

VARMA

ANNUAL AND
CSR REPORT 2017



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DEAR READER,

You are viewing Varma's combined Annual Report & Corporate Social Responsibility Report 2017, which contains both the traditional annual report and a CSR report that is in line with GRI standards. Corporate responsibility is a key part of Varma's core task – securing pensions – and operations. The report covers the main results for 2017 in terms of the implementation of our strategy and achievement of our targets, as well as our responsible actions from the perspectives of pension asset management, our customers, our personnel and the environment.

The Report of the Board of Directors and Financial Statements 2017 and the Corporate Governance Report are available as separate pdf files at varma.fi/en/annualreport.

VARMA IN BRIEF

Our core task is to secure pensions. We invest the assets collected as pension contributions profitably and securely for current and future pensions. Corporate responsibility is an essential part of all our operations.

Varma's core task is to secure pensions. We take care of the statutory earnings-related pension cover of private entrepreneurs and employees. Companies take out TyEL insurance for their employees, while entrepreneurs insure themselves through YEL insurance.

We invest the assets collected as pension contributions profitably and securely for current and future pensions. Varma is a responsible and solvent investor; the value of our investments is EUR 45.4 billion.

We pay pensions to approximately 342,600 people, and we provide reliable and useful information about pension insurance. We are responsible for the pension cover of some 880,000 Finns.

Our services in workability management and rehabilitation help client companies to save in pension and sick-leave costs.

As a real-estate investor we focus on offering high-quality business premises and rental flats with good traffic connections in growth centres. We also offer corporate financing to our customers.

Varma is a mutual company, owned by its client companies and self-employed customers, insured employees and owners of the guarantee capital.

Varma's headquarters are located in Salmisaari, Helsinki, and our network of account managers covers nearly the entire country. Varma has 524 employees. The slogan for our modern culture is *Varma employees – agile responsibility bearers*. Our success is based on our competent employees, who are passionate about their work.

Corporate responsibility is an integral part of Varma's core task and work culture.



President & CEO's Review

THE STRONGEST YEAR EVER

2017 was a record-breaking year for Varma. We did extremely well as regards different operations and performance goals. We achieved excellent return on our investments, and co-operation with our customers was successful.



At year-end 2017, Varma's investment assets were higher than ever: we have nearly doubled the investable pension assets since the beginning of the financial crisis. All our asset classes yielded good returns.

I'm especially happy that Varma is the most efficient company in the earnings-related pension sector. Our loading profit was at an all-time high, and we used 67% of the insurance contributions allocated for operating expenses.

Strong solvency and efficient operations benefit our customers. We will pay record-high client bonuses for 2017.

Our premium income increased, and we were extremely successful in client acquisitions. Our customer services receive positive feedback, and Varma was awarded in the *Customer's Voice* survey. Our customers value our high-quality services and strong competence in the field of earnings-related pensions.

Varma is a major socio-political player, and we have an important role as a pension provider. Applying for pension is an important event in anyone's life. That is why it is important that we handle pension applications and payments flawlessly and on time. The pension application processing times at Varma continued to get shorter, and were six days shorter than the sector average.

Responsibility is a part of Varma's core task, strategy and daily operations. As a major investor, we have the opportunity to steer other companies towards sustainable operations. We can be especially proud of the fact that we reached the reduction target for the carbon footprint of investments ahead of schedule. The carbon footprint of our equity portfolio, for example, decreased 27% from the 2015 baseline. In addition to focussing on responsible investments, we expect responsibility from our service and goods suppliers.

This requirement is now laid down in our Supplier Code of Conduct.

Our personnel is one of our key resources. Responsibility for Varma employees is visible in our actions to promote equality and non-discrimination and in our efforts to continuously develop our work culture.

Thanks to our achievements, we are in an excellent position to innovate and improve in 2018. We will be focussing on implementing the Incomes Register and expanding the use of software robotics. We can further improve our efficiency and customer work, especially in terms of improving our services for small and growing companies.

All in all, Varma achieved strong results on a broad front in 2017, and for that I would like to thank our employees and customers.

Risto Murto
President & CEO

I'm especially happy that Varma is the most efficient company in the sector. Strong solvency and efficient operations benefit our customers. We will pay record-high client bonuses for 2017.

I want to thank all Varma employees and customers for a successful year.

THE YEAR IN BRIEF

In 2017, the return on Varma's investments was 7.8% or EUR 3.3 billion. The value of investments increased to EUR 45.4 billion. Pension processing times continued to shorten, and cost efficiency showed positive development: Varma used 67% of the insurance contributions meant for operating expenses. Solvency strengthened by EUR 1.3 billion and amounted to EUR 11.5 billion at year-end.

Strong returns as the economy gains momentum

All of Varma's asset classes generated positive returns. The best returns were generated by unlisted equities, at 18.5% (23.7%), and listed equities, at 11.6% (4.5%). The excellent return on hedge fund investments, 8.5% (5.6%), was achieved with a clearly lower risk profile than in the equity market. The return on fixed-income investments was also very good at the current interest rate level, at 3.7% (4.2%).

Real estate investments yielded good returns, at 4.9% (-0.9%). The international diversification of real estate investments has continued, and the portfolio was actively developed through divestments and new Finnish and foreign investments. The average real return on Varma's investments over five years was 5.8%, and over ten years 3.0%.

Varma is the most efficient company in the earnings-related pension sector

Varma's loading profit for 2017 is at an all-time high. We used 67% (72%), or EUR 89.4 (100.6) million, of the funds reserved for operating expenses. Strong solvency and efficient operations contribute to the sustainability of the earnings-related pension system.

Varma's solvency capital increased by EUR 1.3 billion and was EUR 11.5 billion (10.2) at the end of the financial year. Varma's pension assets in relation to technical provisions (solvency ratio) was 133.5% (130.9%). A record amount of EUR 161 (121) million was set aside for client bonuses, equalling around 0.8% (0.6%) of the estimated payroll of the insured.



First year of reformed pension legislation

Varma paid out pensions in the amount of EUR 5.5 (5.3) billion to 342,600 (340,100) people. A total of 24,510 (22,550) new pension decisions were made during the year. Premiums written increased to EUR 4.9 (4.7) billion. At year-end, 537,240 people were insured with Varma.

Varma processes applications for all pension benefits faster than average in the sector. The processing times were further reduced thanks to fine-tuning the process, the introduction of software robotics and our specialists' competence. The average processing time fell from 44 days to 37 days, which is 6 days faster than the sector average.

Varma granted the first-ever years-of-service pension in the sector. This pension benefit was introduced with the 2017 pension reform. The recipients of the new partial old-age pension numbered 2,430.

Read more about the investment year and market developments in the section [Responsibility for pension assets](#) (p. 18), and about our customer work in the section [Responsibility for customers](#) (p. 27).

Return on investments €3.3 billion or



7.8%

Value of our investment assets



€45.4 billion

Solvency



€11.5 billion

Premium income €4.9 billion. Number of insured employees



537,240

We paid out pensions to 342,600 pensioners in the amount of



€5.5 billion

Key figures 2017

	2017	2016
Premiums written, € million	4,867.4	4,675.1
Pension payments to pensioners, € million ¹⁾	5,544.0	5,345.3
TyEL insured 31 December	501,320	493,890
YEL policies	35,900	36,000
Pensioners	342,600	340,100
Investments, € million	45,409.4	42,852.3
Investment income, € million	3,342.7	1,952.7
Net return on invested capital, %	7.8	4.7
Total result, € million	1,523.8	456.9
Loading profit, € million	44.7	39.0
Operating expenses as % of loading income	66.7	72.1
Transfer to client bonuses, € million	161.0	121.0
% of TyEL payroll	0.83	0.64
Technical provisions, € million	36,696.2	33,501.3
Solvency capital, € million ²⁾	11,534.4	10,199.5
in relation to solvency limit	1.7	1.9
Parent company staff 31 December	524	540
Personnel expenses, € million	48.8	49.8
Donations, € million	0.02	0.02
Membership fees in sectoral organisations, € million	1.2	1.3
Purchases from service providers and suppliers, € million ³⁾	52.1	48.4

¹⁾ Before the reduction of received clearing of pay-as-you-go (PAYG) pensions

²⁾ Calculated according to the regulations valid at the time (same principle applies to other solvency indicators)

³⁾ Excluding costs for investment operations (such as real estate development purchases)

STRATEGY AND GOALS

Varma's objectives are to secure high-quality and efficient pension provision for its customers, foster strong solvency and guarantee the positive development of premium income. Varma's strategic focus areas are: One Varma for the customer, Promoting entrepreneurship, Responsible Varma and Courage to try new things.

The strategy highlights Varma's core task, that of securing pensions, and the benefits to the customer, which is the starting point for developing our operations. In 2017, we developed customer service through service design and pension processing through software robotics, automation and Lean principles. We involve our customers in service development at an early stage to ensure that we can respond to their changing needs.

We promote our client companies' growth and support entrepreneurship. During the year, we focussed on even closer and broader co-operation with our partners Nordea and If for the benefit of our self-employed customers, and we participated in Kasvu Open events. We strive to serve the self-employed even better in matters relating to insurance and banking services, and aim to strengthen our position as the insurance provider for entrepreneurs and growth companies.

**Read more in the section
Responsibility for customers**



Responsible operations support our goals

Corporate responsibility is an integral part of Varma's core task and a key theme of our strategy. Responsible operations mean securing solvency, smooth implementation of pensions and promoting workability. Key responsibility measures taken in 2017 were the updating of the ownership policy, promoting equality and non-discrimination, the development of responsibility in the supply chain, and the integration of the work culture reform in Varma employees' everyday work. The results of the employee survey indicate that our personnel appreciate the more flexible working hours and new ways of working which conform to the new work culture.

Strategic goals

Quality of pension services, developing premium income, efficiency and strong solvency are Varma's strategic goals. Varma did extremely well with respect to these goals in 2017.

Quality of pension services:

pension processing times were significantly reduced during the year. Varma processed pensions 6 days faster than average in the sector and 7 days faster than a year earlier. New pensions are paid within the target time, i.e. in less than four days from the decision.

Solvency continued to strengthen

during the year, and solvency capital stood at EUR 11.5 (10.2) billion at year-end. Varma has been the most solvent earnings-related pension company in Finland since the financial crisis, and our solvency is at a record high.

Premiums written have been developing strongly for the past five years. Our customers value especially our high-quality services and strong competence in the field of earnings-related pensions. The account transfer net result for 2017 amounted to EUR 48 (43) million, which was the best in the sector and among the highest ever in the company's history.

Varma handles pension cover cost-effectively. We used 67% (72%), or EUR 89.4 (100.6) million, of the funds reserved for operating expenses. Varma is the most efficient earnings-related pension insurance company, which together with strong solvency, guarantees the most competitive client bonuses in the sector.

Premiums written have grown for five years in a row. Customers value our high-quality services and strong competence.



Read more in the section
Responsible Varma



Varma's strategy and goals

Strategic themes

One Varma for the customer

Courage to try new things

Promoting entrepreneurship

Responsible Varma

Values

With joy and passion

Reliability

Sustainability

Courage

Operational goals

Quality of pension services

Premiums written

Solvency

Efficiency

Trends

Digitalisation

Aging population

Changing work

Structural change in the economy and companies

New values

Varma's new values took shape in 2017. They are courage, reliability and sustainability. With joy and passion.

Courage: We boldly find new ways of working, together with our customers. Our courage stems from trust, co-operation and strong competence.

Reliability: We work openly and with integrity. We keep our promises to clients, partners and each other.

Sustainability: We continuously develop our responsible ways of operating. For us, sustainability means making long-term choices to secure pensions and improve operational efficiency.

We work and live our values every day with joy and passion.

[Read more in the section Responsibility for Varma employees](#) >

OPERATING ENVIRONMENT

Strong economic year leads Varma to a good result

The recovering economy and employment support the financing of pensions and the sustainability of the earnings-related pension system. The years of economic crisis proved that a strong earnings-related pension system creates stability.

The Finnish economy is growing faster than expected. Strong global economic growth bolstered the rise in the Finnish economy. Finland is a small, open economy that relies heavily on export demand. Companies' improved expectations and confidence in the future add to their willingness to invest in and expand their operations in Finland.

Global growth has continued for a long time, growth has become broader-based and production gaps have diminished. The positive sentiment is expected to continue in the coming years, but the speed of growth will level off.

The years of economic crisis proved that a strong earnings-related pension system creates stability.



Improving economy supports the sustainability of pensions

The favourable development in the capital markets led Varma to a strong result. The trend in share prices was backed by companies' good results and favourable expectations for the future. Political risks did not show as increased market uncertainty in 2017. Central banks are moving ahead with normalising the monetary policies, but market reactions to changes in monetary policies have been calm.

From a pension investor's point of view, the operating environment is highly demanding in spite of the strong development in 2017. Share prices have been rising continuously for a long time now. Varma's strong competence in the careful diversification of investment assets and risk management gives the company a competitive edge in a challenging operating environment.

In the private sector, part of the pension contributions is set aside in funds for future pensions. Good investment returns alleviate the cost pressures caused by increasing pension expenditure. The equity-linked share of the return requirement on technical provisions will be gradually raised to 20 per cent as of the beginning of 2017. The reform improves the opportunities to seek better investment returns.

High employment rate necessary for funding the welfare state

Finland's economic recovery finally showed also as an increase in the employment rate. In terms of funding pensions, payroll growth is important as pensions paid in any given year are, for the most part, financed through earnings-related pension contributions collected during that year.

The aging of the population increases pension expenditure and pressure on public finances. In addition to financing pensions, longer careers are necessary to close the sustainability gap in public finances.

New pension legislation since the start of the year – targeting longer careers

Varma prepared for the changes well in advance together with its customers. Awareness of the accrual of one's pension and the effect of continuing to work past the minimum retirement age is essential in the pursuit of longer careers. Varma has been improving its eServices for private customers and is investing in guidance for the insured who are weighing their retirement options. The decision to retire is one of the biggest financial decisions in an individual's life.

People are working for longer

The recovery of the economy finally clarifies the future outlook. There will be changes in corporate structures, ways of working and production platforms. While business models are reformed and technology changes the way we work, the workforce is aging and longer careers are necessary. This is not always a simple equation.

It is important to promote the goal of longer careers in the workplace. Varma is a strong partner in vocational rehabilitation and workability management. Varma focusses on knowledge-based management such that trends influencing workability are identified at both the individual and company level as business evolves and changes. Longer careers and improved workability benefit employees, companies, the pension system and consequently society as a whole.

The decision to retire is a major financial decision in an individual's life.

Finland has the most reliable and transparent pension system in the world

In 2017, Finland's pension system ranked 5th in the overall Melbourne Mercer Global Pension Index, which compared the retirement income systems of 30 countries based on the sustainability, adequacy and integrity of the systems.

Finland's pension system was ranked number one in terms of reliability and transparency of governance for the fourth time.

Core function: to secure pensions

Goals	Quality of pension services	Strengthening and maintaining solvency	Development of premiums written	Efficiency
<p>CHALLENGING OPERATING ENVIRONMENT</p> 	<ol style="list-style-type: none"> 1. Digitalisation and the shift in working life will bring services and customers' service needs closer to real-time. Pension data must be transferred uninterrupted from old systems to new ones. 2. Long-term plans are determined by legislative changes. 	<ol style="list-style-type: none"> 1. Responding to long-term return requirements in the zero-interest-rate environment takes place through a diversified and controlled increase in risk. 2. Predicting changes in central banks' monetary policies. 3. Preparing for market reactions caused by political risks. 	<ol style="list-style-type: none"> 1. Structural change in working life and companies: entrepreneurial work is increasing, and work is being carried out more in small companies. The earnings-related pension sector and legislation must change along with society. Varma has traditionally provided pension insurance to large companies. The aim is to strengthen our position as an insurance provider to small and growing companies. 2. Finland's age structure and the proportion of pensioners to workers. 3. The competitive field in the sector is changing. 	<ol style="list-style-type: none"> 1. Incomes Register allows services closer to real time. 2. The changing competitive situation further highlights efficiency requirements. Varma is now clearly the most efficient earnings-related pension company.
<p>NEW OPPORTUNITIES</p> 	<ol style="list-style-type: none"> 1. Software robotics improves the efficiency and speed of pension application processing and decisions. The use of robotics will be scaled up through agile digital solutions. 2. Legal Design is used to make pension decisions clearer and more comprehensible. 3. Interaction with customers. Pension services are mostly used by elderly people, and matters related to pension cover are complex. When it comes to people's livelihood, personal services and guidance are still needed. 4. The Incomes Register is a step closer to real-time pension decisions. 	<ol style="list-style-type: none"> 1. Responsible investment is also a means of securing long-term investment returns. It helps ensure that risks and opportunities are taken broadly into consideration in investment decisions. Responsible investment broadens the investment analysis. A pension investor must assess risks related to, for example, climate change in the long term. Responsibility broadens the opportunities to invest in, for example, companies that benefit from climate change mitigation. 2. Varma has strong experience in alternative investments as a means of risk diversification. New investment alternatives are actively explored and assessed. 	<ol style="list-style-type: none"> 1. The Incomes Register makes it possible to develop real-time services. Varma needs to identify the customer processes that will be affected by the change. 	<ol style="list-style-type: none"> 1. The Incomes Register makes it possible to develop and offer real-time services and speed up the work related to insuring customers. Development of real-time invoicing will increase predictability for customers and also reduce Varma's processing times.

Targets	Quality of pension services	Strengthening and maintaining solvency	Development of premiums written	Efficiency
<p>SUCCESSSES</p> 	<ol style="list-style-type: none"> 1. Varma processes applications for all pension types faster than the sector average, thanks in part to robotics: 6 days faster than average in the sector and 7 days faster than a year earlier. 2. Best customer service in Finland: In the Customer's Voice survey, Varma ranked first in Pension Services and fifth in Insurance Services. 3. New pensions are almost always paid within the target time, i.e. in less than four days from the decision. The pending applications queue is the shortest ever. 4. The use of digital services is constantly on the rise. Handling of personal pension matters online grew by 57%. 	<ol style="list-style-type: none"> 1. Solvency has continued to strengthen and is at a higher level than ever. 2. Broad investment diversification: returns were generated consistently by the different asset classes. 3. Responsible investment developed on a broad front in all asset classes. 	<ol style="list-style-type: none"> 1. Varma did well in the account transfer round between earnings-related pension companies in 2017. According to the statistics of the Finnish Pension Alliance TELA, the contributions to be transferred to Varma total EUR 48 million. The insurance contributions transferred to Varma over the last five years total approximately EUR 200 million. 	<ol style="list-style-type: none"> 1. Varma is by far the most efficient company in the earnings-related pension insurance sector. We used 67% (72%) of the funds reserved for operating expenses, which is a record result for the company. Strong solvency and efficient operations contribute to the sustainability of the earnings-related pension system. 2. Cascading the new agile and modern work culture to Varma employees promotes remote working, flexible working hours and the development of operations through ambitious experimentation. 3. Process development and harmonising of working methods through e.g. Lean.
<p>CASE</p> 	<p><u>Varma provides the best customer service in Finland</u></p>	<p><u>WWF: Varma's equity portfolio aligned with the 2-degree climate target</u></p>	<p><u>The use of software robotics started in Varma's pension processing</u></p>	<p><u>Varma's new work culture promotes results-orientation</u></p>
<p>FOCUS AREAS FOR 2018</p> 	<p>Versatile use of software robotics</p>	<p>Preparing for the introduction of the Incomes Register at the beginning of 2019</p>	<p>Placing greater focus on small and growing companies</p>	<p>The most efficient player in the sector</p>

RESPONSIBLE VARMA

Corporate responsibility is an integral part of Varma's core task – securing pensions. 'Responsible Varma' is also a key theme of our strategy.

For Varma, responsible operations means first and foremost securing solvency, smooth implementation of pensions and promoting workability. Corporate social responsibility is an integral part of our investment operations and ownership practices. We also take care of mitigating climate change, and ensuring the well-being at work of Varma employees, efficient operations and business ethics.

In our vision for responsibility, responsibility is part of Varma's daily operations. We actively communicate what CSR means to us and how our responsible operations show in society.

Responsibility has been chosen as a key focal point of Varma's strategy for 2016–2020. Our goal is to be the most responsible company in the pension sector.

The CSR programme is based on a materiality assessment

In autumn 2015 we drew up a Corporate Social Responsibility (CSR) programme. It is based on a materiality assessment, which was carried out to identify the most important responsibility factors for Varma. We wanted to hear what our stakeholders' CSR expectations are and analyse the business impacts of CSR issues.

The stakeholder survey was carried out in October 2015. The survey was sent out by email to 28,075 people, representing 11 pre-determined stakeholder groups: entrepreneurs, representatives of client companies, private customers, office space customers, partners and service providers, representatives of Varma's administration, representatives of organisations and associations in the pension sector, labour market representatives, legislators, Varma employees and representatives of the media.

A total of 1,168 people responded to the survey. Furthermore, 14 stakeholder representatives were interviewed in person – among them representatives of the Executive Group, Board of Directors, public authorities and personnel.

Stakeholder expectations were reviewed in management's responsibility workshops in November and December 2015. The workshops delved into the views of stakeholders and prioritised them according to their impacts on

Responsible Varma

Responsibility is a part of Varma's strategy and operations. We continuously develop our responsible ways of operating. Our goal is to be the most responsible company in the pension sector.

 <p>ETHICAL AND TRANSPARENT BUSINESS</p> <p>We develop the responsibility of our business operations, e.g. in customer work and the supply chain.</p>	 <p>COST-EFFECTIVE USE OF ASSETS</p> <p>We take care of our customers' earnings-related pension provision efficiently.</p>	 <p>OPEN AND PRO-ACTIVE COMMUNICATION</p> <p>We openly and pro-actively disclose information about our operations. Our use of pension assets is transparent.</p>
 <p>RESPONSIBILITY FOR VARMA EMPLOYEES</p> <p>We take care of Varma employees' well-being at work and develop an inspiring work culture based on equality.</p>	 <p>RESPONSIBILITY IN INVESTMENT OPERATIONS</p> <p>Responsibility is an integral part of our investment decisions and ownership policy.</p>	 <p>MITIGATING CLIMATE CHANGE</p> <p>We are reducing the CO₂ footprint of our investments and operations.</p>

Varma secures pensions

Securing solvency 

We make profitable and secure investments. Strong solvency helps to secure pensions.

High-quality implementation of pensions 

Dealing with Varma is smooth, and customers receive decisions without delays.

Promoting workability and longer careers 

Our workability management and rehabilitation services prevent disability and lower disability costs.

Varma's business. This work formed the basis for a materiality matrix, which presents the issues considered most important by the stakeholder groups and their impact on Varma's operations. Based on the matrix, Varma's CSR programme was drawn up, priorities, indicators and measures included.

We clarified our CSR programme in an Executive Group workshop in early 2017, and at the same time we agreed on the development projects for the current year. The CSR programme is always approved by Varma's Board of Directors.

A lot has happened in the responsibility environment and the related regulation since we drew up our CSR programme in 2015. Therefore, we will carry out a new stakeholder survey in 2018, which will be used to revamp our CSR programme.

CSR is visible in the organisation

Since the beginning of 2016, Varma’s Executive Group has included a member with responsibility for CSR issues, following the appointment of a new Director in charge of HR, responsibility and communications. The Executive Group discusses all major projects and decisions relating to the development of responsibility. Varma’s Board of Directors discusses, in addition to the CSR programme, the company’s main responsibility policies. In 2017, the Board approved, for example, Varma’s Ownership Policy, the Supplier Code of Conduct and updates to our Code of Conduct.

Varma has appointed a CSR Manager who co-ordinates CSR measures and communication. Furthermore, a director of responsible investment and an analyst work in Investment Operations. The director of responsible investment co-ordinates and develops responsible investment in different asset classes and is in charge of investment decisions for the sustainable equity portfolio.

Furthermore, a number of experts in all parts of the organisation develop responsible operations in their functions, and make up an informal co-operation

network that flexibly convenes around different issues, as necessary; for example in 2017, Varma employees from all parts of the organisation were involved in developing the responsibility of the supply chain.

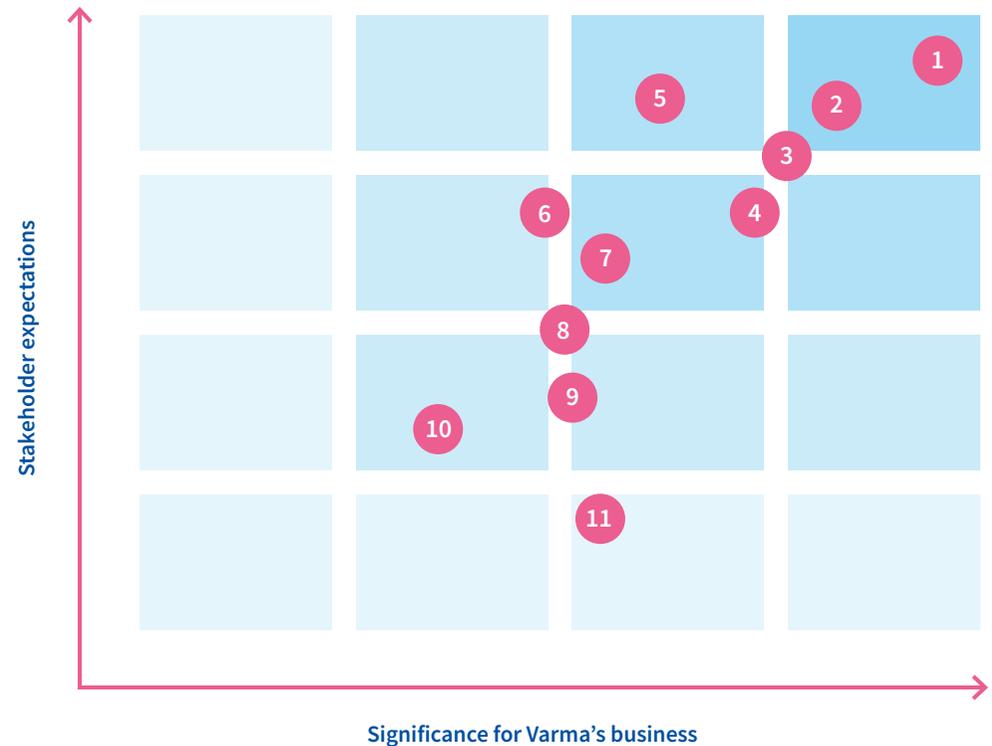
Varma has two working groups that focus on developing responsible ways of operating: the Green Office team and the equality and non-discrimination working group. The Green Office team co-ordinates Varma’s environmental programme, while the equality and non-discrimination working group focuses on promoting equality and equity among Varma employees.

We will carry out a new stakeholder survey in 2018, which will be used to revamp our CSR programme.

Read about corporate social responsibility at Varma on our website



Key CSR elements in a materiality matrix



- 1. Securing solvency
- 2. Disruption-free implementation of pensions
- 3. Open and pro-active communication
- 4. Promoting workability and longer careers at client companies
- 5. Transparent and open operations and administration
- 6. Responsibility in investment operations
- 7. Mitigating climate change
- 8. Considering environmental aspects in the company’s operations and supply chain
- 9. Varma employees’ well-being at work and competence
- 10. Preventing the grey economy
- 11. Supporting entrepreneurship

RESPONSIBILITY FOR PENSION ASSETS

For Varma, strong solvency is a strategic choice, and securing solvency is also a cornerstone of our corporate social responsibility work. We safeguard our solvency in order to ensure that pension liabilities are covered as required by legislation.



STRONG SOLVENCY HELPS TO SECURE PENSIONS

Responsibility for pensions extends well into the future. Through a controlled risk profile, we strive for the best possible return on our investments in order to secure the payment of pensions.

Strong solvency upholds confidence in pension provision and, along with better investment returns, mitigates the most severe pressure to increase pension contributions.

Strong solvency capital acts as a risk buffer for investment activities and provides protection against volatility in the capital markets. Strong solvency also enables Varma to aim for higher returns by making higher-risk investments with a higher return potential.

Steady development of premiums written secures pension payments

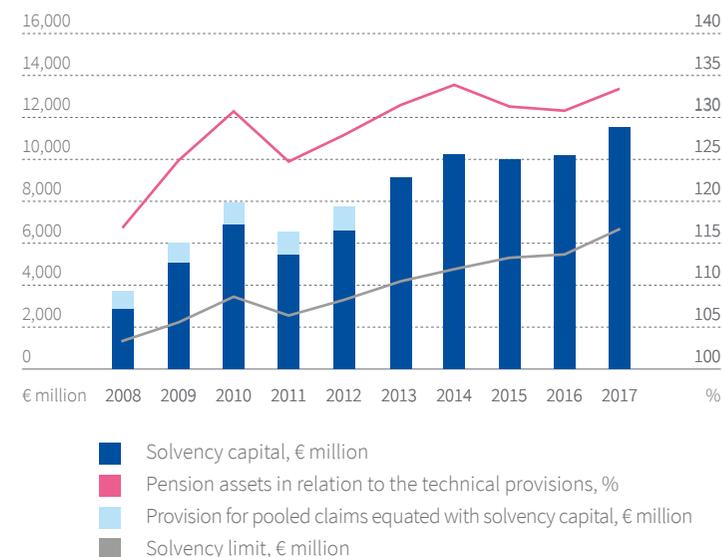
Pension contributions are used to pay pensions and some are set aside in funds for future pensions. The majority of the pension contributions paid by employers and employees is used to pay the pensions for that year. This is why the development of premium income plays an important role in securing pensions. Varma's premium income totalled EUR 4.9 (4.7) billion in 2017, representing an increase of 4.1% from the previous year.

We were successful in client transfers between earnings-related pension insurance companies, with a net result of EUR 48 (43) million in terms of TyEL insurance contributions for the entire year.

Earnings-related pension is an essential part of the Finnish social security system. In 2017, Varma paid EUR 5.5 (5.3) billion in pensions to approximately 342,600 (340,100) recipients.

Strong solvency upholds confidence in pension provision and, along with better investment returns, mitigates the most severe pressure to increase pension contributions.

Solvency 2008–2017 (%)



15 largest equity investments

	€ million	Varma's holding of shares, %
Sampo plc	1,368.6	5.35
Wärtsilä Corporation	538.1	5.20
Kojamo plc	343.2	16.98
Nordea Bank AB	301.3	0.74
Nokia Corporation	222.5	0.98
KONE Corporation	181.7	0.83
Terveystalo Plc	170.9	15.01
Elisa Corporation	169.6	3.10
Nokian Tyres plc	142.2	2.75
Stora Enso Oyj	131.7	1.27
Huhtamäki Oyj	128.8	3.42
Technopolis Plc	125.8	19.04
Metsä Board Corporation	122.8	4.85
Atrium Ljungberg AB	107.3	6.09
Metso Corporation	105.3	2.46

We invest EUR 11.8 billion in Finland

Of Varma's total investments, 26%, or EUR 11.8 billion, has been invested in different ways in Finnish society.

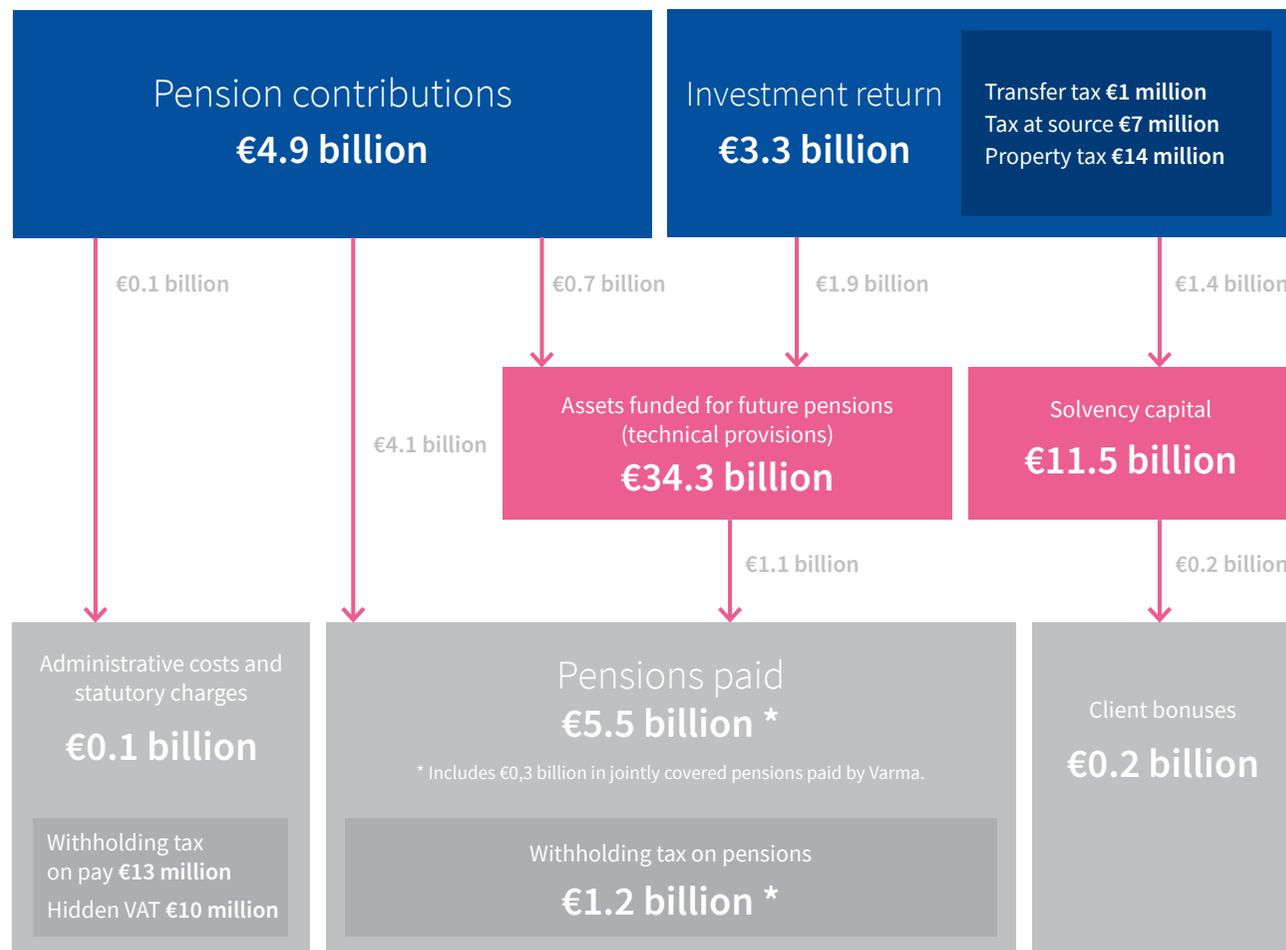
Varma is an important investor in Finnish companies and in this way participates in the long-term development of Finnish industry and commerce. Varma invests in the shares of Finnish companies, provides funding through different loan instruments and owns real estate.

We report on our financial performance quarterly, and the most recent information is available on our website.

Financial information and investments >

Of Varma's total investments, 26%, or EUR 11.8 billion, has been invested in different ways in Finnish society.

Varma's cash flows, including taxes



VARMA'S TAX FOOTPRINT

Our tax footprint is made up of, in addition to the taxes related to Varma's operations, the taxes paid by the companies we invest in.

Varma's taxes relating to investments totalled EUR 22 million in 2017, including EUR 1 million in transfer tax, EUR 14 million in real estate tax, and EUR 7 million in tax at source.

Hidden VAT included in operating expenses totalled EUR 10 million.

In 2017, Varma paid out pensions in the amount of EUR 5.5 billion, and pensioners paid EUR 1.2 billion in income taxes on those pensions as withholding tax. We paid EUR 13 million in withholding tax on our employees' salaries.

Tax transparency essential

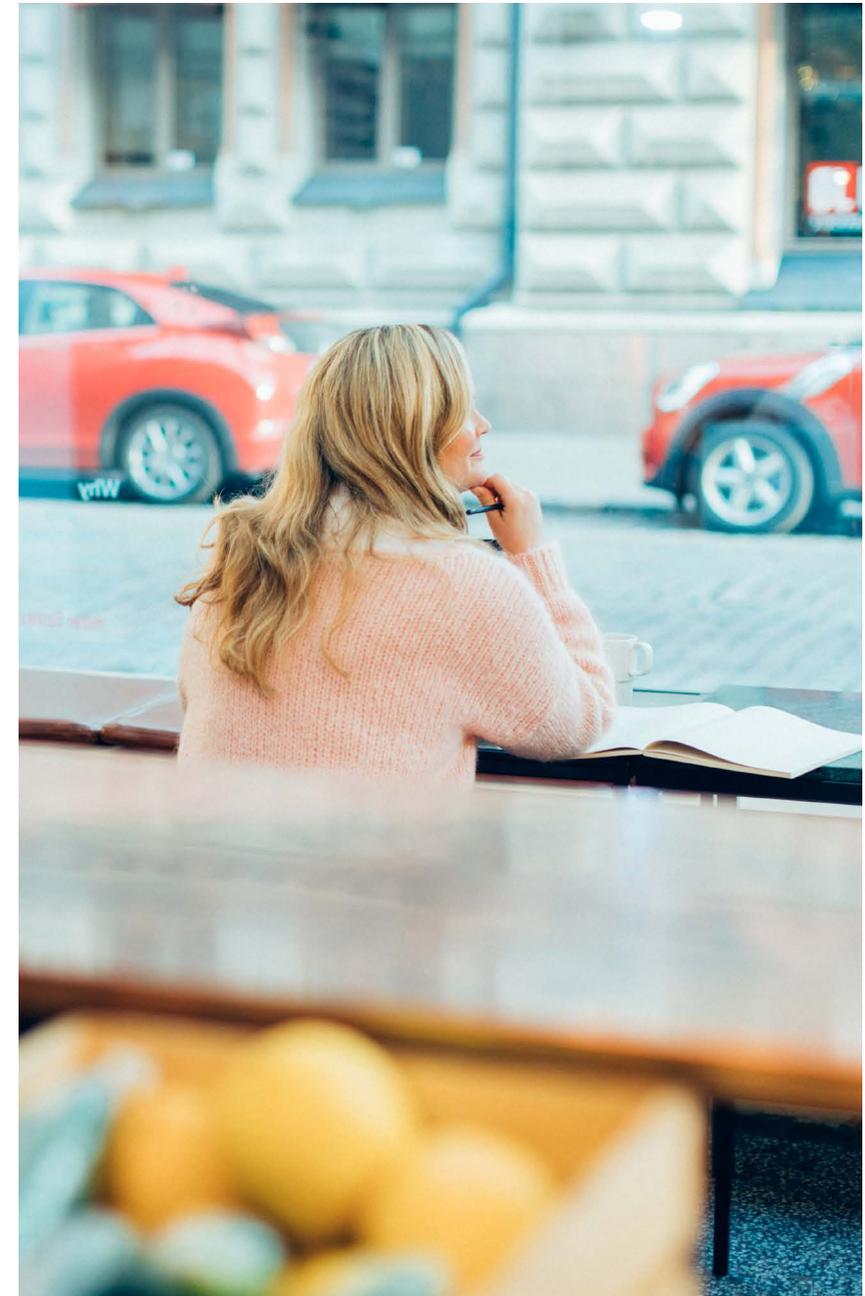
Our Principles for Responsible Investment provide the company's general outline of the responsibility for paying taxes. We will not enter into transactions with the main purpose of securing a tax advantage contrary to the intention of the legislator in enacting the relevant tax legislation. Varma does not engage in aggressive tax planning.

In investments, we comply with each country's tax policy and international tax regulations. In the absence of clear guidance by tax legislation, our leading principles are caution and tax transparency.

Our principle is also to avoid double taxation on investment returns; double taxation would contradict the ultimate objective of the investment operations, which is to generate returns. In fund investments, the avoidance of double taxation means that capital gains from abroad are recognised as income in full in Finland. We require that the domiciles of private equity and hedge funds participate in the exchange of tax information between authorities.

International tax regulation and automatic exchange of information provide governments with better tools to collect corporate taxes. The Base Erosion and Profit Shifting (BEPS) project headed by the OECD aims to prevent tax avoidance and tax evasion. The goal is to increase openness and the availability of correct information at an early stage. BEPS regulation does not apply to earnings-related pension companies, but listed companies report on their corporate taxes by country already in their 2017 financial statements. Varma pays income tax only to Finland, as we provide earnings-related pension insurance only in Finland.

Varma pays income tax only to Finland, as we provide earnings-related pension insurance only in Finland.



INVESTMENT YEAR 2017

Strong investment returns in an environment of faster economic growth.

Varma's asset classes all generated positive returns, and the strong return on investments had a direct correlation with the economy. The equity markets have experienced an upward trend worldwide as a result of global growth picking up. At the same time, central banks' monetary policies have remained highly accommodative due to subdued inflation. In 2017, market development was more tranquil than in the previous years. Broad diversification of investments also muted the risks caused by market movements, and returns were generated consistently by the different asset classes.

The value of Varma's investments grew to EUR 45.4 (42.9) billion, and solvency capital increased to EUR 11.5 (10.2) billion. The strong investment returns boosted Varma's solvency to a high level of 133.5% (130.9%).

Solid investment result through effective diversification

The return on Varma's investments was good, at 7.8% (4.7%) or EUR 3.3 billion. Fixed-income investments accounted for 28, equity investments for 46, real estate investments for 8 and other investments for 20 percentage units of

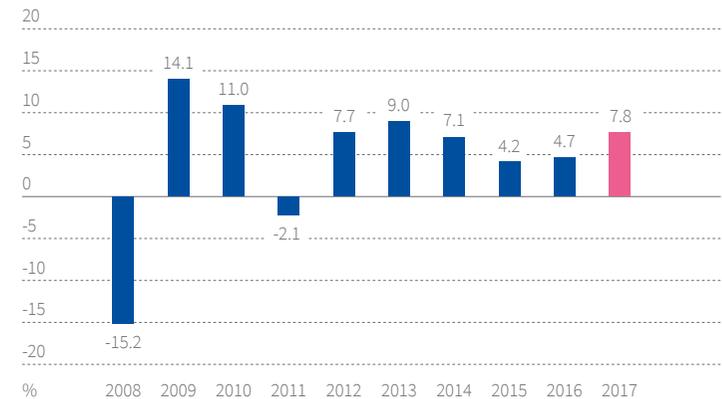
the investment allocation. The impact of derivatives was -1%.

The strongest returns were generated by equity investments, which benefited from the general rise in the equity markets thanks to recovering economic growth. Listed equities yielded a return of 11.6% (4.5%), private equities 7.9% (11.2%), and unlisted equities 18.5% (23.7%).

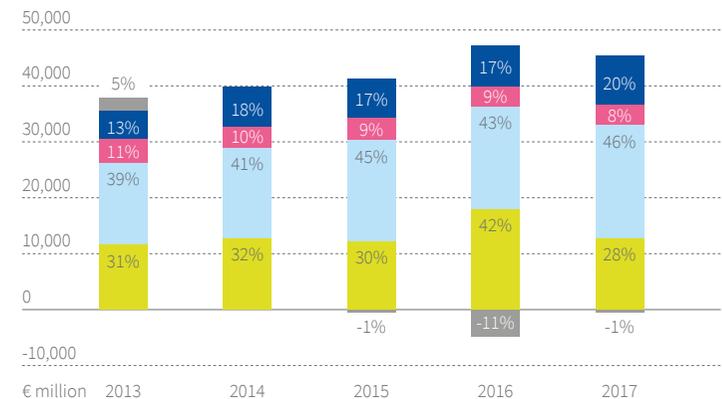
The return on fixed income investments has been excellent, at 3.7% (4.2%), in light of the low level of market interest rates. The narrowing credit margins on corporate bonds as the economy recovers have improved the return on fixed-income investments. The return on the loan portfolio was 2.2% (4.2%), on public-sector bonds 4.0% (1.8%), on other corporate bonds 6.2% (7.8%) and on other money-market instruments -1.9% (-0.4%).

Very strong year for Varma: Investments yielded 7.8% or EUR 3.3 billion.

Investment returns (%)



Investment portfolio (€ million)



- Impact of derivatives
- Other investments
- Real-estate investments
- Equity investments
- Fixed-income investments

The return on real estate investments was 4.9% (-0.9%). Direct real-estate investments yielded a return of 2.9% (-2.6%) and real-estate investment funds 12.0% (6.8%). During the year, the real estate portfolio was further developed through divestments and new investments in Finland and abroad. Rental and real estate development activities were also successful. During the year, the expansion of the Flamingo hotel was started, and the construction of Kalasatama Campus progressed as planned.

The return on other investments grew to 9.3% (5.3%). They mainly consist of hedge funds and a small commodities position. The return on hedge funds increased to 8.5% (5.6%) as the market's risk premiums narrowed during the year. The return on Varma's hedge investments has been very good over a long period, and volatility has been very low.

Varma has US-dollar-denominated investments particularly in equities and hedge funds, and in corporate bonds. In accordance with Varma's investment

policy, part of the currency risk is hedged. The considerable weakening of the US dollar during the summer of 2017 pushed down Varma's overall result to some extent. The exchange result is included in the investment returns of the asset classes.

At the end of 2017, the average five-year nominal return on Varma's investments was 6.5%, and the ten-year return was 4.5%. The corresponding real returns were 5.8% and 3.0%.

Varma's investment activities focussed on maintaining the company's strong solvency and broad diversification of investments, with a strong emphasis on risk management.

All of Varma's asset classes generated positive returns. The pick-up in the global economy led to booming equity markets worldwide.

Global economic growth spread to the markets

Global economic recovery was broad-based in 2017. In the US, equity market performance was boosted by expectations of a tax reform, promised by President Trump, which was finally approved by the Senate and House of Representatives at the end of December. Despite the stronger economic growth, inflationary pressures have been conspicuous in their absence. Employment rates have been on the rise on both sides of the Atlantic, but the pressures to raise salaries and wages have remained very moderate. Geopolitical risks have surfaced from time to time due to North Korea's missile tests but have not had a material impact on the investment markets so far.

The recovery of economic growth in Europe has taken a back seat to several political events. In 2017, the investment markets were concerned about the impacts of elections in the Netherlands, France and Germany, and of the Brexit on the entire continent's economy and mutual trade. Further concerns were caused by the Catalonia independence referendum and Spain's harsh measures to prevent it. In spite of all the

political uncertainty, economic growth has gained broad momentum in the entire eurozone. Economic growth in Finland also picked up speed as a result of export recovery in early 2017 and brisk domestic demand. As political uncertainty surrounding the French presidential election subsided, the euro strengthened sharply against the US dollar, weighing on euro-denominated returns on listed equity towards the end of the year.

Central banks' monetary policies have remained highly expansionary, although a slow turn in monetary policy is taking place. The US central bank raised its benchmark rate three times in 2017 and started to reduce its balance sheet in October. Short-term interest rates have increased steadily, but the increase in long-term interest rates has been suppressed by the weaker-than-expected inflation development. The European Central Bank has also announced that it will start to scale down its quantitative easing, but no interest rate hikes are expected to take place in 2018. Government bond interest rates in the eurozone continue to be remarkably low, and money market interest rates have remained clearly in the negative zone.

Decade in brief

Global political and financial phenomena have an impact on investments. In 2008, the world was hit by a financial crisis and even now, a decade later, investments are sensitive to economic trends and political risks. Varma's investments, however, have shown an upward trend in the last decade.



RESPONSIBLE INVESTMENT

Responsibility is a part of Varma's strategy and an integral part of our investment operations.

Responsible investment means taking into account, in addition to return expectations, environmental, social and corporate governance criteria in investment operations.

As a long-term investor and earnings-related pension company, responsibility is an important target for us, as the investment decisions we make shape, through the availability of financing, the operational conditions of companies and other investment objects.

From an investor's perspective, making allowances for responsibility does not conflict with return expectations. For us, responsibility is also a means of securing long-term investment returns while making sure that risks and opportunities are taken broadly into account when making investment decisions.

In 2014, we published the [Principles for Responsible Investment](#), which cover Varma's investment assets in their entirety. The principles have been approved by Varma's Board of Directors and are based on identifying the key responsibility aspects of investments and focussing on those.

The application of these principles is discussed in more detail in

[asset-specific policies](#). Policies have been drawn up for key asset classes, i.e. listed equities, corporate bonds, private equity investments, hedge funds and real estate.

For ethical reasons, Varma excludes companies that concentrate on the manufacture of tobacco and nuclear weapons from its direct investments.

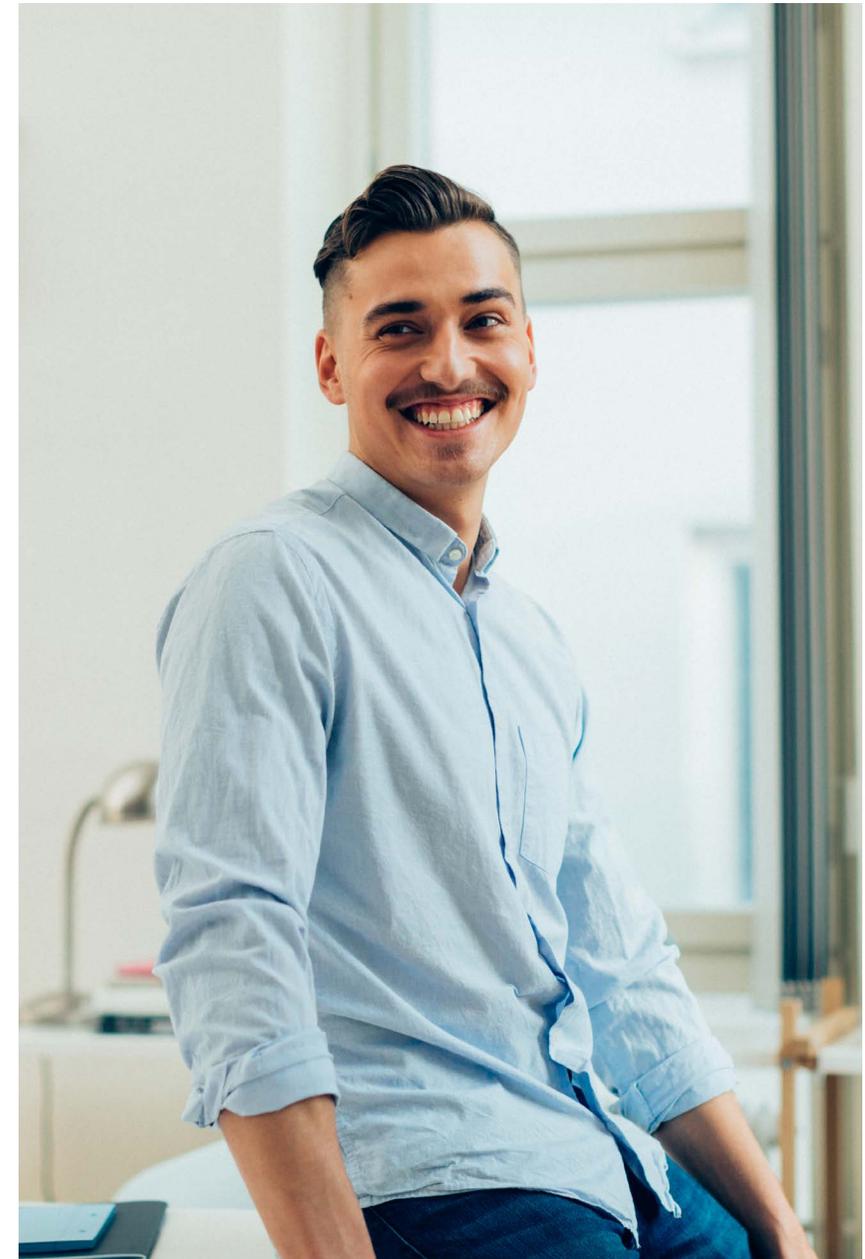
Varma signed the UN-supported Principles for Responsible Investment (PRI) in 2011. We report on responsible investment annually in accordance with the PRI framework.

In 2016, we published [a climate policy for our investments](#). You can read more about the policy in the section [Mitigating climate change](#) on p. 39.

Compliance with international agreements and standards

In addition to local legislation, we expect listed companies to comply with international standards and agreements. This means compliance with the principles of the UN Global Compact

From an investor's perspective, responsibility and returns go hand in hand.



initiative on corporate responsibility. The principles of the Global Compact initiative cover the UN Declaration of Human Rights and Convention against Corruption, ILO labour conventions and the Rio Declaration on Environment and Development.

We review compliance with the standards with the help of an external service provider, which examines Varma’s direct listed equity investments, listed corporate bond investments and equity funds twice a year. Furthermore, portfolio managers have real-time access to companies’ daily information.

The service provider submits a report on companies which have been proved to have violated the standards and norms or which are suspected of such violations. Investment Operations decides separately for each company on the measures, targets and follow-up resulting from the violations. Our primary goal is to influence the companies’ such that they rectify the detected violations and change their ways of operating. We may divest our investment following a longer influencing process, if we do not achieve the desired results.

In September 2017, the norm-based screening covered 31% of all of Varma’s investments. At the end of the year, listed equity investments and listed corporate bond investments included one company with a confirmed environmental violation. Varma is involved in a class action lawsuit against the company in question.

Responsibility management and organisation in Investment Operations

Varma’s Principles for Responsible Investment and asset-specific policies, approved by the Board of Directors, serve as the foundation for our responsible investments. The Board of Directors was also informed of the climate policy for investments, which was published in 2016, and of the ownership policy, updated in 2017.

The CIO and head of each asset class are responsible for the application of the responsible investment principles and practices. Additionally, a director of responsible investment was appointed in 2017 to develop and co-ordinate, together with her team, responsible investment in different asset classes, and is in charge of investment decisions for the sustainable equity portfolio. The Investment Operations’ management team regularly discusses matters relating to responsible investments.

Responsibility also visible in the ownership policy

Varma is a major shareholder in Finnish companies. In 2017, we updated our [ownership policy](#), which describes the expectations Varma has of companies in which it is a major shareholder.

The policy covers Varma’s equity holdings both in Finland and abroad. Our activities are focussed on companies and themes in which we estimate our expertise can be put to the best use

and in which we have significant opportunities to exercise influence.

Responsibility has been added as a new area in the ownership policy. We expect, for example, companies in which we have a holding to comply with international norms. We discuss with the companies any violations and strive to make sure that similar violations are not repeated. We may divest our holdings in a company if we do not achieve the end result we had hoped for in the discussions over a longer period of time.

We expect clear assessment and transparent reporting practices on the impacts of climate change on companies’ business operations, now and in future. We expect reporting, for example, on how climate change is included in the company’s governance, strategy and risk management, especially in emissions-intensive industries.

Responsibility as an element of active ownership

We influence the operations of the companies we invest in in several ways. We engage in regular dialogue with the management and the boards of directors. Varma is also represented in many nomination boards.

Participating in the work of nomination boards is a major means of influencing, 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 22 nomination boards in 2017. Memberships in nomination boards are given [on our website](#).

Varma’s representative normally also participates in the annual general meetings of Finnish companies in which we have a holding. As of 2018, we will be publishing our voting decisions in annual general meetings.

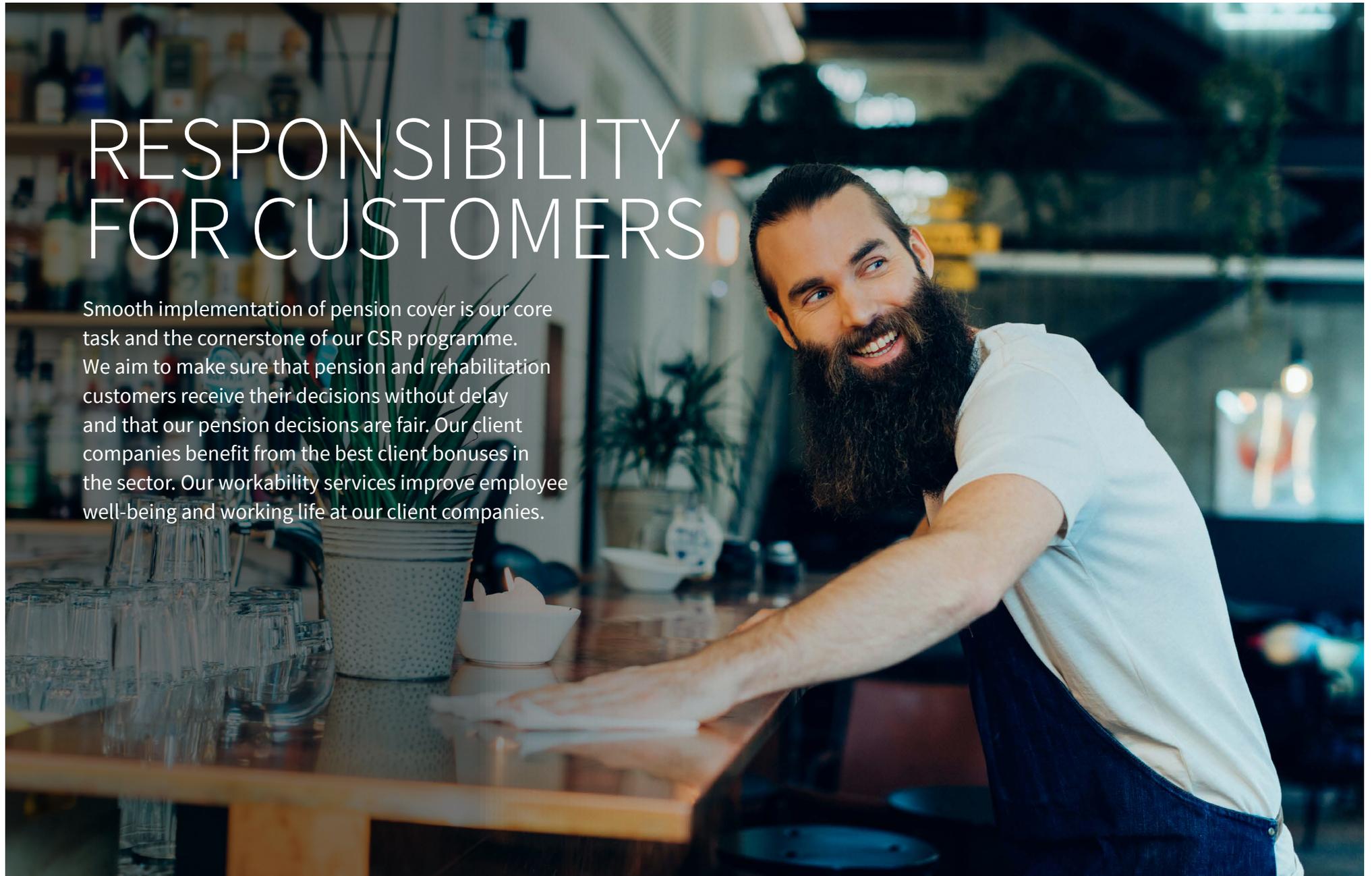
We expect clear assessment and transparent reporting practices on the impacts of climate change on companies’ business operations, now and in future.

Norm based screening of listed portfolios

Review of listed equity and corporate bond investments in terms of violations of international standards	Share of all investment objects in the asset class
Listed direct equity investments, review coverage	100%
Listed direct corporate bond investments, review coverage	100%
Active equity funds, review coverage	100%
Review coverage of Varma’s entire investment portfolio	31%

RESPONSIBILITY FOR CUSTOMERS

Smooth implementation of pension cover is our core task and the cornerstone of our CSR programme. We aim to make sure that pension and rehabilitation customers receive their decisions without delay and that our pension decisions are fair. Our client companies benefit from the best client bonuses in the sector. Our workability services improve employee well-being and working life at our client companies.



CORRECT PENSIONS ON TIME

We pay pensions correctly and on time to a growing number of pensioners

Applying for pension is a unique event in life, and it should go smoothly. Accordingly, improving the quality of pension services has been a key target at Varma in recent years. It is important for our customers that pension applications are processed swiftly and there are no interruptions to the applicant's income.

The number of pensioners and the euro amount of pensions paid are constantly rising at Varma, due to the change in Finland's age structure and longer life expectancy.

We process pension applications swiftly

Varma has been improving the processing of pension applications during the past few years in order to speed up the process. In 2016, we made great progress in the processing times of pension applications, and in 2017 we continued on the same path: the average processing time was shortened from 60 days in 2015 to 37, which is six days shorter than the sector average.

In 2017, applicants received an old-age pension decision from Varma on average in just over a month. The decision can be made within a few days, if all the required information is submitted with the application.

The software robot Håkan performs routine tasks in the initial phases of pension application processing.

The smooth processing of pensions is based on an efficient IT system, a fine-tuned process which has been developed using the Lean methodology, and our specialists' competence. During the year under review, we also started to make broader use of automation and software robotics. The software robots, called Håkan and Hugo, perform routine tasks in initial phases of pension application processing.

Clearer pension decisions through legal design

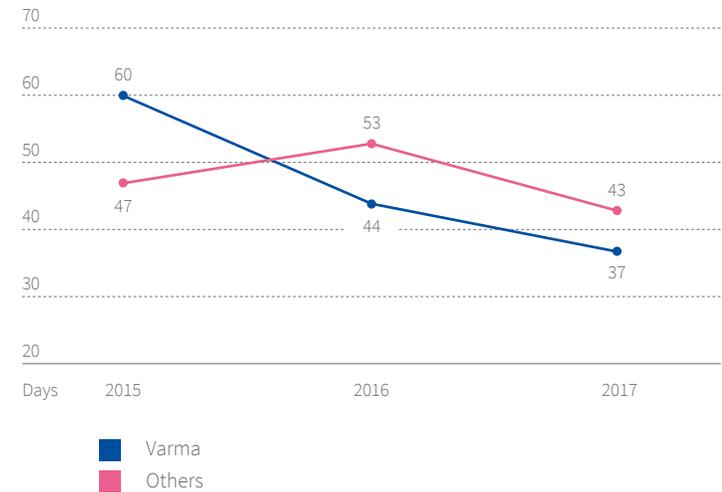
Our customers require clear and practical information, and they often find pension matters complicated. We wish to improve the clarity of our pension decisions and in 2017, we made use of legal design to develop the contents and layout of our pension decisions. A group of our customers was also involved in the development work.

Pension reform introduced two new types of pensions

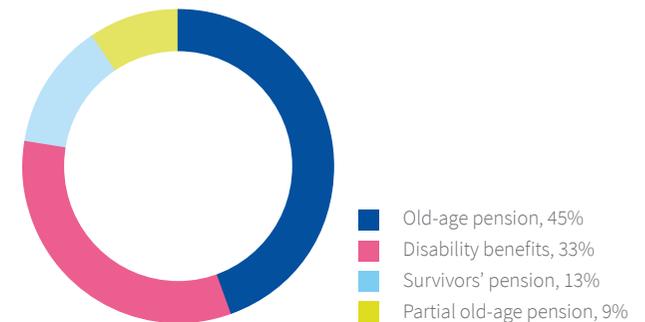
Pension reform took effect in 2017. The reform raises retirement ages by three months per age cohort. Part-time pension was replaced by partial early old-age pension, and another new type of pension is the years-of-service pension.

Those retiring on partial old-age pension may receive part of their pension before the actual retirement

Pension application processing in days



Pension decisions (%)



age, at the earliest at the age of 61. This will, however, reduce the amount of the person's final pension. Varma was surprised by the popularity of the partial early old-age pension: the number of applications totalled 2,705 in 2017.

In contrast, only one years-of-service pension decision was made at Varma in 2017. The stringent criteria for the years-of-service pension include, for example, a 38-year-long career performing physically or mentally strenuous work, and workability must be reduced by illness. Retiring on the years-of-service pension is possible, at the earliest, as of 1 February 2018.



2,705

people applied for partial early old-age pension from Varma in 2017.



€5.5 billion

In 2017, we paid EUR 5.5 billion in pensions to 342,600 recipients.



CUSTOMER SERVICE

All matters can be handled electronically

We offer all pension applications in digital format. Our customers have embraced the online service: 58% of all old-age pension applications in 2017 were submitted electronically to Varma, and the volume is strongly increasing every year.

Our pension and rehabilitation customers can choose the e-customer option, which allows them to check their pension or rehabilitation decision in our eServices. The customer can choose a free SMS notification when documents have arrived in the eServices.

The pension record shows the amount of pension that has accrued up until the end of the preceding year. Pension records can also be checked in our eServices. Customers who have not opted for an electronic pension record receive the record by mail every three years.

We launched a new online service for those aged over 53, to support our customers in planning their retirement. The service includes, for example, tips, pension information, peer stories and expert blogs.

Our rehabilitation customers now have a revamped digital service at their disposal. The service starts with steering an employee who is experiencing workability problems to apply for rehabilitation, and it covers the entire path until the end of the rehabilitation.

We are also developing a peer support platform for our rehabilitation customers where they can share their experiences of rehabilitation and assess service providers.

The idea for the service was spawned in April at the 2017 Varma Hack competition, where digital services to support rehabilitation were developed.

Our insurance customers can also take care of all their insurance matters online, if they so choose. We are firmly involved in digital development and we offer modern tools for, for example, workability management, ordering earnings certificates and certificates to be attached to bids for contracts, and reviewing one's insurance contributions.

Our Workability Management Information Service assists in the planning of workability management. The service enables the monitoring, comparison and forecasting of the personnel's age structure, pension amounts and the development of related costs.

Through the Onnistuyrittäjänä.fi service our customers can conveniently take care of their pension, banking and insurance matters. For new entrepreneurs and those thinking about entrepreneurship, the service provides tools, for example, for drawing up business plans and making profitability calculations.

The service was set up together with If P&C Insurance and Nordea Bank.

In addition to comprehensive digital services, we also offer more specific advice by phone and via a chat service, whose service hours were lengthened in 2017.

Best customer service in Finland

We monitor the correctness and fairness of our pension decisions, the decisions made by appeals bodies, and the smoothness of our services. While pension applications are processed faster, the processing quality has remained excellent, as reflected in the commendable results of our customer satisfaction survey.

Our customers are very pleased with the service we provide. Varma's phone service for pension customers was ranked number one in the large companies' category of the 2017 Customer's Voice survey. The best customer service employee in the entire survey was also a Varma employee. All in all, our customer service employees fared well in the survey, with six Varma employees in the top ten.

The Net Promoter Score is used with both client companies and private customers. The results show that our customers' recommendation likelihood was high in 2017. A score of over 60 for the phone service is considered especially good.

Net Promoter Score (NPS), on a scale of -100 to 100

	2017	2016	2015
Pension Services' phone service	71.8	68.2	-
Pension Services' application and payment processing	64.4	68	-
Client companies' likelihood of recommending Varma as a pension company	65.3	64.1	62.3
Phone service for client companies	71.4	64.6	57.5
Email service for client companies	48.9	39.8	36.9
Account and development managers' contact with clients	76	73.1	70.1
Benefits of Workability Management Services	52.7	54.2	-
Commercial property customers	52	51	-
Residential tenants	51	53	-

Earnings information to the Incomes Register in 2019

The Incomes Register, which is maintained by the Finnish Tax Administration, will be introduced in 2019. It is an electronic database that will contain earnings information reported by employers.

We have compiled on our website useful and timely information on the Incomes Register and its effects on TyEL insurance.

[Watch a video about the Incomes Register \(in Finnish\)](#) >

We promote entrepreneurship and growth

We support our customers in the challenging economic environment and encourage them to seek growth. We bring together companies of all sizes in our Varmasti events and webinars so that they can benefit from one another's competence and success.

We are involved in Kasvu Open, a sparring programme for eager-to-grow companies, and the Kasvuryhmä, initiative, where companies spar, challenge and support each other on a growth path.

Those who use invoicing services to invoice for their own work (so-called light entrepreneurship) are subject to the Self-employed Persons' Pensions Act (YEL) as of 1 May 2017. The change is due to the fact that, from the perspective of social security, those employing themselves have been considered entrepreneurs and not employees. When working is not based on an employment relationship, pension cover is based on YEL. Those employing themselves are now obliged to take out insurance under YEL if the activities last for longer than four months and YEL income exceeds EUR 7,645.25 during a 12-month period.

We pay the best client bonuses

Thanks to our strong solvency and efficiency, we pay the best client bonuses in the sector, which lower our clients' insurance contributions. EUR 161 million, or 4.7% (3.6%) of employers' TyEL contributions, will be paid out as client bonuses for 2017.

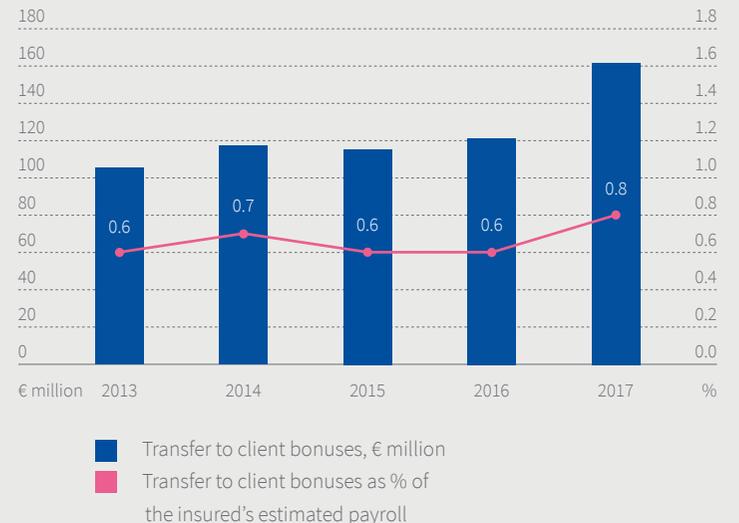
The loading profit for 2017 will be returned in full to customers as client bonuses, in accordance with the common regulations in the sector. In 2017, we used 67% (72%) of the expense loading component included in insurance contributions. Previously, half of the loading profit was returned as client bonuses, and the other half was transferred to the solvency capital.

Varma is by far the most efficient earnings-related pension insurance company, which together with good solvency, guarantees the best client bonuses in the sector.

Loading profit (€ million)



Transfer to client bonuses 2013–2017 (€ million)



WORKABILITY MANAGEMENT AND REHABILITATION

Workability Management and rehabilitation

Varma is an expert in workability management and rehabilitation. We help our clients to forecast workability challenges and to save in pension and sick-leave costs. Our workability services improve employee well-being and working life at our client companies.

Workability management promotes companies' competitiveness and productivity and the societal goal of longer careers. Our workability management services include expert services, electronic services and tools. It may also take the form of financial support, targeted at training and coaching supervisors and staff, and personnel surveys. The financial support totalled EUR 10.5 (13.9) million in 2017.

Workability management promotes good leadership, focuses on company productivity, supports employees' recovery from work and prevents disability. It also reduces absences due to illness, lowers disability costs and improves well-being at work and productivity.

The goal of workability management is to take timely control of the

client's disability risks. Workability management is goal-oriented and systematic. The goals and indicators are tangible, and they can relate to absences due to illness, improving the disability contribution category, the flow of work, and supervisory work.

In 2017, we had ongoing workability management projects in 640 client companies; and they covered around 285,000 employees and supervisors.

In 2016, the Financial Supervisory Authority issued guidelines concerning earnings-related pension companies' support for disability risk management projects. These guidelines were integrated into Varma's processes and e-services. As of April 2017, Varma has published information on our new well-being at work contracts on our website.

We reformed our workability management services for small and medium-sized companies in 2017 to ensure that we can provide regional services in all parts of Finland through our service network.

Varma works in close co-operation with occupational health-care providers. Together with Terveystalo and

Mehiläinen, we have developed tools for knowledge-based management which bring together Varma's and service providers' data. This allows more efficient management of workability risks.

Rehabilitation helps people continue in working life

Vocational rehabilitation gives people the opportunity to continue in working life if an illness makes it difficult to continue working as an employee or entrepreneur. It may take the form of work trials, job coaching, vocational training or a business subsidy.

Varma's rehabilitation work produces results. Of Varma's vocational rehabilitation customers, 75%, or 1,335, returned to working life in 2017.

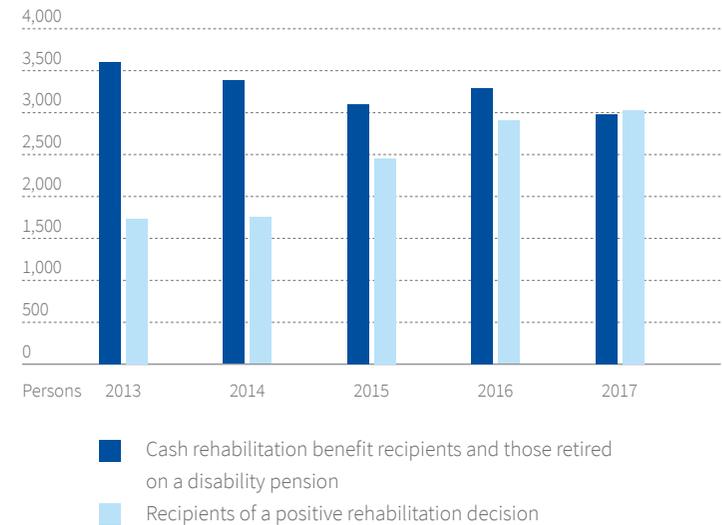
We spent EUR 42 million on rehabilitation – which translates to estimated savings in pension expenditure of EUR 457 million.

At Varma, the number of new disability pensions is already lower than the number of people in rehabilitation. Since 2010, the number of positive rehabilitation decisions has doubled and the number of those who

1,335 people, or 75%, of Varma's vocational rehabilitation customers returned to working life in 2017.



New disability pensions and rehabilitants (persons)



The goal of workability management is to take timely control of the client's disability risks.

have retired on disability pension is down 9%. In 2017, Varma made 3,029 positive rehabilitation decisions, which represents an increase of 4.2% from the previous year.

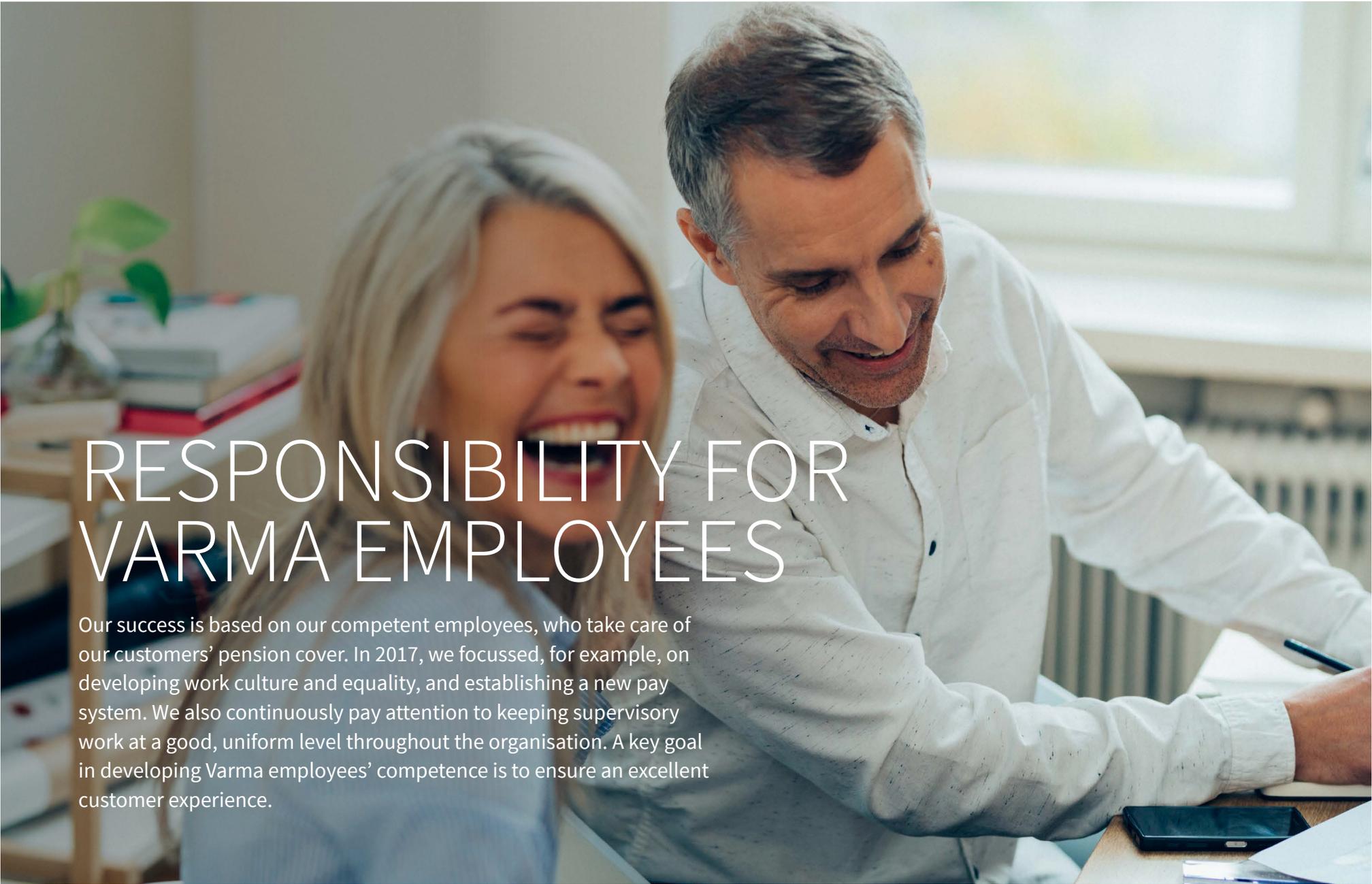
In 2017, Varma rejected 33.4% (31.7%) of new disability pension applications. The rejection rate for all earnings-related pension companies was 33.7% (31.4%) in 2017. The Pension Appeal Board changed Varma's disability pension decisions in 13.1% (13.3) of the cases it handled. The corresponding rate for the entire private sector was 14.1% (13.1).

Early intervention measures have an effect on the number of disability pensions. As an example, occupational health-care providers more readily intervene in prolonged absences due to illness.

In 2017, the average disability pension contribution category of Varma's client companies was 3.7 (3.4).

Vocational rehabilitation helps to continue in working life if workability is jeopardised by an illness.





RESPONSIBILITY FOR VARMA EMPLOYEES

Our success is based on our competent employees, who take care of our customers' pension cover. In 2017, we focussed, for example, on developing work culture and equality, and establishing a new pay system. We also continuously pay attention to keeping supervisory work at a good, uniform level throughout the organisation. A key goal in developing Varma employees' competence is to ensure an excellent customer experience.

AN AGILE WORK CULTURE THAT FOSTERS RESPONSIBILITY

The equality and non-discrimination survey carried out in 2016 highlighted Varma employees' desire for more flexible working hours, new remote working opportunities, and greater independence in their work.

Based on the survey results, we identified the three most important areas of improvement and began working on them immediately: flexible work arrangements and a renewal of the work culture, valuing employees of different ages, and revising the pay system. Goals and measures have been drawn up for these priority areas, and these are followed up on regularly by the equality and non-discrimination working group.

The equality and non-discrimination plan is discussed by the co-determination committee, and Varma's Executive Group has approved the plan.

Work culture cultivated in joint workshops

A modern and attractive work culture gives us a competitive edge. The slogan for our work culture is "Agile respon-

sibility-bearers", which builds on a foundation of mutual trust and bearing responsibility for the productivity of our work. The new flexible working-hour arrangements improve efficiency and allow employees to influence their day-to-day lives. Work is performed wherever one achieves the best results.

In work-culture workshops, Varma employees joined hands to develop the work culture of their own teams or functions. We organised a total of 42 workshops in 2017, and nearly all Varma employees participated in them. The themes that emerged in the workshops were also brought to the attention of the management of different functions to ensure that the development measures focus on pertinent issues and that the work culture is embraced by the entire organisation.

The development of a flexible and modern work culture goes hand in hand with our renovated premises. Varma employees moved into the modernised premises in 2017. The new activity-based office takes into account different work situations, easy personal

interaction and the possibility to perform work independent of place. Remote working opportunities also bring flexibility to daily life. For our customers we are available regardless of place.

Something we credit the new work culture with is the fact that Varma employees' brief absences due to illness were reduced from 4.6 days to 3.8 days in one year.

At Varma, a flexible work culture also means being able to effortlessly balance work and personal life. In 2017, 8% of Varma employees were working part-time while, for example, on partial child-care leave or part-time pension.

Varma employees are satisfied and have long careers, 14 years on average.

Personnel

	2017	2016	2015
Personnel	554	564	568
* permanent	532	538	553
* fixed-term	22	26	15
* full-time	511	516	513
* part-time	43	49	55
Women/men (%)	72/28	72/28	73/27
Personnel covered by collective bargaining agreements (%)	88	89	88
Average age	47 y 3 m	47 y 8 m	47 y 11 m
Average age of retirement on old-age pension	63 y 7 m	64 y 0 m	63 y 8 m
Average service period	14 y	15 y 4 m	16 y 6 m
Personnel turnover rate	8.8	4.4	3.4
Exit turnover rate	8.6	8.0	7.6
Sick days/employee	8.0	8.6	9.9
Occupational accidents	4	2	2
Training days/employee	2.2	2.7	2
Employees covered by performance and development reviews (%)	100	100	100

We credit the new work culture with the fact that Varma employees' brief absences due to illness were reduced from 4.6 days to 3.8 days in one year.

Employee experience and supervisory work constantly monitored

We conduct annual employee surveys. The latest results, from October 2017, show that Varma employees' satisfaction and engagement index in the PeoplePower survey stood at 71.4, which is a satisfactory – borderline good – level. The employee survey indicators were changed in 2017, so there are no comparable figures from the previous year.

According to the results, Varma employees consider, for example, the company's bright outlook, ability to implement changes and positive working environment as their employer's strengths. There is also trust in the top management, while areas of improvement include fair and equal treatment, fair pay and commitment to the workplace.

A key goal for us is to guarantee a high and consistent level of supervisory work for our employees. Varma's supervisors receive continuous training, and feedback on how performance in managed is monitored in the employee survey.

Overall, Varma employees are satisfied and have long careers, 14 years on average.

Responsible employer of summer workers and trainees

For several years now, Varma has participated in the [Responsible Summer Job campaign](#), which aims to offer young people a positive first experience of working life.

Summer workers gave feedback on their workplace in the Most Responsible Summer Job 2017 survey, and Varma's summer workers gave their summer job experience a rating of 3.54 (3.72) on a scale from 1 to 4. This was slightly below the average for large companies, which was 3.58 (3.59). We will improve the summer work process such that the contents and demands of the tasks better meet the expectations and abilities of young workers.

In 2017, Varma was a participant in Mentors of Finland's trainee programme "Let's provide a 100 years of work", which helps young people with a university degree find work. In addition to six-month-long trainee positions, the programme included working life coaching organised by Mentors of Finland and opportunities to create networks with other trainees. We offered six trainee positions in total.

In 2018, we want to help young people with disabilities to find work. We are a partner to the [Vamlas Foundation's](#)

project which aims to find summer work for 101 young people with disabilities in 2018. Vamlas promotes diversity and inclusion of young people with disabilities in schools, studies, hobbies and working life.

Job requirements system adds transparency to remuneration

Our employee surveys indicate that Varma employees would like a more transparent and fair pay system. We introduced a new job requirements system in 2017. The goal is to have a better tool for assessing the requirements of jobs, create a clearer overall picture of Varma's pay level in comparison to our sector, and promote the development of the pay system and total remuneration. The new job requirements system serves as the basis for determining an employee's pay level. The pay level and development are also influenced by the employee's performance and competence.

In order to develop fairer remuneration practices, we introduced a centralised pay review model in 2017. A regular pay review round promotes equal treatment and transparency in remuneration. In future, the goal is to regularly review the need for pay increases.

Robots perform routine tasks in pension application processing and free up time for specialists to broaden their skills in expert tasks and customer service.

COMPETENCE DEVELOPMENT

Varma's personnel carry out demanding expert work that is meaningful for society and requires continuous development and renewal. Responding to the transformation of work and providing an excellent customer experience are the focus of our development work. Our specialists are now supported by robotics.

In 2017, our competence development work focussed on changes affecting the operating environment and pension sector. We paid special attention to taking command of the pension reform and preparing for the EU's General Data Protection Regulation and the national Incomes Register. Special attention was also given to customer service skills, service design and digital competence.

The transformation of work challenges us all, and we want to support Varma's specialists in meeting any future competence requirements. The ability to learn will be one of the most important tools in a specialist's career. We have been encouraging Varma's specialists to create future-proof work identities for themselves through special Survivors 2030 coaching, which will be continued in 2018.

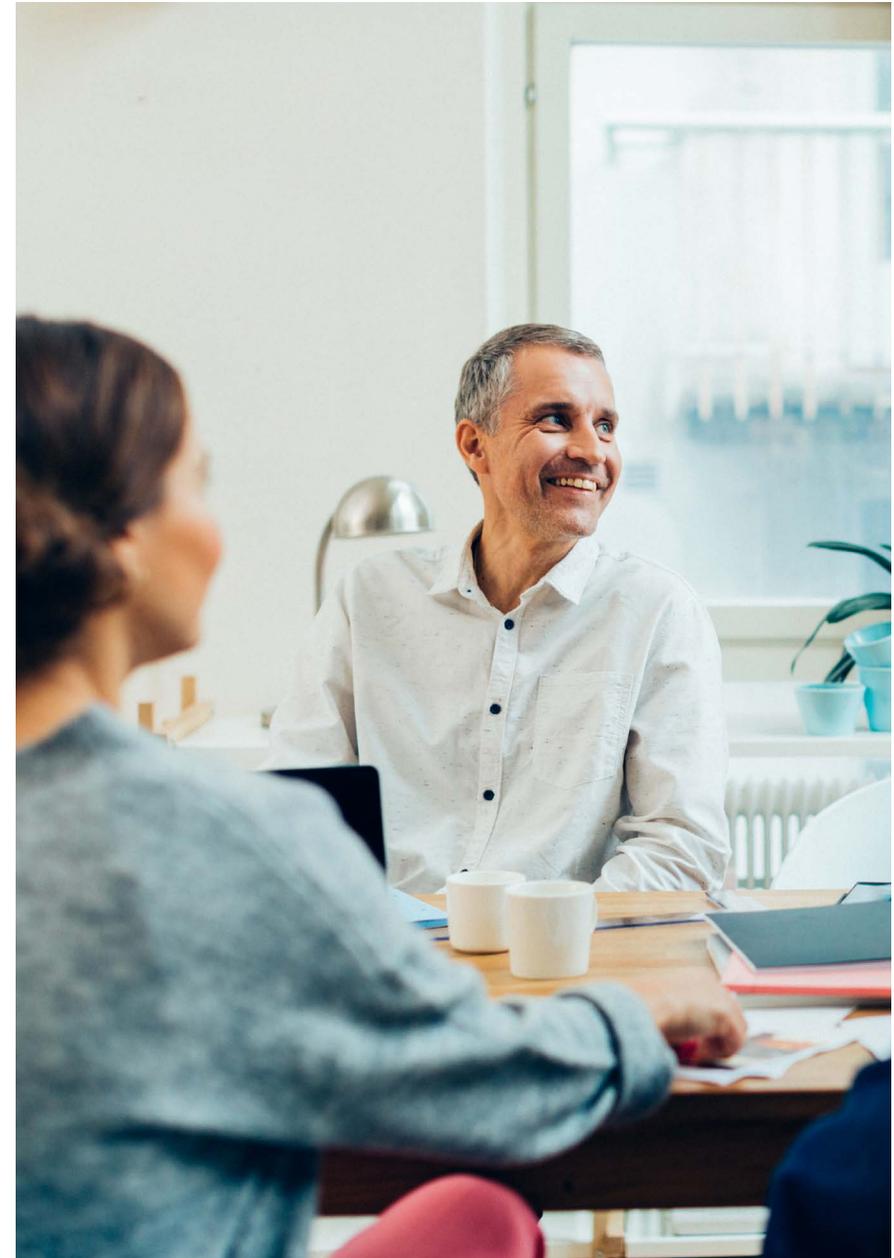
Some Varma employees had the opportunity to learn how to work with a robot, as in 2017 we extended the use of automation and software robotics. The software robots, called Håkan and Hugo, perform routine tasks in initial phases of pension application processing and free up time for specialists to broaden their skills in expert tasks and customer service.

We make broad use of various new learning methods and tools, such as videos and online learning environments.

In developing our operations, we use the Lean methodology, which helps us assess the added value that our operations bring to the customer. We aim to improve the efficiency of our processes and increase customer satisfaction. We completed 22 small-scale Lean development projects in 2017.

Varma uses Viima software, a community development tool intended to promote shared and open ideas and innovations. Any Varma employee can enter an idea in Viima concerning the development of our operations for others to comment on. The best ideas are rewarded. In 2016–2017, more than 700 ideas were entered into Viima, and many of them were also implemented.

The ability to learn new things is one of the most important tools for an expert.



EQUALITY AND NON-DISCRIMINATION

Promoting diversity and equality

In 2016, Varma joined FIBS' Diversity Charter Finland, which encourages Finnish companies to develop their diversity management practices and benefit from the different backgrounds, skills and traits of their employees. We signed the Charter, in which we commit to ensuring the fair and equal treatment of our personnel and customers, irrespective of gender, age, ethnic background, political views or other similar factors.

In our 2016 equality and non-discrimination survey, we examined the implementation of diversity at Varma. Valuing employees of different ages and improving gender equality emerged as areas in need of improvement. Gender equality is not being realised in the best possible way especially in Varma's management and governing bodies; in the Executive Group, for example, the share of women is 25 per cent.

In 2017, we agreed on targets and measures for promoting equality at Varma. Our target is to have 40% representation of either gender in Varma's Executive Group and middle management by 2022. We aim to achieve this, for example, by ensuring that when new persons are recruited to the Executive Group or middle management, both genders are represented in the final three candidates according to the

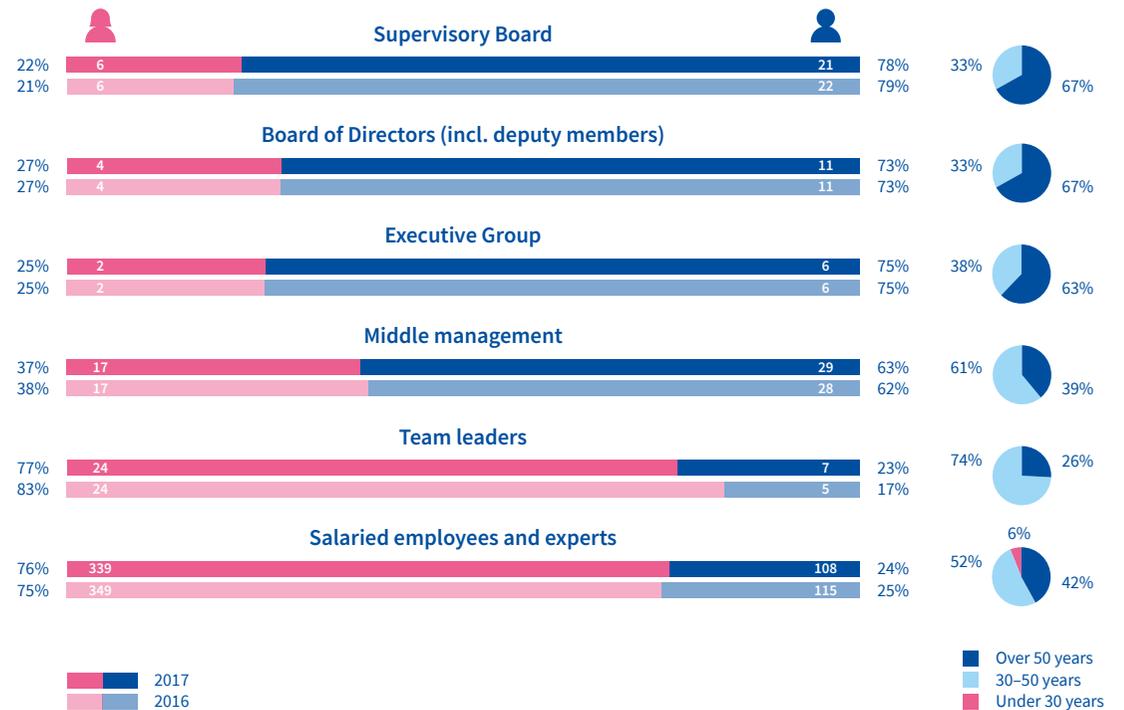
'comply or explain' principle. This recruitment policy is followed-up on and reported on annually.

Every two years, we carry out a pay survey to determine whether gender equality is being implemented in our pay and reward system. The job requirements system, which was reformed in 2017, contributes to pay transparency in terms of fairness and equality.

According to the survey conducted in summer 2016, pay equality is implemented reasonably well at Varma when examined by job requirements. In terms of Varma's performance-based remuneration, gender does not appear to play a role. However, the higher the job requirements are, the bigger the pay gap between the genders. The company-level differences in the salaries of male and female employees at Varma are largely attributable to the fact that the number of women is proportionally higher in jobs with lower requirement levels. To promote and encourage women's advancement to higher-level specialist and management jobs, we will launch a mentoring programme in 2018.

One of our goals in 2018 is to develop the management of diversity at Varma. By this we mean an inclusive, sparring managerial approach that takes into account different backgrounds, skills and abilities.

Gender distribution of employee groups, the Board of Directors and Supervisory Board in 2016 and 2017



Women's salaries in relation to men's at Varma in 2017

	Women's average salary as % of men's salary
Executive Group (excl. the CEO)	74%
Rest of the personnel	72%

RESPONSIBILITY FOR THE ENVIRONMENT

Mitigating climate change is one of Varma's key responsibility targets. In our climate policy for investments we set ambitious targets aimed at reducing the carbon footprint of our investments. We have gained excellent momentum as we achieved the targets set for 2020 in two years.

MITIGATING CLIMATE CHANGE IN INVESTMENTS

Climate change is one of the most critical factors that investors must prepare for. It will have substantial financial, social and environmental implications for current and future generations. Climate change is shaping the business opportunities of different sectors, and thus influences future investment valuations.

In 2015, we already excluded from our direct equity investments electricity companies that generated more than 30% of their electricity with coal. We also do not invest in coal mining operations, and we have a negligible number of direct oil stock holdings.

Our climate policy for investments has two targets. The first, short-term goal is to reduce the carbon footprint of our listed equity investments by 25%, that of our listed corporate bond investments by 15%, and that of our real estate investments by 15% by the year 2020.

The second target is to integrate under the 2-degree target of the Paris climate conference into our investment activities.

We have excluded from our direct equity investments electricity companies that generated more than 30% of their electricity with coal. We also do not invest in coal mining operations.

Portfolio's carbon footprint plummets

We reached the CO₂ target we had set for 2020 ahead of schedule at the end of 2017. The carbon footprint of Varma's equity investments was 27% lower compared to the 2015 base level and 39% lower than the benchmark index. This is due to the fact that we have focussed our investments on low-emissions industries and reduced our investments in energy intensive companies.

Due to the low level, the carbon footprint of Varma's equity investments is vulnerable to changes in equity investments in emissions-intensive industries, and it is likely that the carbon footprint may fluctuate even to a great extent from one year to the next.

The carbon footprint of listed corporate bonds declined 22% in relation to net sales from the 2015 level. We reduced our investments in emissions-intensive companies in several industries, such as energy and mining. The carbon footprint of corporate bond investments was 57% lower than the benchmark index.

Carbon footprint of Varma's investments

Listed equity investments	31.12.2017	31.12.2015	Change	Varma vs. index
Carbon intensity	126	163	-22%	
Carbon footprint in relation to revenue	173	237	-27%	-39%
Market value (EUR bn)	13.2	10.8	22%	
Carbon footprint (tCO ₂ €)	1,313,176	1,810,908	-27%	-44%
Carbon footprint in relation to invested capital	100	168	-41%	-44%
Share of disclosing companies (in relation to capital)	82%	85%	-4%	

Listed corporate bonds	31.12.2017	31.12.2015	Change	Varma vs. index
Carbon intensity	112	171	-35%	
Carbon footprint in relation to revenue	169	217	-22%	-57%
Market value (EUR bn)	3.8	3	27%	
Carbon footprint (tCO ₂ €)	1,269,025	1,535,094	-17%	-17%
Carbon footprint in relation to invested capital	333	515	-35%	-23%
Share of disclosing companies (in relation to capital)	82%	86%	-5%	

Direct real estate investments	31.12.2017	31.12.2015	Change
Carbon footprint (tCO ₂)	45,682	58,050	
Share of flats	17%	18%	
Share of business properties	83%	82%	
Carbon footprint in relation to gross square metres (CO ₂ kg/gross m ²)	27.8	33.8	-18%
Carbon footprint of flats in relation to gross square metres (CO ₂ kg/gross m ²)	20.8	27.2	-24%
Carbon footprint of business premises in relation to gross square metres (CO ₂ kg/gross m ²)	29.9	35.6	-16%
Market value of the real estate portfolio included in the calculation (EUR bn)	2.1	2.2	
Share of flats	35%	29%	
Share of business premises	65%	71%	
Sites included in the calculation as % of the market value of the entire direct real estate portfolio	74%	66%	

Scenario analysis helps monitor the climate target

In addition to calculating the carbon footprint, another tool for monitoring the climate targets is the scenario analysis, which takes a look at how compatible various sectors, companies and investor portfolios are with the target of the Paris Agreement.

In 2017, Varma placed in the top six in an assessment commissioned by the WWF on how aligned Europe's largest investors are with the 2-degree climate target.

For two years now, Varma has conducted a 2-degree scenario analysis on its direct equity investments in those industries for which data is available: electricity production, fossil fuels and the automobile sector. The results reveal that Varma's portfolio is very much in line with the 2-degree target in our investments in both electricity production and fossil fuels. The positive outcome can be explained by the high proportion of renewable energy in the electricity production of the companies in our portfolio.

Sustainable equity portfolio and green bonds

In 2016, we built a climate-change-themed portfolio made up of companies whose operations benefit from climate change mitigation, for instance, in technology and renewable energy

production. Companies that are prepared to make the move to lower-carbon and, in turn, lower-risk operations will also be selected for the portfolio. At year-end 2017, the portfolio was valued at approximately EUR 400 million.

In 2017, Varma also began investing in green bonds. The debt capital raised through the issuance of a green bond is earmarked for environmentally friendly investments. By the end of the year, our green bond portfolio was valued at approximately EUR 300 million, accounting for roughly 3% of our liquid bond investments.

We will continue to integrate our climate policy with the investment processes in 2018. This means systematically reviewing climate issues, keeping an eye on the carbon footprint and expanding the analysis of the 2-degree target to many other industries.

As regards hedge funds and private equity funds, the goal is that by 2020 more than half of Varma's fund capital has a climate change policy and climate change is an integrated part of the investment process. We also require that the funds report on their operations.

We expect companies to report on how climate change is taken into account

In 2017, we updated our share ownership policy, which describes

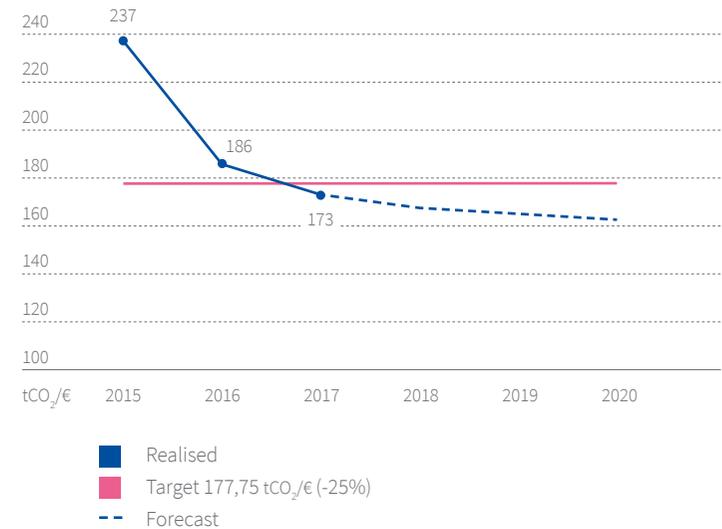


The carbon footprint of our equity portfolio decreased

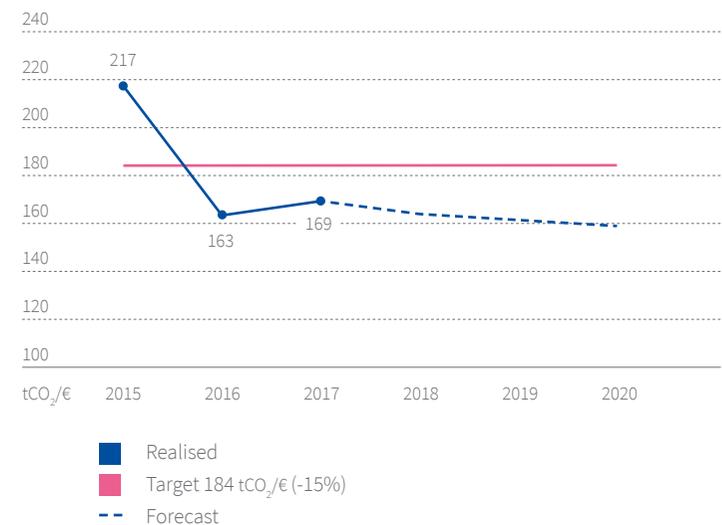
27%

from the year 2015 baseline.

Carbon footprint of Varma's listed equity investments



Carbon footprint of Varma's listed corporate bond investments



the expectations Varma has of companies in which it is a major shareholder. The updated policy also includes new responsibility outlines. Going forward, we expect companies to report, among other things, on the impacts climate change has on both their business operations and their growth prospects now and in future. The requirement is in line with the recommendation of the international (Task Force on Climate-related Financial Disclosures) (TCFD).

Like TCFD, we recommend that companies disclose information about how climate change is included in the company's governance, strategy and risk management, especially in emissions-intensive industries. Targets and indicators should be established for monitoring purposes.

Commitments and networks

In 2016, we joined the [Montréal Pledge initiative](#), in which investors commit to measure and publicly disclose the carbon footprint of their listed equity investments annually. We also signed the [CDP](#), which compiles data on companies' greenhouse gas emissions and other climate-change-related data.

In 2017, we also joined the [Climate Leadership Council](#) (now Climate Leadership Coalition) and [Climate Partners](#), both of which fight climate change.

Environmental impacts of real estate investments

Buildings account for more than 40 per cent of Finland's greenhouse gas emissions. Varma's goal is to reduce the carbon footprint of its real estate by 15 per cent between 2015 and 2020. By 2025, the goal is to reduce CO₂ emissions by 20%.

The carbon footprint of real estate investments declined by 18% between 2015 and 2017. This positive development is partly due to the change in Varma's real estate base, but credit also goes to the measures taken to boost energy efficiency in the properties.

The carbon footprint of Varma's residential properties was reduced as a result of switching to green real estate electricity. Our target is gradually to move over to 100% renewable real estate electricity in residential properties by 2019.

We aim to influence GHG emissions especially by saving energy.

We are committed to both commercial property and rental flat action plans through the Finnish Energy Efficiency Agreement Scheme for the property sector. The agreement period covers the years 2017–2025.

Varma pursues a 10% reduction in the properties' energy consumption by the end of 2025. We have set an intermediate target of 4% consumption savings by the end of 2020.

Consumption of heat, water and electricity in Varma-owned properties in 2015–2017

	2017	2016	2015
Residential			
Weather-normalised heat, MWh	40,845	47,849	48,329
Water, m ³ ¹⁾	292,318	375,312	358,874
Electricity, MWh	5,735	6,299	6,553
Number of sites included in calculation	55	62	61
Business premises ²⁾			
Weather-normalised heat, MWh	118,723	82,820	93,696
Water, m ³	239,634	188,460	216,985
Electricity, MWh	89,791	68,366	75,039
Number of sites included in calculation	62	60	63
Business premises ²⁾ and residential, total			
Electricity, MWh	159,568	130,668	142,025
Water, m ³	531,952	563,772	575,859
Weather-normalised heat, MWh	95,526	74,664	81,592
Number of sites included in calculation, total	117	122	124

¹⁾ For residential properties, water consumption includes household water used by the occupants. Water consumption is monitored for 53 flats.

²⁾ Sites managed by the tenant are not included in monitoring. The sites in the portfolio being monitored have changed since 2016, when some sites' consumption figures only covered a part of the year.

In 2017, Varma placed in the top six in an assessment commissioned by the WWF on how aligned Europe's largest investors are with under the 2-degree climate target.

The heat, electricity and water consumption of Varma-owned residential properties has declined significantly in recent years, while the consumption figures for business premises rose in 2017, mainly as a result of changes in the real estate base included in consumption monitoring. The consumption figures for different years are not fully comparable with each other.

22 properties have environmental certification

Our climate policy states that our most important buildings will be certified according to the BREEAM environmental rating system by 2025. The quality system is particularly aimed at improving how energy efficiency is monitored and verified. The goal is to achieve a rating of at least “Good” or “Very Good”.

In 2017, ten properties owned by Varma were granted BREEAM In-Use environmental certification, among them shopping centres and office buildings. At year-end 2017, a total of 22 of our real properties had environmental certification, making up 22% of our real estate base.

The BREEAM environmental rating system has also been introduced in our biggest construction projects: the K-Kampus office building project in Helsinki’s Kalasatama and the Flamingo Wing hotel development project in Vantaa, among others. The projects aim for a level of at least “Very Good”.

BREEAM (Building Research Establishment’s Environmental Assessment Method) is an environmental rating system for buildings and building projects to assess the sustainability of buildings using harmonised methods. The rating system covers areas such as energy efficiency systems, waste sorting and recycling opportunities and location, i.e. whether the building is situated along good public transport routes and how cycling is encouraged in the space solutions, for example.

Solar power is a viable option for reducing the carbon footprint.

Thousands of solar panels to be installed on building roofs

We began solar power construction projects in five of our properties in 2017. Thousands of solar panels will be installed on building roofs in different parts of Finland, including the Rajalla shopping centre in Tornio, Willa shopping centre in Hyvinkää, and Salmisaari Sports Centre in Helsinki.

At the end of 2017, a total of seven Varma-owned properties had solar electricity in use or in the pipeline. Energy aid was received from the government for all of the solar power installations.

The properties being equipped with solar systems have been chosen according to type of

property, free roof surface and optimal electricity consumption such that electricity generated by solar energy can be fully used in the properties.

We began using solar electricity in our properties in 2016 in order to reduce the carbon footprint of our investments. The life-cycle costs of solar power systems have shrunk and their efficiency has improved, which makes solar power a worthwhile option for reducing the carbon footprint. We continuously look for new sites for solar power systems.

Watch a video about the solar power system installation in Salmisaari, Helsinki (in Finnish)



ENVIRONMENTAL ASPECTS OF THE SUPPLY CHAIN AND OUR OWN OPERATIONS

Supply chain survey and responsibility requirements

In 2017, we surveyed the corporate responsibility aspects of our supply chain. At the same time, we determined the responsibility requirements to be applied to suppliers and drew up the [Supplier Code of Conduct](#), which was approved by Varma's Board of Directors on 14 December 2017.

The premise of the Supplier Code of Conduct is that Varma expects its direct service providers, i.e. first-tier suppliers, to commit to the responsibility requirements. Direct suppliers are obliged to ensure that their subcontractors also comply with these responsibility requirements. The Supplier Code of Conduct will be attached to agreements. It also includes a notification requirement and a permission for audits performed by Varma.

The Supplier Code of Conduct calls for respect for the environment. We require our suppliers to be aware of their environmental impacts and to take them into account in their operations. Environmental legislation must be complied with, without exception. Particular attention must be paid to assessing, minimising and preparing for environmental impacts, in order to prevent environmental risks.

We encourage our suppliers to use a certified environmental system or a documented operating method for managing their environmental matters. We also encourage them to develop and use environmentally friendly solutions. Especially in emissions-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts.

Our most significant purchases are related to construction and maintenance of buildings, and to IT systems.

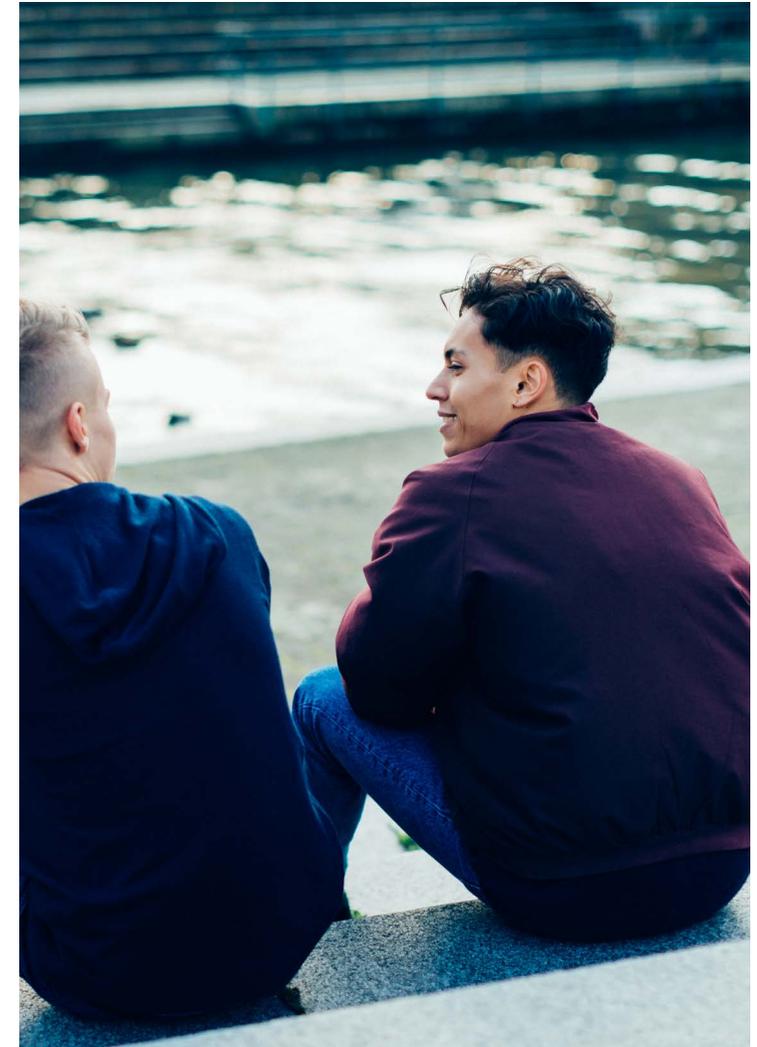
Of Varma's purchases in 2017, 99.1% originated from Finland. The remaining 0.9% originated from the US, the UK, and other European countries.

Environmental aspects of our own operations

The environmental impacts of Varma's own operations are controlled using WWF's Green Office system, which was introduced at the beginning of 2016. Our goal is to reduce the carbon footprint of our own operations by 15% by 2020, which is in line with the target set for real estate investments in our climate policy.

In 2016, we passed the Green Office audit by WWF, and the Salmisaari office was granted the Green Office certificate.

Especially in emissions-intensive industries, suppliers should pay special attention to monitoring their carbon footprint and to targets related to minimising future environmental impacts.



Varma's Green Office targets and measures for 2017 related to reducing energy consumption, waste and paper consumption, reducing emissions from commuting, and food waste and purchases.

The carbon footprint of our own operations decreased 17% from the 2015 baseline.

Greenhouse gas emissions from energy consumption at the Salmisaari office were cut by as much as 61% in two years. In 2017, a solar power system was installed on the roof of the Salmisaari office, and in summer 2016, the office switched to using green hydroelectricity.

The volume of waste was reduced by nearly 47% over a period of two years. The majority of the waste generated in the building originates from the Fazer Amica restaurant. The amount of waste from preparing food was reduced as a result of, for example, the restaurant starting to sell its leftovers in autumn 2017.

Paper consumption declined 12% from the previous year.

We strive to reduce the emissions caused by commuting by supporting teleworking and renewing our commuting policies. We have drawn up a more environmentally friendly company car policy, where the CO₂ emissions limit was set at 130 g/km. Varma offers financial compensation if a Varma employee chooses a very low-emission car (below 110 CO₂g/km) as their company car. Eco-friendly motoring is also promoted by the electric-car parking area in Salmisaari's parking facility. Varma has arranged good facilities for those employees who cycle to work, and encourages the use of public transport for commuting by offering an employee benefit.

In 2017, a solar power system was installed on the roof of the Salmisaari office. In summer 2016, the office also switched to using green hydroelectricity.

Ready for the age of electric cars: Charging possible for 250 cars in the Salmisaari parking facility

It is possible to charge electric or hybrid cars at some 250 parking spots in the parking facility of Varma's head office in Salmisaari, Helsinki. In 2017, Varma and Parking Energy Ltd. installed a charging system, which ranks among the largest in the world.

The parking facility houses approximately 250 parking spots, and all spots that can be electrified were connected to the charging system. The smart charging system also withstands the load caused by high-speed chargers. The charging device can be selected according to the user's needs.

Besides Varma, the parking facility is used by companies in the Salmisaari office campus, e.g. Outokumpu and Lemminkäinen.

The number of electric cars will grow considerably in Finland in the near future and, according to forecasts, there will be an estimated 250,000 electric and hybrid cars on our roads by 2030. According to the automobile trade, the single biggest factor slowing down the sale of electric cars in Finland is the lack of charging stations.

Varma's goal is to install more charging points for electric and hybrid cars in other properties under its ownership.

Environmental data of Varma's operations

	2017	2016	2015
Water consumption, m ³	3,500	4,380	3,659
Electricity, MWh	1,667	2,008	2,102
Heat, MWh (weather-normalised)	1,990	2,361	2,891
Total waste (tonnes)	31.51	60.32	58.90
Carbon footprint (tCO ₂)	1,560	1,449.94	1,732.58

A top-down view of a person's hands writing in a white notebook on a light-colored wooden desk. The person is wearing a blue long-sleeved shirt. A wooden ruler is placed horizontally across the notebook. To the right of the notebook is a white mug filled with yellow tea. Further right is a glass carafe filled with water. In the background, there is a blue notebook and a white cup. The overall scene is brightly lit, suggesting a professional or creative workspace.

ETHICAL AND TRANSPARENT BUSINESS

Knowing and abiding by common rules is an essential part of responsibility for Varma employees. In 2017, we updated our Code of Conduct and developed the responsibility of our supply chain. The entire company prepared for the EU's General Data Protection Regulation, due to take effect in May 2018.

ETHICAL BUSINESS

Varma's core task, securing pensions, is a significant social mandate that requires a high level of ethics and transparency. Varma's way of operating is described in the company's [Code of Conduct](#). The purpose of the Code is to guide Varma employees in behaving with integrity and responsibility. The Code of Conduct is approved by Varma's Board of Directors.

In the Code of Conduct, Varma has committed to operating on market terms, combating the grey economy and bribery, and responsible investment principles, among other things. We are also committed to operating in accordance with the UN's principles concerning business and human rights and we expect the same from our supply chain.

The Code of Conduct is complemented by other internal guidelines and instructions relating to, for example, data security and data protection, and the identification of money laundering. Every Varma employee is expected to conform to these guidelines. In case of problems and suspected violations, employees can contact the Compliance Officer.

Responsible supply chain management

In 2017, we surveyed our supply chain to identify responsibility issues. At the same time, we determined the respon-

sibility requirements to be applied to suppliers and drew up the [Supplier Code of Conduct](#).

The premise of the Supplier Code of Conduct is that Varma expects its direct service providers, i.e. first-tier suppliers, to commit to the responsibility requirements. A direct service provider is responsible for its own supply chain.

The Supplier Code of Conduct covers, among other things, good business practices, human rights, occupational safety and health, and respect for the environment. It also includes a notification requirement and a permission for audits. The Supplier Code of Conduct will be attached to agreements.

Varma's Compliance function

Compliance activities are used to co-ordinate the execution of the Code of Conduct and other guidelines and to prevent legal risks from materialising at Varma. As a Compliance Officer, the head of legal affairs is responsible for organising the Compliance function.

Compliance is promoted through the use of online courses, which every Varma employee is expected to complete at the start of their employment and every two years thereafter. The completion rate is monitored and reported, for example, to the Board of Directors. In 2016, the online Code of Conduct course was completed by 88% and the online IT security course by

70% of Varma's employees. Both courses will be updated, and are scheduled to take place again in 2018.

Data protection and data security

We process the personal information of the insured, pensioners and lessees, among others. We tend to the data protection of our private customers by ensuring that the processing of personal data fully conforms to laws, and other rules and regulations. As a Controller, Varma is also responsible for its suppliers' compliance.

The targets, responsibilities and means of data security management at Varma are defined in the data security policy. Data security management at Varma consists of planning based on the assessment of data security risks, implementing measures improving data security, reviewing and monitoring the level of data security, and continuous improvement of data security practices.

In 2017, we did not receive a single complaint concerning customer privacy violations or the loss of customer data.

Preparing for the EU General Data Protection Regulation

In May 2018, a new data protection regulation will take effect. It will tighten and harmonise the rules concerning personal data processing in the EU. We launched a project in 2016 to make

sure that Varma is equipped to meet the requirements of the General Data Protection Regulation by May 2018. This requires several changes to IT solutions, a description of data processing practices, administrative and contractual measures – not to mention communication and training.

Varma has drawn up a Data Protection Policy, approved by the Board of Directors, to steer data protection and data security activities.

Varma's core task, securing pensions, has major significance for society and requires a high level of ethics and transparency.

OPEN COMMUNICATION AND STAKEHOLDER CO-OPERATION

Transparent and open operations

Open and proactive communication is one of the priorities of our CSR programme. The increased transparency of our operations helps strengthen trust in Varma.

The workability activities Varma offers its clients have raised public discussion in recent years. In order to increase the transparency of our workability activities, we have, as of April 2017, published information on our new well-being at work contracts on our website. The contracts are published quarterly. In 2016, the Financial Supervisory Authority issued guidelines concerning earnings-related pension companies' support for disability risk management projects. These guidelines were integrated into Varma's processes and e-services.

We report quarterly on the development of our responsible operations as part of our financial reporting. We have also taken into account the statutory requirements concerning the reporting of non-financial and diversity data and published a report on non-financial data as part of the Report of the Board of Directors.

Securing pensions is a responsibility that is based on trust. Protecting our good reputation is important to us, and we continuously monitor the develop-

ment of our reputation in T-Media's Reputation & Trust survey. The 2017 results show that Varma's reputation is at a solid average level of 3.42 (3.21). The same survey measures the general public's view of Varma's corporate responsibility. The score in this area also saw a major improvement and was 3.42, up from 3.17 in the previous year.

In our sponsorships, we primarily focus on long-term co-operation agreements. We provide information on our [sponsorship and charitable donation principles](#) on our website.

We do not grant financial support to political parties.

Stakeholder co-operation and responsibility networks

As a major Finnish investor and working life expert, Varma has wide-ranging insight into the economy and Finnish society. This is why we want to engage in open dialogue with different stakeholder groups. Our main stakeholder groups are customers, personnel, members of Varma's governing bodies, authorities and decision-makers, labour market organisations, sector organisations, non-governmental organisations and the media.

Our statutory task, securing pensions, naturally helps to define our main stakeholder groups; as does the

fact that Varma is a mutual company, i.e. owned by its customers.

We promote open societal interaction and we listen to our customers and other stakeholders. The achievement of these targets is supported by Varma's five consultative committees: the consultative committees for pension affairs, pensioners, self-employed persons, employers and the insured. An up-to-date list of the [members of the consultative committees](#) is available on Varma's website.

Typical channels for interaction, in addition to the consultative committees, are different meetings with customers and other groups, briefings, training events, seminars, webinars, the website, chat, social media and publications.

In 2017, our stakeholders were especially interested in the pension reform and the new pension benefit, partial early old-age pension. Uncertainties

relating to the global economy and politics, and their impact on Finland's recovered economic growth, also raised debate. Emerging areas of interest include corporate social responsibility, the transformation of working life and the development of work culture. We engaged with non-governmental organisations on topics such as mitigating climate change and tax responsibility.

We engage closely with interest organisations in the sector. We participate in the working groups of the [Finnish Centre for Pensions ETK](#), the [Finnish Pension Alliance TELA](#) and [Finance Finland](#).

We are also involved in different networks of responsible business, such as the [Finnish corporate responsibility network FIBS](#) and Finland's Sustainable Investment Forum [FINSIF](#). In 2017, we also joined the [Climate Leadership Council](#) and [Climate Partners](#), both of which fight climate change.

Our stakeholders were interested in the pension reform and the new pension benefit, partial early old-age pension.

Interest organisations' membership fees

	2017	2016	2015
Finance Finland (FFI)	376,026	344,000	337,000
Finnish Pension Alliance TELA	831,050	977,000	959,000

REPORTING PRINCIPLES

Our Corporate Social Responsibility report has been drawn up according to the GRI standards. The contents of the report are based on a materiality assessment, which was used to identify the most important responsibility factors for Varma.

REPORTING PRINCIPLES

Varma's Corporate Social Responsibility report has been drawn up according to the international Global Reporting Initiative (GRI) standards. We have also reported information relating to Varma's own material topics in accordance with the GRI standards' reporting principles, and we have taken into account the statutory requirements concerning the reporting of non-financial and diversity data.

The reporting scope is in accordance with the Core level of the GRI standards. Reporting of Varma's material topics is based on the materiality analysis performed in autumn 2015, in which stakeholder groups were asked to assess responsibility aspects relevant to Varma.

The stakeholder expectations were assessed and processed by Varma's Executive Group according to their impact on our business. As a result of the materiality analysis, we identified a total of 11 material aspects in terms of Varma's responsibility. These aspects and their indicators are described in the report. A comparison between the report content and the GRI standards is provided through the GRI content index.

The indicators for financial responsibility are based on Varma's accounts and approved financial statements. The indicators relating to our pension services have been obtained from the pension processing systems of Varma

and the Finnish Centre for Pensions, and our online service reports. The personnel-related indicators are from Varma's personnel data systems.

The environmental responsibility indicators were obtained from service providers, for example, from their energy management systems. The carbon footprint figures for listed equity and corporate bond investments were calculated by ISS. The carbon footprint for Varma's own operations has been calculated using the WWF's Climate Calculator.

Methodology for calculating the carbon footprint of investments

The carbon footprint of Varma's listed equity investments includes both direct listed equity investments and some index-linked equities. The calculation covers both direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), and indirect emissions mainly from the generation of purchased energy (scope 2). The carbon footprint and the key figures based on it have been calculated on the basis of Varma's holdings.

The market value of shares owned by Varma is proportioned to the market value of the entire company, and this ratio is used to allocate the emissions and revenue of the company. Finally, all Varma's shares of the companies'

emissions are added together and then divided by the sum of all the shares of the companies' revenues.

The carbon intensity of the investments is based on the companies' weight in equity investments. The figure is calculated by multiplying the carbon intensity (emissions/revenue) of the company by its weight in equity investments, and adding these up.

The carbon footprint of Varma's listed corporate bond investments includes direct listed corporate bond investments. The carbon footprint covers both direct greenhouse gas emissions from sources owned or controlled by the companies (scope 1), and indirect emissions mainly from the generation of purchased energy (scope 2). The corporate bond owned by Varma is proportioned to the company's overall debt, and the emissions are allocated to Varma on the basis of this proportion. The calculation is an approximation, as at the moment there is no standard concerning the calculation of the carbon footprint of corporate bonds. We adjusted the definition of debt used in the calculation in 2016. The comparison figures of Varma's corporate bond investments in 2015 have been updated to correspond to the new calculation method.

The carbon footprint of real estate investments takes into account emissions from energy consumption and,

as regard office premises, from water consumption. For electricity and heat, Motiva's emission factors have been used. The emission factor for electricity is 0.209 tCO₂/MWh. The emission factors for heat vary depending on the town or city. Motiva has not issued emission factors for district cooling or water.

The emission factor used in the calculation of the carbon footprint is 0.07 tCO₂/MWh for district cooling and 2.95 kgCO₂/m³ for water. These emission factors have been determined in conjunction with the drawing up of the energy strategy for Varma's real estate. Heat figures are weather adjusted.

Integrated report

Since responsibility is an integral part of Varma's core task – securing pensions – and all our operations, it was natural for us to combine the traditional annual report contents and CSR information into a single integrated report. The report is published online in Finnish and English.

Varma's parent company's data has been mainly used as the indicator boundaries. Any deviations to the boundaries are mentioned in conjunction with the indicator in the GRI content index.

The report has not been externally assured.

Varma's CSR focus areas, material topics and boundaries

Varma's CSR focus areas	Material GRI topics and Varma's own material CSR topics	Reporting boundaries
Securing solvency	<ul style="list-style-type: none"> Economic performance Indirect economic impacts 	<ul style="list-style-type: none"> Varma's own operations Varma's societal impacts
Disruption-free implementation of pension provision	<ul style="list-style-type: none"> Disruption-free implementation of pension provision ¹⁾ Customer service ¹⁾ Customer privacy 	<ul style="list-style-type: none"> Varma's own operations
Open and pro-active communication	<ul style="list-style-type: none"> Stakeholder engagement 	<ul style="list-style-type: none"> Varma's own operations
Promoting workability and longer careers	<ul style="list-style-type: none"> Promoting workability and longer careers at client companies ¹⁾ 	<ul style="list-style-type: none"> Customers
Transparent business and administration	<ul style="list-style-type: none"> Ethical business operations Anti-corruption and anti-bribery Public policy Socioeconomic compliance Supplier social assessment 	<ul style="list-style-type: none"> Varma's own operations Supply chain
Responsibility in investment operations	<ul style="list-style-type: none"> Responsible investment ¹⁾ 	<ul style="list-style-type: none"> Varma's investments
Mitigating climate change <ul style="list-style-type: none"> In investments In the supply chain In own operations 	<ul style="list-style-type: none"> Mitigating climate change in investments ¹⁾ Supplier environmental assessment Energy Emissions Water Waste 	<ul style="list-style-type: none"> Varma's investments Supply chain Varma's own operations
Varma employees' well-being at work and competence	<ul style="list-style-type: none"> Employment Occupational health and safety Training Diversity and equal opportunity 	<ul style="list-style-type: none"> Varma's own operations
Cost-efficient operations	<ul style="list-style-type: none"> Cost-efficient operations, loading profit ¹⁾ 	<ul style="list-style-type: none"> Varma's own operations

¹⁾ Varma's own material CSR topic

GRI-INDEX

GRI content index

GRI standard	Contents	Location	Additional information	Deviations
GENERAL DISCLOSURES				
Organisational profile				
GRI 102	102-1 Name of the organisation		Varma Mutual Pension Insurance Company	
GRI 102	102-2 Activities, brands, products, and services	Varma in brief, p. 3		
GRI 102	102-3 Location of headquarters		Salmisaarenranta 11, 00180 Helsinki	
GRI 102	102-4 Location of operations	Varma in brief, p. 3		
GRI 102	102-5 Ownership and legal form	Varma in brief, p. 3		
GRI 102	102-6 Markets served	Varma in brief, p. 3		
GRI 102	102-7 Scale of the organisation	Varma in brief, p. 3 Key figures, p. 7		
GRI 102	102-8 Information on employees and other workers	Responsibility for Varma employees, p. 35		
GRI 102	102-9 Supply chain	Environmental aspects of our own operations and the supply chain, p. 44 Ethical business, p. 47		
GRI 102	102-10 Significant changes to the organisation and its supply chain		No significant changes	
GRI 102	102-11 Precautionary Principle or approach	<u>Risk management (Report of the Board of Directors and Financial Statement), p. 40</u>		
GRI 102	102-12 External initiatives	Responsible investment, p. 25 Responsibility for Varma employees, p. 38 Responsibility for the environment – mitigating climate change, p. 42		
GRI 102	102-13 Memberships of associations	Ethical business, p. 48		
Strategy and analysis				
GRI 102	102-14 Statement from senior decision-maker	President and CEO's Review, p. 4–5		
GRI 102	102-15 Key impacts, risks, and opportunities	Operating environment, p. 11–14 Responsible Varma, p. 15–17		
Ethical business operations				
GRI 102	102-16 Values, principles, standards, and norms of behaviour	Strategy and goals, p. 10 Ethical business, p. 47		
GRI 102	102-17 Mechanisms for advice and concerns about ethics	Ethical business, p. 47		
Governance				
GRI 102	102-18 Governance structure	<u>Corporate Governance Report, p. 3</u>		

GRI content index

GRI standard	Contents	Location	Additional information	Deviations
Stakeholder engagement				
GRI 102	102-40 List of stakeholder groups	Open communication and stakeholder co-operation, p. 48		
GRI 102	102-41 Collective bargaining agreements	Responsibility for Varma employees, p. 35		
GRI 102	102-42 Identifying and selecting stakeholders	Open communication and stakeholder co-operation, p. 48		
GRI 102	102-43 Approach to stakeholder engagement	Open communication and stakeholder co-operation, p. 48		
GRI 102	102-44 Key topics and concerns raised	Open communication and stakeholder co-operation, p. 48		
Reporting practice				
GRI 102	102-45 Entities included in the consolidated financial statements	Reporting principles, p. 50		
GRI 102	102-46 Defining report content and topic boundaries	Reporting principles, p. 51		
GRI 102	102-47 List of material topics	Responsible Varma, p. 16 Reporting principles, p. 50–51		
GRI 102	102-48 Restatements of information		No material changes	
GRI 102	102-49 Changes in reporting		No material changes	
GRI 102	102-50 Reporting period		1 Jan–31 Dec 2017	
GRI 102	102-51 Date of most recent report		9.3.2017	
GRI 102	102-52 Reporting cycle		The report is published annually	
GRI 102	102-53 Contact point for questions regarding the report		viestinta@varma.fi	
GRI 102	102-54 Claims of reporting in accordance with the GRI standards	Reporting principles, p. 51		
GRI 102	102-55 GRI content index	GRI content index, p. 52–53		
GRI 102	102-56 External assurance		The report has not been assured.	
MATERIAL TOPICS				
Management approach				
GRI 103	103-1 Explanation of the material topic and its boundary	Responsible Varma, p. 15–17 Responsible investment, p. 25–26		
GRI 103	103-2 The management approach and its components	Responsible Varma, p. 15–17 Responsible investment, p. 25–26		
GRI 103	103-3 Evaluation of the management approach	Responsible Varma, p. 15–17 Responsible investment, p. 25–26		
Economic topics				
Economic performance				
GRI 201	201-1 Direct economic value generated and distributed	Responsibility for pension assets, p. 19–21		
Indirect economic impacts				
GRI 203	203-2 Significant indirect economic impacts	Responsibility for pension assets, p. 19–21		
Anti-corruption and anti-bribery				
GRI 205	205-2 Communication and training about anti-corruption policies and procedures	Ethical business, p. 47		

GRI content index

GRI standard	Contents	Location	Additional information	Deviations
Environmental topics				
Energy				
GRI 302	302-1 Energy consumption within the organisation	Responsibility for the environment – mitigating climate change in investments, p. 42–43 Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 44–45		
GRI 302	302-4 Reduction of energy consumption	Responsibility for the environment – mitigating climate change, p. 42–43 Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 44–45		
Water				
GRI 303	303-1 Water withdrawal by source	Responsibility for the environment – Mitigating climate change in investments, p. 42 Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 45		
Emissions				
GRI 305	305-2 Energy indirect (Scope 2) GHG emissions	Responsibility for the environment – mitigating climate change in investments, p. 41–42 Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 45		
GRI 305	305-4 GHG emissions intensity	Responsibility for the environment – mitigating climate change, p. 41–42		
Effluents and waste				
GRI 306	306-2 Waste	Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 45		
Supplier environmental assessment				
GRI 308	308-1 New suppliers that were screened using environmental criteria	Responsibility for the environment – environmental aspects of our own operations and the supply chain, p. 44		The percentage share of screened suppliers was not reported. The Supplier Code of Conduct, introduced in 2017, includes environmental aspects.
Social responsibility				
Employment				
GRI 401	401-1 New employee hires and employee turnover	Responsibility for Varma employees, p. 35		
Occupational health and safety				
GRI 403	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Responsibility for Varma employees, p. 35		
Training and education				
GRI 404	404-1 Average hours of training per year per employee	Responsibility for Varma employees, p. 35		
GRI 404	404-2 Programs for upgrading employee skills and transition assistance programs	Responsibility for Varma employees – competence development, p. 37		
GRI 404	404-3 Percentage of employees receiving regular performance and career development reviews	Responsibility for Varma employees, p. 35		

GRI content index

GRI standard	Contents	Location	Additional information	Deviations
Diversity and equal opportunity				
GRI 405	405-1 Diversity of governance bodies and employees	Responsibility for Varma employees – equality and non-discrimination, p. 38		
GRI 405	405-2 Ratio of basic salary and remuneration of women to men	Responsibility for Varma employees – equality and non-discrimination, p. 38		
Public policy				
GRI 415	415-1 Political contributions	Ethical and transparent business, p. 48		
Socioeconomic compliance				
GRI 419	419-1 Non-compliance with laws and regulations in the social and economic area		No incidents in 2017	
Supplier social assessment				
GRI 414	414-1 New suppliers that were screened using social criteria	Ethical and transparent business, p. 47		The percentage share of screened suppliers was not reported. The Supplier Code of Conduct, introduced in 2017, includes social aspects.
Customer privacy				
GRI 418	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Ethical and transparent business, p. 47		
Varma's own material CSR topics				
Responsible investment				
	Engaging with investment objects on environmental, social and governance matters	Responsible investment, p. 26		
	Reviewing investment objects' compliance with standards	Responsible investment, p. 26		
Disruption-free implementation of pension provision				
	Pension application processing time	Responsibility for customers, p. 28		
Customer service				
	Net promoter score	Responsibility for customers, p. 30		
Promoting workability and longer careers at client companies				
	Effectiveness of rehabilitation	Responsibility for customers, p. 32		
Mitigating climate change in investments				
	Carbon footprint of Varma's listed equity investments	Responsibility for the environment – Mitigating climate change in investments, p. 40		
	Carbon footprint of Varma's listed corporate bond investments	Responsibility for the environment – Mitigating climate change in investments, p. 40		
	Carbon footprint of Varma's direct real estate investments	Responsibility for the environment – Mitigating climate change in investments, p. 40		
Cost-effective use of funds				
	Loading profit	Responsibility for customers, p. 31		

VARMA

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