



# Ilmarinen's Annual and Sustainability Report 2020

ILMARINEN

## **1 We safeguard your income**

What should you know about the Finnish pension system?

We will tell you how Ilmarinen works in your best interest and takes care of your pension.

## **2 Part of the working life transformation**

How is working life changing and what support do people need at the various stages of their career? We will also disclose how earnings-related pension accrues and how Ilmarinen can help you specifically. You will also find a review of how we ensure that your information remains safe with us.

## **3 Support for entrepreneurs**

Why is a self-employed person's pension insurance much more than just a pension? We will tell you why it is important to keep your YEL income at the right level and how the pension contributions that you pay as an entrepreneur affect the level of your earnings-related social security.

## **4 We help maintain work ability**

What kind of security does pension insurance offer employees and self-employed persons during their career, if the unexpected happens? We also explain why it is wise to take care of your work ability proactively.

## **5 Towards retirement**

What wonderful things are in store for you when you retire? You will also learn what our study revealed about today's pensioners.

## **6 We invest responsibly**

Responsible investment of pension assets is a key part of our corporate responsibility. Our goal is to achieve a carbon neutral investment portfolio by the end of 2035.

## **7 We work to protect your pension**

We will tell you how we manage your pension. You will gain an insight into our ways of working and our sustainability principles.

## **8 Ilmarinen's GRI index**

You will receive information on the GRI Standards reporting framework applied by us and our sustainability KPIs. You can also read an independent assurance report.

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**We safeguard your income**



# 1. We safeguard your income

The year 2020 was marked by the global Covid-19 pandemic, which had an extensive impact on people's lives, companies' operations, the economy and the investment market. In spite of the exceptional circumstances, we consolidated our position as the leading employment pension insurance company – in the best interest of our customers.

The birth rate and work-based immigration continue to be important questions for the future of the earnings-related pension system.

## 1.1 Your earnings-related pension system

Each and every person working in Finland has access to the statutory

earnings-related pension system. Employees accrue pension on their salary and entrepreneurs on the pension contribution collected on their YEL income. A portion

of the pension contributions is funded for the payment of current and future pensions.

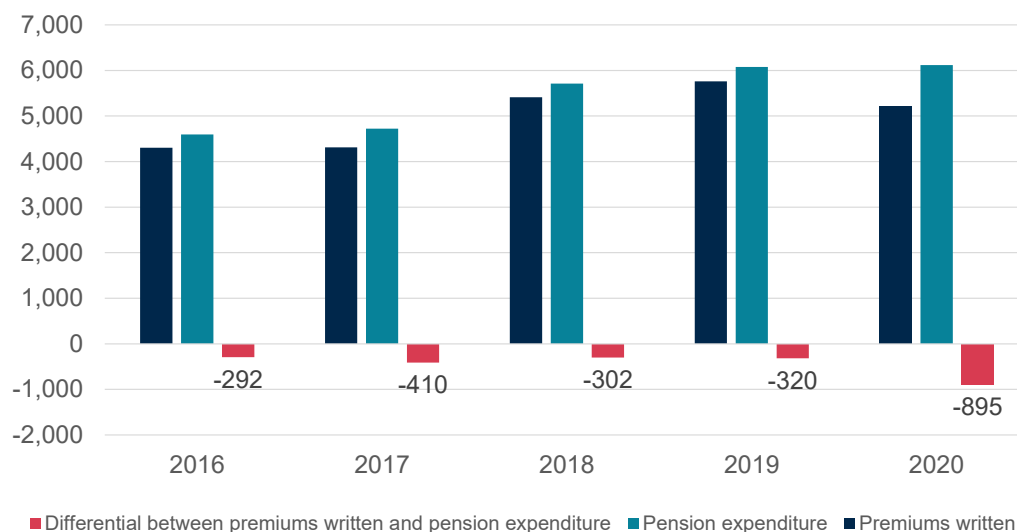
The funding of earnings-related pension contributions was started back in the 1960s when pension system specialists first were alarmed by the declining birth rate. While 2020 showed burgeoning signs of an increase in the number of births, the future development of the birth rate is a major concern.

The birth rate plays a role because, in the Finnish earnings-related pension system, pensions are mainly paid with pension contributions that are collected directly from persons who are working. This is called a pay-as-you-go system. People who were working in 2020 paid, through their pension contributions, pensions of those who were pension-

ers in 2020. Because the amount of pension contributions collected was smaller than the amount of pensions paid, the payment of pensions additionally required using pension fund returns. Fund returns have been used to cover the difference since 2012. Altogether 20–30% of pension contributions collected from those currently working are allocated to funds. The pension insurance contributions of self-employed persons are not funded; instead, the pay-as-you-go system is applied to them, and the state pays the portion of the pension expenditure that the insurance contributions do not cover.

Along with the development of employment, returns on investments and salaries, the birth rate is one of the most important factors in determining how much

Difference between premiums written and pension expenditure, EUR mill.



money will be available for the payment of pensions in future. Another parameter related to the development of the population size is immigration, and particularly work-based immigration.

### Earnings-related pension system rocked by Covid-19

The 2020 coronavirus year also rocked the earnings-related pension system. The rapid spread of the coronavirus in spring led to an exceptionally fast stock market crash worldwide. However, the markets quickly rebounded from the crash, and the crisis left no longer-term impacts on pension institutions' capacity to operate. The crisis weakened employment during the year, reducing pension institutions' premiums written. The weak economic situation and companies' financing difficulties in the early part of the year momentarily boosted demand for TyEL premium loans. As a result of the crisis, changes allowing flexibility were made to the earnings-related pension contributions in the first half of the year.

Looking into the future, the earnings-related pension system is still under pressure to change. Especially the dramatic decline

in the birth rate and the population projection updated based on it, as well as the prolonged low interest rate level, have changed the long-term outlook for pension financing. The Covid-19 pandemic and the resulting downward trend in employment and payroll development have increased this pressure. In developing the earnings-related pension system, the focus has continued to be on the long-term financing of pensions and many legislative matters under preparation.

The age limit for old-age pensions continued to rise. The lower age limit for those born in 1957 was 63 years and 9 months. The retirement age rises by age group until the lower age limit is 65 years.

The Ministry of Social Affairs and Health is preparing several changes that will affect the sector. It proposes to amend the conditions for receiving survivors' pension such that the surviving

spouse's pension would be fixed-term (10 years) and it would also be granted to common-law spouses if they have an underage child with the deceased. The development of self-employed person's pension insurance has been restarted. The merger of the municipal pension system with the private sector earnings-related pension system is also being prepared with the aim of demerging Keva and turning it into an employment pension insurance company. Since the change will be a major one, preparations are being made with a view to combining the systems in 2026–2027.

### Pension security for you

At Ilmarinen, we make sure that you will receive the pension you have earned through your work.

As an employment pension insurance company, Ilmarinen is part of Finland's social security

system. We provide statutory and mandatory employees' pension insurance and self-employed persons' pension insurance for those who work in Finland. (GRI 102-2, 102-4, 102-6)

We are responsible for the pension security of 1.1 million people. The legal form of our company is a mutual employment pension insurance company. It means that Ilmarinen is wholly owned by the employers and self-employed persons who have taken out insurance and the insured employees. (GRI 102-5)

To safeguard the financing of current and future pensions, we responsibly invest our shared investment assets amounting to more than EUR 53 billion. The investments have been diversified, for example, across equities and bonds throughout the world. As part of its investment activities, Ilmarinen develops and rents apartments and office premises. In addition, Ilmarinen's investment activities include, among other things, providing corporate financing through loans. As part of managing statutory earnings-related pension insurance, we also provide vocational rehabilitation. (GRI 102-2)

### GRI 102-7

	2020	2019
Investments, EUR million	53,284	50,528
Net return on investments, EUR million	3,529	5,375
Number of employees at the end of the year	662	640



## 1.2 Vision and strategy

Our vision is to be the most attractive working life partner – responsibly, for you.

We want to be one of Finland's best places to work, offer the best customer experience in the sector, grow profitably and faster than the market, and strengthen our cost-effectiveness and solvency. In 2020, we made progress in implementing the strategy in all areas and consolidated our position as the leading player in the earnings-related pension sector.

[Watch a video of our vision here \(in Finnish\)](#)

### Our key pillars of sustainability:

- Easy and reliable pension provision
- We invest sustainably
- Open and transparent
- Meaningful work

[Read more](#) about our key sustainability themes on page 71.



### 1.3 President and CEO's review

The year 2020 was marked by the global Covid-19 pandemic, which had an extensive impact on people's lives, companies' operations, the economy and the investment market. In spite of the exceptional circumstances, Ilmarinen successfully consolidated its position as the leading employment pension insurance company.

Thanks to a good return on investments, Ilmarinen became the most solvent employment pension insurance company and the cost-effectiveness of its operations improved substantially.

Early in the year, the coronavirus crisis led to an exceptionally fast stock market crash, but following massive stimulus measures by central banks and governments, stock prices were already back on their way up in early spring. In the challenging market situation, our investment activities were successful, and our return on investments equaled 7.1 per cent, or EUR 3.5 billion. The value of investment assets rose to an all-time high, at more than EUR 53 billion, and solvency strengthened to 130.2 per cent. Strong solvency protects pension assets as markets fluctuate and enables

long-term investment activities. We invest pension assets profitably, securely and responsibly. We set as a goal to achieve a carbon-neutral investment portfolio by the end of 2035. To achieve that target, we will take a broad approach to carbon risk and gradually lower the high risk limit.

To us, responsible management of pension provision means that we operate in a way that is as customer-focussed and cost-effective as possible, while at the same time continuously improving our operations. This benefits our customers, but it is also important for the entire pension system and the whole of society. At the end of 2020, three years had lapsed since the merger of Ilmarinen and Etera, which made Ilmarinen the market leader. Integrating the operating models, systems and personnel of two companies and achieving the goals for the merger represented a major effort which we concluded successfully. All of the synergy targets set for the Etera merger were achieved as planned, and the merger has helped boost the operations of the entire pension system. Our customers benefit from our strong solvency and high cost-effectiveness through client bonuses.

I am particularly pleased to see that, while we have reached the synergy targets and boosted our operations, our customer experience and employee experience have also improved. We have significantly shortened the pension decision processing times and launched a new, clearer and more accessible online service for our customers. During the coronavirus year, we supported our customers by extending payment terms and negotiating relief for rent payments. We also supported Ilmarinen's personnel in many ways and tried to make remote work easier through, for example, flexible working hour arrangements and lunch deliveries.

The financing of the earnings-related pension system will face increasing challenges in the future. The financing of pensions is particularly affected by the declining employment rate, zero-interest-rate environment and low birth rate. The number of working-age people is on a downward trajectory in Finland, and as the baby-boomers retire, we will collect less in pension contributions than we pay in pensions. During the coronavirus year, this gap grew to an unprecedented level, as the weaker employment situation and the temporary reduction to the employers' pension contribution



lowered premiums written. In the short term, it is important to focus on getting the population vaccinated and restrictions lifted rapidly to mitigate the economic and social consequences of the coronavirus crisis. At the same time, we must find solutions that enable us to increase employment and competitiveness also in the longer term.

I wish to thank our customers for their trust and our co-operation partners and the entire personnel of Ilmarinen for their excellent work and results in these exceptional circumstances. By listening to our customers and continuously improving and boosting our operations, we will continue to succeed together and make Ilmarinen the most attractive working life partner.

**Jouko Pölönen,**  
President and CEO, Ilmarinen

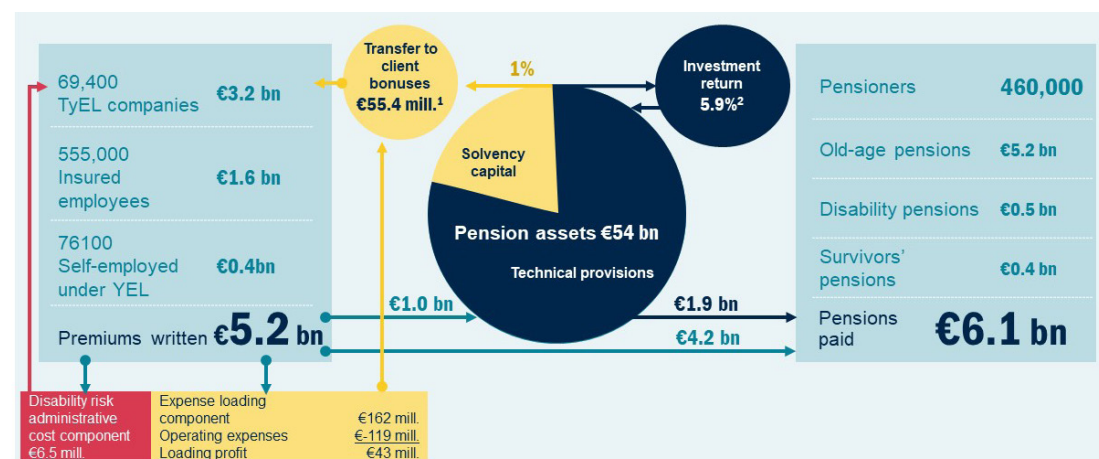


## Social income distribution calculation

Social income distribution calculation, EUR million	2020	2019
<b>Income information</b>		
Premiums written	5,220.5	5,758.3
TyEL, employer's contribution	3,225.5	3,821.1
TyEL, employee's contribution	1,607.2	1,543.3
YEL (self-employed persons)	387.8	393.8
Reduction of client bonus transfer carried out in previous year	163.4	119.7
Net investment return excluding operating expenses	3,561.9	5,413.6
Other income and expenses	0.0	0.3
<b>Total income</b>	<b>8,945.9</b>	<b>11,291.9</b>
<b>Income distribution</b>		
To pensioners	-6,115.6	-6,077.8
TyEL pension recipients	-5,700.6	-5,672.6
YEL pension recipients	-415.0	-405.2
Provision for future pensions	-1,612.4	-1,167.9
Provision for future risks	-1,001.1	-3,695.3
Buffering against fluctuations in investment return	-1,001.1	-3,695.3
Buffering against fluctuations in underwriting result	0.0	0.0
Client bonuses	-55.4	-164.0
Carried forward to next year's client bonuses	-55.4	-164.0
Staff expenses	-61.6	-61.2
Other service providers	-96.8	-114.0
Taxes withheld at source	-3.1	-11.7*
Interest on guarantee capital	0.0	0.0
Donations	-0.1	-0.1
<b>Total income distribution</b>	<b>-8,945.9</b>	<b>-11,291.9</b>

\* The figure reported for 2019 has been restated.

## We are responsible for the pension security of 1.1 million Finns



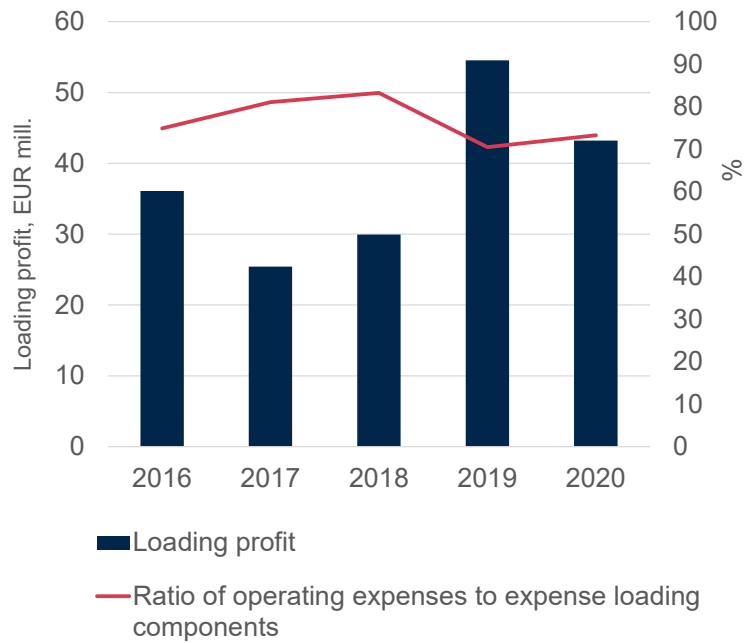
1) Normally, 1% of the solvency capital and the loading profit in its entirety are transferred to client bonuses. In 2020, client bonuses are not paid for the period of the temporary reduction in the TyEL contribution granted due to Covid-19, and the client bonus is thus only a third of its normal amount. In a normal year, the amount of client bonuses would have been EUR 166 million.

2) Long-term (1997–2020) nominal return 5.9% pa. and real return for the same period 4.4% pa.

The income distribution calculation indicates what cash flows our operations consist of. An employment pension insurance company does not produce a profit for its owners, because the funds from pension contributions are meant to be used for pension provision. Premiums written describe how much we collected in pension contributions over the year. The majority of the collected pension contributions go directly to paying current pensions. A small portion is funded, however. The difference between paid pensions and collected pension contributions is financed through investment returns.

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

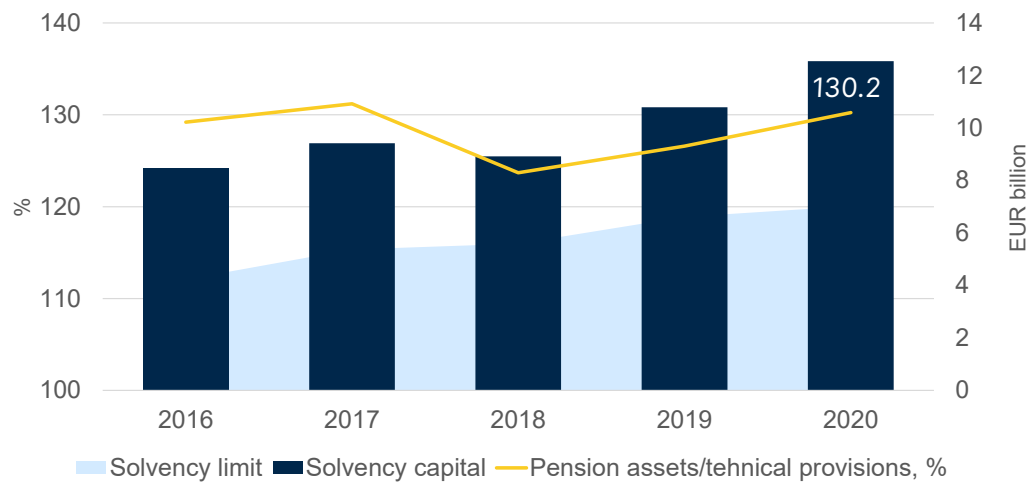
## Cost-effective management of pension cover (KPI 2)



## Cost-effective management of pension cover (KPI 2)

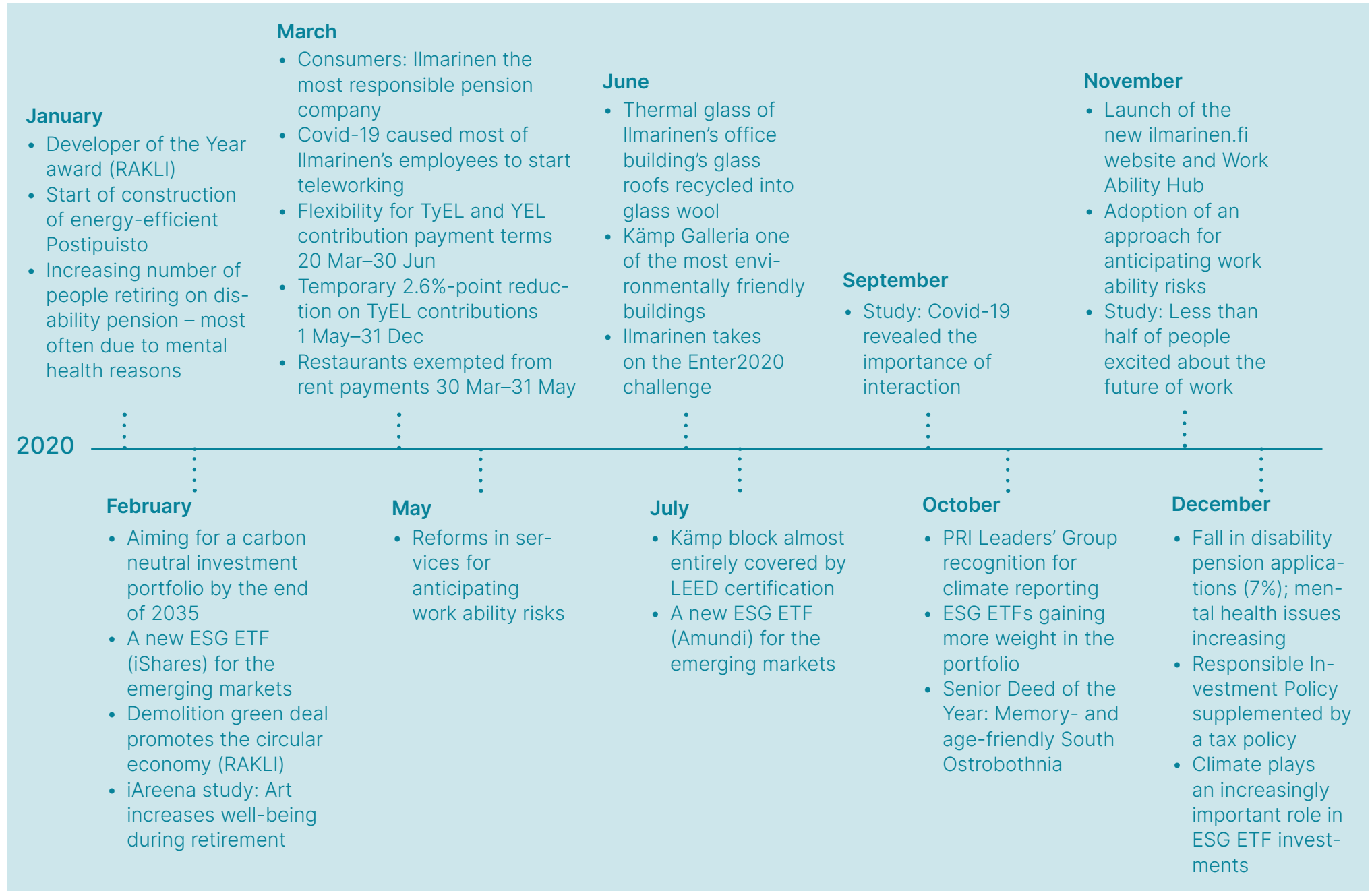
EUR million	2020	2019
Ratio of operating expenses to expense loading components	73	70
Loading profit	43	55
Total operating expenses	158	175

## Solvency





## 1.4 Year 2020





**Part of the working life transformation**

## 2. Part of the working life transformation

Working life is undergoing a transformation. After the Covid-19 year, people do have faith in the future, but many believe that work-induced stress, the amount of work and the need to rush work will increase. We have your back, every step of the way.

### 2.1 Challenges of tomorrow's working life

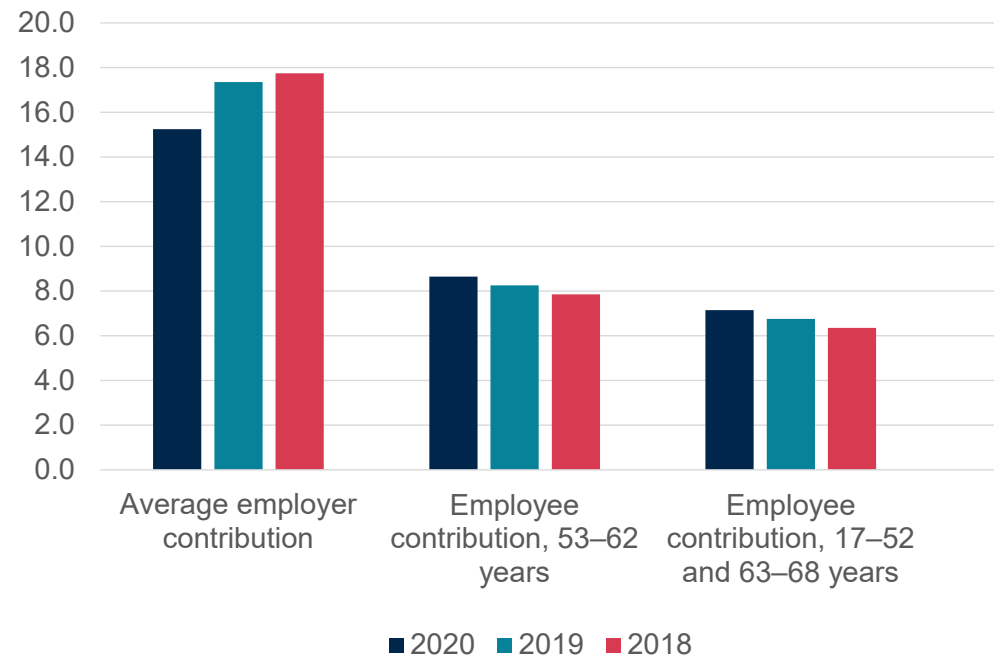
The transformation of working life poses challenges. While one out of three working-aged people feel confident about the future of their work, many believe that

work stress, the amount of work and the need to rush work will increase. Learning new things, finding new solutions and increasing the meaningfulness of work replenish resources. This was revealed by our study, to which a thousand Finns responded.

The Covid-19 year rapidly challenged and transformed working life as teleworking and digital platforms increased. The new situation requires supervisors to hone their listening skills. We assist our customers in disability risk management by offering them expert support for the maintenance of work ability and free Työvire and Työyhteisövire survey tools for identifying work ability risks.

The TyEL contribution percentage was temporarily reduced from May until the end of the year. In addition, our customers were granted more time to pay, subject to insurance contribution interest.

Pension contributions (TyEL), % of salary



In 2020, the earnings-related pension contribution was on average 22.7% of an employee's salary. Due to the pandemic, the employer's contribution was reduced by 2.6 percentage points during the period 1 May–31 December 2020. The reduction will be compensated for in 2022–2025 by raising the employer's share of the TyEL contribution.



The results reflect uncertainty, part of which is naturally due to the coronavirus. One out of every three working-aged people fear for the future of their work. Among those under 25 years, this proportion is even higher, at 37 per cent. Nearly half of Finns believe that they will retain their job for the next ten years, whereas every fourth is prepared for the possibility that their job will disappear completely. Young people are the most concerned by the future of work, but they are also the most excited about the future.

Finns perceive their work ability as fairly good, and they do not believe their work ability will significantly weaken over the next few years. Young people

believe that their work ability will improve. What is a cause for concern, however, is the fact that people under 35 already expect their work ability to decline. When working life changes, the importance of taking care of work ability becomes emphasised. Work ability is not just the employee's, employer's or society's responsibility – it requires a collective effort.

Our survey looked into Finns' thoughts about working life and work ability. A total of 1,000 people aged between 18 and 60 years responded to it. The survey was conducted online and the data was collected in August 2020. The survey was implemented by Innolink Research Oy.

## 2.2 How does pension accrue?

The accrual of pension starts at the age of 17, and you can accrue it until the age of 68. For the self-employed, the lower age limit for pension accrual is 18. Every euro that accrues pension will influence your income level in several decades' time. Studies leading to a degree, some of the social benefits and family leave for parents of children under three also increase your pension.

In Finland, taking care of employee's pension contributions is the employer's responsibility. The earnings-related pension contribution (TyEL) is calculated based on the earnings data reported to the Incomes Register. The employer pays both the employee's and the employer's share of the contribution to the insurance company. The employer deducts the employee's share from the employee's salary.

The labour market organisations annually negotiate the pension contributions, and the contribution level has remained the same for several years. The Ministry of Social Affairs and Health confirms the contributions based on the proposals received from the employment pension insurance companies.

In our online service, you can

view your future pension already during your career and check that the data concerning your work history is correct. To check your pension record, go to our MyPension service (available only in Finnish) by clicking here:

[Ilmarinen - MyPension service](#)

## 2.3 Support at various career stages

A career is made up of various stages. A young person just entering working life is likely to need different type of support than a person juggling parenting and work or approaching the end of their career. It also challenges the management of work ability at the workplace.

The interview-based survey that we conducted together with the Finnish Institute of Occupational Health looked into practices that support the work ability of employees at different career stages. The survey brought to the forefront young people's entry into working life, work-life balance and ensuring competence.

Important tools in place in companies to support young employees' engagement in work include orientation



The results show that our customer companies find our work ability maintenance collaboration to be very useful.

**Kati Huoponen, Director,  
Work Ability Management Services,  
Ilmarinen**

plans, mentoring and regular feedback discussions with the supervisor. Further tools include traditional development discussions and trainings in, for example, working life skills, time management and self-management.

Those living the busy parenting years face challenges related to work-life balance. They are kept busy not only parenting small children, but possibly also taking care of their other loved ones, such as their parents. The interviewed companies have responded to these challenges by, among other things, expanding teleworking to cover different types of jobs and professions and applying various types of flexible working hour arrangements. Care services for sick children and leave to care for a sick parent emerged as proven ways to support work-life balance.

When it comes to ensuring competence, the interviewed companies had in place training and mentoring programmes, regular meetings between HR and supervisors, and sparring and peer support groups for supervisors.

As current challenges, the survey also brought to light issues related to mental health and burnout. The objective has been to find low-threshold treatment paths to these issues to be able to respond to the challenges as early as possible.

We conducted the interview-based survey together with the Finnish Institute of Occupational Health in February–April 2020, and it involved five of our customer companies from different sectors.

## 2.4 Easy and reliable pension provision

Our vision is to be the most attractive working life partner – responsibly, for you. We anticipate and have your back, every step of the way: during your active career years, when becoming a pensioner and while on retirement. By ensuring our customers' work ability, we safeguard their possibility to earn an income now and while retired.

We have two main products: employees' pension insurance, TyEL insurance, and self-employed persons' pension insurance, YEL insurance. Both of them provide security not only for retirement, but also in the event of disability and the death of the family's provider.

We are a mutual company, which means that the company is owned by its customers: the policyholders and the employees insured with the company. In addition, all pensioners are our customers.

The majority of the employers who take out insurance for their



We want to offer our customers even more diverse and user-friendly digital services.

Mari Merilampi,  
Marketing Manager, Ilmarinen

### GRI 102-7

	2020	2019
Insured under TyEL	555,029	609,862
TyEL policies	69,386	70,491
New TyEL policies	8,923	8,509

### GRI 102-43

	2020	2019
NPS for online services	35	27
NPS for phone services	72	63
NPS for insurance services	29	22
NPS for pension services	46	38

employees conclude an insurance contract with us and report the earnings payment data to the Incomes Register using the TyEL insurance number, i.e. the pension policy number. Temporary employers report the earnings data to the Incomes Register using only

the pension company ID, because temporary employers do not have an insurance number.

The Incomes Register was introduced in Finland in the beginning of 2019; all earnings payment data is reported there in real time. The reporting of earnings payment data



Based on our business cycle index, **the number of employees declined by -4.8% in 2020**. The situation was worst in May, when the number of employees was -11% lower than a year earlier. Starting in May, the situation quickly improved until September, after which the development of the number of employees remained stable, at around -5%. In terms of employee numbers, the hospitality, staff leasing and transport sectors took the biggest blow. In the information technology and communications sector and in the industrial and trade sectors, employee numbers declined less than in companies on average. In information technology and communications, the number of employees even showed a slight increase during the year.

concerns all wage payers: companies, associations, households, substitute payers and entrepreneurs who pay wages to themselves. Data on pensions and benefits was transferred to the Incomes Register as of the beginning of 2021.

In 2020, we extensively developed and reinforced our operations. The objective has been to transfer as many of the messages we send to our customers as possible to electronic channels. Digital services have been developed using both cloud services and modern technologies – while ensuring information security.

In service development, the focal areas were improving the online service user experience and the renewal of the *ilmarinen.fi* online service, the risk-based approach and the effectiveness of disability risk management, and enabling the use of cloud services to increase the efficiency of operations. During the year, customers were strongly involved in the development process.

## 2.5 We keep your information secure

We process the data of thousands of customers every day. If, for example, you apply for voca-

tional rehabilitation or disability pension from us, you disclose information about your health to us. This type of information is called sensitive personal data. Data concerning companies falls within the scope of insurance secrecy.

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

In 2020, no large-scale data leaks occurred in our operations. We also did not receive any complaints concerning breaches of customer privacy or loss of customer data from authorities or external parties. (GRI 418-1) On a monthly level, we recorded a few data protection incidents that were mainly due to isolated human errors. We deal with data protection incidents in our Data Protection Committee. We assess all cases from a development perspective to avoid similar incidents in the future. Two data protection breaches were report-



ed to the Data Protection Specialist (KPI 4).

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

In the area of information security and data protection, we continued to develop operating models that meet the new requirements

in 2020. Our information security architecture and controls are based on a multilayered approach.

The EU's General Data Protection Regulation (GDPR), which entered into force in 2018, tightened the rules for processing personal data and reporting errors to authorities. Since 2019, we have taken into account accessibility in accordance with the European Union's directive. Our objective is to serve all users and make taking care of matters related to your pension and that of your employees as easy as possible for everyone. This means, for example, services that anticipate users' needs. In autumn 2020, we renewed our web service to meet the requirements of the accessibility directive.

### We keep your information secure (KPI 4)

	2020	2019
Notifications of personal data security breaches to the Office of the Data Protection Ombudsman, number	2	5

### Ilmarinen's customer service key figures

	2020	2019
Logins to Ilmarinen's online service	235,919	201,641
Calls to customer service	73,980	108,957
Customer retention, employers and self-employed persons	97.2%	95.1%

## Case

### IKEA: 500,000 euros to help children and young people

IKEA made a visible effort to promote sustainability during the Covid-19 year. It is providing EUR 500,000 financing for long-term work to support children, young people and families and the acute management of the Covid-19 crisis. Behind all this is the company's vision to create a better everyday life.

When it comes to environmental responsibility, IKEA has financed the construction of five windfarms in Finland and is now generating renewable energy equal to the consumption of a city the size of Turku, Finland. The company has been self-sufficient since 2017.

The main sustainability themes are healthy and sustainable living, circular economy and being climate positive, fair and equal. IKEA, which is celebrating a sustainability-themed year, is also seeking partners who share the same values.


"Companies need to do what's right and take much more responsibility than before. We want to lead the way in our sector."



"It's important to us that Ilmarinen invests pension assets responsibly in order to secure pensions for the future generations as well."

**Ann-Christin Pilviö,**  
Country Business Development  
Manager, IKEA Finland

IKEA is Ilmarinen's TyEL insurance customer.

A man with short, light-colored hair and a beard, wearing a blue t-shirt, is smiling and taking a selfie with a smartphone. He is standing in a modern, brightly lit hallway with a high ceiling and large windows. The floor is dark, and there are shadows cast on it. In the background, two other people are walking away. A teal banner with white text is overlaid on the image.

**Support for entrepreneurs**

## 3. Support for entrepreneurs

The Covid-19 pandemic hit companies hard. Even in normal times, entrepreneurship always means taking risks. Self-employed person's pension insurance is not only your security for old age, but also the basis for your social security.

### 3.1 Companies hit hard by Covid-19

While entrepreneurs and companies in the tourism, restaurant and service sectors were hit the hardest by the Covid-19 pandemic, the negative effects rippled across a broad range of sectors. In the beginning of the crisis, we saw the number of customer contacts almost double. However, we were able to offer our self-employed customers an even better customer experience both online and through our phone service.

It was important to take quick action in Finland to ensure access to financing for companies, avoid unnecessary bankruptcies and safeguard jobs once the crisis had started. The whole of society was mobilised, and it was an obvious choice for us to join

the effort. We were pro-active when setting out, together with other pension companies and the authorities, to prepare an amendment enabling a temporary deferral of payment of pension contributions so that these contributions would not place an unreasonable burden on companies already facing difficulties. We did not charge penalty interest on overdue YEL contributions and we did not send the invoices to collection services. A payment extension of a maximum of three months was possible between 20 March and 30 June 2020, subject to insurance contribution interest. Moreover, we exempted restaurants which were tenants in premises owned by us from paying rent.

One of the first signs of the problems faced by entrepreneurs

was the increased number of applications to change the YEL income. The number of changes to YEL income more than doubled: in March, there was an increase of around 140 per cent compared to a year earlier. The cases where YEL income was set higher increased by approximately 190 per cent and the cases where it was set lower increased by around

125 per cent. Some entrepreneurs changed their YEL income to better reflect their new situation and to have more flexibility in their insurance contributions and social security. Towards the end of the year, the situation levelled out.

In addition to changes to YEL income, our customers' questions were related to, among other things: unemployment benefits,

An entrepreneur's YEL income determines the level of their pension and various benefits throughout their career.

As the Covid-19 situation escalated, we offered payment options and more time to pay YEL contributions.

We also actively communicated with entrepreneurs through multiple channels and supported them in the new situation. We want to be there for entrepreneurs also going forward, contributing to their success.



self-employed person's sick leave and social security in general, financial support available to entrepreneurs, the impacts of an imposed quarantine and the termination of insurance. Our customer service personnel made every effort to answer all questions, even in cases where the subject matter was not directly related to our operations. At the very least, we referred the customer to the relevant body. We also offered our customers constantly up-dated information in our online service and social media channels.

Entrepreneurs are important to us. In 2020, we invested in developing the self-employed persons' online service based on direct feedback from them and on needs that we had become aware of. We introduced new features related to making payments to the online service for logged-in customers. We also made the service easier to use and improved the transparency of the digital services by enhancing the communications related to the user interfaces. Furthermore, we increased electronic communications and published entirely new content for entrepreneurs in

connection with the launch of the renewed website. We also developed our key processes involving self-employed customers in the spirit of LEAN, substantially boosting our operations.

Based on the NPS measurements, entrepreneurs' customer experience has improved and our service has become faster.

### 3.2 More than just a pension

For the self-employed, pension insurance is more than just a pension. The YEL income that forms the basis for the pension insurance also affects an entrepreneur's social security benefits already before retirement: the sickness and parental benefits paid by Kela, unemployment benefits and the possibility to take out self-employed persons' accident insurance. In situations such as the Covid-19 pandemic, the infectious disease allowance, for example, is determined based on YEL income. Self-employed persons' pension insurance also enables the entrepreneur to take a leave after the birth of a child. Entrepreneurs receive the same parental benefits from Kela as employees do.

### YEL insurance policies

	2020	2019
YEL insurance policies / Self-employed persons who have taken YEL insurance from Ilmarinen	76,147	76,063
YEL contribution, % of earned income, 18-52 and over 62 years	24.1%	24.1%
YEL contribution, % of earned income, 53-62 years	25.6%	25.6%

### The lower limit for YEL income, €

	2021	2020
	8,063.57	7,958.99



During the Covid-19 year, it was more important than ever to listen to and understand customers.

Jari Matveinen,  
Customer Service Management,  
Ilmarinen



A self-employed person's YEL income determines the basis for their entire social security.

**Tiina Nurmi, EVP, Insurance and Pension Services, Ilmarinen**

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

Whereas employees' pension contributions are calculated based on paid wages and salaries, a self-employed person's pension is based on the YEL income. We confirm for self-employed persons an annual YEL income that corresponds with their work input. When confirming the YEL income, we take into account the entrepreneur's own estimate of their YEL income. The YEL income may be different from

the actual income the self-employed person receives from the company in the form of earned income or capital gains. YEL income means the calculated value of an entrepreneur's work input: it should be equal to the salary you would pay to an employee to do your job.

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

As a self-employed person you must take out YEL insurance no later than six months after the start of the entrepreneurial activi-

ty or when the value of your work input exceeds the minimum YEL income specified by law.

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

### 3.3 Pressure to change the system

Already in 2017, the Ministry of Social Affairs and Health started to look into how the self-employed persons' pension system could be changed. The work continued in autumn 2020. The aim is to improve the system so as to overcome the problem of underinsurance. In practice, this means that some entrepreneurs do not pay pension contributions based on their actual work input; instead, they set their YEL income at a lower level. The YEL income should be equal to the sum that the entrepreneur would pay an employee as a salary for the same work. While pension companies provide advice on how to set the right level of YEL income,

a self-employed person's own estimate of the value of their work input can rarely be unequivocally questioned, because there are no explicit criteria for the correct level of YEL income.

Why should underinsurance be a cause for concern? Firstly, an underpriced work input means a lower level of pension and other social security benefits. At the end of the day, it is the self-employed person who suffers of underinsuring; the pension will be smaller and the benefits less, in case of sudden disability, for example.

The self-employed persons' pension system differs significantly from the employees' insurance system: in the self-employed persons' pension system, the collected pension contributions are not funded as pensions to current retired entrepreneurs. The payment of pensions is based on a pay-as-you-go system. For example, the pension contributions for 2020 were used to pay the pensions for 2020. Because more is being paid in current pensions than is collected in pension contributions, the state pays the missing part of entrepreneurs' pensions. Whereas

the difference in 2012 was EUR 23 million, it is estimated to be as much as EUR 423 million in 2021. The state may also be forced to pay some entrepreneurs guarantee and national pensions, housing allowance and social assistance due to the small earnings-related pensions.

### 3.4 Expanding forms of entrepreneurship

Working life is constantly evolving: temporary work and self-employment have garnered a lot of attention. The total number of entrepreneurs who have taken out YEL insurance has increased from some 160,000 to slightly over 200,000 in twenty years.

In addition to this, thousands of people employ themselves working as part-time entrepreneurs, often alongside other salaried employment. This type of entrepreneurial activity can be so small-scale that it does not trigger the obligation to take out YEL insurance. Small-scale employers using invoicing services are often called 'light entrepreneurs'. Only some of them meet the conditions for YEL insurance.

In recent years, self-employ-

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

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

## Case

### Alvar Pet: Minimising the carbon pawprint of dogs

Sustainability also creates business opportunities. Dog food company Alvar Pet was born out of a passion for sustainability and dogs. The company's eco-conscious founders were concerned by the growing environmental load caused by dog food. Their goal became to minimise the carbon pawprint of dogs by introducing eco-friendly dog food to the market.

The company, which was founded in autumn 2019, launched sales in Finland in spring 2020 and expanded to Germany in early 2021. It has its sights set on conquering Europe, reaching out to eco-conscious dog owners.

"Selecting partners is extremely important to us. We aim for full transparency throughout the supply chain. It's important for us, for example, to know the origin of the raw materials, the energy solutions used and how waste is dealt with. It's a traditional industry, but we can make a difference as buyers," says CEO Ilari Haataja.

Alvar Pet places great importance on who it deals with in general. With a background in private equity, Haataja believes that Ilmarinen, as a major investor, can make a difference.



"When an investor the size of Ilmarinen starts allocating its capital to sustainable investments, changes happen. Companies really have to consider sustainability aspects to earn their place in investors' portfolios."

**Ilari Haataja,**  
CEO, Alvar Pet

Alvar Pet is Ilmarinen's YEL and TyEL insurance customer.





**We help maintain work ability**

# 4. We help maintain work ability

Employees' and self-employed persons' pension insurances are more than just pensions. Both pension insurances also provide security against unexpected situations before the old-age retirement age. It is important to take care of work ability in a proactive manner.

## 4.1. Disability is costly

Approximately 10,000 Finns retire on a permanent disability pension each year. Another 10,000 people receive a fixed-term disability benefit. Each prevented disability pension is not only important on a human level, but it also saves our common assets.

Based on the working condition barometer (2019), more people

find working life mentally stressful than before. An increasing number of wage-earners perceive their work as mentally taxing and almost half experience harmful stress in their work. On the bright side, the majority of people experience work engagement – enthusiasm, vigour and absorption in their work.

Good work ability is in the interest of the individual, com-

pany and society. That is why it is worth cherishing. Anticipating and managing work ability risks can support coping at work and lengthen careers. Close and systematic collaboration between

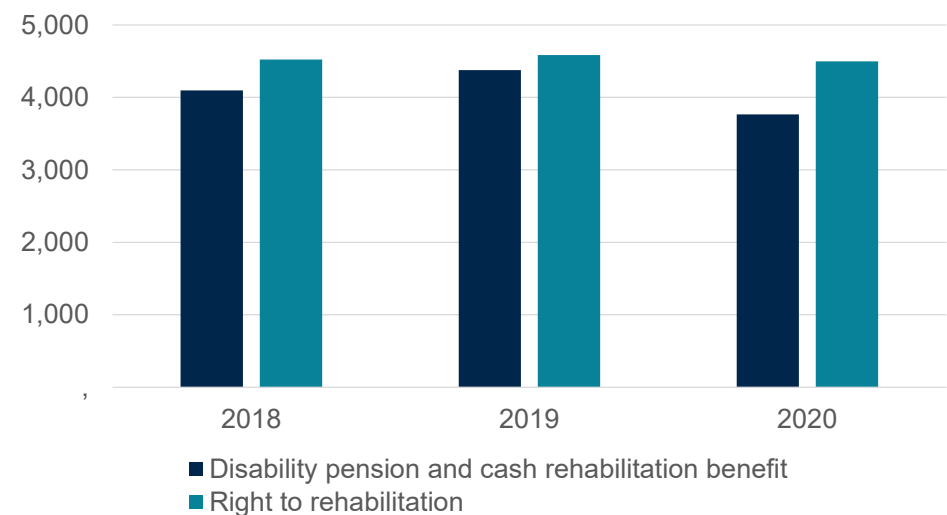
employees, supervisors, employers and occupational health services brings the best results in work ability management.

Work ability risks should be assessed regularly: the risks can

A new approach for anticipating work ability risks helps our customers prevent disability in a more impactful way than before.

Covid-19 revealed the importance of interaction in a work community. The feeling of belonging to a work community, the opportunity to influence, receiving feedback and social support are important in building well-being at work.

Disability and rehabilitation benefits granted by Ilmarinen



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

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

In 2020, absences due to illness began to fall. Both the number of people receiving sickness allowance and the number of compensated sickness allowance days decreased somewhat compared to the previous year. The increase in sickness allowance periods based on mental disorders seems to have come to a halt, at least for now. The exceptional year makes it chal-

lenging to interpret the development of absences due to illness and disability pensions. That is why it is difficult to analyse to what extent the statistics are the outcome of the pandemic.

The number of disability pension applications also seems to have stopped growing. However, due to Covid-19, last year was very exceptional, which means that no far-reaching conclusions can be drawn. One factor behind the decreased number of applications is the abolishing of the active model for addressing unemployment in the beginning of 2020.

## 4.2. We promote work ability

At Ilmarinen, we promote the work ability of employees insured with us together with our client companies. We support our client companies in anticipating and managing work ability risks. The objective of work ability activities is to prevent the risk of employees insured with Ilmarinen ending up on disability pension. For the work to bring results, it must be systematic and goal-oriented. The earlier the factors affecting work ability risks are identified,



We want to help our customers manage work ability risk. Longer careers benefit not only employees and employers but also society at large.

**Kristiina Halonen,**  
EVP, Work Ability, Ilmarinen

### Effectiveness of rehabilitation (KPI 3)

	2020	2019
Effectiveness of rehabilitation	78.9	78
a) coming from working life	80.5	-
b) coming from fixed term pension	68.9	-

Percentage of rehabilitees available to the labour market after completing rehabilitation. This KPI was changed in 2020, and thus no figure is available for 2019.

### Effectiveness of work ability projects (KPI 3)

	2020	2019
Perceived customer benefit (scale 1–5)	4.4	4.7
NPS, Ilmarinen's own services	89	84
NPS, sourced services	41	72



the more certain it is that impactful results can be achieved.

We renewed our work ability risk management services in 2020 to reflect the Financial Supervisory Authority's new, more detailed guidelines. We developed the work ability service portfolio and customer account service models and reorganised activities. In work ability risk management, a risk-based approach and impactfulness are given even more emphasis. We strengthened our expertise particularly in the management of mental health-related disability risks, occupational health collaboration and knowledge management. The new work ability risk anticipation and research department started its operations in the beginning of June.

During the year, we developed a new forecasting model for work ability risks, which helps customer companies in identifying and managing work ability risks. The objective is to prevent disability in an even more impactful manner. The forecasting model helps Ilmarinen and its client companies target work ability management measures better than before.

We monitor the effectiveness

and impactfulness of the collaboration through, among other things, jointly agreed indicators and surveys. The results show that our services are successful in improving work ability and reducing our client companies' disability risk. The support granted to client companies for work ability projects is financed with the disability risk administrative cost component included in the pension contribution and reserved for this purpose. In 2020, we spent EUR 3.6 million on the management of disability risk. We also provide specialist support.

In addition to targeted work ability services and support, we offer all our customers extensive information on how work ability can be promoted at the workplace and how work ability risks can be anticipated and managed. The new Work Ability Hub was launched at [ilmarinen.fi](http://ilmarinen.fi). Its goal is to offer as practical and easy-to-use tools and contents as possible, based on the latest research data. The Work Ability Hub provides information and tools for, for example, promoting mental health at the workplace, early support measures and developing occupational health collaboration.

## Uninterrupted income (KPI 1)

Uninterrupted income (KPI 1)		
	2020	2019
<b>Old-age pension and disability pension processing time in relation to other pension insurance companies</b>		
Old-age pension processing time, days (year average)	9	25
Old-age pensions (difference compared to other employment pension insurance companies), days	+2	+13
Disability pension application processing time, days (year average)	38	66
Disability pensions (difference compared to other employment pension insurance companies), days	-5	+9
<b>Disability pension decisions upheld by the appeals court and difference to competitors</b>		
Proportion of negative decisions	36.3%	33.7%
Proportion of decisions amended by the appeals court	14.2%	14.2%
Difference to competitors	1.5%	2.0%

## Rehabilitation decisions

	2020	2019
Right to rehabilitation application processing time, days	19	20
Number of new rehabilitation decisions	4,498	4,583
Rehabilitation decisions in total during the year	8,588	9,400

### 4.3 Vocational rehabilitation supports returning to work

Your work ability and health may deteriorate so that you are no longer able to do your work properly. Vocational rehabilitation is an option for you when other measures to support your return to work are not sufficient or possible for you – and when your work ability has declined to a point where you risk losing it completely. Its objective is to enable you to continue in working life or return to work after sick leave. The earlier you start thinking about how you are getting on and coping at work, the more likely it is that you will be able to continue in your job and in working life.

Your vocational rehabilitation can be, for example, a work trial, job coaching or retraining for a new profession. You can apply for rehabilitation whether you are an employee or a self-employed person.

If you have applied to us for a disability pension, we will always first look into whether vocational rehabilitation could help you.

Vocational rehabilitation is an employee's statutory right. Effective rehabilitation linked with work

extends careers and creates an opportunity for a better working life. Successful vocational rehabilitation has a positive impact on the rehabilitee's income for the rest of their life. If the rehabilitee continues working, they earn a larger pension for themselves. From the earnings-related pension system's point of view, pension expenditure decreases and pension income increases.

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

Vocational rehabilitation is part of disability risk management. We provide our client companies' HR specialists and supervisors with advice on vocational rehabilitation and offer specialist support.

### 4.4 Disability pension application numbers stop growing

The number of disability pension applications submitted to Ilmarinen decreased by seven per cent compared to the previous year.



Absences due to illness decreased during the Covid-19 year. It is important to enable teleworking and support individual needs also going forward. Everything we can do to support work ability benefits the whole of society.

**Kari-Pekka Martimo, Director,  
Foresight and Research on Work Ability,  
Ilmarinen**

### Projects related to work ability risk management

	2020
Work ability training	39
Separate courses and well-being at work projects	1,528
Employees covered by well-being at work projects	198,000
Persons participating in work ability training	2,987

This is a positive trend. However, due to Covid-19, 2020 was a very exceptional year, which means that no far-reaching conclusions

can be drawn when it comes to the development of disability pensions.

The number of disability pen-

## Case

### Lindström: focus on work ability

When an accident, injury or illness strikes, work ability suffers. If work is accommodated to reflect the changed situation and the job's demands are adjusted to a suitable level, the person can continue to work.

Production Manager Virpi Mäkelä from the textile service company Lindström recounts a situation where a person working on a mangle line began developing back problems after a few years. Their arms and legs got numb and they were diagnosed with MS. After joint discussions, a solution was found: the person retired on a partial disability pension and switched from the mangle line to a sewing machine.

Almost all Finns are faced with partial work ability in one way or another at some point in their lives. Lindström focusses on people management and attentive listening: the goal is to find, for every person, a job that suits their work ability.

sions granted for mental health reasons has been increasing in Finland since 2016. Mental disorders surpassed musculoskeletal diseases as the most frequent cause of disability for the first time in 2019. Mental disorders were, for the second year in a row, the leading diagnosis group in disability pensions granted by Ilmarinen. Of the persons retiring on a disability pension, 34 per cent were granted pension due to mental health reasons, while musculoskeletal diseases accounted for 31 per cent of the cases.

The single most important reason for retiring on a disability pension was depression. The number of disability pensions granted due to depression at Ilmarinen decreased 25 per cent from the previous year. Especially the disability pensions granted based on depression to persons under 30 decreased.



“People’s life situations often change and health issues can arise. In that case, new solutions must be found to create a job profile that fits the altered situation.”

**Virpi Mäkelä,**  
Production Manager, Lindström

Lindström is Ilmarinen’s TyEL insurance customer.





**Towards retirement**

# 5. Towards retirement

Finland's statutory earnings-related pension system guarantees that you will receive pension until the end of your life. Close to 80 per cent of all pensions are old-age pensions.

## 5.1 Retirement age based on birth year

The old-age retirement age is determined based on the birth year. If you were born in or before 1954, you can retire on old-age pension at the earliest after having turned 63. For those born in or after 1955, the old-age pension age rises steadily by three months a year, until the retirement age of 65 years is reached. The lower limit for old-age pension for those born in 1962–1964 is 65 years. If you were born in or after 1965, your retirement age is tied to life expectancy.

Old-age pension must be applied for. If you applied for pension in 2020, you benefited from our work to speed up the processing of pension applications. We managed to further shorten the waiting time for pension deci-

sions by improving and automating the process. More than half of old-age pension decisions were issued within two days. In December, the average processing time for old-age pension applications was seven days, which is almost a week less than a year earlier.

In 2020, the number of electronic pension applications grew and around 70 per cent of old-age pension applications arrived at Ilmarinen through the MyPension service.

Customers participated in developing the electronic services and satisfaction with online services increased.

Submitting the application online is the fastest way to apply for pension. At the same time, you can check your up-to-date pension record, which shows your

More than half of old-age pension decisions were issued within two days.



Everyone should check their pension well in advance to have time to make changes.

Jouni Vatanen,  
Research Specialist, Ilmarinen



## Number of pensioners

	2020
Old-age pensions	344,499
Partial early old-age pensions	7,466
Part-time pensions	25
Disability pensions	36,668
Years-of-service pensions	15
Survivors' pensions	69,728
Total number of pensioners	458,401

Trust in pensions has grown especially among those aged between 35 and 49.

accrued pension amount before submitting the application. If the application contains all the necessary information and the granting of pension does not require any particular further clarifications, the decision can often be issued during the same day. You should also remember that your employment relationship must end before your pension begins.

You can also check online in real time if the pension decision has already been issued. Usually, we first issue a provisional pension decision based on the

earnings data contained in the Incomes Register. Once the employer has reported the last earnings data to the Incomes Register, we issue the final pension decision. The difference in the size of pension is usually very small between the provisional and final decisions.

When you approach the retirement age, it is also a good idea to find out about other pension options. Partial early old-age pension means that you can start drawing part of your pension while working. This can result in

additional income for the final years of the career but it will reduce the final amount of pension for the rest of your life. You can determine, together with your employer, your work input alongside the partial early old-age pension.

The years-of-service pension is intended for people aged 63 and over, who have had a long career in a tough and strenuous job and whose work ability has weakened due to an illness or injury. In 2020, we made 33 years-of-service pension decisions. As the old-age pension age will rise gradually, the significance of the years-of-service pension is expected to increase.

## 5.2 Pension level based on earnings history

The basic rule of the earnings-related pension system is that all earnings accrue pension. In addition, a degree completed in or after 2005, some of the social benefits, as well as family leave for the parents of children under three, accrue pension. The accrual rules and age limits, for example, have changed over the years.

When calculating the earnings-related pension, a wage

coefficient is used to ensure that the amount of pension corresponds with the level of earnings during the career. In the wage coefficient, the portion of change in wages accounts for 80 per cent and the change in prices for 20 per cent.

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

Pensioners perceive their financial situation to be moderate on average. The majority have prepared for retirement financially themselves, and they have EUR 475 per month left from their pension after necessities have been paid. However, this discretionary income varies greatly between pensioners. Every other pensioner only has less than EUR 300 after necessities, and around every ninth pensioner has nothing left for discretionary spending.

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



## Ilmarinen's pensioners: age and gender in 2020

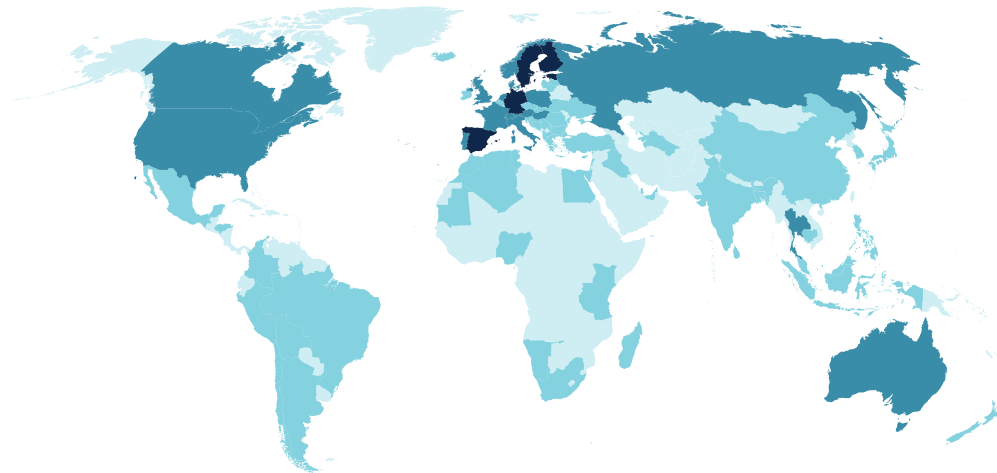
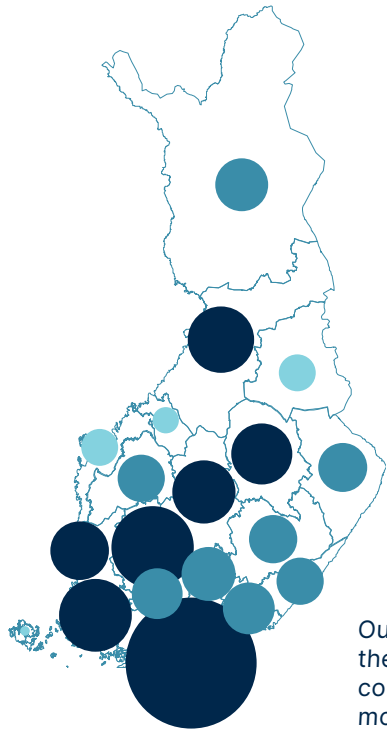
Age	Male	Female
100+	0.0%	0.1%
90-99	1.4%	4.0%
80-89	9.4%	14.1%
70-79	20.4%	18.4%
60-69	15.2%	10.8%
50-59	2.0%	1.6%
40-49	0.6%	0.5%
30-39	0.3%	0.3%
18-29	0.1%	0.1%
Under 18	0.4%	0.3%

## Pensions paid, EUR million

	2020	2019
Total	6,116	6,078
TyEL	5,701	5,673
YEL	415	405

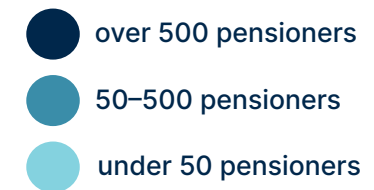
## Ilmarinen's pensioners in Finland and other countries in 2020

	%
Helsinki-Uusimaa	25.0%
Pirkanmaa	9.9%
Southwest Finland	7.7%
North Ostrobothnia	6.4%
Central Finland	5.8%
North Savo	5.4%
Satakunta	5.0%
Päijät-Häme	4.2%
Lapland	4.1%
Kymenlaakso	3.9%
Kanta-Häme	3.8%
North Karelia	3.5%
South Savo	3.4%
South Karelia	3.2%
South Ostrobothnia	3.2%
Kainuu	2.1%
Ostrobothnia	2.0%
Central Ostrobothnia	1.0%
Åland	0.1%
Other countries	0.3%



Source of map © Karttakeskus

Our pensioners live in 86 different countries and represent 98 different nationalities. After Finland, the highest number of people receiving pension from us, close to 6,000 people, live in Sweden. Then comes Estonia, with around 900 pensioners and Spain with around 800 pensioners. After Finns, the most common nationality is Swedes, at some 3,000, followed by Estonians, at around 1,400.



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

[Log in to the MyPension service \(available only in Finnish\)](#)

### 5.3 Art increases well-being

According to a survey that we published in February 2020, new pensioners assess that their well-being after retirement is mostly good, and they perceive their life to be meaningful. Two

Pensioners assess their well-being as being mostly good. Engaging in the arts increases the well-being of working-age people.

out of three gave their own functional ability a grade of at least 8 on a scale of 0–10. Three out of four perceived their life to be very or extremely meaningful.

The survey that we conducted together with Uniarts Helsinki's ArtsEqual project also revealed that working-aged people's engagement in the arts increases their well-being during retirement. Up to 40% of the respondents felt that art has had a great or a very great impact on their life. In order for art to create positive impacts, the individual must perceive it as meaningful for him or her.

Engaging in cultural and artistic activities – including both active and passive consumption – was understood in a broad sense as a pastime and a hobby.

The health impacts of art have recently been brought to the forefront through research reports and expert testimonies. The health impacts have also been highlighted in an effort to increase interest in art as a solution to problems



Our customers have participated in developing our electronic services.

**Outi Pekkarinen,**  
Director, Pension Services, Ilmarinen

related to ageing.

The data also reveals that unemployed people retiring on old-age pension in particular have difficulties in finding new art hobbies, for reasons unrelated to their functional ability and use of time. People's ability and opportunities to engage in the arts should be improved, regardless of their status in the labour market.

In the responses, the most popular new artistic activities were handicrafts, dancing, photography and music studies in some form. The responses to open-ended questions show that outdoor activities and the respondents' loved ones bring the most meaning to their lives.

The online survey was conducted among those who had retired on an old-age pension granted by Ilmarinen in September and Octo-

ber 2019. A total of 510 persons responded to the survey. The results were published in Ilmarinen's and the Finnish Association for the Welfare of Older People's joint seminar iAreena in February 2020.

### 5.4 Changes in the pension system

Looking into the future, the earnings-related pension system is still under pressure to change. Especially the dramatic decline in the birth rate and the population projection updated based on it, as well as the prolonged low interest rate level, have changed the long-term outlook for pension financing. The Covid-19 pandemic and the resulting downward trend in employment and payroll development have increased this pressure.

The Ministry of Social Affairs and Health is preparing several changes that will affect the sector. It proposes to amend the conditions for receiving survivors' pension such that the surviving spouse's pension would be fixed-term (10 years) and it would also be granted to common-law spouses if they have an underage child with the deceased. The development of self-employed person's pension insurance has been restarted. The merger of the municipal pension system with the private sector earnings-related pension system is also being prepared with the aim of demerging Keva and turning it into an employment pension insurance company. Since the change will be a major one, preparations are being made with a view to combining the systems in 2026.

According to the pension barometer published by the Finnish Centre for Pensions in summer 2020, Finns' trust in pensions strengthened compared to the previous year. Trust in pensions increased especially among those aged between 35 and 49. If it were necessary to strengthen the financial sustainability of the pension system in the future, raising

pension contributions is still considered the most acceptable solution. Only one out of three would accept raising the retirement age. The coronavirus crisis had little effect on the opinions.

Measures are required, according to the report published by the Finnish Business and Policy Forum EVA in October 2020, increasing pension expenditure could spell the end of the welfare state. The report stresses that a further increase in pension contributions must be prevented: every Finn must work more than they do today, and fewer people must live on social benefits. According to EVA, action must be taken immediately to achieve shorter study times, shorter periods of home care, later retirement and less structural unemployment.

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



### Senior Deed of the Year: Memory- and age-friendly South Ostrobothnia project

Together with the Finnish Association for the Welfare of Older People, we awarded the Memory Association of South Ostrobothnia's Memory- and age-friendly South Ostrobothnia project as the Senior Deed of the Year.

The project's aim was to make the region's services more memory- and age-friendly by training local entrepreneurs based on the needs of older people and those with memory disorders.

The project involved 1,768 older people and people with memory disorders, who contributed by expressing their needs and development ideas. A total of 136 companies from 35 different sectors participated in the project. The majority of the entrepreneurs said they had altered their ways of operating, clarified their services and focused on devoting enough time for encounters with people and the training of personnel. Companies had rethought the display of products and the placement of signage. More rest areas had been added and areas designated for older people had been arranged in connection with childcare areas. In addition, companies had organised various events to increase recreational opportunities and social activities for older people.

We grant the Senior Deed of the Year award together with the Finnish Association for the Welfare of Older People to a person or an organisation that has promoted the welfare of elderly people in a positive or innovative way, developed a successful model or method or otherwise contributed to increasing the well-being of elderly people. The size of the Senior Deed of the Year award financed by Ilmarinen is EUR 5,000.





We invest responsibly

# Responsible investment highlights 2020

1

In passive investments, we have participated in launching several equity index funds that invest in a responsible benchmark index.

Our investments in these funds, at EUR 5 billion, account for 90 per cent of the passive investments in our listed equity portfolio.



2

Thanks to commendable climate reporting, Ilmarinen was named in the PRI Leaders' Group.

3

The Responsible Investment Policy was supplemented with a tax policy.

4

**Target period 2016–2020 draws to a close:**

Biggest success: We far exceeded our set targets in real estate investments.

Biggest failure: Our investment portfolio is not yet fully in line with the targets of the Paris Agreement.

5

The cornerstone of Ilmarinen's operations is continuous improvement. For 2020, we report on climate issues more extensively than before. In addition, we drew up more asset-class-specific internal guidelines related to sustainability during the year.



# 6. We invest responsibly

We look after your and the future generations' pensions through profitable, secure and responsible investments of pension funds. Our goal is to achieve a carbon neutral investment portfolio by the end of 2035.

Ilmarinen received PRI Leaders' Group's recognition for climate-related reporting in 2020.

## 6.1 Investment markets in 2020

The investment market environment was challenging in 2020. The exceptionally rapid market crash in the early part of the year lowered our solvency in the first quarter of the year, and particular attention was paid to the development of solvency due to the increased market fluctuations. In the early part of the year, we adopted enhanced intraday solvency monitoring, allowing us to create a good overview of the situation and ensure compliance with the authorities' solvency regulations.

Our tactical decisions in investment activities were successful, and our return on investments improved as a result of the adjustment of equity risk especially

during the first half of the year. At the asset class level, particular successes were seen in absolute return investments, whose return was positive in both the bear market of the early part of the year and the bull market later in the year. Despite the challenging coronavirus year, our return on investments was 7.1 per cent. The value of investment assets rose to an all-time high, at more than EUR 53 billion, and solvency strengthened.

The future is beginning to look bright, although the markets are still imbued with high levels of uncertainty. The global economy is recovering from the deep recession of 2020, but recovery from the crisis will take time. The global economy is expected to grow by roughly five per cent in 2021. Finland's economic growth

### Ilmarinen's investments and solvency (KPI 5)

	2020	2019
Pension assets, EUR million	54,014	51,342
Investments at current value, EUR million	53,284	50,528
ROCE, %	7.1	11.8
Solvency ratio, i.e. the ratio of pension assets to technical provisions, %	130.2	126.6
Solvency capital, EUR million	12,542	10,792

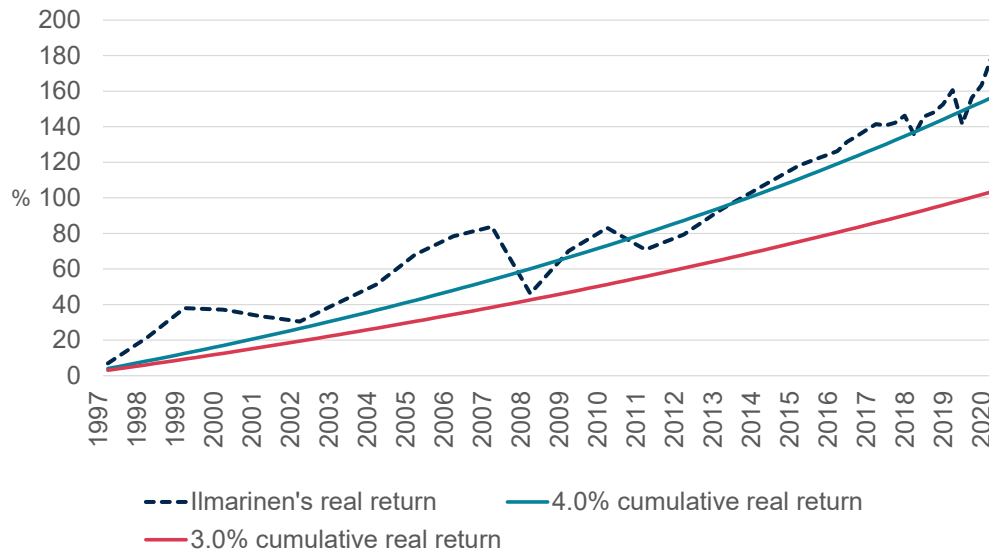
We must maintain a risk level that allows us to meet the requirement of productivity and security at all times. Success in this target can be measured through, for example, solvency and long-term returns on investments.

is expected to settle at around three per cent. For us, as an employment pension insurance company, investing is a long-term activity. The long-term return

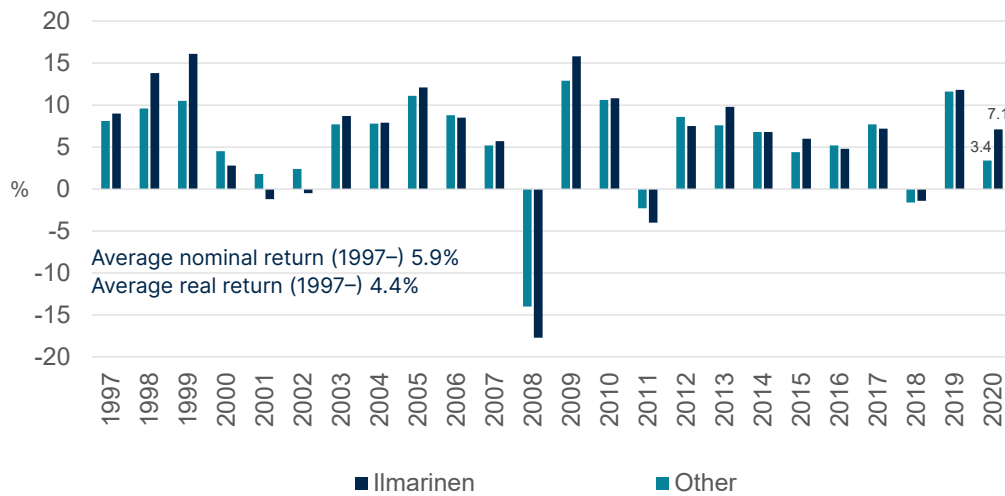
expectation on investment assets is currently lower than before, especially due to a low interest rate level and the high valuation level of risky asset classes.



### Real return on investments



### Return on investments at current value



Other companies: the data for 2020 is partly unaudited.



The value of investment assets rose to an all-time high, at more than EUR 53 billion, and solvency strengthened.

**Mikko Mursula,**  
Deputy CEO, Chief Operating Officer,  
Investments, Ilmarinen

### 6.2 Responsibility as part of all investment decisions

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

Our Board of Directors annually approves an investment plan that guides the investment activities and monitors its implementation. The plan lays down the targets for risk-taking and investment allocation, i.e. the distribution of investments across various asset classes. The Board of Directors also decides on investment

authorisations. Ilmarinen's investment organisation is in charge of investment operations.

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

Our view on responsible investment is described in our Responsible Investment Policy. Its

importance in our operations is illustrated by the fact that it is a document approved by our Board of Directors. The Policy applies to all Ilmarinen’s asset classes from listed investments to non-listed companies, corporate bonds and real estate. The special characteristics and requirements of each asset class are taken into account. The Responsible Investment Policy was most recently updated at the end of 2020, when it was supplemented with a tax policy. Our activities are also governed by the Responsible Investment Guidelines, which

are approved by the Responsible Investment Executive Committee. The goal is to update the Responsible Investment Guidelines in early 2021 in terms of Ilmarinen’s tax practices. In 2020, we also updated and supplemented internal asset-class-specific responsibility guidelines that support the implementation of the Responsible Investment Policy on a practical level. The Responsible Investment Executive Committee approves the guidelines and they cover all asset classes.

The update did not change our general approach to respon-

sibility: our investment activities are still guided by compliance with international norms, active ownership and the integration of responsibility into portfolio management.

### 6.3 Aiming for a carbon neutral investment portfolio

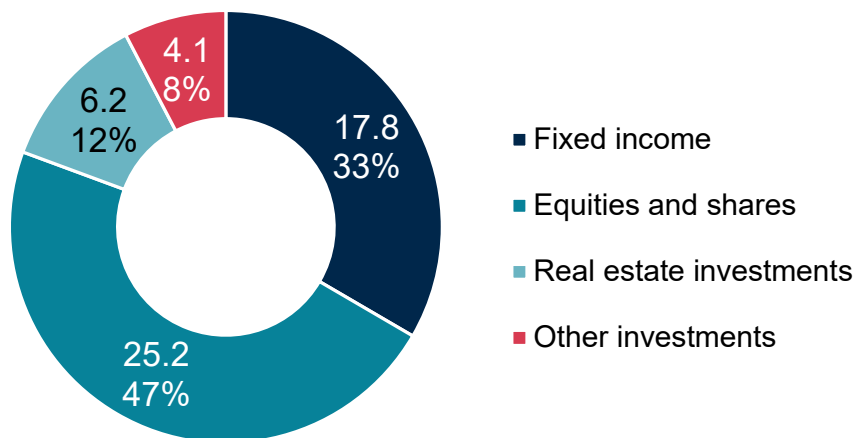
At the beginning of 2020, we set an ambitious goal of achieving a carbon neutral investment portfolio by the end of 2035. The time frame is the same as that set by the Finnish government, for example. The goal and its implementation are essential to how we prepare for the risks and opportunities arising from climate change and its mitigation. We have the responsibility to invest pension assets profitably, securely and responsibly. Taking climate change into account is part of this.

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

reductions is at the core of our carbon neutrality target. Drawing up lists of investment to be excluded is not the only thing we focus on; rather, we assess the carbon intensity of companies’ operations and require a change towards a lower-carbon operating model.

When assessing companies based on carbon intensity, our attention is drawn to companies whose net sales, to a large extent, come from activities with high carbon intensity, such as the manufacture and use of fossil fuels. If a company outperforms the average in its industry in terms of carbon intensity development and is committed to setting adequate climate targets and carbon footprint reporting, we place it on a transition list. We can invest in the companies on the transition list, but we keep track of their progress. At the end of the time frame, the company’s situation is re-assessed. We also actively keep in touch with the companies on the transition list, asking them about their climate action. However, if a company’s operations involve a high carbon risk and the company does not meet our other criteria, we will not invest in it. In our view, we support a genuine

Investment allocation (€ 53.3 bn) by asset class



transition towards a low-carbon economy by investing in companies that are committed to reducing carbon intensity.

Incorporating climate risks and opportunities into investment decisions is constantly evolving. In 2020, we expanded high carbon risk assessment from coal to also cover other fossil fuels. We

assess companies' carbon risk, i.e. to what degree their business is dependent on the manufacture and use of fossil fuels.

Measures related to climate change are being taken on a number of fronts. After the update made late last year, the index tracked not only in direct investments, but also in indirect



### Key climate actions in 2020

- In terms of carbon intensity, we adopted a more comprehensive approach: in addition to coal, we also take into account other fossil fuels.
- Carbon footprint reporting was expanded to cover the government bond portfolio.
- We report on the physical and transition risks of climate change, as well as on the two-degree scenario under the Paris Agreement.
- An index that is important from the perspective of both active and passive equity investments underwent a new change that takes into account the high carbon risk.



As we want to report openly on our activities, our Responsible Investment Policy and related guidelines are public and can be found on our website.

**Karoliina Lindroos,**  
Head of Responsible Investment,  
Ilmarinen

passive equity investments, incorporates consideration of carbon risk better than before. In November 2020, sectors and companies causing substantial emissions, such as coal-dependent companies, were excluded from the index.

As in previous years, data related to sustainability and climate in particular has increased, and the analytics we have adopted also enable a new kind of company and portfolio level analysis. This report for 2020 contains, for example, new data regarding the two-degree scenario model under the Paris Agreement and physical and transition risks. We are also disclosing for the first time the carbon footprint of the

government bond portfolio. However, there are still challenges in the availability of data, and as a part of our own carbon neutrality target, we expect comprehensive reporting on emissions from our investees. This contributes to higher quality information and more precise analysis.

### 6.4 Successes and failures during the target period 2016–2020

Our previous climate policy targets were adopted in 2016, and the targets were determined until the end of 2020. In five years, climate-related data has evolved tremendously and the calculation methods have been updated. That is why the comparison between



the targets for 2016 and 2020 is not entirely straightforward; it is only indicative.

The previous climate roadmap's biggest success is that the targets for real estate investments were clearly exceeded. Compared to the 2015 baseline level, we have reduced our carbon footprint per square metre by 14 per cent, while our target for the period was 10 per cent. We will continue this work. Another target for real estate was to achieve energy savings of at least 7 per cent in line with the Ministry of Economic Affairs and Employment's energy efficiency agreements. Our energy savings were close to 18 per cent for business premises and 10 per cent for residential buildings.

The biggest challenge we are still facing is to align our investment portfolio with the Paris Agreement's two-degree scenario. In 2016, we set as a target to have the most important sectors, i.e. electricity companies, fuel manufacturers and automobile companies, aligned by the end of 2020. We failed to reach that target. Closest to reaching the target were investments in fuel manufacturers, with 67 per cent of the investees included in the listed

security portfolio being in line with the target. The large weight of one of the investees has a significant impact on the figure. Among electricity companies, only 30 per cent are aligned, but the situation is the same here as with fuel manufacturers: the large weight of one investee weakens the figure. When it comes to investments in automobile companies, 44 per cent are aligned with the two-degree scenario.

We are satisfied, considering that we reached almost all of the targets set in 2015 and 2016. The SDG contribution, i.e. the share of sustainable solutions of the annual net sales of direct listed equity investments, almost doubled. In 2016, SDG solutions accounted for 6 per cent, in 2019 for roughly 9 per cent and in 2020 for 11.5 per cent, while the target for 2020

was 12 per cent. We also reduced the carbon footprint of the direct listed security portfolio, and the share of renewable energy in the production of the portfolio's electricity companies grew significantly. The figure also includes energy generated with biomass. We continued our active dialogue with our investees, regardless of the exceptional situation due to the pandemic restrictions in 2020. The climate reporting of our investees also remained at an adequate level. The number of reporting entities in the corporate bond portfolio has decreased, but the portfolio currently contains a large number of bonds of non-listed companies, which do less reporting. If these are excluded, the reporting level is close to the 2016 level. The number of carbon sinks in our forest investments has

grown by nearly half since 2015, and the net impact is currently 652,947 CO<sub>2</sub>e tonnes (453,821 CO<sub>2</sub>e tonnes in 2015).

We will work on our climate roadmap and its targets in 2021. We will break the target down into shorter interim targets and monitor our journey. The new data will affect our goals also in the future, and we will keep developing our approaches on an ongoing basis.

#### Investment footprint (KPI 6)

	2020	2019
High carbon risk level max. 30% of the operations of the investees. Target 15% by 2025.	30	-
Calculated effect of energy savings measures on the energy consumption of properties, MWh/yr	2,080	5,252

The high carbon risk level is a new KPI; no comparison figure is therefore available for 2019.

## Climate policy road map 2016–2020

	2016	Goal/Target	2020
<b>Direct listed equity investments</b>			
Sustainable solutions in relation to netsales	6%	12%	11.5%
<b>Carbon footprint in relation to netsales</b>			
Equities	354	decreasing	334
Corporate bond	414	decreasing	311
<b>Share of renewable energy in electricity production of invested electricity companies</b>			
Equities	21.5%	increasing	43%
Corporate bonds	16%	increasing	48%
<b>Real estate investments</b>			
	2015		
Carbon footprint	41.2	-10%	-14.2%
Energy savings		-7%	-17.6% (office premises) -9.8% (residential buildings)
<b>Forest investments</b>			
Positive carbon footprint	453,821 (2015)	increasing	652,947
<b>Reporting on greenhouse gas emissions</b>			
Equities	83%	at least the same level	84%
Corporate bonds	87%	at least the same level	66%
<b>Dialogue with investees on environmental or social issues</b>			
Dialogue with companies, % of investments	73 / 17% (2015)	continue active dialogue	110 / 17%
<b>Comparison of equity investments to the Paris agreement</b>			
	2015		
	Power companies in line	in line	30% in line
	Fuel producers in line	in line	67% in line
	Automotive industry not in line	in line	44% in line

## 6.5 TCFD reporting

### GOVERNANCE (G)

#### a) Board supervision in climate-related risks and opportunities

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

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

The Responsible Investment Executive Committee is responsible for implementing the policies in our day-to-day work. The Responsible Investment Executive Committee provides guidance and defines how risks and opportunities are integrated into the process of making investment decisions. The Responsible Investment Executive

Committee sets interim targets as part of achieving the carbon neutrality target. The Responsible Investment Executive Committee includes the President and CEO, the Chief Investment Officer and persons from Ilmarinen's Executive Group, investment division, legal department and communications.

### STRATEGY (S)

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

The most significant and largest-impact climate risks and opportunities are related to our investment assets. In terms of our own operations, the impacts are relatively minor. Indirect risks mainly arise through our customers' business. We address climate-related themes as part of normal portfolio management in meetings with company management and in connection with engagement processes. We released new Responsible Investment Guidelines approved by the Responsible Investment Executive Committee in February 2020.

The guidelines state our current practices through which we will achieve the Climate Policy's goal of achieving a carbon neutral investment portfolio by the end of 2035.

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

Our Board of Directors addresses climate issues at the policy level and approves long-term climate targets. The Responsible Investment Executive Committee manages and identifies climate risks and opportunities and decides on the climate target's interim targets and measures within the responsible investment framework. The significance of climate impacts depends on, for example, the industry and geographical location of investees. As part of the carbon neutrality target, we do not invest in companies with carbon-intensive operations that are highly dependent on fossil fuels and do not have sufficient emission reduction targets. We favour investees with lower emissions than their peers and which are in

a good position to strengthen the competitive advantage through new business opportunities in a low-carbon economy. Furthermore, we encourage our investees to set science-based targets and to incorporate the objectives of the Paris Agreement into their strategies. Practical targets for achieving carbon neutrality have been set until 2025. We continuously review the interim targets in light of our experiences and new information. In 2021, we will develop our climate roadmap further.

#### c) Sustainability of the climate strategy under scenario analysis

Calculation methods need to be developed further before the scenarios can be used as a material part of portfolio management. At the moment, scenario analyses mainly provide useful information for meetings with investee representatives and engagement processes, and for the indicative assessment of developments at the portfolio level. They also help identify investees that require further investigation. We have



adopted new data and analytics, and in this report, we disclose for the first time the transition risk and the physical risk associated with listed equity and bond portfolios, as well as their alignment with the Paris Agreement's two-degree scenario. The data and calculation methods are constantly evolving, and as we see it, the data should be considered indicative at this point.

## RISK MANAGEMENT (R)

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

We use company-level climate-risk data from various sources and we have incorporated that data into internal analysis and made it part of databanks and tools available to portfolio managers. We also conduct portfolio-specific analyses on climate risks. Our portfolio managers have at their disposal various databanks and analyses that also take into account other themes that are important for responsible investment along with climate risks. In real estate investments,

for example, we have applied the life-cycle approach in calculating the profitability of projects for a long time. We apply for LEED environmental certification for all new construction and renovation projects (excluding residential buildings). The minimum requirement is Gold level.

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

At this stage, we focus on identifying and assessing climate risks at both the company and portfolio levels. We are currently looking into how climate risks are integrated into the whole organisation's risk management. This requires increased availability of climate-related data and analytics for a growing number of asset classes.

## METRICS AND TARGETS (M)

### a) The calculation methods used in assessing climate risks and opportunities

We use an external service provider for analysing climate risks

and opportunities at both the company and portfolio levels. This includes both backward-looking analysis, such as the carbon footprint, and forward-looking analysis, such as the two-degree scenario modelling and the assessment of transition risks and physical risks. The figures for 2020 were calculated by S&P Trucost. The calculations are based on sector averages where no public, verified data on emissions is available. Furthermore, we use data produced by various service providers to assess climate risks and opportunities. As different service providers apply different methodologies, we also conduct, as required, scenario analyses on our portfolios using other available tools to compare the data at our disposal.

### b) Scope 1 and 2, also scope 3 where possible

We disclose our carbon footprint for both direct listed equity and fixed income investments and government bonds (scopes 1 and 2 and separately scope 1+2+3, with scope 3 covering the supply chain) and report extensively on

the climate impacts of our real estate investments, for example. It should be recognised that the differences between the various calculation methods are still large and the same emission sources are included several times over. Given the current variations of carbon related metrics, the results are not entirely conclusive and are interpreted as useful signals to which we will develop further rigor in our research.

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

We have published climate targets and key themes for 2020–2025. Our goal is to achieve a carbon neutral investment portfolio by the end of 2035. The interim targets have been set for five years by the year 2025. As part of our corporate responsibility reporting, we monitor the realisation of the targets on an annual basis. The targets are regularly reviewed in light of our experiences and new data. In 2021, we will continue to work on our climate roadmap, including asset-class-specific climate roadmaps.

## Portfolio's carbon footprint

The weighted carbon footprint of the direct listed equity portfolio decreased somewhat in 2020 compared to the previous year. In 2020, the weighted carbon footprint was 216 and a year earlier 223 (tCO<sub>2</sub>e/MEUR sales). Sector-wise, the biggest relative contribution to the carbon footprint by far came from the materials sectors. For every one million euros invested, the carbon footprint in 2020 was 86 (tCO<sub>2</sub>e/MEUR invested).

In 2019, the carbon footprint of the listed equity portfolio was smaller than the benchmark index. Instead of a parent index, we use ESG indices, which include the companies with the highest environmental, social and governance rated performance in their respective sectors and geographical areas, as the benchmark indices for direct listed equity investments. At the end of 2020, the index producer modified the benchmark index to take into account climate considerations, following which the carbon footprint of the benchmark index has substantially decreased. In 2020, the carbon footprint of Ilmarinen's listed equity portfolio was larger than the benchmark index. Our portfolio's exposure to the ma-

terials sector with high emissions was larger than that of the benchmark index. However, the investees in this sector were companies which, regardless of the large carbon footprint that is typical for the sector's companies, successfully passed our additional scrutiny for high-carbon-risk companies. These companies have, for example, set science-based climate targets.

In 2020, the weighted carbon footprint of the direct corporate bond portfolio was 269 compared to 233 (tCO<sub>2</sub>e/MEUR sales) a year earlier. This represents an increase of 15% from the previous year. Sector-wise, the weight of energy companies grew relative

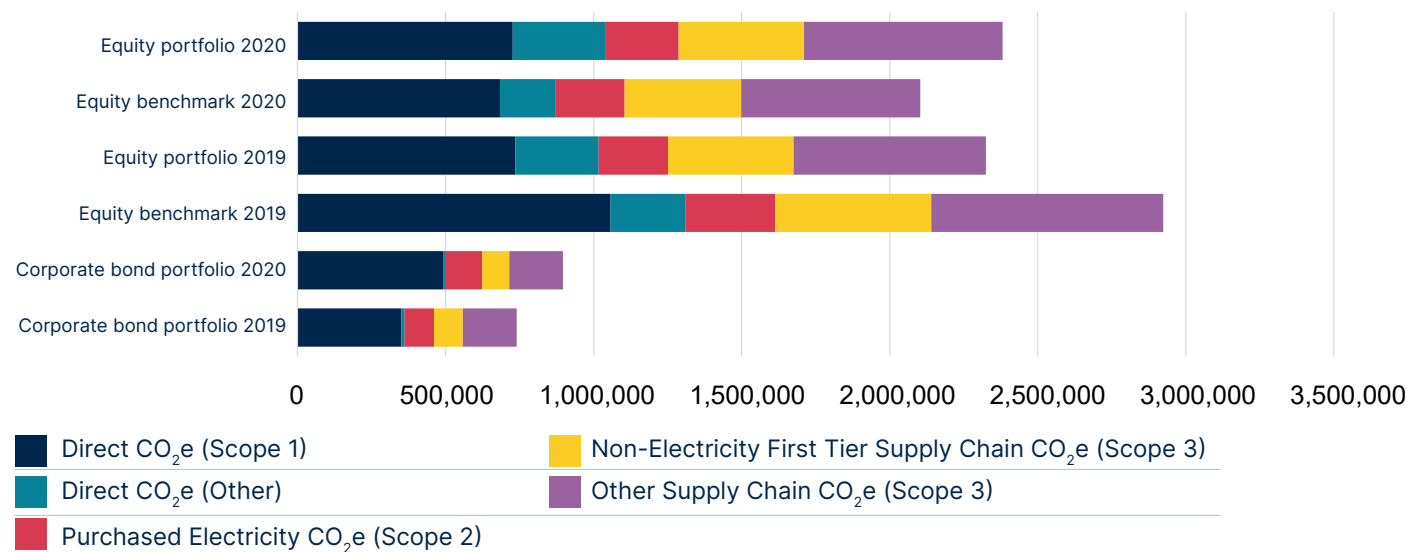
to the previous year.

When calculating the carbon footprint of an investment portfolio, the results are affected by a number of factors related to the method of calculation. Such factors include, for example, the scope of the calculation in terms of direct and indirect emissions, the greenhouse gases that are taken into account, and the investments that are included in the calculation. Our service provider's calculation model also enables the integration of potential greenhouse gases other than those specified in the Kyoto Protocol. If the sources of potential global warming emissions are taken into account more extensive-

ly in the calculation, the weighted carbon footprint of the listed equity portfolio in 2020 was 334 tCO<sub>2</sub>e/MEUR sales, for example. Calculated this way, the carbon footprint is more than 50 per cent larger than the scope 1 and 2 carbon footprint under the Kyoto Protocol.

We are constantly working to improve our reporting. The reporting coverage is increasing, because we now disclose the carbon footprint of the government bond portfolio for the first time. In 2020, it was 1,092 tCO<sub>2</sub>e/MEUR GDP. For the sake of comparison, the data for 2019 was calculated in retrospect. In relation to 2019, the footprint grew 11 per cent.

Total Tonnes of CO<sub>2</sub>e Apportioned by Scope



## Greenhouse gas emissions of Ilmarinen's investments (GRI 305-4)

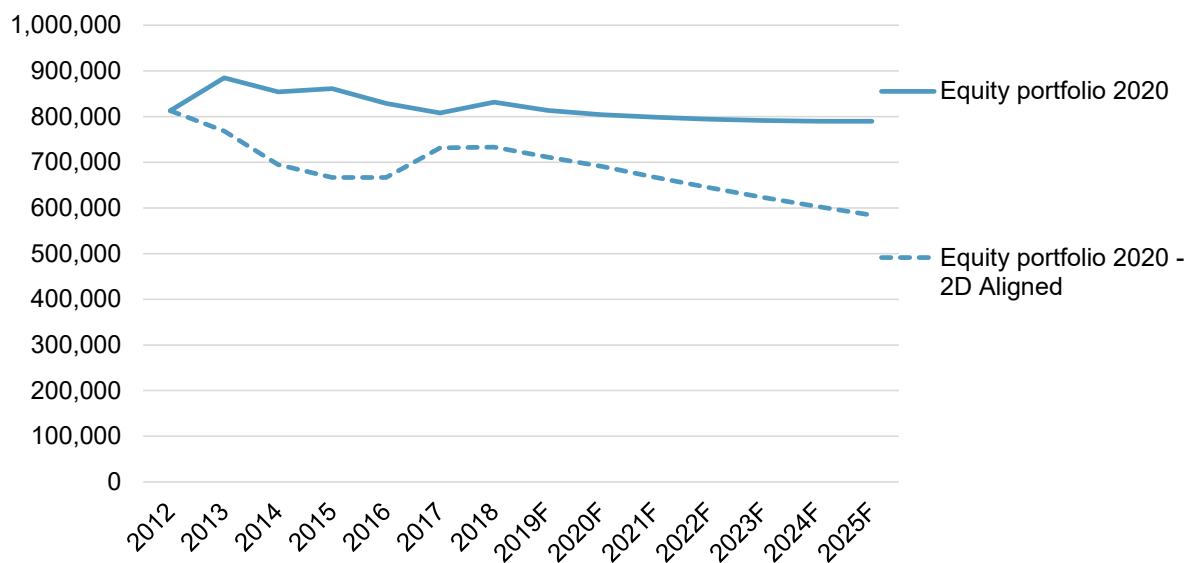
	2020	2019
<b>Direct listed equity portfolio</b>		
Weighted carbon intensity (tCO <sub>2</sub> e/MEUR sales, WACI, S1+S2)	216	223
Weighted carbon intensity in relation to aggregate benchmark (per EUR 1 mill. net sales)	0.12	-0.10
Weighted carbon intensity (tCO <sub>2</sub> e/MEUR sales, WACI, D+FTI)	334	333
Weighted carbon intensity in relation to aggregate benchmark (per EUR 1 mill. net sales)	0.16	-0.04
Carbon intensity (tCO <sub>2</sub> e/MEUR invested, S1+S2)	86	91
Carbon intensity in relation to aggregate benchmark (per EUR 1 mill. invested)	0.06	-0.28
Carbon intensity (tCO <sub>2</sub> e/MEUR invested, D+FTI)	151	156
Carbon intensity in relation to aggregate benchmark (per EUR 1 mill. invested)	0.14	-0.22
Absolute emissions (tCO <sub>2</sub> e, scope 1+2)	975,751	969,857
Absolute emissions (tCO <sub>2</sub> e, scope 1+2+3 upstream)	2,069,803	2,043,808
<b>Direct listed corporate bond portfolio</b>		
Weighted carbon intensity (tCO <sub>2</sub> e/MEUR sales, WACI, S1+S2)	269	233
Weighted carbon intensity (tCO <sub>2</sub> e/MEUR sales, WACI, D+FTI)	311	274
Carbon intensity (tCO <sub>2</sub> e/MEUR invested, D+FTI)	340	190
Carbon intensity (tCO <sub>2</sub> e/MEUR invested, S1+S2)	293	153
Absolute emissions (tCO <sub>2</sub> e, scope 1+2)	616,934	449,542
Absolute emissions (tCO <sub>2</sub> e, scope 1+2+3 upstream)	889,873	728,689
<b>Direct government bond portfolio</b>		
Weighted carbon intensity (tCO <sub>2</sub> e/GDP, WACI, D+FTI)	1,092	981

The calculation includes the scopes 1 and 2. (GRI 103-1) 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 investees companies, commensurated into carbon dioxide tonnes in relation to the companies' net sales, weighted by the share of the investee in the investment portfolio. This is the reporting method recommended by the TCFD reporting framework and 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. We also report the direct and first tier supplier emissions in accordance with the methodology applied by the new service provider, which includes, in addition to purchased energy, also greenhouse emissions outside of the first tier supply chain and the Kyoto Protocol, which have global warming potential. These include CCl<sub>4</sub>, D<sub>2</sub>H<sub>3</sub>Cl<sub>3</sub>, CBrF<sub>3</sub>, and CO<sub>2</sub> from biomass. In 2020, we switched service providers and the table shows the figures calculated by the new service provider for 2020 and, in retrospect, for 2019. The previous service provider applied a different methodology, which is why the figures calculated by it differ from the new ones. The carbon intensity for the direct listed equity portfolio that we disclosed in our sustainability report for 2019 was 238, and its difference compared to the benchmark index was -0.01. The weighted carbon intensity of the direct listed equity portfolio was 170. All figures can be found in the sustainability report for 2019.

The new service provider's scope 3 emissions only include supply chain emissions, whereas the previous service provider assessed Scope 3 emissions for the entire value chain. The new calculation method reduces overlapping calculations, which result from the portfolio's investments extending throughout the value chain.



Emissions (tCO<sub>2</sub>e) Trajectory vs. 2 Degree Aligned Levels, 2012-2025



**Paris Agreement and the two-degree scenario**

Our goal is to achieve a carbon-neutral investment portfolio by the end of 2035. One of the ways we use to assess the development of the portfolio is the two-degree scenario model in line with the Paris Agreement. What should be recognised in connection with the analysis is that the data is purely indicative, as the calculation models are constantly evolving and the coverage of the calculation in the listed equity portfolio, for example, is around

80 per cent and in the listed corporate bond portfolio only some 45 per cent. The coverage is thus lower than in the calculation of many other disclosures. Due to the lower coverage, the reliability of the data is weaker. However, we expect the quality of the data to improve in the next few years, which is why we want to monitor both the development of the calculation and the indicative results already at this point.

In 2020, the direct listed equity portfolio exceeded the two-degree scenario by approximately 20 per cent. The corporate bond

portfolio exceeded the scenario by roughly 22 per cent. We also expect low-carbon technologies to improve step by step and that the transition will not necessarily be linear. Against this backdrop, although we would very much like to move towards the two-degree scenario in a linear manner, we are more likely to have a more winding road ahead of us. In any case, our next goal is to develop means that will enable us to narrow the gap to the two-degree carbon budget in the medium term and ultimately reach the two-degree scenario, after which

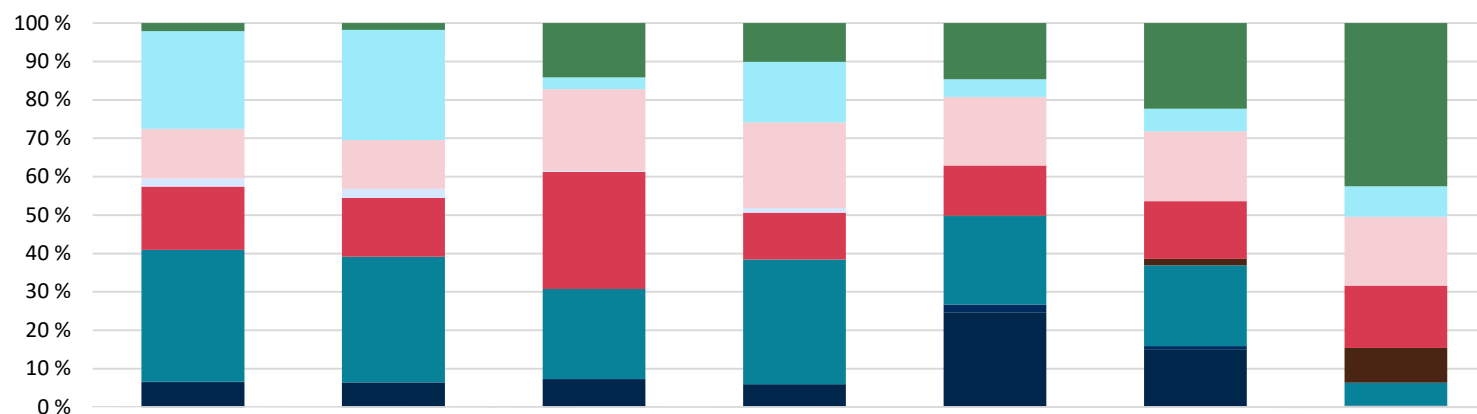
we will start working towards a lower scenario. At the same time, it is also important to improve the coverage of the calculation.

The largest deviation in the equity portfolio relative to the 2025 energy scenario is the portfolio's overweight in biomass and natural gas – their share should be smaller and the share of renewable energy sources should be larger.

On the plus side, in terms of coal, we are in line with the two-degree scenario for 2030 and even far below it. We will naturally continue to monitor the share of coal. A substantial part of our portfolio is located in Finland, while the International Energy Agency's (IEA) scenarios are global. It is natural that our portfolio should have a lower level than the IEA's global scenario for coal, for example.

The results suggest that we should focus our attention beyond coal to other fossil fuels. That is why we switched over from only assessing coal to assessing fossil fuels in general in our carbon risk assessment in 2020. The threshold for high-carbon-risk assessment will gradually be lowered as we approach 2025.

Energy production, relative to the two-degree scenario, % of portfolio's GWh



	Equity portfolio 2019	Equity portfolio 2020	Corporate bond portfolio 2019	Corporate bond portfolio 2020	IEA (World) 2025 2 Degree Scenario	IEA (World) 2030 2 Degree Scenario	IEA (World) 2050 2 Degree Scenario
Other Renewables	2.09%	1.81%	14.14%	10.08%	14.60%	22.31%	42.52%
Biomass	25.48%	28.67%	3.03%	15.74%	4.65%	5.92%	7.91%
Hydroelectric	12.89%	12.65%	21.41%	22.33%	17.84%	18.16%	17.91%
Other sources	2.13%	2.39%	0.23%	1.23%	0.00%	0.00%	0.00%
Nuclear	16.48%	15.32%	30.41%	12.19%	12.97%	15.06%	16.29%
Fossil energy with CCS	0.00%	0.00%	0.00%	0.00%	0.19%	1.62%	8.98%
Natural Gas	34.33%	32.75%	23.45%	32.50%	23.07%	21.04%	6.04%
Petroleum	0.10%	0.12%	0.25%	0.01%	2.00%	0.96%	0.27%
Coal	6.50%	6.29%	7.09%	5.93%	24.68%	14.94%	0.08%

## Exposure to fossil fuels and renewable energy

### Energy sector and share of renewable energy

The listed equity portfolio's exposure to net sales from the energy sector increased slightly compared to 2019. However, the share of renewable energy increased more in relative terms and the share of fossil energy decreased, which means that the development was positive. Overall, the exposure of the corporate bond portfolio decreased.

When looking only at fossil

fuels, the exposure of the listed equity portfolio to net sales from these operations was slightly larger than that of the benchmark in 2020. The larger exposure mainly resulted from the larger share of natural gas in energy generation. Exposure to net sales from coal-related energy was less than 0.5 per cent.

The corporate bond portfolio's exposure to energy generation with fossil fuels fell compared to 2019. The biggest part of the exposure came from natural gas. Exposure to net sales from coal-related energy generation was close to zero.

The service provider also assesses companies' future reserves of fossil fuels. For listed equity investments, these potentially available reserves have declined from 2019. In terms of the corporate bond portfolio, oil reserves in particular grew somewhat in 2020 compared to 2019.

### Transition risk

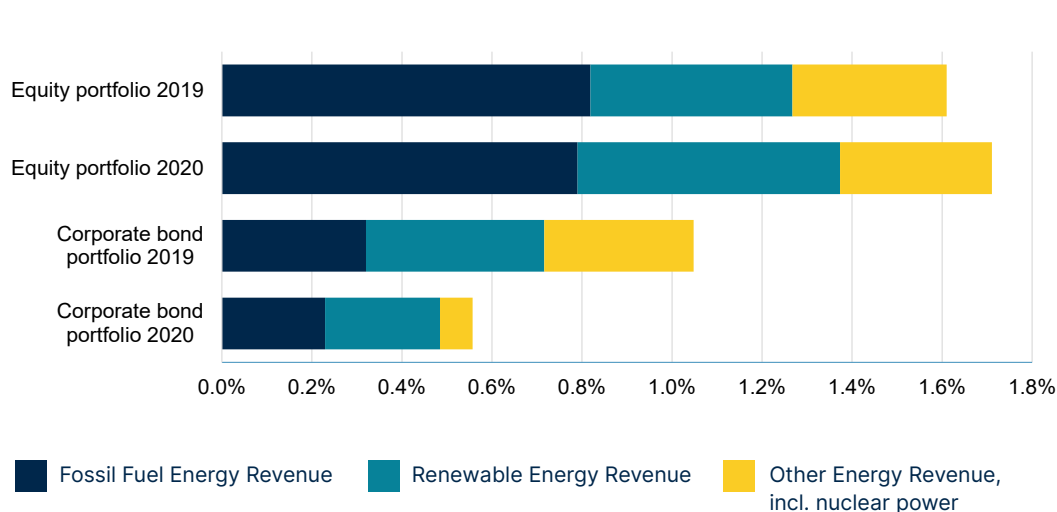
Forward-looking scenario models make it possible to identify and prepare for various future developments and related risks and opportunities. Scenario modelling makes it possible, for example, to

assess the physical and transition risks related to climate change.

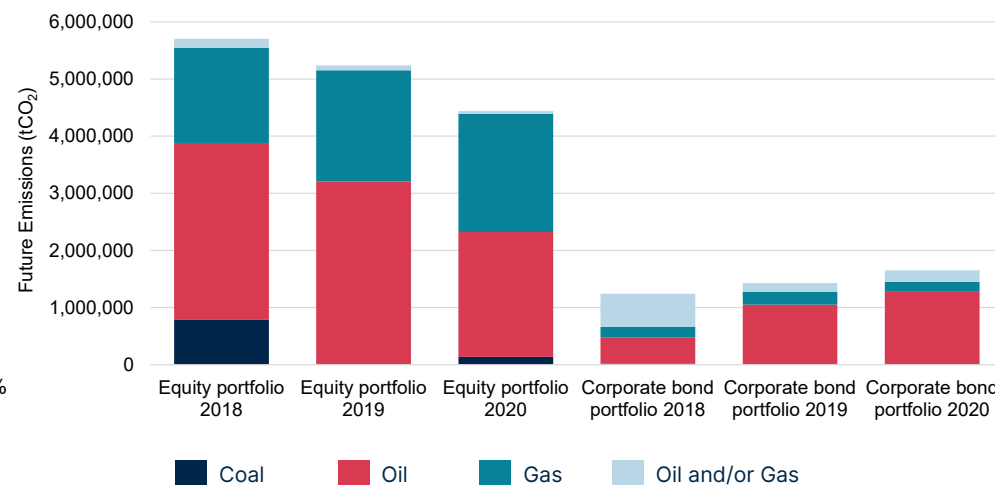
Today, the pricing of greenhouse gas emissions only covers less than a quarter of the emissions. Since the pricing of greenhouse gas emissions is still lacking, investors can use scenario modelling to examine the impacts of the evolving pricing on their investments. The assessment takes into account companies' emissions and the potential coal pricing developments in the future.

As regards the direct listed equity portfolio, the risk related to unpriced emissions has risen compared to the previous year, and

## Exposure to Energy Revenues



## Apportioned Future Emissions by Reserve Type





is larger than the ESG-weighted benchmark index. Sector-wise, the largest risk is related to the materials sector and energy generation. In terms of the corporate bond portfolio, the risk exposure has declined from the previous year and the largest risk related to unpriced emissions in the corporate bond portfolio is in the consumer goods and materials sectors.

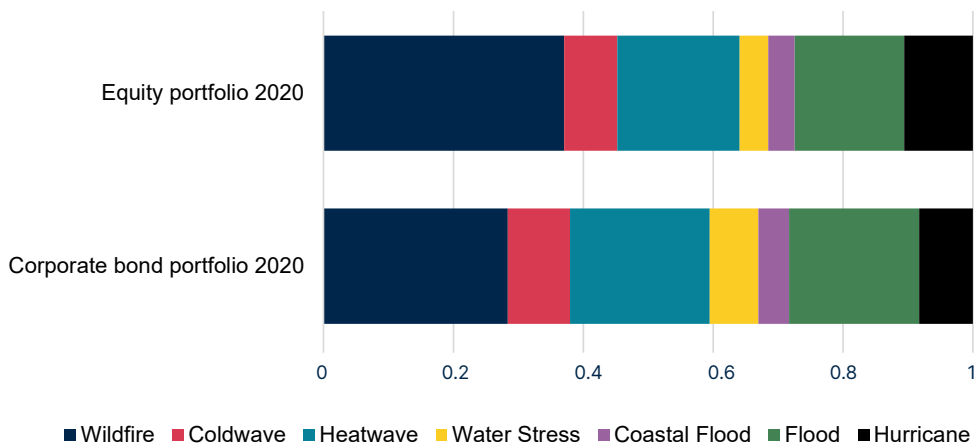
**Physical risk**

The physical risks affecting an investment portfolio can be, for example, sudden occurrences or

phenomena that develop gradually over time. Examples of physical risk are storms, flooding and local climate-related changes in precipitation and temperature, for example. Physical risks affect companies in a number of ways, such as interruptions of production and disruptions in the supply chain. The physical risk analytics are still new, and at this stage, we assess the risk as indicative data on the portfolio level.

The exposure of the direct listed equity portfolio to physical risks was slightly smaller than that of the benchmark index.

**Proportional shares of physical risk**



We are pleased with the modification made by the index producer at the end of 2020, which excludes from the benchmark index companies that are strongly involved in coal-based operations, such as coal-dependent companies.

Juha Venäläinen,  
Senior Portfolio Manager, Ilmarinen

Among our equity portfolio’s modelled potential physical risks, fires were the single largest source of risk. Heat waves and floods were also a significant source of risk. The same sources of physical risk were the most significant also for the corporate bond portfolio. Overall, the exposure of both portfolios to a loss caused by physical risks is at the lower end of the assessment scale.

**6.6 Responsible investment index funds expanded**

In 2020, we expanded responsible investment through index funds in the emerging markets.

We had previously transferred our passive equity investments to ESG products in Europe, the USA and Japan.

In 2020, we participated in the development of two new competitively priced passive ETFs that integrate ESG considerations, which track the ESG indices produced by MSCI in the emerging markets.

The index behind the ETF product 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 and certain controver-



”  
 In 2020, we developed our internal ESG data tool. The tool allows us to make more data with a higher degree of detail directly available to our portfolio managers to support them in their decision-making.  
**Gerald Esono,**  
**Responsible Investment Specialist,**  
**Ilmarinen**

sial weapons, and companies that have committed serious breaches of international norms are also excluded from the indices. For several years, we have raised the need to integrate the consideration of climate risk into the meth-

odology applied by the index, both in the surveys conducted by the index producer and in other discussions. We are pleased with the modification made by the index producer at the end of 2020, which excludes from the bench-

mark index companies that are strongly involved in coal-based operations, such as coal-dependent companies. This change also had a significant impact on the index. The carbon footprint of the index, for example, has been estimated to decline by around a third as a result of the methodology change.

We have investments in a total of five ESG-oriented ETFs, i.e. sustainable exchange-traded index funds. At the end of 2020, more than 90 per cent of the passive exchange-traded investments were in sustainable funds. ESG ETF investments at the end of 2020 stood at approximately EUR 5 billion, which represents nearly ten per cent of Ilmarinen’s investment portfolio.

## 6.7 Climate reporting recognised

The openness of our operations and our practices is important to us. We annually report on our investments in line with the international Principles of Responsible Investment (PRI). The Principles for Responsible Investment (PRI) is a collaborative organisation for responsible investment launched in 2006 based on a UN initiative. We were the first Finnish investor to sign these UN-supported Principles for Responsible Investment (PRI) that same year.

In 2020, our report was named in the PRI Leaders’ Group. PRI Leaders’ Group is the PRI’s annual recognition of exemplary climate-related reporting by its signatories who promote responsible investment practices. The theme for the recognition in 2020 was climate reporting, and signatories had to demonstrate how they align their organisation with the reporting recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). Climate change was chosen as the theme because the PRI initiative signatories assessed it as the highest priority in responsible investment and as a material

### Companies that have reported on greenhouse gas emissions

	2020	2019
Proportion of investments with reported greenhouse gas emissions, listed equities	84%	87%
- share of comprehensive reporting, listed equities	99%	85%
Proportion of investments with reported greenhouse gas emissions, corporate bonds	66%	68%
- share of comprehensive reporting, corporate bonds	99%	85%

The service provider has changed. The methodology applied by the new service provider differs from that of the previous service provider, which means that the figures for 2019 and 2020 are not comparable. In 2019, the reported figures for equity investments contained an error, and the figures have been restated to reflect the reality. The report for 2019 contained the following figures: Listed equities, reporting 91%, of which comprehensive reporting accounted for 86%. No corrections were made to the corporate bond portfolio’s reported figures.

risk in investment activities. In the selection, PRI assessed the reporting organisations' climate-related targets, executive management's support for climate actions and the consideration of climate risks in investment activities, among other things.

Careful and high-quality reporting is a big effort and we are pleased to see that our work is worthwhile. Our goal is to continue comprehensive reporting also going forward. An example of this is the new kind of climate reporting included in this report.

## 6.8 Increasing reporting and transparency

The availability of climate change data and analytics is constantly improving. Previously, carbon footprint reporting covered direct listed equity investments, corporate bonds and real estate. This year, carbon footprint reporting also covers the government bond portfolio. Going forward, we will also look for opportunities to increase the coverage of climate-related data and analytics and, as a result, the coverage of reporting, also when it comes to indirect investments and non-listed investments.

Increasing data and analytics also enable a new kind of company and portfolio level analysis. This year is the first time that we have incorporated, on a larger scale, forward-looking analytics into climate reporting to complement backward-looking analysis, such as the carbon footprint. This report for 2020 contains, for example, new data regarding the two-degree scenario model under the Paris Agreement and physical and transition risks.

The importance of data and analytics is further increasing, and high-quality data enables its integration into both investment decisions and portfolio-level analysis. However, it is important to bear in mind that, at this stage, the new kind of climate data is still subject to a lot of potential uncertainties and differences in the way the data is produced by the service providers. These include, for example, the coverage of the data, precision and the assumptions built into the models. As the amount of data increases, it comes down to identifying the most relevant data in light of the investor's targets. In this context, it is important to understand the background of the data and the

assumptions behind the models. It will be increasingly important for the users of the new data to look into the underlying assumptions and how it was collected and aggregated, to better support the investment decision making process.

Forward-looking analysis covers both the company and portfolio levels. At this stage, we use the data as an indicative basis when holding discussions with companies at the company level and when assessing developments at the portfolio level. We will keep track of the development of climate-change-related data and analytics and we will also look into how the data could be integrated even more closely into the ESG analysis of individual companies. We want our reporting to be open and even more comprehensive, which is why we have made use of the new forward-looking portfolio-level analysis for this year's report.

Companies' climate reporting is important from the perspective of increasing availability of data and the quality of data. In 2020, a total of 84 per cent of the direct equity portfolio's companies disclosed their greenhouse

gas emissions. In the corporate bond portfolio, that proportion was 66 per cent. In both portfolios, the proportion of those who applied comprehensive reporting increased.

Going forward, we hope that the availability of data and analytics continues to grow, not only in terms of the climate, but also in terms of biodiversity and natural capital. Today's ESG ratings incorporate biodiversity. However, we expect that the data related to the subject will increase in the next few years, just like climate TCFD reporting has improved in leaps and bounds in a short amount of time. We are monitoring, for example, the TNFD's (Taskforce on Nature-Related Financial Disclosures) initiatives and various initiatives related to accounting standards, such as the IFRS Foundation's proposition made in 2020 to establish a Sustainability Standards Board.

In 2020, we also developed our internal ESG data tool. The tool allows us to make a higher volume of more detailed data directly available to our portfolio managers, integrating it into holistic investment decision-making. We believe that integrating ESG data



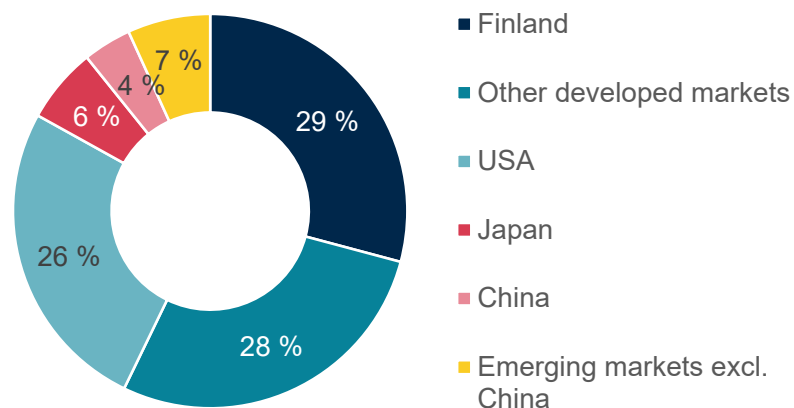
into financial data improves investment decision-making and is beneficial in the long run for both risk management and identification of good investment opportunities.

## 6.9 A major investor in Finland

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

We are also a major property developer in Finland. We build new business premises and residential buildings and develop our existing properties to meet our customers' needs. (GRI 203-2)

### Listed equity holdings/equities and shares (€ 19.1 bn) by area



### Ilmarinen's most significant Finnish listed equity holdings

By value, EUR mill.

	31 Dec 2020	31 Dec 2019
Kojamo Plc	371	455
UPM-Kymmene Corporation	342	269
Neste Corporation	330	264
Stora Enso Corporation	328	257
Kesko Corporation	325	276
Fortum Corporation	290	259
Sampo Plc	278	269
Nordea Bank Abp	257	282
Kone Corporation	255	257
Nokia Corporation	252	251

### Ilmarinen's most significant Finnish listed equity holdings

By share, %

	31 Dec 2020	31 Dec 2019
Nurminen Logistics Plc	19.6	19.7
SRV	12.7	1.6
Digia Plc	12.6	14.6
Kojamo Plc	8.3	11.3
Panostaja Oyj	8.1	8.1
Martela Corporation	8.1	8.1
Glaston Corporation	7.3	7.3
Citycon Oyj	7.1	7.1
Capman Plc	6.6	6.8
Gofore Plc	6.0	6.2

## 6.10 Sustainable construction

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

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

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 at the design phase. In

connection with new construction projects, we simulate energy architecture decisions and assess what renewable energy options are available to us, such as solar energy and geothermal heating and cooling.

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

We annually measure the carbon footprint of our new buildings during their construction and throughout their lifecycle. Ilmarinen also includes in the calculations the building's parking spaces as determined by the town plan. As a result of long-term efforts, a declining trend can be observed in the carbon footprint of construction.

We invest in resource-efficient buildings that are healthy and



Responsible investment of pension assets also takes into account human rights. We have collaborated with the Accessibility Centre since 2016. This has been a huge learning process. We consider accessibility already in the design process.

Niina Nurminen,  
Construction Manager, Ilmarinen

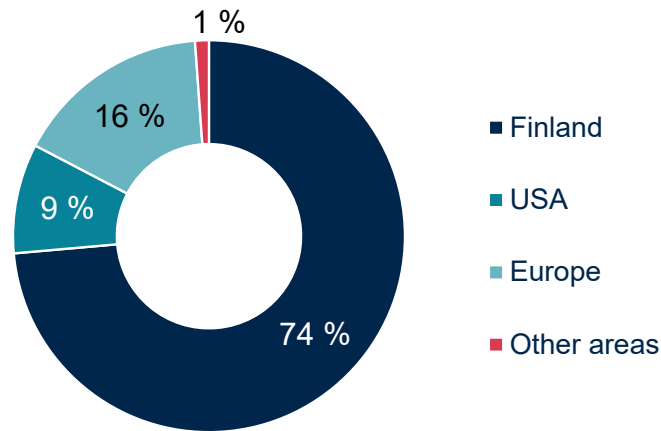
safe for their users and located along good public transport connections. Our property development and the real estate services bought by us also significantly contribute to creating employment and increasing society's tax revenues. According to calcula-

tions by VTT and the Confederation of Finnish Construction Industries, for example one million euros invested in renovations will produce, on average, 16 person years. Ilmarinen invests some EUR 110 million in property development annually.

### Customer satisfaction

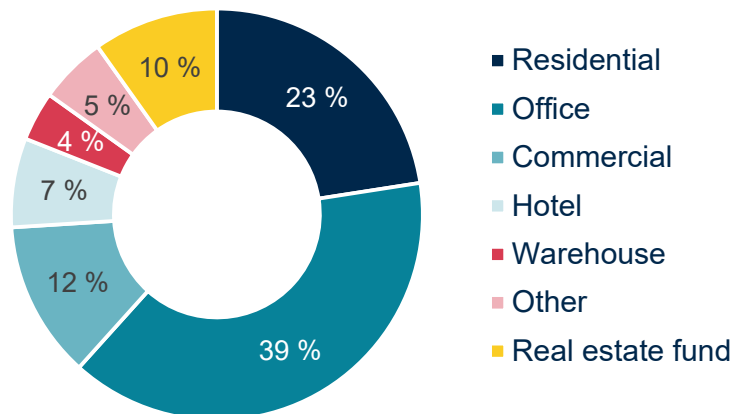
	2020	2019
Customers' overall satisfaction with leased office premises	4.2	4.0
Overall satisfaction with real estate maintenance	4.0	4.0
Customers' overall satisfaction with leasing, office premises	4.0	3.8
Overall satisfaction with real estate development	4.4	4.3
Completed homes (flats)	379	368
Accessibility surveys in Ilmarinen's flats	113	500

### Real estate investments (EUR 6.2 bn) by geographical area



In line with our investment strategy, we continued the diversification of our real estate investments also outside of Finland. Our goal is for 50 per cent of our real estate investments to be abroad.

### Real estate investments (EUR 6.2 bn) by property type



### 6.11 Exceeding the energy saving targets

We work actively to improve the energy efficiency of our real estate. Thanks to our successful measures, we exceeded the set targets. On the part of commercial properties, we exceeded the interim target (TETS) for 2020 (277%) and the final target for 2025 (184%). On the part of residential properties, we exceeded the interim target (VAETS) for 2020 (148%) and the final target for 2025 (99%).

The abbreviations refer to the Ministry of Economic Affairs and Employment’s energy efficiency agreements that we have committed to. The target was to cut consumption by 7 per cent by the end of 2020 and by 10.5 per cent by the end of 2025 compared to the 2015 baseline.

Examples of key measures are: modernising the automation systems in the properties, building heat recovery systems, switching over to remote cooling, replacing existing outdoor light fixtures with LED lighting and modernising fans in ventilation machines. In addition, measures carried out in residential buildings include

adding sensor technology, replacement of radiator valves and adjusting networks.

With new measures becoming necessary every year, this work must be continued ambitiously and resolutely in order to achieve the target set for 2025.

### 6.12 Developing the construction sector

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 monitor worksite-specific indicators: Occupational Health and Safety (TR) and Occupational Health and Safety for Civil Works (MVR) in property development.

We apply for LEED environmental certification for our Finnish properties in particular. LEED (Leadership in Energy and Environmental Design) is an international environmental certification system for buildings. The system is managed and maintained by the U.S. Green Building Council. LEED is the most extensively applied international environmental





The real estate energy efficiency targets were achieved.

### Energy intensity of the properties

	2020	2019
Energy consumption of flats, kWh/m <sup>2</sup> /year	137	155
Energy consumption of office premises kWh/m <sup>2</sup> /year	186	198
Energy consumption of foreign office premises kWh/m <sup>2</sup> /year	159	193

### Water intensity of the properties

	2020	2019
Water consumption of flats m <sup>3</sup> /m <sup>2</sup> /year	1.14	1.07
Water consumption of office premises m <sup>3</sup> /m <sup>2</sup> /year	0.18	0.26
Water consumption of foreign office premises m <sup>3</sup> /m <sup>2</sup> /year	0.40	0.57

certificate for commercial buildings, and it is used in 160 countries.

The certification has four levels of which LEED Gold is the second highest. We require all of the new commercial properties we have developed to achieve LEED Gold. We use in our in-use certification

of properties the LEED v4 tool kit version, which has the strictest criteria of the versions in use.

With LEED v4 certification, properties' tenants can impact their own premises and develop their sustainability. At the same time, the involvement of the

property's users is a requirement for receiving in-use certification: in addition to technical solutions, especially the daily activities of the property and its users are monitored.

## 6.13 Focus on employees' rights

As a major property developer and real estate investor, we do our part in combating the grey economy in the construction sector in close collaboration with authorities. Ilmarinen's guidelines for combating the grey economy are applied in all of our new construction projects and renovation and refurbishment projects.

Business activities are affected by human rights risks in Finland too. In recent years, cases have emerged in the construction and cleaning sectors, for example. Considering human rights is an important part of our investment activities, also in property development. That is why we bring to the fore employees' rights in our obligations to combat the grey economy.

For example, we require our contractors to join the Reliable Partner programme. Furthermore, the main contractor must have in place procedures to ensure that the product and service supply chain, including possible subcontractors and raw material purchases, complies with laws, collective agreements, international human rights and minimum



## Key real estate actions in 2020

- 1 We were granted the Developer of the Year award by RAKLI. In the motivation for the award, we were praised for, among other things, our exemplary consideration for environmental certification, energy efficiency and accessibility for all user groups in construction.
- 2 As a RAKLI member company, we signed the new demolition green deal. Its goal is to increase the reuse and recycling of demolition waste.
- 3 The insulation and thermal glass dismantled from Ilmarinen's office building will be recycled into raw material for glass wool in a circular economy pilot project together with Saint-Gobain Finland and Uusioaines.
- 4 Strong focus on LEED certification. The Kämp block is now almost entirely certified.
- 5 'Equal service for all' label of the Finnish Association of People with Physical Disabilities.
- 6 We were granted, together with Kämp Galleria, the Helsinki Tourism Foundation's Helsinki Travel Award 2020 for our long-term efforts to revive the centre of Helsinki and to bring companies together.
- 7 We exempted our restaurant tenants from rent payments during the worst of the Covid-19 pandemic, between 30 March and 31 May.

## LEED-certified properties

### Building Operations and Maintenance

Kämp Galleria	GOLD, LEED-EB v4.1
Aleksanterinkatu 40-42	GOLD, LEED-EB v4.1

labour standards. We do not allow the assigning or chaining of contracts, save in exceptional cases based on discretion and subject to written approval.

We require equal treatment of employees. Regarding this, we require that foreign employees hired in Finland have pay and working conditions that are not below the general conditions that exist in the labour market in Finland. Employment must be voluntary; employees must not be required to pay a deposit, placement fees or other securities in exchange for an employment contract. Employees must also have the freedom to leave the workplace after their work shift has ended.

If requested to do so, the main contractor must be able to prove that our requirements have been met and the workers' rights have

been respected. One of Ilmarinen's practices is to reserve the right to have a third party carry out an audit or to contact the employees of the main contractor and its subcontractor without prior notification to ensure that the main contractor and the subcontractors comply with the requirements concerning their employees' rights.

## Carbon footprint of real estate investments

	2020	2019
<b>Domestic real estate</b>		
Finnish real estate total CO <sub>2</sub> e/m <sup>2</sup>	27	25
Warehouses kg CO <sub>2</sub> e/m <sup>2</sup>	11	17
Free-time residential buildings kg CO <sub>2</sub> e/m <sup>2</sup>	25	27
Offices kg CO <sub>2</sub> e/m <sup>2</sup>	30	27
Institutional care buildings kg CO <sub>2</sub> e/m <sup>2</sup>	0	25
Parking facilities kg CO <sub>2</sub> e/m <sup>2</sup>	21	18
Other kg CO <sub>2</sub> e/m <sup>2</sup>	5	
Commercial buildings kg CO <sub>2</sub> e/m <sup>2</sup>	32	30
Hotels kg CO <sub>2</sub> e/m <sup>2</sup>	36	27
Residential buildings kg CO <sub>2</sub> e/m <sup>2</sup>	24	28
<b>Foreign real estate</b>		
Offices kg CO <sub>2</sub> e/m <sup>2</sup>	50	60
Commercial kg CO <sub>2</sub> e/m <sup>2</sup>	54	135
<b>All real estate kg CO<sub>2</sub>e/m<sup>2</sup></b>	<b>35</b>	<b>37</b>

## Carbon footprint of new construction

	2020	2019
Carbon footprint per square metre (kg CO <sub>2</sub> e/net m <sup>2</sup> , emissions)	387	387
Carbon footprint per square metre (kg CO <sub>2</sub> e/useful floor area m <sup>2</sup> , emissions)	531	552
Carbon emissions from construction in relation to annual net sales (tCO <sub>2</sub> e/EUR 1 million)	112	120

The figures include the greenhouse gas emissions arising from the energy consumption of the real estate portfolio.



## 'Equal service for all' label



We adopted the 'Equal service for all' label of the Finnish Association of People with Physical Disabilities. The label is proof of our willingness to improve the accessibility and availability of commercial premises, services and products.

Sustainability and taking into account accessibility, for example, is important for us as a property developer. Accessible building starts with the idea that the spaces must cater for the needs of people of all ages and adapt to various life situations. With the ageing population, accessibility and assistive solutions are becoming increasingly important.

## 6.14 Sustainability analysis in a key role

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

Since 2019, we have used an internal sustainability tool, which functions as a databank for portfolio managers. In 2020, we developed the tool further. We added new data points and expanded it to cover new data sources.

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

Investing in companies for which a norm violation has been

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

ESG benchmark indices, which place an emphasis on sustainability, are used for listed equity investments. 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 and certain controversial weapons, and companies that have committed serious breaches of international norms are also excluded from the indices. In 2020, companies that produce substantial emissions, such as coal-dependent companies, were completely excluded from the benchmark index.

The use of ESG benchmark indices creates an even closer

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

The responsible investment specialists prepare and the Responsible Investment Executive Committee decides on our key ownership policies. In terms of General Meetings, the responsible investment team prepares voting instructions and positions on the largest owners' joint statements and proposals prior to General Meetings. Significant operational-level aspects related to active ownership are discussed in the Responsible Investment Executive Committee if required.

The Investment division is responsible for operational sustainability analyses and their integration into the selection process as well as the sustainability

monitoring of our investments. The responsible investment team includes the Head of Responsible Investments and two responsible investment specialists. (GRI 103-2)

## 6.15 Responsible investment reporting

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

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

One of the TCFD's key recommendations is that companies should take into consideration different global warming scenarios in a changing business environment and make use of scenario analysis. Ilmarinen is already using different climate scenarios in the background analysis of its investment operations. There are challenges related to scenario analyses and different calculation methods, but we find it important

to make use of the currently available scenario models especially in portfolio-level analysis.

We assess that our operations largely comply with the TCFD's recommendations. However, the calculations and scenario analyses still involve challenges related to, for example, the reliability of information. These challenges occur, for example, in calculating the portfolio's carbon footprint, where it is possible to obtain different results depending on the calculation method. We wish to convey as realistic a picture as possible of our carbon footprint. The calculation method chosen for our report uses the industry averages for emissions for which no public, verified data is available. In accordance with the TCFD's recommendation, we disclose the weighted average carbon intensity. We also disclose the scope 1 and 2 carbon footprint and, regarding absolute emissions, the scope 3 production chain footprint. Due to the diversity of the calculation methods, we disclose both the scope 1 and 2 carbon footprint in accordance with the Kyoto Protocol and a more comprehensive carbon footprint, which also takes into account other direct global warming sources and the tier 1 supply chain emissions.



We must be aware of the cornerstones of investing also when it comes to responsible tax policy, as we operate in a global investment market and within its increasingly complex regulatory framework.

**Tero Lehmusvaara,**  
Legal Counsel, Tax, Ilmarinen

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

## 6.16 Active ownership

For some time, active ownership has been a central aspect of our work as a responsible investor. Our approach on how we operate as an active owner is defined in the Ownership Policy. Active ownership is our perspective on

how we take into account issues related to companies' good governance, i.e. the ESG aspects' governance issues.

The focal point of our active ownership is Finnish ownership and direct engagement, and in Nordic engagement co-operation. We implement Finnish active ownership, for instance, by participating in Boards of Directors' nomination committees and by voting in General Meetings. We engage in active dialogue with the management of the companies we invest in, for example, on sustainability issues. In the case of indirect ownership, fund management companies are responsible for active ownership. We regularly ask them about

## Screening of investees for norm violations regarding environmental breaches and social issues

	2020	2019
Negative screening, social and environmental issues, % / listed equities and shares	100%	100%
Negative screening, social and environmental issues, % / listed corporate bonds	100%	100%
Negative screening, social and environmental issues, % / Ilmarinen's total investment assets	25%	37%
Coverage of Ilmarinen's own sustainability ratings, % / listed equities	93%	90%

In the report for 2019, the proportion of norm violations of the entire portfolio had been calculated using a different sample based on ISIN codes. In 2020, we reported the proportion of the direct listed equity and corporate bond portfolio of the entire portfolio; the figure for 2019 has been restated to reflect the methodology applied in 2020. In addition, in 2020, nearly 10% of the portfolio is invested in ESG ETFs, which track a sustainability index with in-built screening for norm violations. Including ESG ETFs, the coverage is at least 34% of the entire investment portfolio.

## Ilmarinen's interaction in environmental and social matters with companies included in the investment portfolio

	2020	2019
Interaction and contacts in environmental or social issues, companies included in the investment portfolio	110	161
Number of companies in Ilmarinen's direct equity portfolio	656	615
Interaction and contacts in environmental or social issues, percentage of companies included in the investment portfolio	17%	26%
Companies subjected to engagement measures	139	146
Companies under an engagement process at year-end (Global Compact)	13	16
Engagement processes completed during the year (Global Compact)	6	9
Engagement in connection with proposals to General Meetings	32	24
Companies on whose nomination boards we participated during the year	31	25

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

## Active and engaging ownership (KPI 7, a new indicator for 2020)

	2020
Number of engagement processes (situation at year-end)	13
Engagement processes that reached the target during the year	4

the implementation of active ownership, whether in writing or in meetings. The managers of indirect passive equity funds also annually report to us on their voting behaviour.

Our Ownership Policy is included in our Responsible Investment Policy. Among other things, it describes our expectations of companies. We disclose more detailed information on our ownership policy guidelines in the Responsible Investment Guidelines. 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 out-

line our expectations concerning the agendas of General Meetings, the remuneration systems and the composition of the Board of Directors.

We attend the General Meetings of the companies in which we are a major owner or where participation is appropriate, for instance due to a theme on the agenda. We annually report on our website on our participation in the General Meetings of listed Finnish companies and the votes cast. 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.

Our Board of Directors approves



By investing in companies that are committed to reducing carbon intensity, we are supporting a genuine transition towards a low-carbon economy.

**Niina Arkko,**  
Responsible Investment Specialist,  
Ilmarinen

any and all memberships of Ilmarinen employees in the governing bodies of listed companies. In addition, the Board of Directors approves all other memberships of the President and CEO and the members of the Executive Group in the governing bodies of corpo-

rations outside of Ilmarinen. The President and CEO approves all of the work-related memberships of the remaining personnel in the governing bodies of non-listed companies.

### Nomination processes

As an owner, we participate in the nomination processes of the Board members of a number of Finnish listed companies. Through the nomination process, we promote the professional and responsible governance and management of the companies we have holdings in. As a member of Nomination Committees, we contribute to ensuring that the composition of the Board takes into account the company's

### Active participation in general meetings

	2020	2019
Number of General Meetings of companies listed in Finland in which Ilmarinen participated	104	107
Number of General Meetings of companies listed in Finland owned by us	107	113
Rate of participation in the General Meetings of companies listed in Finland (measured in numbers)	97%	95%
Rate of participation in the General Meetings of companies listed in Finland (measured in investment assets)	99%	99%
Voting in the General Meetings of foreign companies	17	19
Rate of participation in the General Meetings of non-listed Finnish companies in relation to the value of the holdings	92%	97%



business needs and development stages and the competence areas required by the Board of Directors and its committees. For us, diversity is one of the hallmarks of a well-functioning Board of Directors. (GRI 103-2)

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

Companies need change agents, whether external or internal. We engage with companies, together with other investors and as part of a broader group. As a rule, our dialogue with companies is confidential. The best results are achieved through dialogue and positive change.

### Nordic engagement co-operation

One of the most important co-operations for us is Nordic Engagement Co-operation (NEC), in which we engage with investees together with other Nordic pension companies through the intermediary of a service provider. Previously, the co-operation focussed on engagement processes initiated as a result of norm violations, but in recent years it has evolved towards more pro-active engagement. In 2020, we continued the engagement theme related to the TCFD reporting in the food sector and initiated an engagement process

related to sustainable water use in the beverage and chemicals sectors.

### New channels for dialogue with companies

In 2020, we started a practice of directly contacting companies with a poor sustainability rating. Our questions concerned, for example, human rights and product safety issues. We also actively communicated with our investees on setting emission reduction targets. As part of our own carbon neutrality target, we expect our investees to set reduction targets and disclose them. If the companies do not change the way they operate and engagement does not lead to the desired result, the last resort is to exit from ownership. We can invest in high-carbon-risk companies that have committed to change. However, it is important that the companies make progress on their journey, which is why active communication and monitoring are important to us when it comes to these companies.

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

In 2020, we interacted more than before with the non-listed portfolio's external asset managers in issues related to human rights and good governance due to cases that had arisen.



### Responsible tax policy in our investment activities

In 2020, we supplemented our Responsible Investment Policy with a tax policy.

- We commit to complying with the tax laws and regulations of Finland and other investment jurisdictions.
- We expect our co-operation partners to commit similarly to complying with the tax laws and regulations of investment jurisdictions.
- We review, prior to the investment decision, the tax treatment of investments and investment structures in the context of non-listed investments.
- We govern investment activities from the business viewpoint, independent of taxation.
- We commit to open interaction with tax authorities and other relevant stakeholders in order to determine and meet the statutory reporting obligations.

Last year, we also actively held discussions with service providers on matters related to the investigation of human rights breaches and reporting, for example.

In listed investments, we continued active engagement and dialogue with our investees.

### 6.17 Taxation of pension assets impacts society

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

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

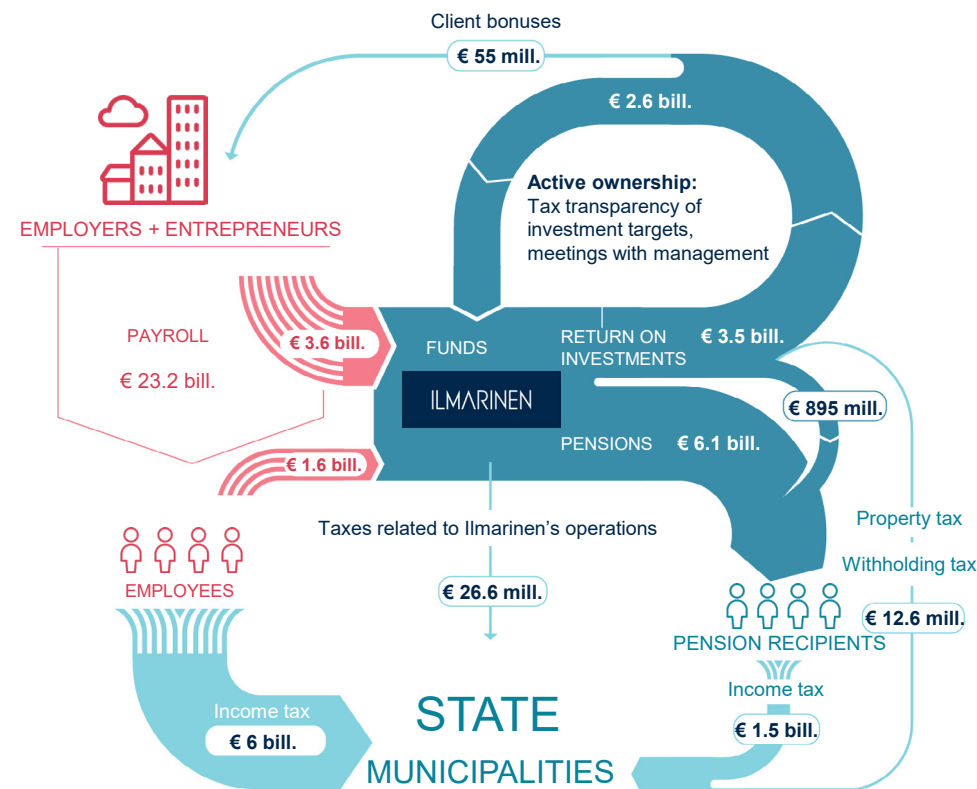
The earnings-related pension

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

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

As a mutual company, we do not have any guarantee capital, and thus no profit distribution. The company's capital and reserves belong entirely to the policyholders and insured. Even though the calculated annual return is taxable income for the pension company, no tax payable has arisen. The taxable income has been reduced by the tax buffers accumulated in the previous years.

### Ilmarinen's tax footprint



The tax related to Ilmarinen's office building is presented as part of real estate taxes.

### Taxes related to Ilmarinen's own operations

	2020
Tax withheld payroll, EUR million	14.2
VAT related sourcing, EUR million	11.8
Employers social security contributions, EUR million	0.6
Real estate tax (Ilmarinen's office building), EUR million	0.7
Total, EUR million	27.3

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

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

We invest in non-listed foreign and some domestic companies as part of consortiums that include other Finnish and foreign investors. They often involve a tax specialist who plans an investment structure that is as tax-efficient as possible from the viewpoint of investors. This is a requirement of international investors in particular and the prevailing practice in the sector. The advance assessment of tax consequences is also important

in order for us to be able to predict the net return on investment with regard to the beneficiaries, i.e. current and future pensioners. We monitor tax legislation and changes thereto in both Finland and internationally, to ensure compliance.

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

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

## Case

### Helen: Postipuisto takes energy efficiency to a new level

The planned residential area of Postipuisto in Helsinki is setting a new standard for energy efficiency in new-build developments. The apartment block being built on the former site of the Pasila overland transport centre will be heated and cooled carbon-neutrally. The innovative energy solutions developed by Helen and Ilmarinen make use of several different heat sources and may constitute the solution to sustainable energy use in buildings in Finland.

The residential building will produce most of the heating and cooling it requires from sources like geothermal heat, waste water heat recovery and condensates from grocery stores. Furthermore, solar panels will reduce the volume of bought electricity in the property. The various heat sources complement the renewable district heating in a versatile way, and all the heat sources can be utilised together in each season in a way that is optimal and as carbon-neutral as possible.

The energy solution is a new operating model for both companies. In addition to supplying energy to the building, Helen takes care of the relevant equipment and the entire energy system. The energy field necessary for the geothermal heat for the building belongs to Ilmarinen, the property owner.



“Both Helen and Ilmarinen have ambitious goals when it comes to carbon-neutral energy production. We look forward to developing a totally new kind of energy solution together.”

**John Aalto,**  
Sales Project Manager, Helen





**We work to protect your pension**



## 7. We work to protect your pension

All of our work is intended to make sure you get the pension you have earned. We ensure that our team has the best possible expertise. We operate openly and transparently – in dialogue with our stakeholders.

### 7.1 Reliability and transparency

According to the pension barometer published by the Finnish Centre for Pensions, Finns' trust in pensions strengthened in 2020 compared to the previous year. Three out of four people trust in the pen-

sion system. Pensioners and those approaching retirement, aged between 50 and 64, trust the system the most. On the other hand, those aged 25–34 are concerned that the younger generations will have to shoulder too much of the pension payment burden.

Last year, for the seventh time

running, Finland's pension system was assessed to be the world's most reliable and transparent pension system in a comparison carried out by the Australian consulting firm Mercer. In the overall comparison, our pension system was ranked fifth – one place lower than the previous year.

As in the previous years, Finland was given suggestions for improvement: increasing the funding ratio of earnings-related pensions, dividing spouses' entitlement to pension in divorce situations and raising the employment rate of seniors. A new recommendation for Finland in the 2020 report was to improve households' savings and correspondingly reduce their debt. It is easy to see from the list that the pension system is tightly tied in with many key societal issues:

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

### 7.2 Business principles

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

In addition to openness, important aspects include continuous development of good governance and a culture of regulatory compliance. Complying with regulations in day-to-day life requires us to be conscious of all regulatory changes related to our operations. The changes can apply directly to employment pension

In August, our employee Net Promoter Score (eNPS) was at its highest level in our measurement history, at 51.

We provided our personnel with a variety of support measures during the Covid-19 pandemic. We offered employees the opportunity to take work and ergonomics equipment home and have their lunch delivered to their homes in the Uusimaa region during the worst phase of the pandemic. Additionally, we helped our employees organise childcare and encouraged them to work out by offering them virtual fitness classes. We also allowed for more flexibility in working hours.



During the coronavirus year, we provided training related to remote work and remote management – from virtual facilitation to building emotional intelligence and trust.

**Barbro Björkestam-Bärlund,**  
HR Business Partner, Ilmarinen

insurance companies or pension legislation, but equally to investment operations and related reporting in any marketplace where we have investments. Ilmarinen's lawyers support us in this work.

The compliance officer, who reports to the Senior Vice President of Legal Matters, plays a special role in ensuring the compliance of the company's operations with the law and good governance. The compliance officer is assisted in cascading compliance by an internal compliance network, which consists of named representatives of the business divisions and support functions. The compliance officer reports on his/her operations directly to the Board of Directors, the Audit and Risk Management Committee and

the President and CEO. The Board of Directors approves the compliance guidelines and annually confirms a compliance action plan.

In 2020, we carried out an extensive project at Ilmarinen, in which we reviewed Ilmarinen's company-level guidelines and policies based on usefulness, accessibility, cascading and maintenance. A clear and up-to-date page was created on the intranet, bringing together all of the reviewed key guidelines and policies to help all Ilmarinen employees.

In practice, each employee is responsible for complying with regulations, regulatory guidelines and good governance principles and for intervening in any problems they observe. There is an

anonymous whistleblowing channel for our employees, through which they can report any suspected misconduct or other problems. In 2020, we received two reports. The reports were investigated in line with the process in place. In both cases, the suspicion of misconduct was found to be unfounded. The online Code of Conduct training, which provides guidance on good governance, is part of the introduction training for new employees.

Around 74 per cent of employees starting with us in 2020 had completed the course by the end of the year. The Code of Conduct document is available to all on our website. (GRI 205-2)

Our guidance, for example, on related-party matters and transactions involving related party companies, is more stringent than what is required by law. We monitor conflict-of-interest situations when preparing and making decisions involving our related parties. We deal with transactions with our related parties in accordance with the related-party guidelines approved by Ilmarinen's Board of Directors.

As an investor, we operate with care also when it comes to insider matters. Insiders are all of the

persons who have the opportunity to influence decision-making involving the investment of the company's assets or who otherwise gain access to information related to investment decisions. Information on the holdings of insiders is available on Euroclear Finland's NetSire service. Ilmarinen's insider guidelines set forth a process and procedures for dealing with insider matters.

### 7.3 Dialogue with stakeholders

The other side of openness is active dialogue and listening. Based on surveys and feedback, we easily seem distant to many of our customers and stakeholders.

There is plenty to do in terms of improving people's knowledge of the pension system. For example, knowledge about their own pension, which is necessary for the long-term planning of their finances, is not very good.

In 2021, for the fourth time in a row, Finns rated Ilmarinen as the most responsible pension company. The Sustainable Brand Index survey showed that attitudes towards pension companies' sustainability were positive. Awareness of what we do in practice to

Stakeholder	Stakeholder's key expectations	Interaction channels, frequency and measures
Customers (policyholders)	Easy insurance. Expert service and proactive communication. Support for knowledge management and personnel's disability risk management.	Frequent meetings and co-operation with clients. Customer involvement in the development of services. Risk-based and impactful work ability services. Active development of customer services. Coherent and timely customer communications.
Current and future pensioners (insured)	Responsible and long-term management of statutory pensions. Easy, coherent and fast service.	High-quality customer service, providing understandable pension information, fast processing times, safeguarding pension assets.
Personnel	Responsible personnel management, smooth interaction, equality, positive workplace atmosphere and working conditions as well as competitive remuneration.	Leadership that supports success and developing competence. Clear goals, monitoring and remuneration. Comprehensive and evolving well-being at work activities. Continuous interaction.
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. Providing expertise. 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 sufficient level of pension security and keeping the system's costs at a reasonable level.	Communication through Ilmarinen's Board of Directors, Supervisory Board and Advisory Committees. Providing expertise. Regular meetings and other close-knit communication through, for instance, various working groups and events.
Industry organisations	Good, open co-operation. Ilmarinen's expertise made available to the entire industry. Shared goal of ensuring the sustainability and effectiveness of the pension system.	Comprehensive co-operation with, for instance, the Finnish Pension Alliance TELA, The Finnish Centre for Pensions and Finance Finland. Channels include working groups, regular negotiation groups and various events.
Media	Openness of communications, reliability of information and quick service. Ilmarinen's expertise made available for the media: introducing new perspectives, active statements and making difficult issues easier to understand.	Open and active communication through various channels. Regular meetings and communication. Quick and open response to media requests.
Educational and research institutions	Ilmarinen's expertise made available to educational institutions. Offering summer jobs and internships. Shared research projects and open flow of information. Developing the pension system and increasing its prominence.	Co-operation with students, e.g. in thesis work. Taking part in various university and school events. Recruiting summer workers.
Civil society	Open and active dialogue. Sustainability and reliability of business. Offering Ilmarinen's expertise for use through various communication channels.	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.
Investees and investment partners	Open communication about expectations, consistent and long-term operations, fast response times to questions.	Clear communication concerning active ownership, consistent investment strategy, fast decision-making. Interaction both regularly and as required.

promote sustainability has been lower than in many other sectors.

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

We engage in dialogue with our stakeholders also in associations and other partner organisations. In 2020, we were a member of more than 30 different associations. In addition, a few of our employees participated in the operations of trade associations closely linked to their work.

Key memberships in terms of responsible investment include PRI (Principles for Responsible Investment), Finsif (Finland's Sustainable Investment Forum) and NEC (Nordic Engagement Co-operation). As a real estate investor, our key memberships include the real estate sector co-operation organisation RAKLI ry, the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) and the Green Building Council Finland, which focuses on the environmental impacts of

construction. Our Construction Manager Niina Nurminen is also a member of GBC Finland's Board of Directors until 2022. We are also a member of the Association for Finnish Work.

We are a member of the representative organisation Finance Finland and the Finnish Pension Alliance TELA. Of the insurance sector associations, we are a member of the Actuarial Society of Finland. Individual members are involved in Suomen Vakuutusyhdistys. Our personnel have the opportunity to participate in the activities of the insurance and financial sector's sports club VUFI.

## 7.4 Risk management

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

and the rights of the insured, pensioners and policyholders in all situations.

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

Our risk management function, including monitoring of investment risks, and reporting to the Board of Directors fall under the responsibility of the Senior Vice President in charge of planning and monitoring the company's operations. Reporting on investment activities and risk monitoring are thus independent from the

risk-taking function. The Board of Directors reviews and approves Ilmarinen's risk management system's operating principles and investment plan annually. As part of strategic decision-making and risk management, the Board of Directors and the executive management annually create their own risk and solvency assessment that assesses the impact of the most significant risks on the company and the measures that are necessary to manage these risks.

Our most significant risk is associated with the management of solvency in both the short and the long term. The single largest risk factor in solvency management is related to the development of investment returns. The risk level of investment activities is continuously monitored by, for example, monitoring the investment restric-

### Ilmarinen's sourcing (GRI 102-9)

	2020	2019
Number of suppliers, operating expenses	883	1,313
Number of suppliers, real estate costs	1,148	1,214
Number of domestic suppliers, operating expenses	788	1,214
Number of domestic suppliers, real estate costs	1,142	1,205
Total purchases, operating expenses, EUR million	127	141
Total purchases, real estate costs, EUR million	238	262



tions and estimating the future development of solvency through scenario analyses and stress tests. During the market crash caused by the coronavirus crisis in early 2020, Ilmarinen adopted enhanced intraday solvency monitoring, allowing it to create a good overview of the situation and ensure compliance with the authorities' solvency regulations. Solvency strengthened in 2020 as investment returns exceeded the return requirement on technical provisions.

The importance of ensuring continuity was highlighted in 2020, with almost the entire personnel starting to work from home due to the Covid-19 pandemic. Ilmarinen's continuity plans and planned action models proved a success in the emergency situation, with no major disruptions to the operations.

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

## 7.5 Reporting

We identified sustainability as a central theme in our strategy and vision approved by the Board of Directors in 2019. The main policies on the practical imple-

mentation are made by the President and CEO and the Executive Group. We report on sustainability-related themes in this report as well as in the Report on Operations signed by the Board.

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

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

The key figures for financial responsibility are based on Ilmarinen's financial reports, accounting

Influence on stakeholders' assessment and decision-making »

## Ilmarinen's materiality analysis



Significance of economic, social and environmental impacts »

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

We have drawn up this report in accordance with the GRI Standards of the Global Reporting Initiative (GRI). These guidelines involve the regular assessment of the materiality of different topics. We update the material sustainability topics in in-house workshops and through external stakeholder surveys, in alternating years. The next update will take place in 2021 due to the delay caused by the Covid-19 pandemic. The matrix illustrates the results of the stakeholder survey and the materiality analysis carried out internally in 2018 as a matrix. The matrix illustrates the mutual and relative order of the topics judged to be the most material. (GRI 102-47)

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

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

## 7.6 Meaningful work

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

When the coronavirus pandemic broke out in March 2020, we largely transitioned to telework at Ilmarinen. As telework had been extensively used already before the crisis, we were well prepared. Working at the office has not been completely forbidden during the epidemic; our personnel had the opportunity to arrange their work in the most efficient and safest way possible, considering the demands of their job.

We provided our personnel with a variety of support measures during the Covid-19 pandemic. We offered them the opportunity to bring work and ergonomics equipment home, and in Uusimaa, our employees could have their lunch delivered to their homes in April and in May, when restaurants were closed. In addition to the traditional workplace childcare centre, employees could order childcare services via the remote connection to make it easier for the parent to concentrate on work without interruptions. We also encouraged our employees to stay fit while working remotely: we offered our entire personnel the opportunity to participate in virtual fitness classes and we participated in the cycling competition 'Kilometriksiä', which has already become a



Our personnel were given the opportunity to arrange their work in the safest and most efficient way possible.

**Jouko Pölönen,**  
President and CEO, Ilmarinen

time-honoured tradition. Furthermore, our personnel have access to an application that encourages and guides them to work out during breaks. The working hour rules were also applied more flexibly during the epidemic.

During the coronavirus pandemic, we continued to develop our personnel's competence with the same intensity as in previous years, rapidly switching over to virtual training, however. One of the top priorities during the year was naturally strengthening remote management through training on various themes – from virtual facilitation to building emotional

intelligence and trust. To support a rapid and smooth transition to the virtual world, personnel were provided with extensive online training on the use of collaborative applications and other Office 365 applications.

In 2020, our organisation was renewed and a total of three co-determination negotiations were conducted during the year. The first negotiations were initiated in response to the Financial Supervisory Authority's more detailed guidelines concerning work ability activities. Due to the guidelines, we renewed our customer interface roles and work

### Employee experience (KPI 8)

	2020	2019
Employee experience: Ilmarinen's eNPS	38	19

ability management approaches. The other two co-determination negotiations were about boosting operations, re-organisation and reacting to a changing operating environment.

The new responsibilities and roles resulting from the organisational changes were actively supported by a versatile training programme for those working in the customer interface, and employees leaving us were provided with career training tailored to each person's individual needs.

In 2020, the whole organisation participated in work aimed at finding ways to strengthen self-direction as part of a training programme targeted at supervisors. Every employee has also been offered the opportunity to improve their self-management skills through a modular training programme. Furthermore, each function has independently ensured that the competencies required for the function are up to date.

Our Board of Directors decides on our remuneration and incentive policy. Our goal is for our remuneration to be competitive, fair, equal, guiding and supportive. Remuneration is governed by the collective bargaining agreement

for the insurance sector and the comparison with the development of other employers that we regularly conduct. Remuneration is based on how demanding the work is and on personal performance and competence. We believe that this contributes to the fairness of the remuneration – also seen from the perspective of pay equality between men and women, among other things. Our goal is to narrow the gender pay gap. The differences in pay between the genders in the same demand category primarily result from men and women seeking somewhat different types of roles and functions.

The employee experience was monitored during the year by pulse surveys carried out every two months, a more extensive work ability survey and surveys on specific themes, such as teleworking during the coronavirus pandemic. The employee experience improved during the year. The employee Net Promoter Score (eNPS) was 32 and in August, it was at its highest level in our measurement history, at 51. The average for the whole year was 38. The eNPS can range from -100 to 100.

## Key figures related to personnel

	2020	2019
Employees average age	47.2	47.6
Average retirement age	64.0	62.3
Average career length in Ilmarinen, years	14.1	14.7
Ilmarinen's employees' health	68%	40%

## Cycling competition 2020

	2020	2019
Active cyclists	102	115
Kilometers	71,042	78,000
Liters fuel saved	4,972	5,500
Kg CO <sub>2</sub> -emissions saved	12,430	13,000

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

	2020	2019
	90%	90%

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

	2020	2019
	82%	82%

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

	2020	2019
	93%	93%
	613	593

## New employee hires and employee turnover (GRI 401-1)

	2020	2019
Number of employment relationships at the end of the reporting period	662	640
New employment relationships	73	68
Ended employment relationships	48	73
Turnover of permanent employees, %	3,8	7
New employment relationships/permanent	47	42
Ended employment relationships/permanent	26	44
Number of summer employees	35	32
Employment relationships that ended on production and financial grounds	11	45

## Employees and governance bodies by age (GRI 405-1, KPI 9)

	2020	2020 %	2019	2019 %
<b>Employees</b>				
Under 30	52	8%	37	6%
30-50	342	52%	331	52%
Over 50	268	40%	272	42%
<b>Board of Directors</b>				
Under 30	0	0%	0	0%
30-50	6	55%	7	41%
Over 50	5	45%	10	59%
<b>Supervisory Board</b>				
Under 30	0	0%	0	0%
30-50	12	40%	11	37%
Over 50	18	60%	19	63%



## Average training hours per year per person (GRI 404-1)

	2020	2019
Average training hours, entire personnel	18	19
Average training hours, women	18	21
Average training hours, men	17	16
Average training hours, Executive Group	28	21
Average training hours, middle management	24	25
Average training hours, group supervisors 30 31	37	30
Average training hours, salaried employees and specialists	16	17

## Employees and governance bodies by gender (GRI 405-1, KPI 9)

	2020	2020%	2019	2019%
<b>Entire personnel</b>	662		640	
women	414	63%	409	64%
men	248	37%	231	36%
<b>Salaried employees and specialists</b>	581		560	
women	361	62%	357	64%
men	220	38%	203	36%
<b>Group supervisors</b>	31		33	
women	23	74%	24	73%
men	8	26%	9	27%
<b>Middle management</b>	39		37	
women	24	62%	23	62%
men	15	38%	14	38%
<b>Executive Group</b>	11		10	
women	6	55%	5	50%
men	5	45%	5	50%
<b>Board of Directors</b>	11		17	
women	1	9%	4	24%
men	10	91%	13	76%
<b>Supervisory Board</b>	30		30	
women	12	40%	11	37%
men	18	60%	19	63%

Number of Ilmarinen employees by employment type, employment contract and gender (GRI 102-8)

	2020	2020%	2019	2019%
<b>Permanent employment contracts, total</b>	627	95%	612	96%
Permanent employment contracts, women	395	63%	396	65%
Permanent employment contracts, men	232	37%	216	35%
<b>Permanent full-time employment contracts, total</b>	586	93%	577	94%
Permanent full-time employment contracts, women	364	62%	368	64%
Permanent full-time employment contracts, men	222	38%	209	36%
<b>Permanent part-time employment contracts, total</b>	41	7%	35	6%
Permanent part-time employment contracts, women	31	76%	28	80%
Permanent part-time employment contracts, men	10	24%	7	20%
<b>Fixed-term employment contracts, total</b>	35	5%	28	4%
Fixed-term employment contracts, women	19	54%	13	46%
Fixed-term employment contracts, men	16	46%	15	54%



## Ilmarinen's GRI Index

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

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

Disclosure	Name	Reporting, page
<b>General disclosures</b>		
<b>Organisation profile</b>		
102-1	Name of the organization	Ilmarinen Mutual Pension Insurance Company
102-2	Activities, brands, products, and services	6
102-3	Location of headquarters	Porkkalankatu 1, 00180 Helsinki, Finland
102-4	Location of operations	6
102-5	Ownership and legal form	6
102-6	Markets served	6
102-7	Scale of the organization	6, 9, 10, 15
102-8	Information on employees and other workers	73–76
102-9	Supply chain	70
102-10	Significant changes to the organization and its supply chain	72, 73
102-11	Precautionary Principle or approach	70, 71
102-12	External initiatives	37–40, 54, 60–64, 69
102-13	Membership of associations	69
<b>Strategy</b>		
102-14	Statement from senior decision-maker	8
<b>Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behavior	15, 16, 67, 68
<b>Governance</b>		
102-18	Governance structure	Financial Statement
<b>Stakeholder engagement</b>		
102-40	List of stakeholder groups	69
102-41	Collective bargaining agreements	73
102-42	Identifying and selecting stakeholders	69
102-43	Approach to stakeholder engagement	15, 69



102-44	Key topics and concerns raised	5, 6, 13–15, 19–22, 24–26, 30, 31, 33, 34, 37, 41, 60–64
<b>Reporting practice</b>		
102-45	Entities included in the consolidated financial statements	Financial Statement, 71–72
102-46	Defining report content and topic Boundaries	71–72
102-47	List of material topics	71
102-48	Restatements of information	<p>Three restatements were made due to an error detected in the data for the financial statements 2020. The total number of personnel was 662 (not 663), the number of permanent employment contracts was 627 (not 628), the employee experience (eNPS) was at its highest in August (not October).</p> <p>Logins to Ilmarinen's online service in 2019 numbered 201,641 (not 806,416), and this information was restated in the financial statements for 2020. The taxes at source have been restated due to an error in the data reported for 2019.</p> <p>The climate data service provider has changed (see section 102-49). Due to the change, some of the comparison figures have been updated or there is no comparison figure.</p>
102-49	Changes in reporting	<p>We have updated our sustainability KPIs to better reflect the material aspects of our operations. Some of the KPIs have been combined. Of the previously used KPIs, the following have been transferred to other KPIs: 1) benefit perceived by customers, NPS (KPI 3/19); 2) share of solutions related to Sustainable Development Goals (SDG) of the annual net sales of direct listed equity investments (KPI 6/19); and 3) carbon footprint of real estate (KPI 7/19).</p> <p>These have been replaced by the following new KPIs: 1) we keep your information secure (KPI 4/20); 2) footprint of investment activities (KPI 6/20); and 3) active and engaging ownership (KPI 7/20).</p> <p>The climate data service provider has changed. Our new disclosures are: 1) distribution of the carbon footprint of investment portfolios by scope; 2) carbon footprint of investment portfolios, including the different scopes (scope 1+2 and D+FTI and absolute emissions, Scope 1+2+3 upstream); 3) development of investment portfolios in relation to the two-degree scenario; 4) energy production of the investment portfolio by source; 5) energy net sales of investees; 6) potential future emissions of investment portfolios by type of reserve; and 7) physical and transition risks of investment portfolios.</p> <p>Furthermore, we disclose the final results for the targets of the climate roadmap 2016–2020.</p> <p>We do not disclose the climate risks of forest holdings (report for 2019, pages 35–37). We disclose the number of carbon sinks in our forest investments.</p>
102-50	Reporting period	1.1.–31.12.2020

102-51	Date of most recent report	The last report was published on 24.3.2020.
102-52	Reporting cycle	We publish this report annually. We publish it in Finnish, Swedish and English and it is only available online.
102-53	Contact point for questions regarding the report	info@ilmarinen.fi
102-54	Claims of reporting in accordance with the GRI Standards	We have reported on Ilmarinen's financial, social and environmental sustainability since 2007. This is the sixth time that we are reporting in accordance with the GRI guidelines, applying the Core option of the guidelines. The reporting partially exceeds the Core criteria, however.
102-55	GRI index	77–81
102-56	External assurance	84, 85. The report has been assured by EY's Climate Change & Sustainability Services. (GRI 102-56).

## Management approach

### General requirements for reporting the management approach

103-1	Explanation of the material topic and its Boundary	15, 16, 25, 26, 38–42, 46–58, 61, 62, 64, 65, 70–74
103-2	The management approach and its components	7–10, 15, 16, 25, 26, 38–42, 54, 59, 60–64, 67–73
103-3	Evaluation of the management approach	7–10, 16, 17, 25, 26, 38–42, 54–60, 64, 67–73

### Economic performance

201-1	Direct economic value generated and distributed	9
201-2	Financial implications and other risks and opportunities due to climate change	43–45

### Indirect economic impacts

203-2	Significant indirect economic impacts	5, 6, 8, 9, 21, 22, 24, 25, 31, 38, 53
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### Anticorruption

205-2	Communication and training about anti-corruption policies and procedures	60–65, 67, 68
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## Environmental sustainability

### Emissions

305-4	GHG emissions intensity	46. The calculation principles are explained in connection with the table.
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<b>Environmental compliance</b>		
307-1	Non-compliance with environmental laws and regulations	No sanctions in 2020.
<b>Employment</b>		
401-1	New employee hires and employee turnover	74 Personnel of parent company Ilmarinen. The age and gender distribution is not disclosed due to the low total number of new and ended employment relationships. The calculation takes summer employees into account as a separate group. Ended employment relationships cover all employment relationships that have ended on production and financial grounds.
<b>Training and education</b>		
404-1	Average hours of training per year per employee	75
404-2	Programs for upgrading employee skills and transition assistance programs	72–73, 75
<b>Diversity and equal opportunities</b>		
405-1	Diversity of governance bodies and employees	74, 75. We do not report figures considering diversity, because they are not available.
405-2	Ratio of basic salary and remuneration of women to men	73
<b>Public policy</b>		
415-1	Political contributions	We do not contribute political parties or politicians.
<b>Socioeconomic compliance</b>		
419-1	Non-compliance with laws and regulations in the social and economic area	No sanctions in 2020.
<b>Customer privacy</b>		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	16, 17

## Ilmarinen's Key Performance Indicators for Sustainability

KPI 1/20	Uninterrupted income	Fast pension decisions: processing time of old-age and disability pension applications compared to other employment pension insurance companies.  Disability pension decisions upheld by the appeals court and difference with competitors.	26, 30
KPI 2/20	Cost-effective management of pension cover	Ratio of operating expenses to expense loading components and loading profit.	10
KPI 3/20	We promote work ability	Effectiveness of rehabilitation: return-to-work rate in percentages:  a) coming from working life b) coming from fixed term pension.  Effectiveness of work ability projects.	25
KPI 4/20	We keep your information secure	Notifications of personal data security breaches to the Office of the Data Protection Ombudsman.	16
KPI 5/20	We manage pension assets	Return on investments and solvency ratio.	37
KPI 6/20	Footprint of investment operations	High carbon risk level max. 30% of the operations of the investees. Target 15% by 2025.  Energy saving measures in properties' energy consumption.	41
KPI 7/20	Active and engaging ownership	Number of engagement processes.  Engagement processes that reached the targets during the year.	61
KPI 8/20	We will succeed together	The employee experience: Ilmarinen's eNPS.	72
KPI 9/20	A fair and diverse work community	Equality between genders at work: the average salary of women compared to the average salary of men (excluding President and CEO / entire personnel)  Balanced share of both genders in supervisory and leading specialist positions.	73  75



## Other indicators

Ilmarinen's insurance contributions and pensions paid	5
Solvency	10
Pension contributions, TyEL	13
TyEL policies	15
Key indicators for customer service	15–17
Customer retention	15, 17
YEL insurance policies	20
Disability pensions and rehabilitation benefits	24
Ilmarinen's projects and coaching for work ability	25
Key indicators for rehabilitation	25–27
Pensions	31
Ilmarinen's pensioners, demographics	32
Key indicators for pensions	30–32
Key indicators for investments	37, 38
Market value of investment assets by asset class	39
Percentage of companies that have reported greenhouse gas emissions	51
Share of renewable energy and coal of the electricity production	42
Screening of investees for norm violations regarding environmental and social issues	61
Ilmarinen's interaction in environmental and social matters with companies included in the investment portfolio	61
Active participation in general meetings	62
Engagement processes ended during the year	61
Ilmarinen's most significant Finnish listed equity holdings	53
Listed equity holdings by region	53
Key indicators for real estate	54–55
Calculated effect of energy savings measures on energy consumption	41
LEED-certified properties	55–57
Carbon footprint of new construction	58
Water and energy consumption of the properties owned by Ilmarinen	56
Tax related Ilmarinen's own operations	64, 65
Key indicators for sourcing	70

# Independent accountant's assurance report

(Translated from the original report in Finnish language)



## To the Management of Ilmarinen Mutual Pension Insurance Company

### Scope

We have been engaged by Ilmarinen Mutual Pension Insurance Company (here after Ilmarinen) to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, here after referred to as the engagement, to report on Ilmarinen's Annual and Sustainability Report 2020 (the "Subject Matter") for the period 1.1-31.12.2020.

### Criteria applied by Ilmarinen

In preparing the Annual and Sustainability Report 2020, Ilmarinen applied the Global Reporting Initiative Sustainability Reporting Standards and Ilmarinen's own internal reporting principles (Criteria). As a result, the subject matter information may not be suitable for another purpose.

### Ilmarinen's responsibilities

Ilmarinen's management is responsible for selecting the Criteria, and for presenting the Annual and Sustainability Report 2020 in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the

subject matter, such that it is free from material misstatement, whether due to fraud or error.

### EY's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ISAE 3000'), and the terms of reference for this engagement as agreed with Ilmarinen on 24.9.2020. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

### Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Annual and Sustainability Report 2020 and related information, and applying analytical and other appropriate procedures.

### Our procedures included:

- a) An update of our knowledge and understanding of Ilmarinen's material sustainability reporting topics, organization and activities,
- b) An assessment of suitability and application of the reporting principles regarding the stakeholders' needs for information,

- c) Interviews with senior management to understand Ilmarinen's corporate responsibility leadership,
- d) Interviews with personnel responsible for gathering and consolidation of the corporate responsibility information to understand the systems, processes and controls related to gathering and consolidating the information,
- e) Assessing corporate responsibility data from internal and external sources and checking the data to reporting information on a sample basis to check the accuracy of the data,
- f) Performing recalculation of reported information and evaluating the correctness of underlying data and narrative disclosures

We also performed such other procedures as we considered necessary in the circumstances.

## Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the Annual and Sustainability Report 2020 for the period 1.1-31.12.2020, in order for it to be in accordance with the Criteria.

Ernst & Young Oy

19.3.2021  
Helsinki

Terhi Mäkinen,  
Partner, Authorized  
Public Accountant

Jani Alenius,  
Leader of Climate Change and  
Sustainability Services

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