEASURES ON THE ENERGY CONSUMPTION OF PROPERTIES (KPI 7)	2017	2016
Calculated effect of energy savings measures on energy consumption, Mwh/year	2,722	2,020

few years, and stands now at 3.82 (on a scale of 1–5). Our office tenants value direct communication with the landlord. Satisfaction has improved since we stopped outsourcing the office premises' rental activities.

### Property development

We have a long-term, responsible approach to construction activities, in other words we build sustainably. 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 at the very least. 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. For the REDI shopping centre to be completed in Helsinki's Kalasatama in 2018, we have set, together with the other property developers, a goal of LEED Platinum, the highest level of green rating for buildings.

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, we do our part in combating the grey economy in the construction sector. We have our own operating guidelines for combating the grey economy. They 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. They are available on our website.

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.

We looked into what the wishes of Finns are in terms of residential buildings in a survey conducted together with the Finnish Association for the Welfare of Older People. It turned out that every third person retiring on old-age pension is interested in communal living. The main reasons were the support of the community in daily life, safety, costs and company. A survey that we commissioned together with Skanska and Stora Enso, in turn, revealed that the majority of youths still have surprisingly traditional wishes when it comes to living. Most of them wish to live in suburbs in detached houses.

” **EVERY THIRD PERSON  
RETIRING ON OLD-AGE  
PENSION IS INTERESTED IN  
COMMUNAL LIVING.**



# 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 directly affects the customer experience. Without happy employees, we cannot succeed. That is why energising our work community is one of the four focal areas of Ilmarinen's strategy.

## Energising work community

We believe that how employees experience their workplace directly affects the customer experience. Satisfied employees play a key role in attaining our goal of being the earnings-related pension insurer that offers the best customer experience. Energising our work community has been one of the four focal areas of Ilmarinen's strategy since 2016. We will focus on ensuring a good employee experience also after the merger with Etera. This is reflected in our goal of succeeding in the merger – with positive energy.

We want to set an example of how work and the work community can support people's level of energy. The way the employees feel about their work community affects how innovative we are. This, in turn, influences the kind of effective solutions that we produce and develop together. Energetic and thriving employees help to achieve profitable growth and productive and efficient operations.

### 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.

The end of 2017 was characterised by preparing for the Ilmarinen–Etera merger also from personnel's perspective. Co-operation negotiations concerning the impacts on personnel continued into January 2018. In addition to resources, they concerned harmonising reward practices and employee benefits, among other things. Although some personnel reductions are necessary, the integration may also give rise to new tasks.

The uncertainty brought about by the planned integration did not impact the overall results of September's work atmosphere survey, which was at the same level as in the previous year, i.e. 3.8 on a scale of 1 to 5. Strengths included personnel's belief in Ilmarinen's success (4.2). Supervisory work also received a high score (4.0). An improvement area identified by the company's management was that shared goals should, in future, steer success also across organisational boundaries.

All in all, the employees value Ilmarinen as an employer. Our personnel have also enjoyed working at Ilmarinen for the longer term: the average employment relationship at Ilmarinen lasts 14 years.

In 2017, we came in second place in the large businesses category of the Responsible Summer Job campaign. This is a strong increase from the previous year, which was our first year taking part in the campaign. In that year, we came in 48th place. In the 2017 campaign questionnaire, summer employees gave Ilmarinen an average general score of 3.77 on a scale of 1 to 4. Our efforts to develop the application experience, in particular, received praise from the summer employees. Ilmarinen's application process received a general score of 3.8. We performed especially well in our recruitment-related communication and the smoothness of our application process. We offered summer jobs to a total of 32 summer workers. Recruiting summer employees gives us the opportunity to try new things and inject energy into the work community. That is why we hired more summer employees in 2017 than we did in the previous year. We gave them tasks in departments and functions that had never

had summer employees before.

Earnings-related pension insurance companies have a major responsibility also to future employees. Some 1,600 people applied for a summer job at Ilmarinen. We also wanted to promote the employment of the applicants who were not chosen. We invited all the remaining applicants to a recruitment seminar hosted by Ilmarinen's and Psycon's experts, and roughly 100 people took advantage of the event. Each applicant was sent a tailored message explaining in greater detail the grounds for the choices that were made, and feedback was given to the applicants.

### Energising the work community at the heart of the strategy

Ilmarinen's management is committed to developing the work community. For example, part of the performance bonuses paid to management is tied to the results of the work atmosphere survey. Actions related to energising the work community have been

compiled into a development programme that contains a broad spectrum of measures. They range from reviewing the management system to clarifying the operating culture, and exercise and healthy food options.

As part of our strategy, we implemented the 'Energising our work community' development programme. In autumn 2017, we changed the name of the strategy theme to 'We will succeed in the merger – with positive energy'. As the name implies, the development programme focussed towards the end of the year on supporting Etera's merger into Ilmarinen from personnel's perspective.

During the spring, the entire staff took part in a discussion on the operating culture that characterises the company, and the specific areas we would like to clarify further. We carried out a separate employee survey and formed a working group made up of roughly 30 long-term and new employees. Although the survey was carried out within a short time frame, most employees replied to it. Our

TABLE 26.

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER (GRI 401-1)	2017	2016
New employment relationships	41	61
Ended employment relationships	65	51
Turnover of permanent employees	6%	6%
New employment relationships/permanent	8	18
Ended employment relationships/permanent	30	33
Number of summer employees	32	27

TABLE 27.

AVERAGE RETIREMENT AGE OF ILMARINEN EMPLOYEES	2017	2016
Average retirement age*	63.9	63.8

\*) Including disability pensions.



employees are interested in boosting team spirit in the workplace. The official conclusion drawn from these efforts, however, was that Ilmarinen's value of "succeeding together" needs the most reinforcement. We paid special attention to ensuring that the targets of individual employees, teams and broader organisational elements would be in line with one another and mutually supportive. This requires, for example, the development of supervisory work. Supervisory work is highlighted especially in change situations, such as Etera's integration. The first concrete measure was for supervisors to define together what the criteria are for a good supervisor. In day-to-day operations, supervisory work is also supported by a new HR system service for managing and monitoring personal data that was created in 2017 and rolled out in early 2018.

As part of a project aimed at clarifying our operating culture based on our values, we commissioned a survey, which brought up the issue of, for example, the under-utilisation of work rotation. The employees also expressed an interest in greater flexibility and freedom in remote working practices. The efforts made regarding work flexibility have already produced results. Thanks to the increase in remote work, the work efficiency of pension processors has improved by approximately 25 per cent.

We focus on preventative occupational health care. One of the indicators we keep track of is the health percentage of our employees, i.e. the proportion of persons who have not been absent from work at all due to illness during the reporting year. In 2017, the health percentage of our employees remained at about the 50 per cent level.

The number of absences due to illness per employee was down to 4.7 days, whereas in 2016 it was 5.3 days. That figure has decreased steadily over the past few years. Sick leave taken for mental health reasons was cut in half, and sick leave related to musculoskeletal diseases decreased 29 per cent. On an annual level, the number of absences due to illness thus decreased by close to 510 compared to the previous year. Costs related to sick leave were down by roughly EUR 155,000. Sick-leave costs are based on the Confederation of Finnish Industries' estimate, according to which, the cost of one day of sick leave is EUR 350.

Our work community activation coach's employment relationship continued on a full-time basis throughout 2017. We also encouraged active commuting among our employees, for example, by joining a friendly cycling competition called 'Kilometrikisa'. Our employees logged more cycling kilometres than ever before – an average of 550 km per cyclist. This translates to a reduction in carbon dioxide emissions of more than 20,000 kg. Through the Finnish Red Cross's 'Chain reaction' fundraising campaign that is part of Kilometrikisa, the kilometres cycled raised our donation to the Finnish Red Cross to EUR 4,700.

#### Continuously developing competence

We favour a learning development model whereby around 70 per cent of learning consists of learning on the job, 20 per cent consists of so-called model learning (e.g. feedback, mentoring, coaching) and 10 per cent consists of traditional training. We encourage our employees to build on their competence while working, for instance, by

TABLE 28.

WORK ATMOSPHERE SURVEY RESULT (SCALE OF 1–5) (KPI 21)	2017	2016
'Energising our work community' index result	3.6	3.6
Overall result of the work atmosphere survey	3.8	3.8

TABLE 29.

AVERAGE HOURS OF TRAINING DURING THE REPORTING YEAR PER EMPLOYEE (GRI 404-1)	2017	2016
Average training hours, entire personnel	17	19
Average training hours, women	20	21
Average training hours, men	13	16
Average training hours, Executive Group	3	8
Average training hours, middle management	18	13
Average training hours, group supervisors	28	20
Average training hours, salaried employees and specialists	17	19

TABLE 30.

ILMARINEN'S EMPLOYEES' HEALTH	2017	2016
Employees' health percentage*	48%	51%

\*) Employees with no absences from work due to illness during a year.

keeping abreast of the news and training opportunities in their own sector. We arrange and tailor proper training courses based on observed needs. Such courses are much more effective than courses chosen based on what is generally available. With their supervisor's approval and on their own initiative, employees can also participate in training courses offered by external service providers that cater for the needs of their job.

In 2017, we enhanced knowledge-sharing between employees. A group of about ten of our employees participated in external, certified coach training. With their newly acquired training skills, they offered support to

other employees as needed. Throughout the year, we also gave our employees training, for instance, in remote leadership, social media use, presentation skills and working with the media. Some 100 employees received training in Ilmarinen's agile development operating model. All employees completed an online course on personal safety and safety on the premises. We aim to ensure that our employees have the latest, most-efficient tools to perform their work. We trained our personnel in using Office 365 systems. The comprehensive system package includes many features that make work easier and more efficient, and employees must have the skills to use them.

TABLE 31.

<b>NUMBER OF ILMARINEN EMPLOYEES BY EMPLOYMENT TYPE, EMPLOYMENT CONTRACT AND GENDER (GRI 102-8)</b>				
	<b>2017</b>	<b>2017%</b>	<b>2016</b>	<b>2016%</b>
<b>NUMBER OF EMPLOYEES</b>				
Permanent employment contracts, total	520	92%	540	91%
<i>Permanent employment contracts, women</i>	335	64%	351	65%
<i>Permanent employment contracts, men</i>	185	36%	189	35%
<i>Permanent full-time employment contracts, total</i>	488	94%	501	93%
<i>Permanent full-time employment contracts, women</i>	309	63%	321	64%
<i>Permanent full-time employment contracts, men</i>	179	37%	180	36%
<i>Permanent part-time employment contracts, total</i>	32	6%	39	7%
<i>Permanent part-time employment contracts, women</i>	26	81%	30	77%
<i>Permanent part-time employment contracts, men</i>	6	19%	9	23%
Fixed-term employment contracts, total	47	8%	52	9%
<i>Fixed-term employment contracts, women</i>	28	60%	40	77%
<i>Fixed-term employment contracts, men</i>	19	40%	12	23%

TABLE 32.

<b>DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEES (GRI 405-1)</b>					
<b>GENDER DISTRIBUTION OF ILMARINEN EMPLOYEES AND GOVERNING BODIES</b>	<b>Total (number)</b>	<b>Women's share</b>	<b>%</b>	<b>Men's share</b>	<b>%</b>
Entire personnel	567	363	64%	204	36%
Salaried employees and specialists	491	318	65%	173	35%
Group supervisors	29	21	72%	8	28%
Middle management	39	20	51%	19	49%
Executive Group	8	4	50%	4	50%
Board of Directors	16	4	25%	12	75%
Supervisory Board	28	9	32%	19	68%

<b>AGE DISTRIBUTION OF ILMARINEN EMPLOYEES AND GOVERNING BODIES</b>	<b>Under 30 years of age (%)</b>	<b>30-50 years of age (%)</b>	<b>Over 50 years of age (%)</b>
Entire personnel	6%	49%	45%
Executive Group	0%	25%	75%
Board of Directors	0%	19%	82%

In 2017, we selected developing self-management skills as the focal point for building the entire personnel's competence. In spring, we offered all employees a series of three lectures on self-management by brain researcher and psychologist Ville Ojanen. We had planned to complete the lectures with training in supervisory work and in managing others without having supervisory responsibilities and a supervisory position. We postponed these training events in connection with setting up the new organisation. In autumn 2017, we provided support to personnel in the midst of change through coaching tools.

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 2017, new hires gave these sessions an average score of 4.42 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.

Each of our employees spent an average of roughly two-and-a-half work days taking part in various training events in 2017. The figure only includes training events saved separately in the personal data system. The statistics do not show studying while working nor all the external training sessions and seminars that our personnel actively participated in.

### Promoting diversity

We take a broad view of diversity: for us, it means leadership and personnel planning that takes into account both gender equality and employees' partial work capacity, different cultural backgrounds and different ages alike. We believe that the different competencies and capabilities, backgrounds and characteristics of employees are strengths. They improve the company's innovativeness and earnings power.

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 positions than men: at year-end, half of the Executive Group members were women, and women held 51 per cent of the middle management positions. On the group supervisor level, the proportion of women was as high as 72 per cent. We will report on the impacts of the Etera merger on personnel and the governing bodies in next year's report.

The nationality or ethnic 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 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 illustrate the number and distribution of Ilmarinen employees in terms of the employment relationship, employment

contract, gender, age and organisation level. At the end of 2017, Ilmarinen had a total of

567 permanent and fixed-term employees and their average age was 47 years.

TABLE 33.

<b>RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN BY EMPLOYEE CATEGORY (GRI 405-2 / KPI 5)</b>	<b>2017</b>	<b>2016</b>
Women's average pay in relation to men's pay, Executive Group (excluding the President and CEO)	80%	78%
Women's average pay in relation to men's pay, all other employees	78%	75%

TABLE 34.

<b>EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS (GRI 102-41)</b>	<b>2017</b>	<b>2016</b>
Number of employees covered by collective bargaining agreements	520	544
Percentage of employees covered by collective bargaining agreements	91.7%	91.9%

TABLE 35.

<b>REMUNERATIONS PAID TO ILMARINEN'S BOARD OF DIRECTORS (EUR)</b>	<b>AS OF 1 JAN 2018</b>	<b>UNTIL 31 DEC 2017</b>
Chairman of the Board of Directors	43,000	38,000
Deputy Chairman	28,500	27,000
Chairman of the Audit and Risk Management Committee	23,000	20,000
Member, Board of Directors	17,500	16,000
Deputy member, Board of Directors	14,000	13,000
Meeting fee for Board of Directors	500	500
Meeting fee for the Nomination and Compensation Committee	500	500
Meeting fee for the Audit and Risk Management Committee	750	750

## 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 revised in 2015. The principles are described in the Declaration of Remuneration and Incentives, which is published on our website.

In accordance with the policy outlined by the company's Board of Directors, Ilmarinen's remuneration is competitive, fair and equal, steering and supportive. Remuneration is guided by the collective bargaining agreement

for the insurance sector. With the exception of middle management and Executive Group members, it covers all Ilmarinen employees, i.e. 92 per cent of all personnel. The collective agreement for salaried office workers in the insurance sector ended in October. The negotiating parties approved the new collective agreement in mid-December.

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. The

importance of pay was also brought up in a survey of our personnel as part of the project aimed at clarifying our operating culture based on our values. The employees would like to see greater clarity in the company's remuneration and incentive practices. Many would like to gain a better understanding of how they can influence their own salaries by developing their competence and work performance. 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 ourselves the goal of narrowing the pay gap between men and women. As a general rule, differences in 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 were 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 annually assesses the performance of the incentive systems, 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 annually report 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 2017 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. Every absence from the Supervisory Board meetings results in a deduction of EUR 750 from the annual fee. The Supervisory Board met twice in 2017.

The Supervisory Board decides on the remunerations paid to Ilmarinen's Board of Directors. The Supervisory Board decided to keep the remunerations paid to the Board of Directors unchanged in 2017. The decision was made to raise the remunerations for 2018; this is because, as a result of Etera's merger into Ilmarinen, the Board's and the committees' tasks will increase, and the company's business volume will grow. The last time the remunerations paid to the chairmen and the members of the Board of Directors were raised was in 2010. The Audit and Risk Management Committee's remuneration was last revised in 2014. The meeting fees remained unchanged.

In 2017, Ilmarinen's President and CEO Timo Ritakallio received a total of EUR 708,192.82 in annual remuneration, consisting of the monthly salary including fringe benefits, annual bonus and the long-term bonus for senior management. More information about the remuneration of senior management and the governing bodies can be found in the report on remuneration 2017.

→ Declaration of Remuneration and Incentives



# CODE OF CONDUCT

Our operations are built on a foundation of good governance and responsibility. Complying with regulations, principles and values in all operations is important. This is especially highlighted in decision-making processes. Our operations must also be responsible and reliable in the eyes of our stakeholders.

## Compliance

Our operations are built on a foundation of good governance and responsibility. Complying with regulations, principles and values in all operations is important. This is especially highlighted in decision-making processes. Our operations must also be responsible and reliable in the eyes of our stakeholders.

Ilmarinen has a full-time compliance officer. The compliance officer supports the company's Board of Directors, management and business operations in ensuring that corporate governance is reliable, that regulations are complied with, and that internal control is effective and sufficient. In our organisation, the compliance officer is part of the Legal and Compliance function, which is headed by the Chief Legal Officer. The compliance officer reports directly to the Board of Directors, the Audit and Risk Management Committee and the President and CEO. Reporting takes place regularly, and also if the situation calls for it. 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. In the document, we specify, 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. The Code of Conduct ensures that we do things right.

Ilmarinen's Board of Directors has ap-

proved the Code of Conduct. The Code of Conduct and the public principles and more detailed policies concerning our operations can be found on our website. Policies have been drawn up concerning, among other things, insider information, internal control, sourcing policy, anti-bribery principles, sponsoring and data processing. Our guidance, for example, on related-party matters and transactions involving related parties, is more stringent than what is required by law. We closely monitor conflict-of-interest situations when preparing and making decisions involving the companies we own. We publish the key positions of trust of our management on our website.

Compliance with the Code of Conduct and the more detailed operating principles is required of all employees. In 2017, Ilmarinen's Code of Conduct training was included in the induction of all new employees. All our employees (95% per cent of all personnel) in 2016 took part in Code of Conduct training. The compliance officer also provides more in-depth training as needed, as well as assistance in interpreting practical issues related to the operating guidelines. In 2018, the new online training system will help us to automatically monitor the course's completion rate. (GRI 205-2)

In 2017, Ilmarinen's compliance officer assessed that the company's overall risk level in terms of compliance risks was moderate. Compliance risks refer to risks related to legal or administrative consequences, financial losses or a loss of the company's reputation. Risks are a consequence of the company neglecting to comply with laws, decrees or other administrative regulations that apply to its operations. The compliance risk usually

concerns internal violations or neglect and can thus be considered a part of operational risks.

In 2017, we adopted a new operational risk monitoring and reporting system. The system will also be used in future to monitor rectification measures related to compliance risks and observations and the implementation of official recommendations. The data collected in the system will be used to further develop the company's risk management.

Awareness of changes to national and EU-level legislation and the applicable local marketplace legislation and their impacts on our operations is an important part of managing compliance risks. Our objective is to be able to identify all significant compliance risks in advance, while at the same time ensuring the appropriate means for managing them.

The new Act on Preventing Money Laundering and Terrorist Financing that entered into force obliged, earnings-related pension companies to draw up an assessment of money-laundering risks by the end of 2017. Already in previous years, the risk of money laundering related to pension insurance has been assessed as low. The same conclusion was reached in 2017, both in our own assessment and in the joint risk assessment drawn up by the earnings-related pension sector. Money laundering risks related to the investment operations of earnings-related pension companies differ from the risks of many other sectors subject to monitoring by the Finnish Financial Supervisory Authority (FIN-FSA), since, as an earnings-related pension insurance company, we invest only our own assets.

Ilmarinen's Board of Directors approved in December the money-laundering risk assess-

ment and procedural guidelines for preventing money laundering. The money-laundering risk assessment will be included as part of the operational risk management framework.

FIN-FSA is the highest official body supervising the operations of earnings-related pension companies. In 2017, FIN-FSA published a new set of regulations and guidelines on the administration of earnings-related pension insurance companies. Our compliance plan for 2017 included a measure to ensure compliance at Ilmarinen with new regulation requirements concerning reliable governance. In our opinion, we have appropriately implemented the new regulation at Ilmarinen.

Ilmarinen was not subject to any fines or non-monetary sanctions related to failure to comply with legislation or regulations in 2017. (GRI 307-1, GRI 419-1)

No reports were received about compliance or other violations through the internal whistleblowing channel during the year. Through the channel, opened in 2016, employees can anonymously report suspected misconduct. (GRI 103-2) The possibility to report, also anonymously if necessary, suspected misconduct is, in our view, very important in ensuring reliable governance and operations that are in compliance with regulations. (GRI 102-16)

→ Code of Conduct

## 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. The amount of the pension contribution is determined by the Ministry of Social Affairs and Health, and it is the same for all companies. Earnings-related pension insurance companies engage in competition by means of, for example, client bonuses that are distributed as discounts and service quality. Client bonuses are affected by the pension company's solvency and cost-effectiveness.

We comply with good insurance practices in all our operations. Responsible customer work means following responsible practices in customer acquisition and treating all customers justly and fairly. Our business transactions must not result in an unfair advantage to anyone. In accordance with our sourcing policy, we base our business transactions on market conditions that are compatible with fair practice. In addition, our investments must meet the prerequisites for profitability and security.

We decided to postpone the training in responsible customer work that we had planned until next year for employees of the investment organisation who work at the customer interface. The training is part of the new post-merger organisation's training and induction. (KPI 19)

## Information security

Application of the EU General Data Protection Regulation (GDPR), which enters into force in May 2018, will considerably change the obligations related to information security. By

information security, we mean matters pertaining to data protection and data security. Data protection concerns the processing of natural persons' personal data and the protection of privacy. Personal data is considered to be any information that can be directly or indirectly linked to an individual. The personal data we process relates, for example, to insured persons, pensioners and our employees. In addition to data protection pertaining to personal data, we also comply with confidentiality regulations. These concern not only personal data, but also information pertaining to companies and their trade secrets.

We process a large volume of confidential information on a daily basis. Our stakeholders consider ensuring data protection as one of the key areas of our corporate responsibility. With the introduction of the GDPR, Ilmarinen, as a controller, will take on many new obligations. Violations could lead to major administrative sanctions. Data protection problems would also damage the reliability of the entire pension system.

We have been preparing for the new GDPR since 2015. As part of our preparations, existing practices were compared with the requirements of the new regulation. In 2017, we drew up new procedural guidelines for processing personal data.

With the new regulation, we will have to re-examine, for example, our contracts related to information systems and information technology. Ilmarinen has some 50 service providers, whose systems involve personal data. This corresponds to roughly a third of our information technology suppliers. The need for changes to our contracts and practices has proved to be lower than expected. Most of the requirements under the

GDPR have already been met in the existing contract terms and conditions. We bear our responsibility for ensuring that our service providers comply with the requirements of the regulation.

One of the biggest changes is the obligation to demonstrate the lawfulness of the operating methods. The requirements of the regulation will affect, for instance, the development of new IT systems. In principle, personal data cannot be used to test new systems and software programs. We have developed methods that enable us to verify the functioning of software programs without the use of personal data.

We will take the requirements of the new legislation concerning the management of consent and non-consent into account in our web services and marketing. This concerns, for example, the use of cookies and direct digital marketing. In future, the sending of e-marketing messages to a corporate customer will require the customer's prior permission. Non-consent does not, however, apply to messages sent for the purpose of managing the customer relationship.

The EU regulation also focusses on practices related to storing data. Under the regulation, data must be erased when they are no longer needed for their original purpose. Earnings-related pension companies have a long-term obligation to store data. When planning the current systems, storing and securing data have been key aspects, and with the new regulation, special attention must be paid also to the procedures for erasing data.

In addition to data protection pertaining to personal data, we also comply with a number of confidentiality regulations in our operations. The data these regulations concern Ilmarinen,

policyholders, the insured, pension applicants, pension recipients, partners and agreement partners. We ensure that confidentiality is achieved through data protection procedures that secure information technology, premises security and personnel's data protection know-how, among other things. These procedures include authenticating users through user IDs and passwords, and granting access rights based on the user's work tasks. Our information security procedures help prevent data protection problems. We are able to later verify from our IT system log management whether 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 implementing information security and data protection in their own operations. 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 co-ordinated by the information security manager, and premises security is co-ordinated by the security manager. The Legal Department monitors legislative projects and provides management and business operations with legal support in data protection issues.

We regularly organise data protection and information security training for our employees. The training is a mandatory part of the induction of new employees.

In 2017, we did not receive a single complaint concerning the violation of a customer's confidentiality or the loss of customer data. (GRI 418-1, KPI 17)



# TRANSPARENCY

Our operations have major societal significance. To be able to improve our operations, we engage in open dialogue with our customers, their representatives and our other stakeholders.

## Open stakeholder dialogue

According to the established definition, the relationship between organisations and their stakeholders is a two-way street. Stakeholders are all parties who are affected by our operations or whose operations affect us. Due to the societal nature of our task, Ilmarinen has many kinds of stakeholders. To be able to improve our operations, we engage in open dialogue with our customers, their representatives and our other stakeholders.

In addition to customers and our personnel, our key stakeholders include labour market organisations, societal decision-makers and officials. 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, Finance Finland 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. We participate in public dialogue in our role as a provider of earnings-related pension cover.

The media in particular have given us top grades for our transparency and responsibility in recent years. In a PR Barometer survey carried out in 2017 by Taloustutkimus, a Finnish market research company, Ilmarinen was ranked among companies that take the best

care of their media relations. Of CEOs who manage their company's media relations well, President and CEO Timo Ritakallio was the second most-mentioned CEO by the media. The financial journalists who responded to the survey in 2016 gave Ilmarinen the highest scores for responsibility. (GRI 102-40, 102-42)

## 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's sounding team draws up a quarterly review on the current or rising themes on the agendas of various stakeholders. We organise stakeholder meetings and events on a regular basis. 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 part of their work, the entire personnel.

In 2017, we engaged in a dialogue with our stakeholders concerning the implementation of the pension reform, the adequacy and use of pension assets, and the fairness of the pension system. We put forward themes related to responsible investment. The environmental and climate impacts of investment operations were of particular interest to NGOs. The media were interested in the merger of Etera into Ilmarinen, and Ilmarinen's change of

TABLE 36.

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 society as a whole.	Open dialogue with authorities and decision-makers. Regular meetings and communication through various working groups and events.
Labour market organisations	Good co-operation and good flow of information to support decision-making and negotiations. Shared goal: ensuring a good level of pension provision and retirement age as well as keeping the system's costs at a reasonable level.	Communication through Ilmarinen's Board of Directors, Supervisory Board and Advisory Committees. Regular meetings and other close-knit communication through, for instance, various working groups and events.
Industry organisations	Good, open co-operation. Ilmarinen's expertise made available to the entire industry. Shared goal of ensuring the sustainability and effectiveness of the pension system.	Comprehensive co-operation with, for instance, the Finnish Pension Alliance TELA, The Finnish Centre for Pensions and Finance Finland. Channels include working groups, regular negotiation groups and various events.
Media	Openness of communications, reliability of information and quick service. Ilmarinen's expertise made available for the media: introducing new perspectives, active statements and making difficult issues easier to understand.	Open and active communication through various channels. Regular meetings and communication. Quick and open response to media requests.
Educational and research institutions	Ilmarinen's expertise made available to educational institutions. Offering summer jobs and internships. Shared research projects and open flow of information. Developing the pension system and increasing its prominence.	Co-operation with students, e.g. in thesis work. Taking part in various university and school events. Recruiting summer workers.
Civil society	Open and active dialogue. 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.



CEO, but also in themes related to the pension reform and the new types of pensions, as well as the outlook for the economy and the investment markets. We also engaged in a dialogue on the future of construction and, together with Skanska and Stora Enso, we arranged an event on the topic at the Suomi-Areena forum in the summer.

We have promoted the financial and working-life skills of Finns for the long term. During European Money Week, which promotes financial literacy, we shined a light on how Ilmarinen promotes the expertise of Finnish companies. In co-operation with the EY, we organised the Fokus 2017 finance seminar, with opinion leaders in Finnish business life as guest speakers. In the autumn, two young students were given the opportunity to shadow two Ilmarinen directors during their work day as part of the '1,000 young leaders' campaign. President and CEO Timo Ritakallio was a patron of Junior Chamber International Finland's 'Young leader of the year' competition. The prizes for the competition were handed out at Ilmarinen's premises in December. The objective of the competition is to encourage young people to apply for managerial positions and to develop as leaders. We also share our finance-related expertise in an economic forecast that we publish twice a year.

We developed tools with Sitra and HENRY ry to help workplaces respond to the rapid changes taking place in working life and working methods. Fifty different types of workplaces took part in the 'Workplace of the future' project. The project resulted in tools related to sparring, building confidence, a culture of experimentation, openness and collaboration. Together with the network of pro-

ject participants, we are continuing to develop the Futurescore test that was created for the project. The test, which measures and guides the level of preparedness of an individual and the workplace for change, is part of our Better Working Life services.

We took part in organising several campaigns aimed at raising important themes related to achieving a better working life and earnings-related pensions. In the 'Happiest Entrepreneur of Finland' competition, we shine a spotlight on and reward small-scale entrepreneurs who promote a positive work atmosphere and bring joy to their customers. Meaningful work and well-being at work are important factors in ensuring that employees enjoy and can cope with their work. The winner in 2017 was Laura Peippo, an entrepreneur who works in the health-club and well-being industry in Sirkka, Lapland. The winner of the Personnel Action of the Year competition, organised jointly with HENRY ry, was the City of Vantaa's 'Tuunattu työ' project, which aims to solve the problem of temporary work disability.

Together with the Finnish Association for the Welfare of Older People, we granted the Senior Deed of the Year award to the City of Rauma's senior services for their 'Empowering seniors through community spirit' project. We also offered use of the visitor flow to the front page of our website to the Finnish Red Cross's Hunger Day collection. For three days, visitors to the front page were automatically redirected to the Hunger Day collection website. We took part in, among other things, the 'Helppo Liikkua' ('Easy to Move') campaign together with the Finnish Association of People with Physical Disabilities. The campaign promotes awareness and

knowledge in improving accessibility. We also established a joint expert group with the Association of People with Physical Disabilities. Its objective is to find means for improving the employment conditions for people with partial working capacity.

(GRI 102-42, 102-44, 103-3)

### Donations and sponsoring

As in previous years, we allocated a small share of our revenue to gratuitous donations for purposes of general interest. Some of the organisations we donated to were the Finnish Red Cross, Rett Finland, the Red Nose Day collection, SOS Children's Villages, the Christmas Spirit campaign, the Finnish Defence Guild Foundation, Irti Huumeista ry, HelsinkiMissio, Save the Children Finland, WAU ry, the Helsinki Deaconess Institute, the Finnish Psychiatric Research Foundation and the Finnish Eye Foundation. The amount to be used for donations is decided every year in the General Meeting.

In 2017, we celebrated the 100th anniversary of Finland's independence. In honour of the milestone year, we reserved a higher-than-normal sum of EUR 100,000 for donations. That amount includes a donation of EUR 30,000 for a research project being conducted by the Faculty of Management of the University of Tampere. The project involves finding ways to improve the well-being at work and quality of working life for self-employed people. The donation was part of our '100 good deeds for a better working life' campaign, which aims to highlight good practices in working life and sharing them with colleagues. The deeds have been compiled on the campaign website, which is still active.

In 2017, we sponsored NewCo Helsin-

ki, StartupSauna, FutureBoard ry, Sonera Stadium, Tennis Finland, Badminton Finland, the Finnish Association for Human Resources Management (HENRY ry) and the Finnish Association for the Welfare of Older People. Sponsoring is marketing communications carried out against payment. Our principles of sponsorship and sponsorship and donation recipients are published each year on our website. In accordance with Ilmarinen's principles, we have not given financial support to political parties or made art or other purchases from them in 2017. (GRI 415-1)

### 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 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 Finance Finland (FA) are important interest groups for us. In labour market issues, we operate in the FA in the role of employer. In the spring of 2017, Ilmarinen President and CEO Timo Ritakallio's role in the Finnish Pension Alliance TELA changed from Chairman of the Board to First Deputy Chairman. Both TELA and FA have special expert working

→ Sponsorship and donations

groups, such as FA's corporate responsibility working group, which includes an expert from Ilmarinen.

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 2017, 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 Finnish 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. Ilmarinen's specialists directly respond to statement requests that are related to the more technical aspects of their areas of expertise, such as construction. Ilmarinen's experts will additionally give media statements and interviews upon request whenever possible. The pension reform that took effect at the beginning of 2017 and our communication on the reform sparked many requests from the media for statements and interviews.

The contact details, such as direct phone numbers, of our Executive Group and many experts have been published on our website for many years. This allows, for example, reporters to directly contact the company's senior management. (GRI 102-13)

### Tax transparency

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 both in our operations and 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 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 overlapping taxation on pension savings and thus support the accrual of pension funds. Overlapping taxation would create pressure to increase pension contributions.

The earnings-related pension contributions paid by employers, self-employed persons and employees are income-tax deductible. When an employee or a self-employed person begins to receive pension, he or she pays income tax on it. In 2017, Ilmarinen paid approximately EUR 4.7 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 com-

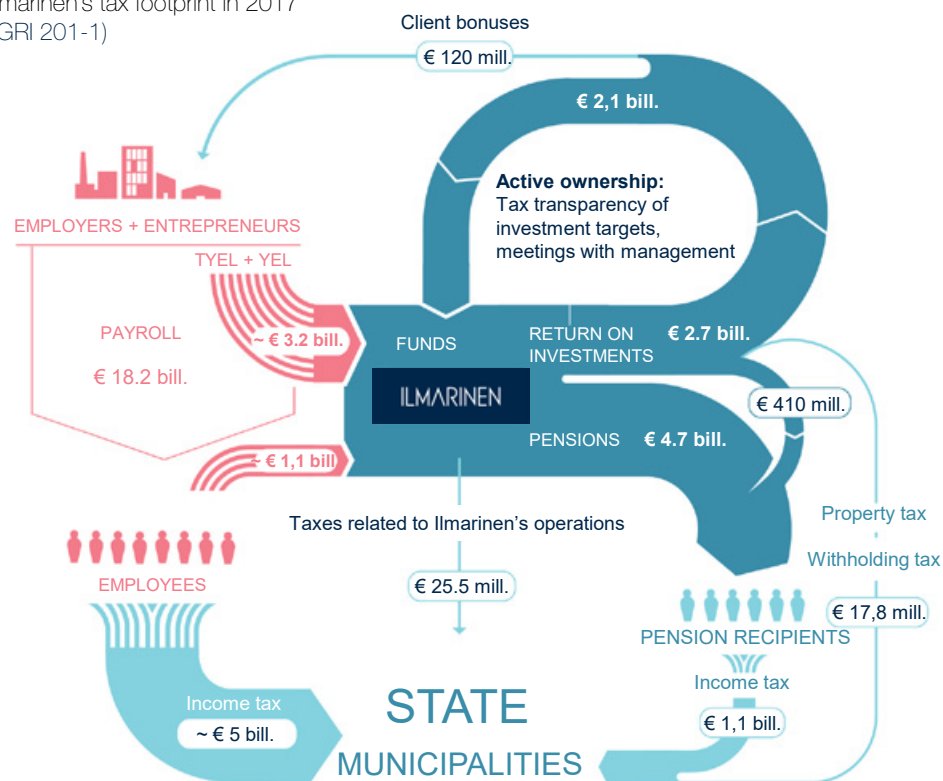
pany's liability for future pension commitments forms the company's technical provisions. A return requirement is credited to technical provisions, which guarantees that the value of pensions is retained. Investment returns that exceed the return requirement accrue the solvency capital that acts as a 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. The company's capital and reserves belong entirely to the policyholders and insured. Even though the calculated an-

Ilmarinen's tax footprint in 2017 (GRI 201-1)



nual return is taxable income for the pension company, no tax payable has arisen. The taxable income has been reduced by the tax buffers accumulated in the previous years.

Ilmarinen discloses all of its largest equity and fund investments with their domiciles in the notes to its 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 2017, we paid EUR 11.1 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 regard 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.

The management costs and construction expenses for our properties include so-called hidden value-added tax (VAT). This refers to the VAT on, among other things, services and materials. Hidden VAT concerns properties to the extent where use of the properties is exempt from VAT, such as residential use.

The amount of 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 150.6 million for our operating expenses in 2017. Approximately one third of the costs consisted of labour costs. We paid some EUR 13.2 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. Consequently, while Ilmarinen also pays value-added tax on its acquisitions, it cannot deduct these paid taxes from the value-added taxes it charges, unlike parties that engage in taxable operations. That is why Ilmarinen's purchases included around EUR 11.5 million in hidden value-added tax in 2017.

#### Increased demand for tax transparency

In late 2017, the EU published, for the first time, a list of non-EU countries which the EU considers to have questionable tax practices or which have been uncooperative in tax-related matters. In the media, the list has been broadly treated as a blacklist of tax haven countries. The EU countries will later determine what actions will be taken with regard to the countries on the list. We are monitoring this process and our intention is to estimate the impacts the publication of the list will have on investors' activities. The list may change over time, but at the time the report was drawn up, the list did not contain any nations

of significance to investment operations.

The ongoing changes in international tax regulation have an impact on Ilmarinen's operations through fund structures, in particular. The tax working group we established in 2016 continued to monitor the changes and assess the impacts. The group is made up of representatives of Ilmarinen's investment, financial, sustainability and legal functions. The tax working group reports to the ownership policy management team. International projects are still strongly in the preparation stage.

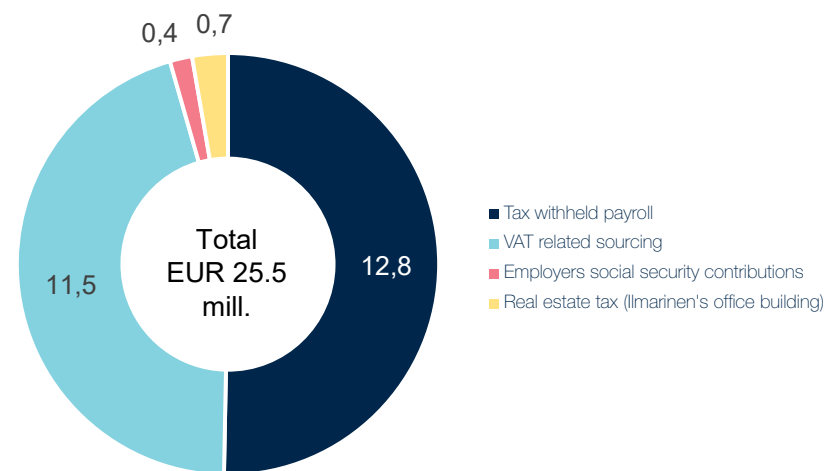
Ilmarinen did not reach its target of having its own tax policy in place in 2017. We are continuing to draw up a tax policy in 2018 based on the first draft version. Our goal is to take a stand on what responsible payment of taxes linked to investments means for Ilmarinen. Our stakeholders also consider tax transparency an important area of corporate

responsibility. (KPI 18)

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 our largest equity and fund investments, including the funds' domiciles, in the notes to the consolidated financial statements.

The harmonisation of tax 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.

Taxes related to Ilmarinen's own operations





# **OTHER CORPORATE RESPONSIBILITY INFORMATION**

TABLE 37.

### Ilmarinen's sourcing

We are a service-providing company, which means we do not have long supply chains. Our main acquisitions are related to IT systems and the development 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, sustainability, resources and competitive price of the delivery. We continuously develop and systematise our sourcing function 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 agreements and other assignment or subcontractor agreements. This is the case when the employees of the party carrying out the work on Ilmarinen's premises or at Ilmarinen's worksite, and the tasks to be carried out, are related to tasks normally carried out in Ilmarinen's operations. Our sourcing policy is published on our website.

### Managing corporate responsibility

Ilmarinen's President and CEO and Executive Group are responsible for our key sustainability policies. The Chief Communications Officer prepares sustainability issues for the President and CEO and the Executive Group.

The core corporate responsibility team that began its operations in 2016 helps to identify and find solutions to material sustainability aspects. The team annually updates the KPIs and reports on sustainability. The promotion of the sustainability targets and implementation of measures fall under the responsibility of the divisions. In addition to the Chief Communications Officer, the core team included Ilmarinen's responsible investment specialist, sustainability communications specialist and accounting manager.

The persons responsible for Ilmarinen's sustainability aspects are part of the internal network of sustainability specialists. Members of the network co-ordinate their policies in relation to the sustainability targets.

### Laws, policies and network co-operation support sustainable operations

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

We have also undertaken a number of voluntary commitments. We signed the UN's Principles for Responsible Investment (PRI)

ILMARINEN'S SOURCING AND SUPPLY CHAIN (GRI 102-9)	2017	2016
Number of suppliers, operating expenses	1,306	1,060
Number of suppliers, real estate costs	804	822
Number of contract suppliers, operating expenses	106	250
Number of domestic suppliers, operating expenses	1,216	956
Number of domestic suppliers, real estate costs	799	816
Number of foreign suppliers, operating expenses	90	104
Number of foreign suppliers, real estate costs	5	6
Total purchases, operating expenses, EUR million	121	120
Total purchases, real estate costs, EUR million	218	139

in 2006. We annually report to PRI on our responsible investment operations. In 2015, we signed the Montreal Carbon Pledge, which deals with the reporting of the carbon footprint, and the Paris Pledge, which aims to limit global warming. We support the Carbon Disclosure Project's (CDP) reporting framework for reporting on impacts on the climate, waters and forests. (GRI 102-12, 102-13)

We have drawn up several policies to steer our operations. These include a sourcing policy, obligations for combatting the grey economy and a communications policy. Our investment operations are steered by Ilmarinen's Ownership Policy, Responsible Investment Policy, and Climate Policy. We publish our policies on our website.

As members, we participate in the activities of the Responsible Investment Forum Finsif, the FIBS Corporate Responsibility Network and the Climate Leadership Coalition (CLC). In 2017, our President and CEO Timo Ritakallio was on the Board of the CLC.

### Reporting policy

We comply with the international GRI (Global Reporting Initiative) Standards in our sustainability reporting. We have assessed the materiality of the sustainability aspects based their importance to our stakeholders and the extent of their impact as part of our operations. This forms Ilmarinen's sustainability materiality matrix. All 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 state-

→ Ilmarinen's sourcing policy

→ The way we work

ments cover the parent company and all subsidiaries in which the parent company, directly or indirectly, controls more than 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. (GRI 102-45)

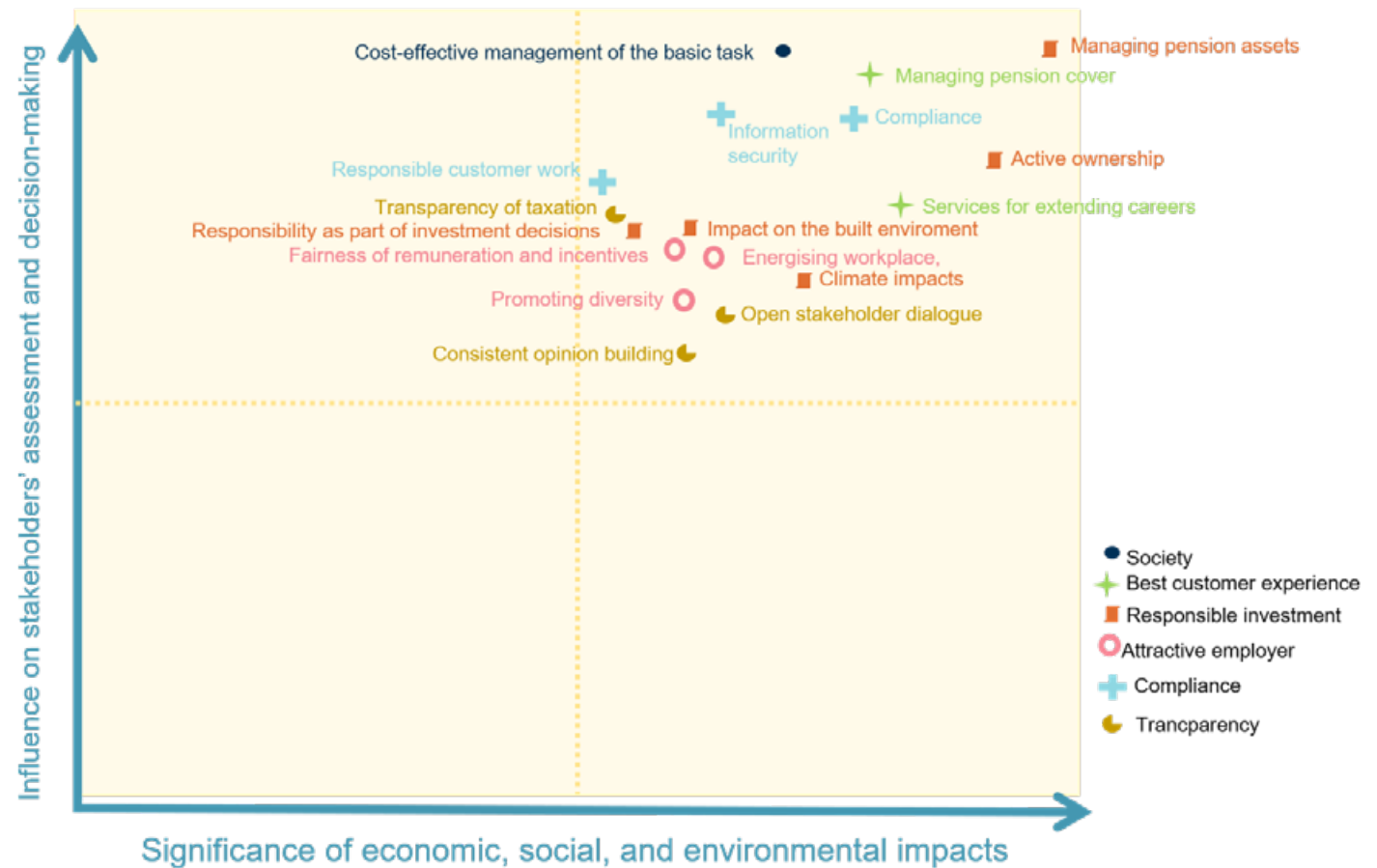
The key figures for financial responsibility are based on Ilmarinen's financial reports, accounting and confirmed financial statements, which are prepared in accordance with the Accounting Act, the Companies Act, the Insurance Companies Act, and the Act on Employment Pension Insurance Companies. Ilmarinen's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

The key 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.

We have reported on Ilmarinen's financial, social and environmental sustainability since 2007. Our reporting has been conducted in compliance with the GRI guidelines for the third time now. Our reporting is in accordance with the so-called Core option of the guide-

Ilmarinen's material sustainability topics (GRI 102-47)



lines. The reporting partially exceeds the Core criteria, however. The report is published in Finnish, Swedish and English and it is only available online.

The comparison of the report's contents with the GRI Standards is presented in the GRI content index. (GRI 102-46, 102-7, 103-1)



# **ILMARINEN'S GRI CONTENT INDEX**

## GENERAL DISCLOSURES

## Organisation profile

102-1	Name of the organization	Ilmarinen Mutual Pension Insurance Company
102-2	Activities, brands, products, and services	Sustainability report 2017, p. 8: Ilmarinen in brief
102-3	Location of headquarters	Porkkalankatu 1, 00180 Helsinki, Finland
102-4	Location of operations	Sustainability report 2017, p. 7: Ilmarinen in brief
102-5	Ownership and legal form	Sustainability report 2017, p. 6: Ilmarinen in brief
102-6	Markets served	Sustainability report 2017, p. 6: Ilmarinen in brief
102-7	Scale of organisation	Sustainability report 2017, p. 6: Ilmarinen in brief
102-8	Information on employees and other workers	Sustainability report 2017, p. 34: Attractive employer (Promoting diversity)
102-9	Supply chain	Sustainability report 2017, p. 45: Other sustainability information (Ilmarinen's sourcing)
102-10	Significant changes to the organization and its supply chain	Sustainability report 2017, p. 7: Ilmarinen in brief For a long time, Ilmarinen owned Suomi Mutual Life Assurance Company's guarantee capital in its entirety. As the guarantee shares did not give the right to vote, the company was not consolidated with the Group as an associated undertaking, instead it has been considered a participating interest. Suomi ended its operations in 2017 and returned its guarantee capital (EUR 504,563.78) to Ilmarinen.
102-11	Precaution Principle or approach	The precautionary principle has been addressed in Ilmarinen's investment risk management according to statutory requirements.
102-12	External initiatives	Sustainability report 2017, p. 45: Other sustainability information (Managing corporate responsibility)
102-13	Membership of associations	Sustainability report 2017, p. 41: Transparency (Consistent opinion-building) and p. 46: Other sustainability information (Managing corporate responsibility)

## Strategy

102-14	Statement from senior decision-maker	Sustainability report 2017, p. 3-5: President and CEO's review
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## Ethics and integrity

102-16	Values, principles, standards, and norms of behaviour	Sustainability report 2017, p. 8: Ilmarinen in brief and p. 37: Code of Conduct (Compliance)
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## Governance

102-18	Governance structure	Report on Operations and Financial Statements 2017, p. 23–24.
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## Stakeholder engagement

102-40	List of stakeholder groups	Sustainability report 2017, p. 40: Transparency (Open stakeholder dialogue)
102-41	Collective bargaining agreements	Sustainability report 2017, p. 35: Attractive employer (Fairness of remuneration and incentives)
102-42	Identifying and selecting stakeholders	Sustainability report 2017, p. 40: Transparency (Open stakeholder dialogue)
102-43	Approach to stakeholder engagement	Sustainability report 2017, p. 40–41: Transparency (Open stakeholder dialogue) & p. 12: Best customer experience (Managing pension cover)
102-44	Key topics and concerns raised	Sustainability report 2017, p. 40–41: Transparency (Open stakeholder dialogue)

## Reporting practice

102-45	Entities included in the consolidated financial statements	Sustainability report 2017, p. 45: Other sustainability information (Reporting policy) and Report on Operations and Financial Statements 2017, p. 117–119
102-46	Defining report content and topic boundaries	Sustainability report 2017, p. 45–46: Other sustainability information (Reporting policy)



## DISCLOSURE

## REPORTING

102-47	List of material topics	Sustainability report 2016, p. 45–46: Other sustainability information (Reporting policy)
102-48	Restatements of information	KPI 9: Incorrect value in 2016: Responsible investment (Active ownership)
102-49	Changes in reporting	The 2017 report has been drawn up in accordance with the GRI Standards. For the 2016 report, G4 guidelines were followed. GRI 305-4 Greenhouse gas emissions intensity (Sustainability report 2017, p. 26: Investment portfolio's carbon footprint in relation to net sales, Responsible investment (Climate impacts)): the scope of calculation was changed to improve the comparability of the results with those of other investors.
102-50	Reporting period	From 1. Jan to 31. Dec 2017
102-51	Date of most recent report	21. March 2017
102-52	Reporting cycle	Annually.
102-53	Contact point for question regarding the reports	info@ilmarinen.fi
102-54	Claims of reporting in accordance with GRI Standards	Sustainability report 2017, p. 47–49: Ilmarinen's GRI content index
102-55	GRI content index	Sustainability report 2017, p. 47–49: Ilmarinen's GRI content index
102-56	External assurance	No external assurance.

### MANAGEMENT APPROACH

#### General requirements for reporting the management approach

103-1	Explanation of the material topic and its Boundary	Sustainability report 2017, p. 45–46: Other sustainability information (Reporting policy) and p. 47–49: Ilmarinen's GRI content index
103-2	The management approach and its components	Sustainability report 2017, p. 37: Code of Conduct( Compliance) Customers and personnel.
103-3	Evaluation of the management approach	Sustainability report 2017, 40–41: Transparency (Open stakeholder dialogue)

### ECONOMIC PERFORMANCE

201-1	Direct economic value generated and distributed	Sustainability report 2017, p. 8: Ilmarinen in brief and p. 42: Transparency (Transparency of taxation)
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### INDIRECT ECONOMIC IMPACTS

203-2	Significant indirect economic impacts	Sustainability report 2017, p. 20–21: Responsible investment (Managing pension assets)
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### ANTI-CORRUPTION

205-2	Communication and training about anti-corruption policies and procedures	Sustainability report 2017, p. 37: Code of Conduct (Compliance)
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### ENVIRONMENTAL SUSTAINABILITY

#### Energy

CRE 1 (G4)	Building energy intensity	Sustainability report 2017, p. 29: Responsible investment (Impacts on the built environment) Finnish direct real estate investments.
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#### Water

CRE 2 (G4)	Building water intensity	Sustainability report 2017, p. 29: Responsible investment (Impacts on the built environment) Finnish direct real estate investments.
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### EMISSIONS

305-4	GHG emissions intensity	Sustainability report 2017, p. 26: Responsible investment (Climate impact) Scope 1 and Scope 2 (partially).
CRE 3 (G4)	Greenhouse gas emissions intensity from buildings	Sustainability report 2017, p. 28: Responsible investment (Climate impact) Finnish direct real estate investments.

DISCLOSURE		REPORTING
CRE 4 (G4)	Greenhouse gas emissions intensity from new construction and redevelopment activity	Sustainability report 2017, p. 28: Responsible investment (Climate impact) New construction of real estate.
<b>ENVIRONMENTAL COMPLIANCE</b>		
307-1	Non-compliance with environmental laws and regulations	Sustainability report 2017, p. 37: Code of Conduct (Compliance)
<b>EMPLOYMENT</b>		
401-1	New employee hires and employee turnover	Sustainability report 2017, p. 32: Attractive employer (Energising work community)
<b>TRAINING AND EDUCATION</b>		
404-1	Average hours of training per year per employee	Sustainability report 2017, p. 33: Attractive employer (Energising work community)
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>		
405-1	Diversity of governance bodies and employees	Sustainability report 2017, p. 34: Attractive employer (Promoting diversity)
405-2	Ratio of basic salary and remuneration of women to men	Sustainability report 2017, p. 34: Attractive employer (Fairness of remuneration and incentives)
<b>PUBLIC POLICY</b>		
415-1	Political contributions	Sustainability report 2017, p. 41: Transparency (Consistent opinion-building)
<b>SOCIOECONOMIC COMPLIANCE</b>		
419-1	Non-compliance with laws and regulations in the social and economic area	Sustainability report 2017, p. 37: Code of Conduct (Compliance)
<b>CUSTOMER PRIVACY</b>		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Sustainability report 2017, p. 38: Code of Conduct (Information security)
<b>ACTIVE OWNERSHIP</b>		
FS 10 (G4)	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues	Sustainability report 2017, p. 24: Responsible investment (Active ownership) Ilmarinen's direct equity portfolio.
FS 11 (G4)	Percentage of assets subject to positive and negative environmental or social screening	Sustainability report 2017, p. 22: Responsible investment (Responsibility as part of investment decisions) Ilmarinen's direct equity portfolio and bonds.

## ILMARINEN'S MATERIAL SUSTAINABILITY TOPICS

### ILMARINEN SUSTAINABILITY KPIS (KEY PERFORMANCE INDICATOR)

KPI 1	Ilmarinen's ratio of operating expenses to expense loading components	Sustainability report 2017, p. 17: Society – Cost effective management of the basic task
KPI 2	Total operating expenses	Sustainability report 2017, p. 17: Society – Cost effective management of the basic task
KPI 3	Total return on Ilmarinen's investments	Sustainability report 2017, p. 20: Responsible investment (Managing pension assets)
KPI 4	Solvency ratio	Sustainability report 2017, p. 20: Responsible investment (Managing pension assets)
KPI 5	Ratio of basic salary and remuneration of women to men by employee category	GRI 405-2
KPI 6	Code of Conduct -training	GRI 205-2
KPI 7	Calculated effect of energy savings measures on the energy consumption of properties	Sustainability report 2017, p. 29: Responsible investment (Impacts on the built environment)
KPI 8	Carbon footprint of real estate investments	CRE 3 (G4)
KPI 9	Active participation in General Meetings	Sustainability report 2017, p. 23: Responsible investment (Active ownership)
KPI 10	Meetings with the management of Finnish listed companies	Sustainability report 2017, p. 24: Responsible investment (Active ownership)
KPI 11	Share of business related to sustainable development and climate change solutions of the net sales of companies in the direct equity portfolio	Sustainability report 2017, p. 27: Responsible investment (Active ownership)
KPI 12	Customer retention	Sustainability report 2017, p. 12: Best customer experience (Managing pension cover)
KPI 13	Speed of pension decisions	Sustainability report 2017, p. 13: Best customer experience (Managing pension cover)
KPI 14	Preliminary rehabilitation decisions	Sustainability report 2017, p. 14: Best customer experience (Services for extending careers)
KPI 15	Effectiveness of rehabilitation	Sustainability report 2017, p. 14: Best customer experience (Services for extending careers)
KPI 16	Effectiveness of work capacity services	Sustainability report 2017, p. 15: Best customer experience (Services for extending careers)
KPI 17	Completion of development measures related to the EU data protection regulation according to the selected priorities	Sustainability report 2017, p. 38: Code of Conduct (Information security)
KPI 18	Drawing up a tax policy	Sustainability report 2017, p. 43: Transparency (Transparency of taxation)
KPI 19	Training in responsible customer work	Sustainability report 2017, p. 38: Code of Conduct (Responsible customer work)
KPI 20	Drawing up a diversity policy	Sustainability report 2016, p. 33–34.
KPI 21	Work atmosphere survey result	Sustainability report 2017, p. 33: Attractive employer (Energising work community)

### OTHER INDICATORS

	Share of renewable energy and coal of the electricity production of Ilmarinen's investee power companies	Sustainability report 2017, p. 26: Responsible investment (Climate impact)
	Carbon sink impact of forest investments	Sustainability report 2017, p. 26: Responsible investment (Climate impact)
	Investment portfolio's carbon footprint in relation to net sales	GRI 305-4
	Percentage of companies that have reported on greenhouse gas emissions	Sustainability report 2017, p. 26: Responsible investment (Climate impact)
	Comparison of investments with the two-degree target	Sustainability report 2017, p. 27: Responsible investment (Climate impact)
	Disability pension application decisions upheld	Sustainability report 2017, p. 13: Best customer experience (Managing pension cover)
	Ilmarinen's employees' health	Sustainability report 2017, p. 33: Attractive employer (Energising work community)



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