

VARMA

Review of  
responsible investment  
**2025**

# Investing for change

**Responsibility guides our investment decisions. We direct our investments towards tackling our current global challenges: mitigating climate change, adapting to the consequences of environmental impacts and slowing down biodiversity loss.**



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# Responsible investment

Responsibility is an essential part of Varma's strategy and an integral part of our investment operations. In 2025, we focussed on promoting biodiversity and assessing and mitigating the risks related to climate change.

We entered a new strategy period at the beginning of 2025. Varma's goal is to become a leader in sustainable working life and responsibility. In accordance with our strategy, we focus on actions that truly make a difference. By these, we mean concrete matters that are within our ability to influence.

In 2025, we updated our Sustainability Programme, which now covers the years from 2026 to 2030. In accordance with the programme, we will prepare for the future by investing responsibly. Responsible investment means taking into account aspects related to the investee's responsibility and sustainability, including environmental impacts, social matters and good governance, in our investment decisions. We believe that responsibility has an impact on the operating conditions of companies.

From an investor's perspective, attending to sustainability does not conflict with expected returns. For us, sustainability is a means of securing long-term returns on investments while ensuring that risks and opportunities are broadly taken into account in investment decisions.

## Management and organisation of responsible investment

The principles for responsible investment, which have been approved by Varma's Board of Directors, form the foundation for our responsible investment activities. The oversight responsibility for sustainability at Varma is exercised by Varma's Board of Directors. The Board decides on the principles and policies related to sustainability, as well as on the sustainability programme to support the strategy.

The Investment Committee is informed of the responsible investment principles and policies that are presented to the Board of Directors. The committee monitors the investment risks related to responsibility, such as climate change-related risks, and also evaluates violations of international agreements and norms.

The Responsible Investment & Sustainability department defines the high-level sustainability objectives and develops and co-ordinates the responsibility of Varma's operations and investments together with the company's various functions. The functions are responsible for implementing sustainability. The head of

each asset class is in charge of the day-to-day application of the principles of responsible investment.

## Environmental targets steer our investments

Our environmental policy guides our target setting in terms of the environment. Mitigating climate change is one of the main goals of Varma's responsible investment. The climate targets cover Varma's investment assets in their entirety. The policy has been approved by Varma's Board of Directors.

In 2021, we set the target of reducing the investment portfolio's absolute emissions by 25 per cent by 2025 and 50 per cent by 2030 compared to 2021. At the end of 2025, the absolute emissions were down 55 per cent compared to 2021.

Varma is the only Finnish earnings-related pension insurance company to have set science-based emission reduction targets in line with the international climate initiative SBTi. The targets were set in 2023. We are committed to setting long-term SBTi targets by July 2027.

In addition to our climate targets, we focused on enhanced attendance to biodiversity in our investment decisions. We reviewed our investee companies' policies concerning the prevention of biodiversity loss for the third time. Companies' policies concerning sustainable management of water resources have become increasingly common compared to our earlier reviews.

## Investment due diligence

In our Principles for Responsible Investment, we have defined the kind of companies that are subject to due diligence on environmental and other sustainability issues. Significant change is brought about through investment and engagement, not through exclusion. That is why we focus on due diligence and active ownership, which enable transparent and strategic engagement. In 2025, we reduced the emphasis on exclusion, as a result of which investments in controversial weapons, nuclear weapons and the tobacco industry were brought under the due diligence process. When investing in companies that fall within the scope of the process, the portfolio

manager must exercise special diligence in assessing the companies' responsibility.

We have excluded from our direct investments companies that manufacture controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons, and whose headquarters are not located in a NATO country, IP-4 country or Switzerland. In our environmental policy, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 5 per cent of their revenue, production or production capacity. The exception to this general rule is companies that have set science-based targets.

## Engagement with investees

In 2025, we were in direct contact with 8 (7) companies as part of our engagement process. Contacts with companies involved in the engagement process covered a wide range of topics, such as corruption, competition law, governance violations, business ethics, labour rights and human rights, information security, and environmental issues. The companies

were located in North America, Asia and Europe.

In our view, well-defined diversity brings clear added value to the work of boards of directors. A board whose members come from diverse backgrounds and possess a wide range of expertise is best positioned to understand the demands of the company’s operating environment and to remain open to new opportunities and innovations.

We examined the implementation of gender equality in the boards of the Finnish listed companies in which we have invested. The results show that on average women account for 39 per cent of the board members of Finnish listed companies. In only one company, all board members were of the same gender. A total of 105 Finnish listed companies were examined. We encourage Finnish listed companies in which we have a holding to adopt the updated Finnish Corporate Governance Code as regards board composition. According to the code, companies should achieve a balanced gender representation, i.e. 40 per cent representation of either gender, by 30 June 2026.

We also examined the implementation of gender equality in foreign listed companies in which we have a direct holding. A total of 542 foreign listed companies were examined. In five of these, all board members were of the same gender. In European companies,

women accounted for a larger share of board members (39 per cent) than in North American companies (36 per cent). In Asia, the proportion of female board members was clearly lower. The boards with the most female members (43 per cent) were companies operating in basic industries, such as the chemical, forest and mining industries. The proportion of female board members was the lowest in the telecommunications and communications industries.

Participating in the work of nomination boards is a major means of engagement since Varma influences its investee companies mainly through the appointment of boards of directors. From the owner’s viewpoint, the board of directors’ role in the company’s strategy, risk management and choice of CEO is becoming increasingly important. Varma was represented in 38 nomination boards in the year under review. Memberships in nomination boards are given on our website.

Varma’s representative normally also participates in the annual general meetings of companies in which we have a holding. In 2025, Varma participated in 103 annual general meetings of Finnish companies and 602 annual general meetings of foreign companies. Up-to-date information on our voting in annual general meetings is available on our website.

**Investees included in Varma’s engagement process in 2025**

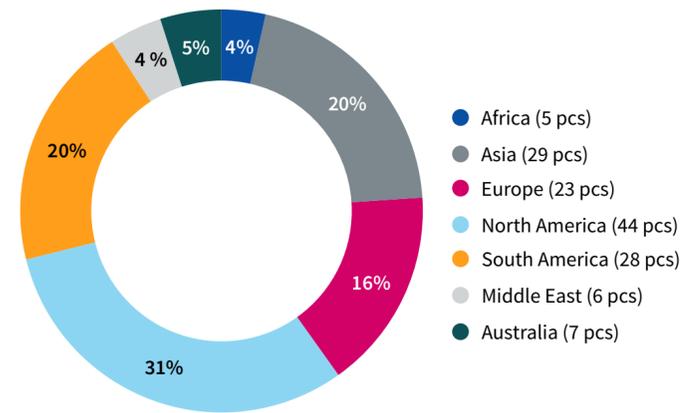
Company’s sector	Company’s location	Potential or likely violation*	Engagement process stage at the end of 2025	Targets 2026
Retail	North America	Competition rights	The portfolio manager contacted the company. Monitored by the Investment Committee. Actions brought against the company and their progress is also monitored.	Reconsidered by the Investment Committee
Media and technology services	North America	Human rights, labour rights, information security and environmental issues	The portfolio manager contacted the company. Monitored by the Investment Committee. Actions brought against the company and their progress is also monitored.	Reconsidered by the Investment Committee
Automotive industry	North America	Labour law matters	The portfolio manager contacted the company. Monitored by the Investment Committee. Actions brought against the company and their progress is also monitored.	Reconsidered by the Investment Committee
Hotel, restaurant and leisure-time services	North America	Labour law matters	The portfolio manager contacted the company. Monitored by the Investment Committee.	Reconsidered by the Investment Committee
Healthcare	Europe	Ethical business	The portfolio manager contacted the company. Monitored by the Investment Committee.	Reconsidered by the Investment Committee

Company’s sector	Company’s sector	Potential or likely violation	Engagement process stage at the end of 2025	Targets 2026
Technology	Asia	Corruption	The portfolio manager contacted the fund management company. Presented to the Investment Committee.	Monitored by the Investment Committee and active communication with the fund management company maintained
Retail	Asia	Governance violations	The portfolio manager contacted the fund management company. Presented to the Investment Committee.	Monitored by the Investment Committee and active communication with the fund management company maintained
Finance	Europe	Corruption	The portfolio manager contacted the fund management company. Presented to the Investment Committee.	Monitored by the Investment Committee and active communication with the fund management company maintained

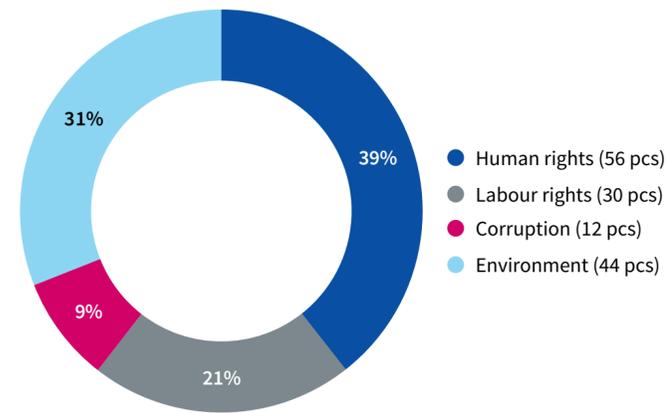
\*A violation is established on the basis of the ISS Norm-Based Research Company Report (UN Global Compact Pillars) and/or Varma’s internal analysis.

**Engagement initiatives in which Varma participates to remedy violations of the UN Global Compact principles**

**Engagement initiatives by continent**

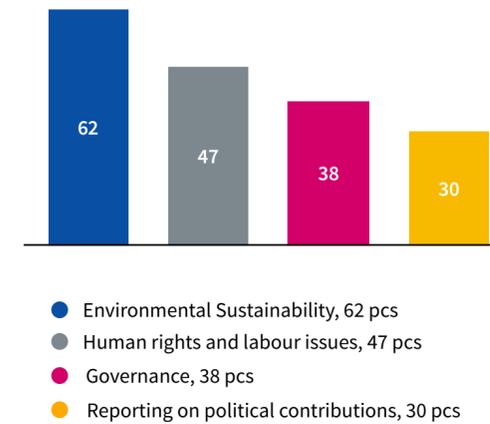


**Engagement initiatives by topic**

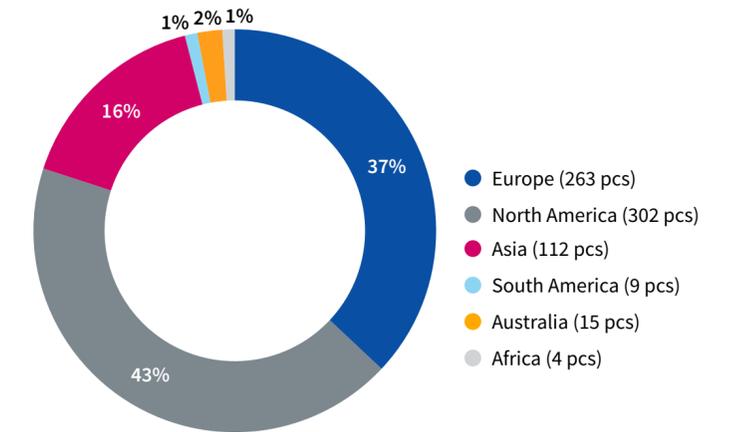


**Information on Varma's voting in general meetings in 2025**

**Proposals promoting sustainable business that we voted in favour of at foreign general meetings in 2025**



**General meeting voting by continent in 2025**



# Addressing climate change in investments

Adapting to and mitigating climate change is one of Varma’s key sustainability targets. Through long-term work, we have raised the proportion of climate allocation to almost 44 per cent of our investment portfolio.

Climate change is one of the most critical challenges that investors, too, must prepare for. It will have substantial financial, social and environmental impacts and risks for current and future generations. Climate change is also shaping the business opportunities of different sectors and influencing future investment valuations.

## Varma’s climate targets

**Our emission-reduction targets based on the Science Based Targets initiative (SBTi) are:**

- to reduce Scope 1 and 2 greenhouse gas emissions by 60 per cent by 2030 compared to the 2021 level. At the end of 2025, emissions were down 68 per cent.
- As regards indirect GHG emissions (Scope 3), to increase the share of companies committed to the SBT initiative to 51 per cent by 2027 in equity investments, listed equity and fixed income investments and real estate funds. In 2025, companies that had set SBTi targets accounted for 56 per cent of Varma’s investment portfolio, while the target level at the end of 2025 was 43.3 per cent.

**Our main goal** has been to cut the entire investment portfolio’s absolute Scope 1 and 2 emissions by 25 per cent by the end of 2025 and by 50 per cent by the end of 2030 from the 2021 levels.

To improve transparency, we annually perform an attribution analysis of the carbon footprint calculation of investments if significant changes have taken place in the portfolio during the year and these have not been explained in previous years. We also commit to recalculating the emissions for the reference year if the composition of the investment portfolio changes significantly, for example, as a result of changes in legislation concerning earnings-related pension insurance companies or changes in the company structure.

Furthermore, our goal has been to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows:

- 30 per cent by the end of 2023
- 40 per cent by the end of 2025.

Reducing carbon intensity promotes both our climate targets and protection of biodiversity. By the end of 2025, the carbon intensity of listed equity investments had declined 61 per cent and that of listed corporate bond investments 46 per cent compared to 2016. Thus, the carbon intensity targets set for both asset classes were achieved and exceeded.

Our goal is also for the climate allocation to make up 50 per cent of our investment portfolio by 2027.

- We aim that our direct real estate investments will be carbon-neutral for electricity by 2025 and for heating by 2030.
- We are committed to following the low-carbon roadmap in our investments in electricity generation. This means that electricity generation based on fossil fuels in our investment portfolio will decrease to 10 per cent by 2030.

## The carbon footprint of Varma’s investments

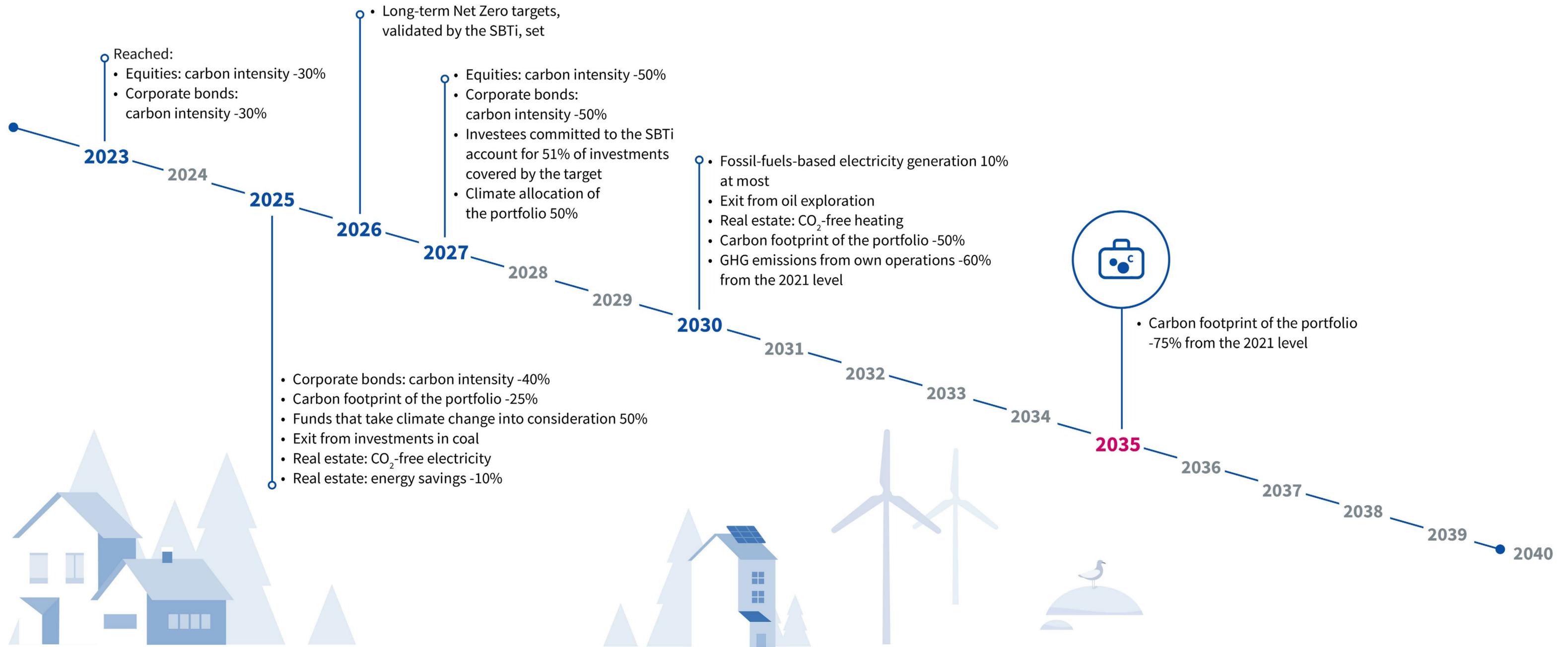
Listed equity investments	31 Dec 2025	31 Dec 2016	Change
Market value (€ bn)	26.1	11.8	121%
Weighted carbon intensity (tCO <sub>2</sub> e/€ million)	69	177	-61%

Listed corporate bonds	31 Dec 2025	31 Dec 2016	Change
Market value (€ bn)	3.7	2.5	48%
Weighted carbon intensity (tCO <sub>2</sub> e/€ million)	101	188	-46%

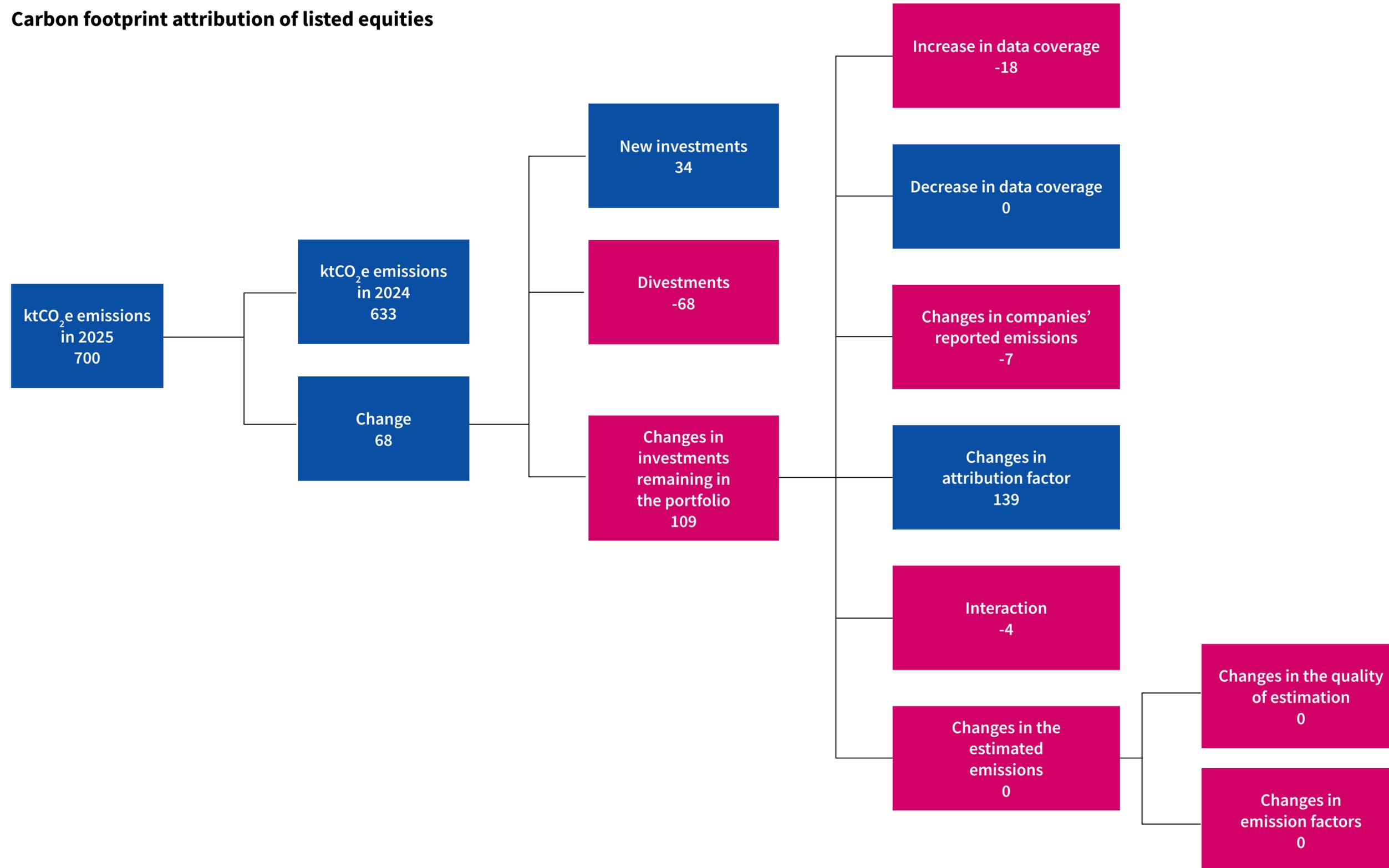
The carbon footprint of Varma’s investments*	Market value (€ bn)	Share of the portfolio	Scope 1 + 2 (tCO <sub>2</sub> e)	vs. 2024	Carbon footprint (tCO <sub>2</sub> e/€ million invested)	Quality of data (1 best – 5 worst)
Listed equity investments	26.1	45%	700,463	11%	26.8	1.23
Listed corporate bonds	3.7	6%	235,906	27%	63.0	2.25
Hedge funds	10.8	19%	655,265	-28%	60.6	5.00
Real estate funds	2.6	5%	33,128	-32%	12.5	2.29
Private equity investments	9.1	16%	497,423	-11%	54.4	2.62
Infrastructure investments	3.2	6%	415,135	18%	129.2	1.75
Private debt	2.1	4%	108,729	0%	129.2	1.75
Total	57.8	100%	2,646,049	-5%	45.8	2.32

\*The emissions of real estate investments have been reported as part of scope 2 emissions.

# Roadmap for Varma's climate targets

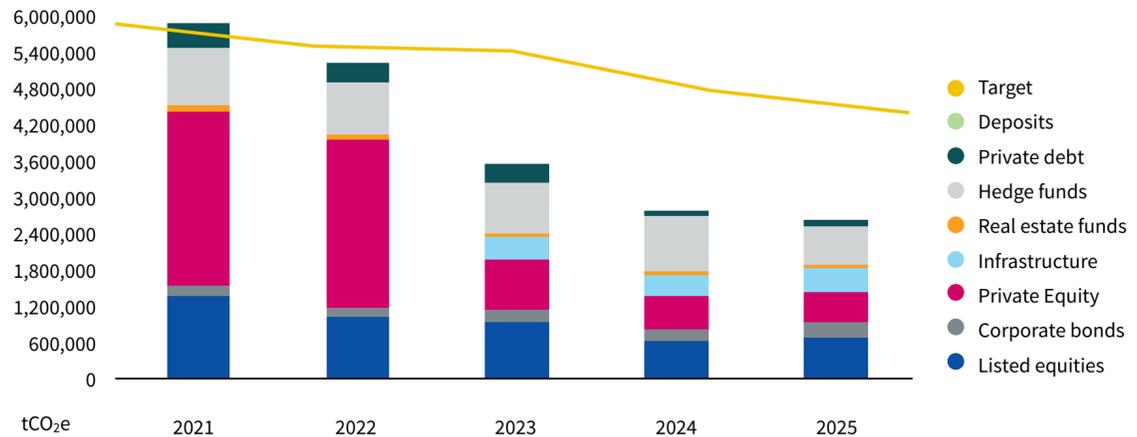


Carbon footprint attribution of listed equities

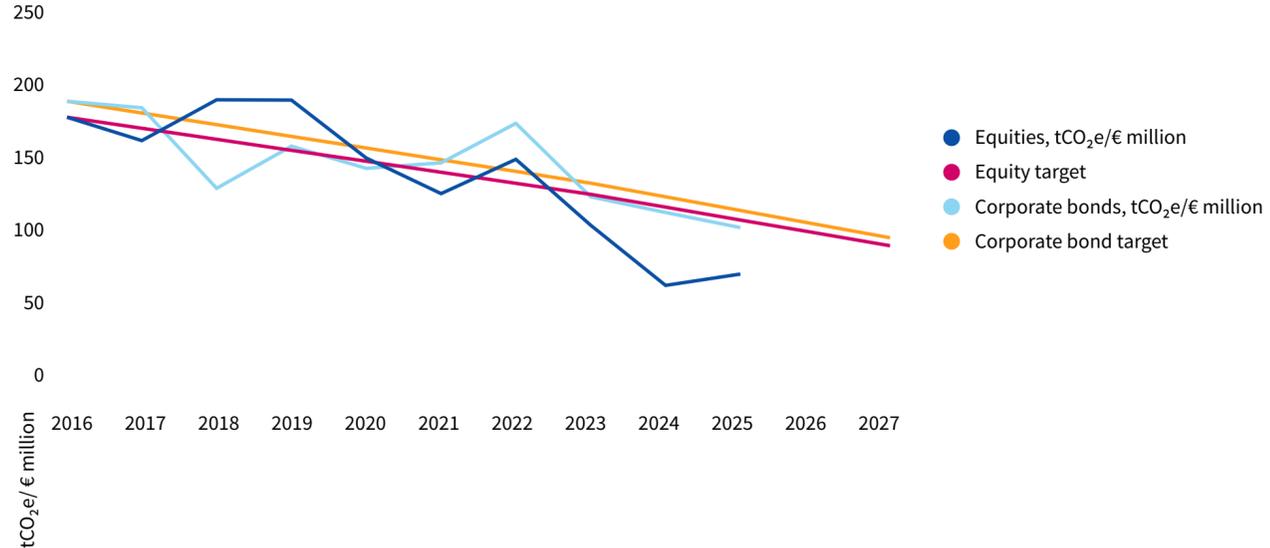


# Tracking the carbon footprint of investments

## Development of absolute CO<sub>2</sub> emissions of the investment portfolio



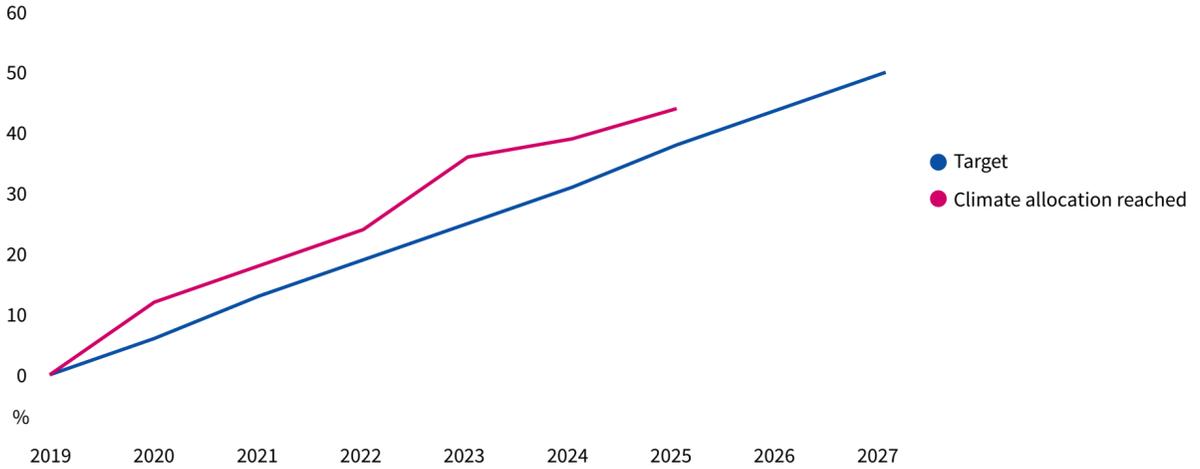
## Development of the weighted carbon intensity of listed equity and corporate bond investments compared to Varma's climate targets



# Climate allocation

The climate allocation consists of investee companies that take climate and environmental impacts into consideration. The companies may, for example, benefit from climate change mitigation and have low emissions. Biodiversity preservation is addressed in their operations. The climate allocation, which covers all of Varma's asset classes, accounted for 43.7 per cent of the investments at the end of 2025, and the goal is to increase the allocation to 50 per cent by 2027.

## Development of the climate allocation



### Scenario analyses as part of risk management

We make use of scenario analyses to manage climate change-related risks and opportunities. Climate change contributes to biodiversity loss, and thus climate-change scenario analyses also indirectly promote taking biodiversity loss into account in investments.

Varma carried out a resilience analysis related to climate risks as a Climate Value at Risk (VaR) calculation. The calculation measures the potential costs of climate change in the future, discounted to present value. The short-, medium- and long-term costs of transition risks and physical risks for companies have been discounted to present value, and the Climate VaR value corresponding to this indicates the potential impact of climate change on the market value of the investment portfolio as a percentage. Climate VaR covers the largest asset category of Varma’s investment assets, i.e. listed equity investments. The calculation on the right represents the situation on 30 September 2025.

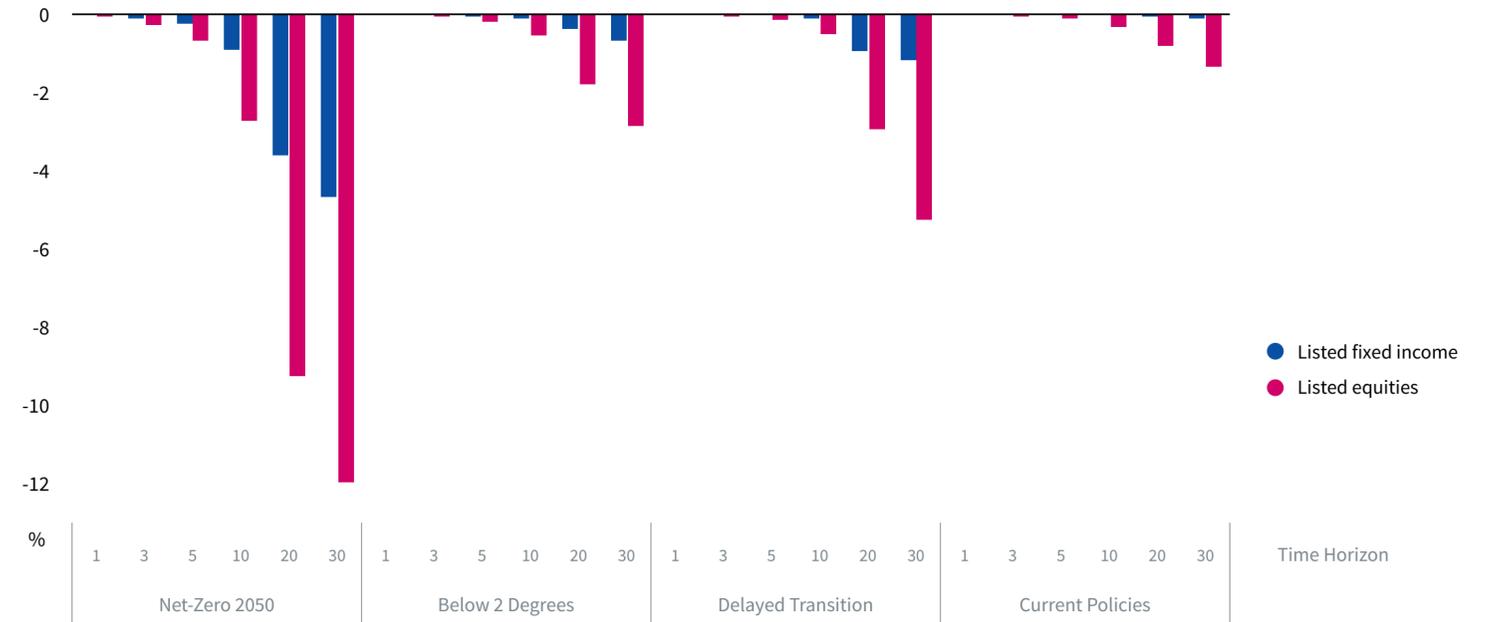
The scenario analysis of Varma’s listed investments has taken into account the different impacts of the costs resulting from climate change, depending on the nature of the capital. The negative and positive impacts of climate change primarily affect the company’s capital, and the model assumes that a 40 per cent recovery rate applies to debt capital, even if the company would otherwise be insolvent due to costs related to climate change. As a result, the impacts of climate change on fixed income investments are overall smaller, which is why fixed income investments are structurally better protected from the impacts of climate change.

The analysis covers 44 (41) per cent of Varma’s investments, as the basic requirement for the analysis is sufficient reporting by the companies. However, the impacts of climate change on Varma’s investments are small in the short and medium term. In the scenario where transition risks are at their highest, the impact on the market value of equity and fixed income investments is -0.25 (-0.49) per cent and -0.07 (-0.02) per cent, respectively, in the short term, -2.72 (-2.96) per cent and -0.91 (-0.26) per cent, respectively, in the medium term, and -12.34 (-11.21) per cent and -4.65 (-1.80) per cent, respectively, if costs until 2050 are taken into account. In the scenario where physical risks are at their highest, the impact on Varma’s listed equity and fixed income investments would be -0.04 (-0.02) per cent and 0.0 (0.0) per cent, respectively, in the short term, -0.32 (-0.94) per cent and -0.02 (-0.09) per cent, respectively, in the medium term, and -1.35 (-3.66) per cent and -0.11 (-0.57) per cent, respectively, if costs until 2050 are taken into account.

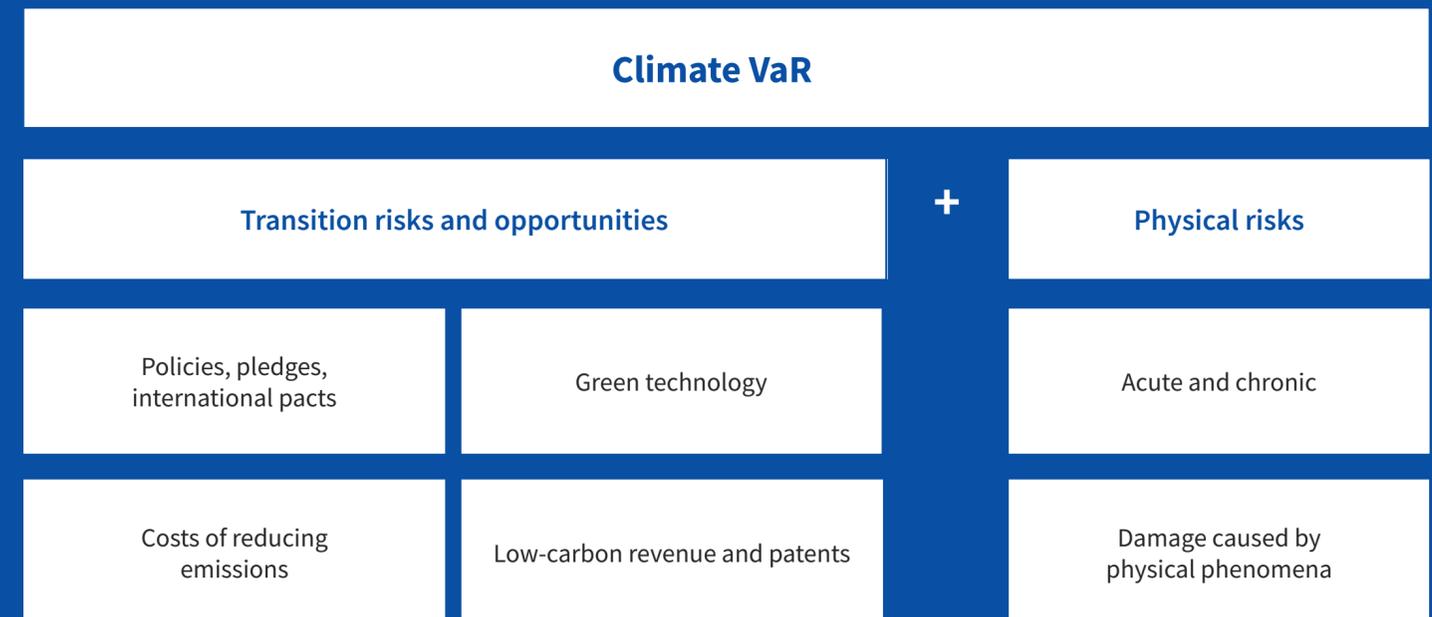
We are committed to the low-carbon roadmap for electricity generation, which means that electricity generation capacity based on fossil fuels in our investment portfolio will decrease to 10 per cent by 2030 in accordance with the Network for Greening the Financial System’s (NGFS) Net Zero 2050 scenario.

In 2025, the weighted proportion of renewable energy in our portfolio was 69 per cent, of fossil fuels 16 per cent and of others, such as nuclear power, 15 per cent.

### Climate VaR in listed investment



### Climate VaR tool for climate risks



## NGFS scenarios' assumptions

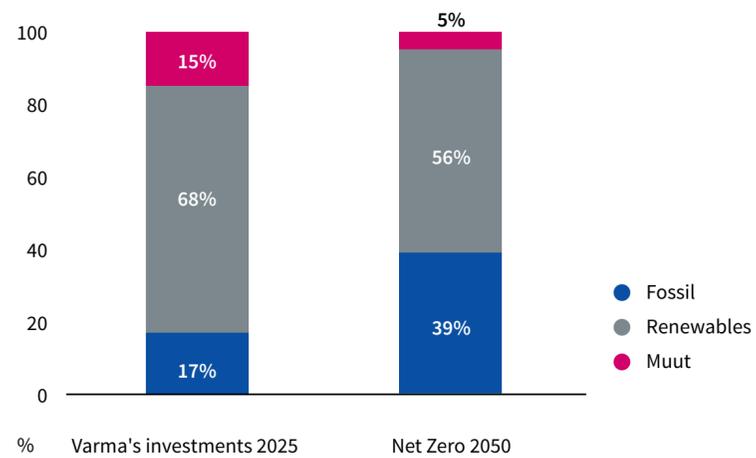
NGFS scenarios		Net-Zero 2050	Below 2°C	Delayed Transition	Current policies
General	Description	An ambitious scenario in which global warming is limited to 1.5 degrees Celsius above the pre-industrial level by 2100. Strict measures related to climate change and significant innovations enable net-zero CO <sub>2</sub> emissions by 2050.	A scenario in which measures to mitigate climate change limit the temperature increase to 2 degrees by 2100 with a 67% probability. In this scenario, net-zero emissions are expected to be reached in 2070.	A scenario which assumes that global emissions will not decrease before 2030, after which significant measures on climate change will limit global warming to 2 degrees.	The assumption of the scenario is that only the already published actions will be implemented, which leads to high physical risks. Emissions will increase until 2080, resulting in irreversible physical changes.
	Temperature rise	1.4	1.8	1.6	3
	Transition type	Fast and orderly	Fast and orderly	Delayed	No transition
	Technology change	Fast	Moderate	Slow/fast	Slow
	Utilisation of carbon sinks	Moderate/high	Moderate	Low/moderate	Low
	Geographical differences	Moderate	Low	High	Low
CO <sub>2</sub>	CO <sub>2</sub> emissions 2030 vs. 2020	-43%	-22%	-5%	-5%
	CO <sub>2</sub> emissions 2050 vs. 2020	-102%	-78%	-85%	-10%
	tCO <sub>2</sub> price in 2030, USD	187.00	46.00	9.00	9.00
	tCO <sub>2</sub> price in 2050, USD	590	136	350	8
	Likelihood of exceeding a 1.5-degree change by 2100	4%	21%	17%	65%
	Likelihood of exceeding a 2-degree change by 2100	28%	71%	63%	97%
Consumption of primary energy	2030 vs. 2020	-13%	0%	8%	8%
	2050 vs. 2020	-17%	-12%	-15%	19%
Energy production capacity in 2030	Renewables	85%	77%	66%	73%
	Fossil	12%	21%	31%	24%
	Others	3%	3%	3%	3%
Energy production capacity in 2050	Renewables	95%	95%	95%	94%
	Fossil	0%	3%	1%	5%
	Others	5%	2%	4%	2%
Annual GDP growth	2030 vs. 2020	2.70%	2.90%	3.00%	3.00%
	2050 vs. 2020	2.30%	2.30%	2.20%	2.30%

### Climate change-related opportunities

Responsible investment and mitigating climate change apply to all of Varma’s asset classes and investment processes.

Climate change presents investors with new opportunities. We have established an investment allocation that takes into account both climate impacts and biodiversity. The investees included in the allocation benefit from climate change mitigation, do not cause significant greenhouse gas emissions, have established science-based emission reduction targets and provide carbon sinks. Furthermore, the allocation promotes the preservation of natural capital and biodiversity. The climate allocation, which covers all of Varma’s asset classes, accounted for 43.7 per cent of the investments at the end of 2025, and the goal is to increase the allocation to 50 per cent by 2027.

### Electricity generation mix of Varma’s investments vs. target level



# Addressing biodiversity in investments

Biodiversity is a requirement for a happy, healthy life. Biodiversity loss poses major risks to the economy, companies’ business and investors. Taking environmental aspects into account is part of our investment process. Varma’s investments are exposed to environmental risks, and at the same time, investments have major impacts on the environment.

For an investor assessing risks and opportunities related to biodiversity, it is critical to find science-based background information that takes different views broadly into account. The framework of physical and transition risks used in the assessment of climate risks can also be used for assessing biodiversity risks. Furthermore, biodiversity loss is linked to broader systemic risks, just like climate change.

Our 2025 reporting is adapted from the recommendations of the Taskforce on Nature-related Financial Disclosures’ (TNFD) framework. Through the double materiality assessment, we have identified biodiversity as a material sustainability theme in our investments and in direct real estate investments. For direct real estate investments, we report on material biodiversity-related matters in our sustainability report.

## Roadmap guided our activities in 2025

In 2022, we published a Biodiversity Roadmap, with the purpose of creating a framework for responsible investment requirements, policies and goals to prevent biodiversity loss. The roadmap covered the years 2022–2025. How our climate and biodiversity work is applied depends on the asset class and type of investment. We aim to systematically assess the risks and impacts of our investments in terms of biodiversity loss. The Biodiversity Roadmap will be updated in 2026.

Our environmental policy steers us in performing systematic biodiversity assessments that cover the entire investment portfolio. The assessments include target setting and reporting. Active monitoring and policy updates based on the development of global anti-biodiversity-loss measures are also essential. These actions help protect biodiversity and reduce biodiversity-loss-related risks to companies’ operations and more broadly to the economy.

In our investment activities, we assess nature-related risks by sector. We use the high-risk sector classifications in accordance with the TNFD reporting framework and monitor our investments in these sectors. We assess our investees’ exposure to nature-related risks

and their and their preparedness to prevent risks linked to biodiversity loss. We assess the financial impacts of nature-related risks as part of a comprehensive sustainability analysis. We employ scenarios and sector assessments. Environmental themes are an essential element of our ownership and engagement activities. Our operations are adapted according to the TNFD’s LEAP approach: we identify risks, assess their significance and report on them.

## Biodiversity survey of high-risk sectors

In 2025, we conducted a biodiversity survey of risk industries for the third time as part of an analysis of the impacts of our investments and a risk assessment. The survey looked into the portfolio companies’ attitudes and preparedness for risks linked to biodiversity loss. The survey included 204 (318) companies in high-risk sectors from around the world and covered our listed equity investments and companies included in exchange-traded funds (ETFs). Companies with a market value exceeding one million euros were included.

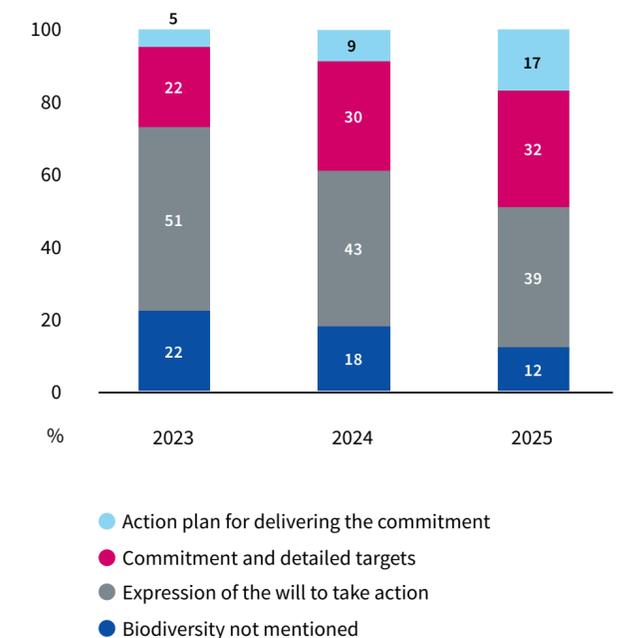
The survey was carried out such that the companies’ publicly available biodiversity policies were divided into four categories: (0) no mention of the topic, (1) statement of intent to

take action, (2) commitment and detailed targets for taking biodiversity into account, and (3) a detailed implementation plan to fulfil the commitment.

The survey results show that a third of the companies (32 per cent) had set targets related to mitigating biodiversity loss but lacked a concrete plan for achieving the targets. Close to half of the companies (45 per cent) had made progress over the past three years in accounting for biodiversity. Oil and gas companies stood out as a sector that showed a commitment to setting targets. Every eighth company, or 12 (18) per cent of the companies had not considered biodiversity issues in their public policies at all.

The biodiversity survey of high-risk sectors is a key tool that we use to assess and manage nature-related risks related to our investee companies. The survey provides an overall picture of our investees’ preparedness for risks caused by biodiversity loss, while at the same time allowing us to monitor the companies’ development in attending to biodiversity. We have identified sector trends and changes in companies’ biodiversity efforts, which promotes risk management and responsible investment decisions.

## Survey of portfolio companies’ attitudes and preparedness to biodiversity



### Integrating biodiversity in investment decisions

In line with our environmental policy, biodiversity has been integrated into the investment process. The integration initially focusses on our direct investments and high-risk sectors. Biodiversity has been included in the selection and monitoring process of fund management companies. We are improving the biodiversity monitoring of unlisted and fund investments.

### We work together with other investors

We promote collaboration in the financial markets in order to mitigate and stop biodiversity loss, and we take part in the public debate and joint initiatives on the impacts of biodiversity loss.

We participate in international investors’ initiatives and pledges that engage in mitigating biodiversity loss, including the Finance for Biodiversity Pledge for financial institutions and the Nature Action 100 initiative. In Nature Action 100, investors focus on mobilising especially companies deemed to be systemically important to the goal of reversing biodiversity loss.

### Active ownership and engagement

For an investor, one means of managing risks caused by biodiversity loss is to engage with investee companies. We recommend that companies report transparently on the current and future impacts of biodiversity loss on the company’s operations and growth potential. We encourage our investee companies to manage risks and create policies for taking biodiversity into account.

We engage with companies in risk sectors and encourage them to report transparently on their operations’ impacts and risks related to biodiversity loss.

Taking biodiversity into consideration is part of our norm violation monitoring. Our norm violation monitoring encompasses several sustainability themes in addition to the environment. In its framework, the TNFD has developed guidance on engagement with indigenous peoples, local communities and other stakeholders as part of assessing, controlling and reporting nature-related impacts and risks.

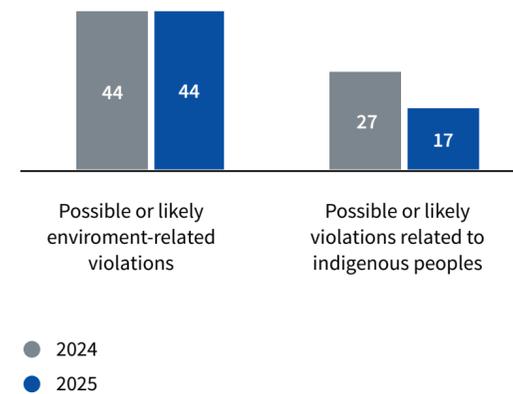
In 2025, we engaged, together with other investors, in 44 (44) possible or likely violations linked to the environment and 17 (27) possible or likely violations linked to indigenous peoples. Read more about our norm violation monitoring in the section ‘Responsible investment’.

### Metrics and targets

We monitor biodiversity-related risks and opportunities primarily by sector and location. We aim to increase our understanding of how our investment portfolio is dependent on biodiversity, how it influences biodiversity loss and what kind of risks biodiversity loss may cause to the portfolio while also increasing transparency of the nature-related impacts of our investee companies. Our metrics include the allocation of our investments to high-risk sectors, their exposure to sensitive locations, the coverage of the companies’ biodiversity policies and the amount of nature-related themes raised at annual general meetings.

Our climate targets also contribute to biodiversity protection, as climate change is one

### Varma involved in engagement processes to address violations related to the environment and indigenous peoples



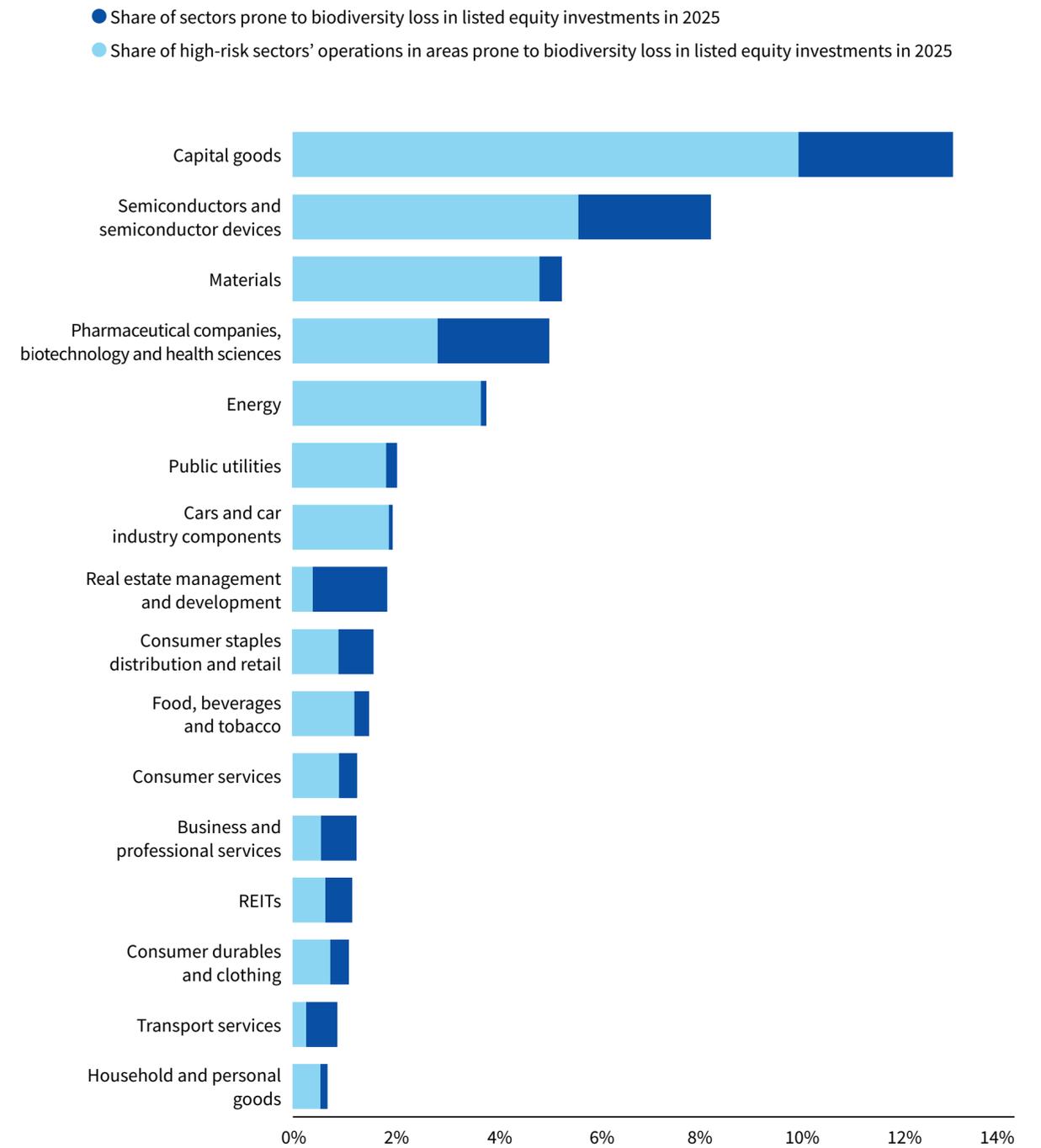
of the five main drivers of biodiversity loss. In this way, we create a holistic approach in which climate and nature-related targets are interconnected.

In 2020–2025, we have made biodiversity a sustainability focus equal to climate change. In accordance with our new sustainability programme, we will set and refine our biodiversity targets and asset-class-specific practices over the coming years.

### Reporting on biodiversity

Our aim is to remain aware of our investment portfolio’s risks, impacts and dependencies with regard to biodiversity. Our reporting will initially focus on listed investments. As the quality of data improves, we will expand our reporting to other asset classes.

### High-risk sectors in Varma’s investments



Our report’s key areas cover biodiversity-related risks. We also assess our impacts and dependencies on biodiversity. Furthermore, we report on our goals, actions and the indicators we monitor. Internal reporting also enables the setting of targets and the systematic monitoring of progress towards the targets.

The TNFD defines 14 recommended disclosures which help companies to report on nature-related impacts, dependencies, risks and opportunities. We report on the metrics on risks and opportunities that the TNFD recommends all companies disclose regardless of their industry. We report on the impacts and dependencies in a dedicated chart.

The TNFD recommends two core sector disclosure metrics to support financial institutions’ disclosure and monitoring of their exposure to sectors with material nature-related dependencies and impacts, as well as exposure to sensitive locations. The sectors reported are based on the sectors defined by the TNFD. We report in accordance with these recommendations.

### Nature dependencies and impacts of Varma’s listed investments

● High ● Moderate ● Low

Sector	Nature dependency		Impacts on the environment		Materiality of drivers of nature loss	
	Direct listed equity and fixed income investments	Global equity market	Direct listed equity and fixed income investments	Global equity market	Direct listed equity and fixed income investments	Global equity market
Semiconductors and semiconductor devices	Moderate	High	Moderate	Moderate	Moderate	High
Capital goods	Moderate	Moderate	High	High	High	Moderate
Energy	Moderate	Moderate	Low	Low	Moderate	Moderate
Materials	Moderate	Moderate	Moderate	Moderate	Moderate	High
Pharmaceutical companies, biotechnology and health sciences	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Cars and car industry components	Moderate	Moderate	Moderate	Moderate	High	Moderate
Public utilities	High	High	High	High	Moderate	Moderate
Real estate management and development	Moderate	Moderate	Low	Low	Moderate	High
Consumer staples distribution and retail	High	High	High	Moderate	Moderate	Moderate
Household and personal goods	Moderate	Moderate	Moderate	Moderate	Moderate	High
Food, beverages and tobacco	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Consumer services	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Business and professional services	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Consumer durables and clothing	High	High	High	High	High	High
Transport services	Moderate	Moderate	High	High	Moderate	Moderate
REITs	Low	Low	Low	Low	Moderate	Moderate

# Environmental risks and opportunities

## Climate-related risks and opportunities

From an investor’s perspective, climate change entails both physical and transition risks, which have an impact on the value of investments. Physical risks are divided into acute and chronic risks. They refer to the challenges that climate change poses to companies and society, such as unexpected damage caused by extreme weather events or the depletion of natural resources in the long term. Transition risks refer to changes, for example, in regulation, technology and consumer behaviour that the transition to a lower-carbon economy entails.

On the other hand, climate change also presents investors with opportunities. For instance, companies developing technologies and solutions to mitigate climate change and to facilitate the transition to a low-carbon economy may offer investors good return opportunities.

Varma’s risks related to climate change are discussed in more detail on page 10.

## Risks and opportunities related to biodiversity loss

Almost all industries face risks resulting from biodiversity loss. The risks can be divided into physical, legal, transition and systemic risks. Physical risks are, for example, the depletion of natural resources or disturbances in the operating environment. Legal risks include increasing regulation and changes

in international agreements, for instance. Transition risks refer to changes, for example, in the operating environment, technology and consumer behaviour that the measures preventing biodiversity loss could entail. Systemic risks mean an extreme risk in which biodiversity loss can lead to the collapse of entire regional ecosystems.

Biodiversity-related business opportunities are even more obscure than the risks. We believe that, over time, taking biodiversity into account and improving the related methods also present investors with opportunities. For instance, companies developing technologies to mitigate biodiversity loss or pioneering in nature-related risks within their sector may offer investors good return opportunities.

We report on the nature-related risks and opportunities of our investment portfolio in accordance with the recommendations of the TNFD. We disclose the proportion of Varma’s listed equity and fixed income investments that are allocated to business activities providing solutions to biodiversity loss, such as pollution prevention, sustainable agriculture and sustainable use of water. At the end of 2025, 11 per cent of Varma’s listed equity and fixed income investments were invested in companies generating revenue from nature-related business opportunities, while 71 per cent of listed investments have been assessed as being exposed to risks related to biodiversity loss.

In 2025, we assessed the nature-related impacts and dependencies of our listed

investments in order to identify the portfolio’s exposure to risks related to biodiversity loss and to compare that exposure with the global equity market. The assessment shows that the key high-risk sectors in our portfolio are predominantly exposed to moderate or high risks.

We compared the exposure of our listed investments to biodiversity loss-related risks with the corresponding risk level of the global equity market. As we have invested more than average in companies whose nature-related risks are lower than the global market, our weighted risk level remains below the international level. This demonstrates that our asset allocation and company selection reduce the portfolio’s exposure to biodiversity loss-related risks compared with the global market.

## Environmental risk and opportunity management and strategy

The Responsible Investment & Sustainability department assesses environmental risks. Of the environmental risks, climate change has been identified in the risk and solvency assessment as a risk related to the operating environment. Additionally, sustainability risks have been identified as part of the risk and solvency assessment. As regards investees, the risks were related to possible and likely factors affecting the investee’s value.

We monitor sustainability risks by striving to identify adverse business interests and violations of international agreements and norms

in our investment portfolio. We enter possible and likely sustainability risks related to our investees into its risk management system. The risks are discussed on a monthly basis by the Investment Committee.

## Risks related to climate change and biodiversity loss, their potential impact on investments and the means of risk management in Varma’s investments

Our impact	Means of management
Transition risks	<ul style="list-style-type: none"> <li>• Due diligence process for high-risk sectors</li> <li>• Reducing carbon intensity</li> <li>• Negative screening</li> <li>• Replacing district heating with geothermal heating in properties</li> <li>• Scenario analyses in listed equity and corporate bond investments as well as real estate investments</li> <li>• Biodiversity monitoring of high-risk sectors</li> <li>• Biodiversity guidelines for real estate</li> </ul>
Acute physical risks	<ul style="list-style-type: none"> <li>• In real estate investments, the use of flood surveys and flood maps: properties will not be built in or acquired from areas at risk of floods</li> <li>• In private equity investments, company analyses and supply chain management</li> </ul>
Chronic physical risks	<ul style="list-style-type: none"> <li>• Facade solutions for new buildings, building condition assessments</li> <li>• Modelling of companies’ geographical production locations</li> <li>• Assessing risk management in supply chains</li> <li>• Scenario analyses in listed equity and corporate bond investments as well as real estate investments</li> </ul>
Physical risks (biodiversity)	<ul style="list-style-type: none"> <li>• Monitoring of how investees identify and prepare for potential risks caused by biodiversity loss</li> </ul>
Systemic risks (biodiversity)	<ul style="list-style-type: none"> <li>• Due diligence in industries at risk due to biodiversity loss</li> <li>• Analysis of investments in geographical areas that are sensitive to biodiversity loss</li> </ul>

# Investment due diligence and exclusions

We have assessed the sustainability-related impacts, risks and opportunities of our investee companies using the double-materiality assessment in accordance with sustainability reporting. Climate change and biodiversity loss are among the most significant risks that investors must prepare for. We have identified industries with a pronounced need for due diligence.

The due diligence process concerns the following high-risk sectors:

- industries that are significantly exposed to both climate- and nature-related risks: the oil & gas industry, electricity & heat production, and the automotive, mining, concrete, construction materials, forestry, transport and chemical industries
- industries that are significantly exposed to nature-related risks (according to the TNFD framework): packaging materials, waste, textiles, apparel and luxury goods, food, pharmaceuticals and cosmetics
- companies producing alcohol, tobacco, legal cannabis products, adult entertainment or gambling
- defence sector
- companies with verified involvement in controversial weapons and headquartered in NATO countries, the Indo-Pacific Four (Japan, South Korea, Australia and New Zealand), or Switzerland.

We do not make new investments in companies with coal- or lignite-based operations accounting for more than 5 per cent of their net sales, production or production capacity. The exception is companies that have a science-based target of reducing emissions to help limit global warming to 1.5 degrees Celsius.

As regards biodiversity, we also exclude from our portfolio companies that operate in biodiversity-sensitive areas and which are observed to seriously violate the norms of international agreements.

We do not make new investments in companies with major operations in areas prone to biodiversity loss. We also do not invest in companies that have violated international laws or agreements when there are no plausible remedy plans or evidence of sufficient progress.



# Engaging with investee companies

For an investor, one means of managing climate and nature-related risks is to engage with investee companies. In our ownership policy, we guide companies to report transparently on the current and future impacts of climate change on the company’s operations and growth potential. They should report on how the impacts of climate change are included in the company’s governance, strategy and risk management, especially in emission-intensive industries. Reporting on the targets and indicators set by the investee company makes it easier to monitor the company’s progress.

As regards biodiversity, we recommend that companies report transparently on the current and future impacts of biodiversity loss on the company’s operations and growth potential. We encourage our investee companies to manage risks and create policies for taking biodiversity into account. We engage with companies in risk sectors and encourage them to report transparently.

Our means of engaging with investees are described in more detail in our active ownership and engagement principles. Varma’s engagement goals are twofold.

- Firstly, Varma engages with companies in an effort to remediate the situation if the investee company has violated local laws or international agreements.
- However, we encourage our investees to set science-based emission reduction targets in

accordance with the Science Based Targets initiative (SBTi). We regularly monitor the proportion of our SBT investments in the different asset classes. We also encourage our investees to report on financial risks and opportunities in line with the Taskforce on Nature-related Financial Disclosures’ (TNFD) framework and to set Science Based Targets for Nature (SBTN).

In environmental matters, Varma’s engagement is guided by both the environmental policy and compliance with international agreements and national legislation. The Paris Agreement and local environmental laws are key elements in screening the investment portfolio for violations. In addition to the Paris Agreement’s emission reductions, biodiversity is one of the engagement themes in environmental matters. We use the data provided by a third party to monitor violations of environment-related norms by our investees. The screening covers, for instance, failures in reducing air pollution and assessing environmental impacts.

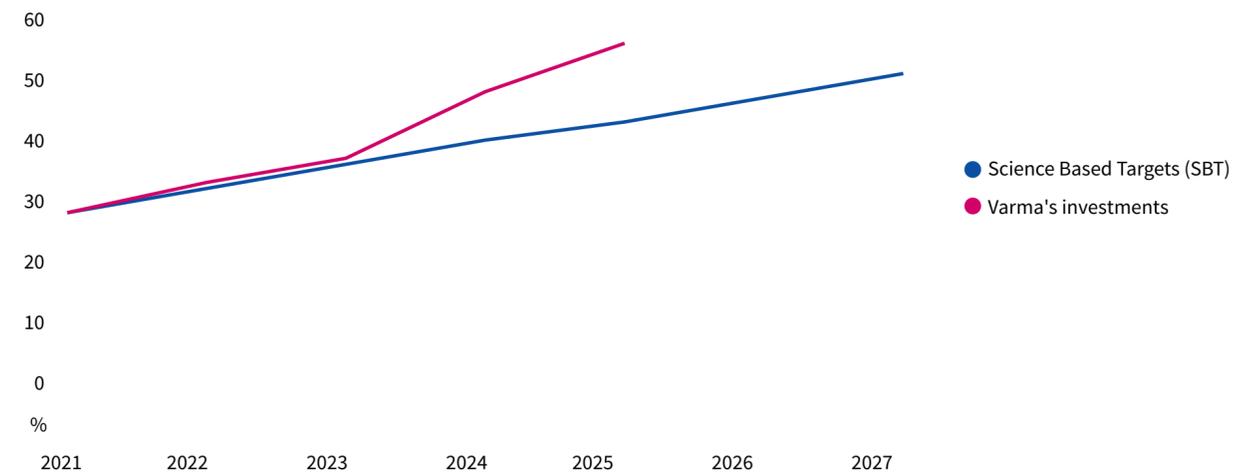
Varma categorises its investee companies that violate international norms and agreements into three categories, the most severe of which may lead to a company getting black-listed if it does not sufficiently rectify its operations. Violations in the second most severe category are included in Varma’s engagement

process. Read more about the monitoring of norms in the section ‘Responsible investment’.

A typical channel for Varma’s engagement is meetings with companies in which we have a holding. We regularly meet with companies, and in these discussions we also find out how companies take climate change mitigation and the prevention of biodiversity loss into account in their operations. We are also represented in companies’ nomination boards, and we participate in the general meetings of Finnish and foreign companies. Read more about our participation in general meetings in the section ‘Responsible investment’.

We are updating the engagement plan, which guides our ownership policy and active dialogue with investee companies. The update will draw on the priorities of our sustainability programme, which emphasise meaningful sustainability actions especially in Finnish companies and the value chain of investment operations. The engagement plan’s purpose is to make engagement work more systematic. The goal is identify and manage material impacts, risks and opportunities related to investments and the value chain and to allocate engagement resources more efficiently. The updated plan will define the key themes, goals and priorities through which we will enhance the responsibility and long-term value of the investees.

**Development in the share of investees committed to the Science Based Targets initiative**



**VARMA**

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