Review of responsible investment 2024

VARMA

Contents

Investing for change

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

Responsible investment

Responsibility is an essential part of Varma's strategy and an integral part of our investment operations. In 2024, we focussed on assessing and mitigating the risks related to climate change and promoting biodiversity.

For Varma, responsibility is a strategic choice. We take responsibility into account when making investment decisions, and we assess the responsibility of our investee companies. We believe that responsibility has an impact on the operating conditions of companies. Our goal is to identify potential investors that benefit from sustainable operations as well as the return potential of such investments.

Responsible investment means that in addition to the return expectations, we take into account aspects related to the investee's responsibility and sustainability, including environmental impacts, social matters and good governance, in our investment decisions.

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

Management and organisation of responsible investment

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

The Investment Committee addresses the responsible investment principles and policies that are presented to the Board of Directors. The committee also monitors the investment risks related to responsibility, such as climate change-related risks, and also evaluates violations of international agreements and norms. Varma's Chief Investment Officer has oversight and accountability for responsible investment.

The Responsible Investment & Sustainability department defines the high-level sustainability objectives and develops and co-ordinates the responsibility of Varma's own operations and investments together with the company's various functions. The functions are responsible for implementing sustainability. The head of each asset class is in charge of the day-to-day application of the principles of responsible investment.

Environmental targets steer our investments

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

In 2021, we set the target of reducing the investment portfolio's absolute emissions by 25 per cent by 2025 and 50 per cent by 2030 compared to 2021. At the end of 2024, the absolute emissions were down 52 per cent compared to 2021.

In 2023, Varma became the only Finnish earnings-related pension insurance company to have set emission reduction targets in line with the international climate initiative SBT. We are committed to setting long-term targets in line with the SBTi within two years of the publication of the guidelines.

In addition to our climate targets, last year we focused on enhanced attendance to biodiversity in our investment decisions and looked into our investee companies' policies concerning the prevention of biodiversity loss.

Exclusions based on environmental and ethical reasons

In our Principles for Responsible Investment, we have defined the areas that Varma will not invest in as well as the kind of companies that are subject to enhanced due diligence on environmental and other sustainability issues.

For ethical reasons, we have excluded from our direct investments companies that concentrate on the manufacture of tobacco and companies that manufacture controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons. In 2022, we refined our approach to the defence industry. We allow investments in companies that manufacture controversial weapons if the company's activities related to controversial weapons are not significant (more than 5%) and the company's main activities are related to conventional weapons or activities supporting them, and the primary purpose of the weapons is to defend the sovereignty of countries that have signed international arms control treaties and to prevent potential conflicts.

In our climate targets, we have excluded investments in companies with coal- or lignite-based operations accounting for more than 5 per cent of their revenue, production or production capacity.

We are committed to exiting from thermal coal investments by the end of 2025 and from oil exploration by the end of 2030. At the end of 2024, only 1.5 per cent of Varma's listed investments were in oil exploration companies. Of listed investments, 0.4 per cent were in companies that rely on coal for more than 5 per cent of their operations.

In investments other than direct investments, such as in index funds, we require that they do not contain companies that operate in those industries, or we strive to engage with them with the aim of excluding such industries.

Engagement with investees

In 2024, we were in contact with 7 companies as part of our engagement process. Contacts with companies involved in the engagement process covered a wide range of topics, such as corruption, competition law, labour rights and human rights, information security, and environmental issues. The companies were located in North America and Europe.

In summer 2024, we examined in more detail the rewards and the ratio of women to men on the committees of 103 listed companies' boards of directors. According to our study, gender diversity among audit committee chairs is at a good level (men 51 per cent, women 49 per cent), but a clear majority (80 per cent) of the chairs of the remuneration committees are men. On the other hand, the rewards of remuneration committees' chairs were higher in those companies whose remuneration committee chair was a woman. Our study covered separate committee and meeting fees.

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 33 nomination boards in the year under review. Memberships in nomination boards are given on our website. Varma's representative normally also participates in the annual general meetings of Finnish companies in which we have a holding. We publish our voting decisions at annual general meetings on our website. In 2024, Varma participated in 103 annual general meetings of Finnish companies and 597 annual general meetings of foreign companies. Up-to-date information on our voting in annual general meetings is available on our website.

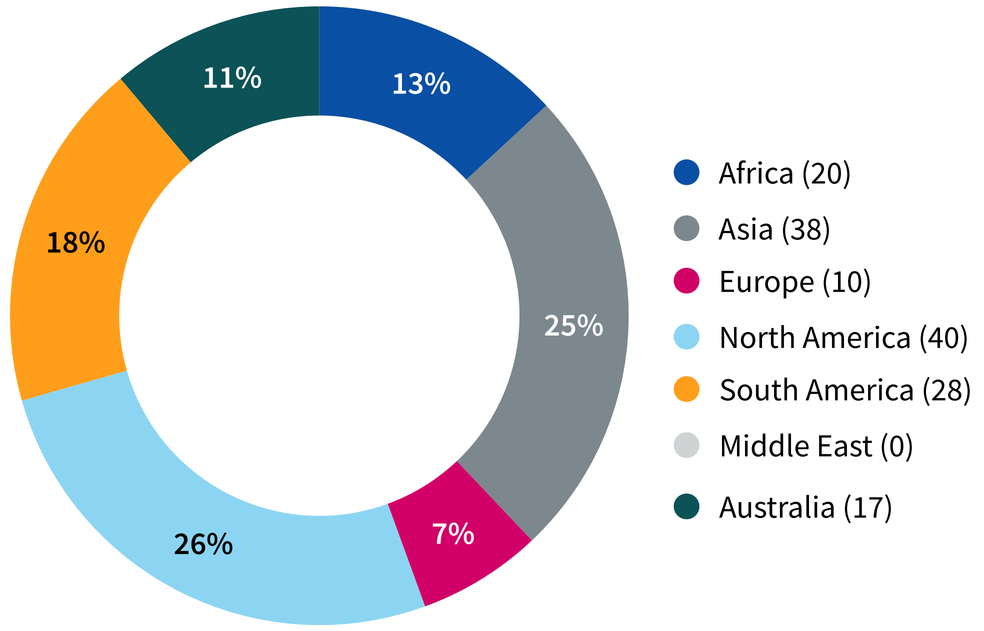
Investees that were involved in Varma's engagement process in 2024

Company's sector	Company's location	Potential or likely violation*	Engagement process stage at the end of 2024	Targets 2024
Retail	North America	Competition rights	The portfolio manager contacted the company. Monitored by the Investment Committee. Actions brought against the company and their progress is also monitored.	Recontacting and handling
Media and technology services	North America	Human rights, labour rights, information security and environmental issues	The portfolio manager contacted the company. Monitored by the Investment Committee. Actions brought against the company and their progress is also monitored.	Recontacting and handling
Automotive industry	North America	Labour law matters	The portfolio manager contacted the company. Monitored by the Investment Committee Actions brought against the company and their progress is also monitored.	Recontacting and handling
Hotel, restaurant and leisure-time services	North America	Labour law matters	The portfolio manager contacted the company. Presented to the Investment Committee.	Recontacting and handling
Paper and forest industry products	Europe	Environmental matters	The Responsible Investment & Sustainability department contacted the company. Discussed by the Investment Committee.	Monitored by the Investment Committee.
Media and technology services	North America	Corruption	The portfolio manager contacted the company.	Recontacting and handling
Care services	Europe	Human rights	The portfolio manager contacted the fund management company.	Monitored by the Investment Committee

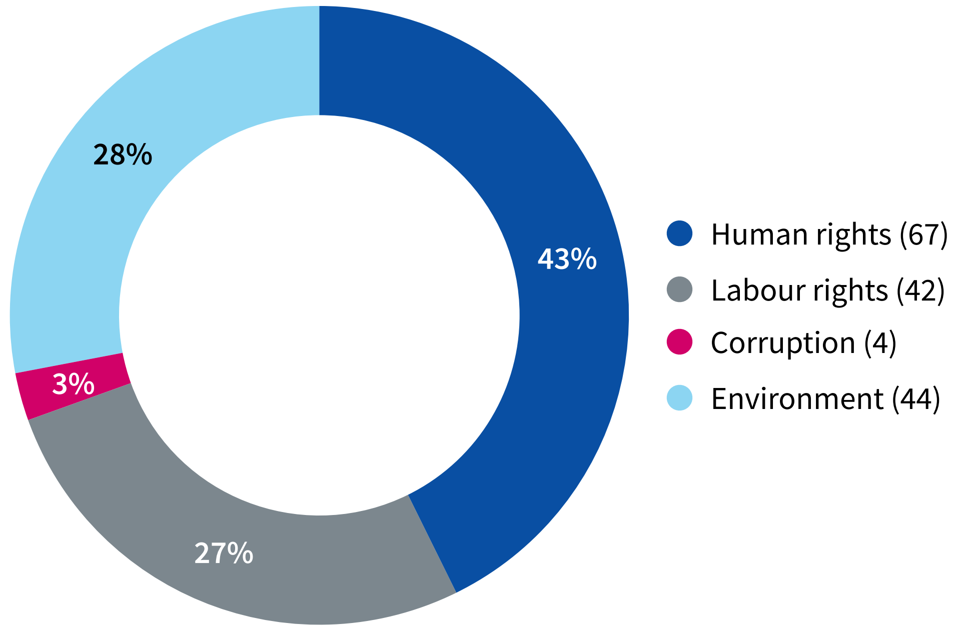
*A violation is established on the basis of the ISS Norm-Based Research Company Report (UN Global Compact Pillars) and/or Varma's internal analysis.

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

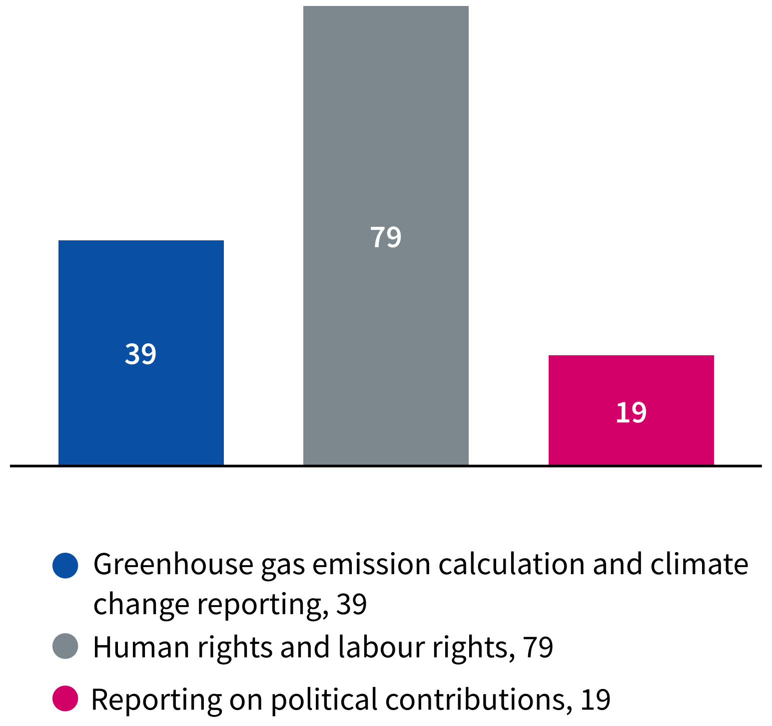
Engagement initiatives by continent



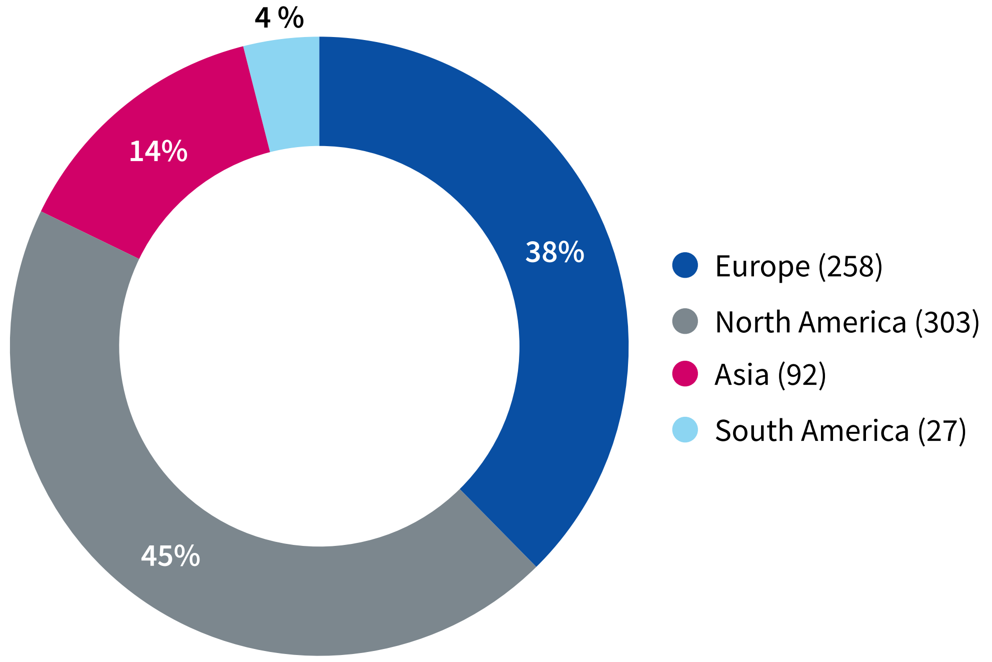
Engagement initiatives by topic



Proposals promoting sustainable business that we voted in favour of at foreign general meetings in 2024



General meeting votes in 2024



Attending to climate change in investments

Adapting to and mitigating climate change is one of Varma's key sustainability targets. Through long-term work, we have raised the proportion of climate-friendly investments to over 39 per cent of our investment portfolio.

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

Varma's climate targets

Our targets based on the Science Based Targets initiative (SBTi) are:

- to reduce Scope 1 and 2 greenhouse gas emissions by 60 per cent by 2030 compared to the 2021 level. At the end of 2024, emissions were down 68 per cent;
- as regards indirect GHG emissions (Scope 3), to increase the share of companies committed to the SBT initiative to 51 per cent by 2027 in equity investments, listed equity and fixed income investments and real estate funds. In 2024, companies that had set SBTi targets accounted for 47.5 per cent of Varma's investment portfolio, while the target level at the end of 2024 was 39.6 per cent.

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

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

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

- 30 per cent by the end of 2023
- 40 per cent by the end of 2025
- 50 per cent by the end of 2027.

By the end of 2024, the carbon intensity of listed equity investments had declined 65 per cent and that of listed corporate bond investments 41 per cent compared to 2021.

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

- We are committed to exiting from all investments in thermal coal by the end of 2025 and to excluding oil exploration from our investments by 2030.
- We aim for the electricity and heating in our direct real estate investments to be fossil-free by 2025 and 2030, respectively.
- We are committed to following the low-carbon roadmap in our investments in electricity generation. This means that electricity generation based on fossil fuels in our investment portfolio will decrease to 10 per cent by 2030.

Roadmap for Varma's climate targets

2023

Reached:
- Equities: carbon intensity -30%
- Corporate bonds: carbon intensity -30%
- Equities: carbon intensity -40%

2024

2025

Corporate bonds: carbon intensity -40%
Carbon footprint of the portfolio -25%
Funds that take climate change into consideration 50%
Exit from investments in coal
Real estate: CO_2-free electricity
Real estate: energy savings -10%

2026

Long-term Net Zero targets, validated by the SBTi, set

2027

Equities: carbon intensity -50%
Corporate bonds: carbon intensity -50%
Investees committed to the SBTi account for 51% of investments covered by the target
Climate allocation of the portfolio 50%

2028

2029

2030

Fossil-fuels-based electricity generation 10% at most
Exit from oil exploration
Real estate: CO_2-free heating
Carbon footprint of the portfolio -50%
GHG emissions from own operations -60% from the 2021 level

2031

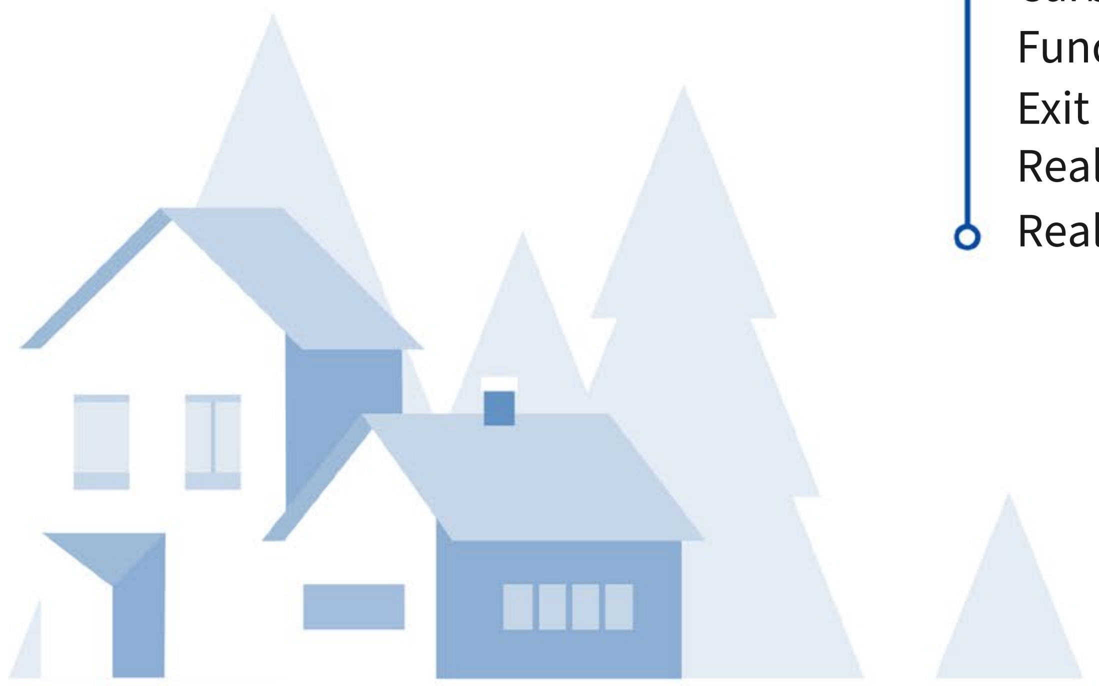
2032

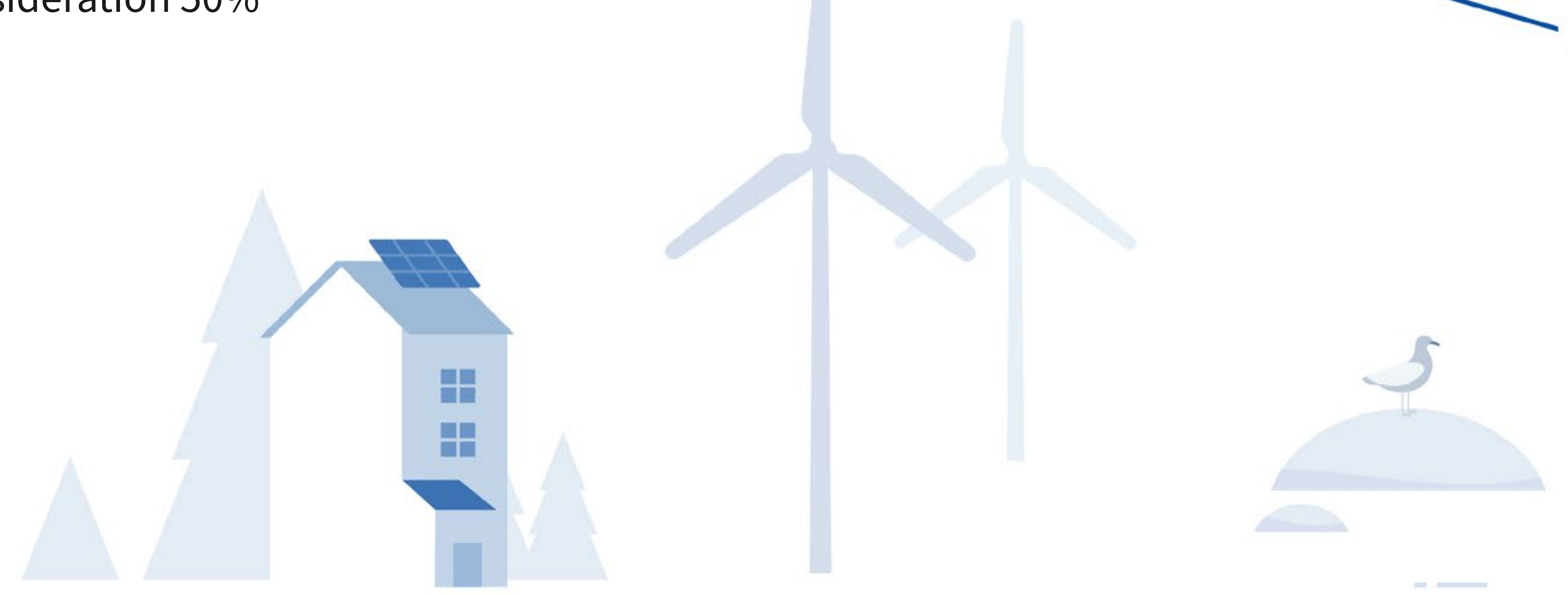
2033

2034

2035

Carbon footprint of the portfolio -75% from the 2021 level





The carbon footprint of Varma's investments

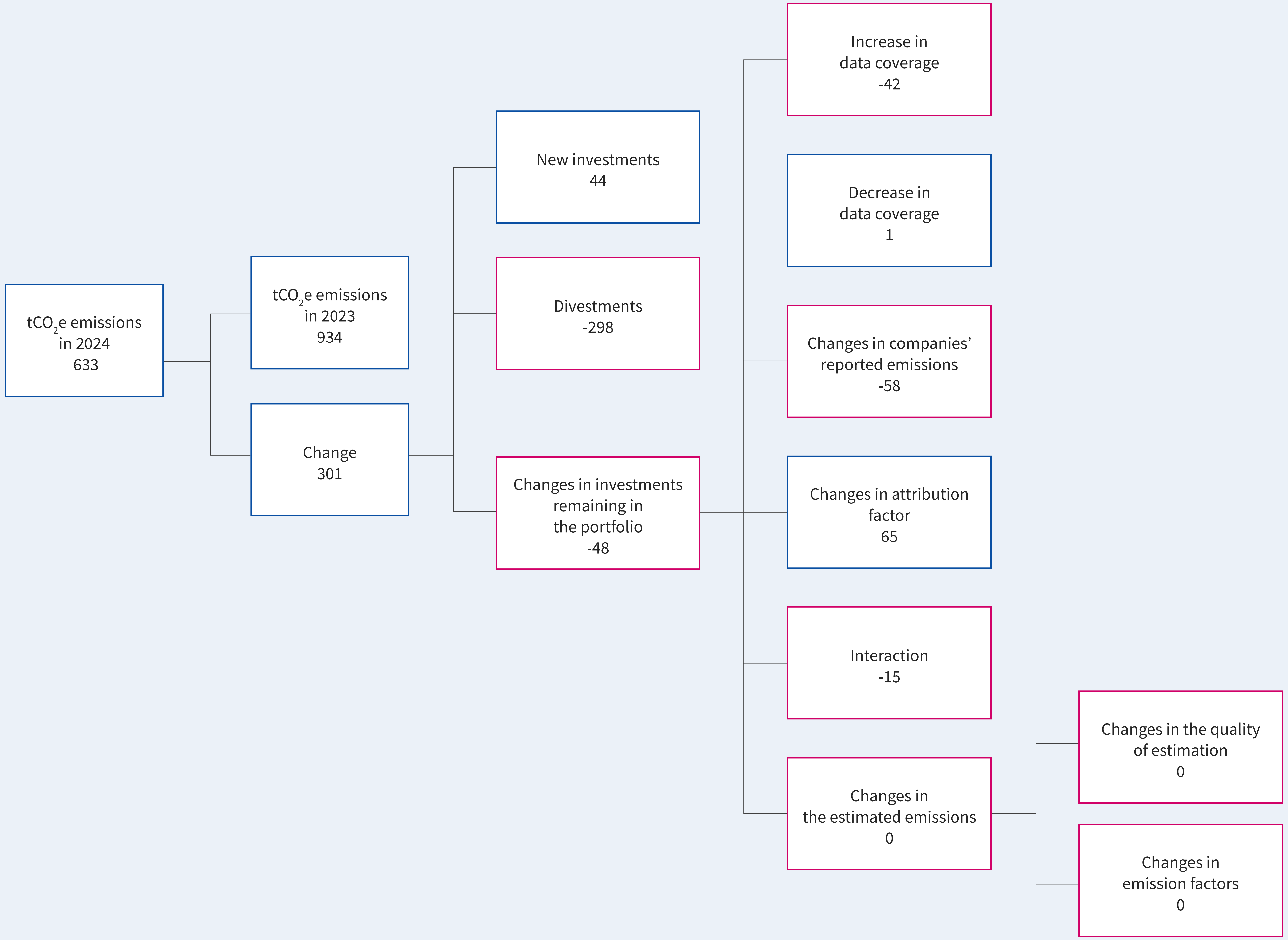
Listed equity investments	31 Dec 2024	31 Dec 2016	Change
Market value (€ bn)	22,9	11,8	94 %
Weighted carbon intensity (tCO_2e/€ million)	61,9	177	-65 %

Corporate bonds	31 Dec 2024	31 Dec 2016	Change
Market value (€ bn)	3,8	2,5	52 %
Weighted carbon intensity (tCO_2e/€ million)	111,4	188	-41 %

The carbon footprint of Varma's investments*	Market value (€ bn)	Share of the portfolio	Scope 1 + 2 (tCO_2e)	vs. 2022	Carbon footprint (tCO_2e/€ million invested)	Quality of data (1 best – 5 worst)
Listed equity investments	22,9	36 %	633 169	-32 %	27,6	1,32
Corporate bonds	3,8	6 %	185 356	-16 %	48,8	2,13
Hedge funds	13,1	20 %	911 354	7 %	69,6	5,00
Real estate funds	2,7	4 %	48 862	-15 %	18,1	2,52
Private equity investments	9,7	15 %	556 746	-32 %	57,4	3,62
Infrastructure investments	3,2	5 %	352 164	-3 %	110,1	4,51
Private debt	2,1	3 %	109 269	-64 %	52,0	4,61
Deposits	0,0	0 %	-			
Total	57,5	89 %	2 796 921	-21 %	48,6	2,96

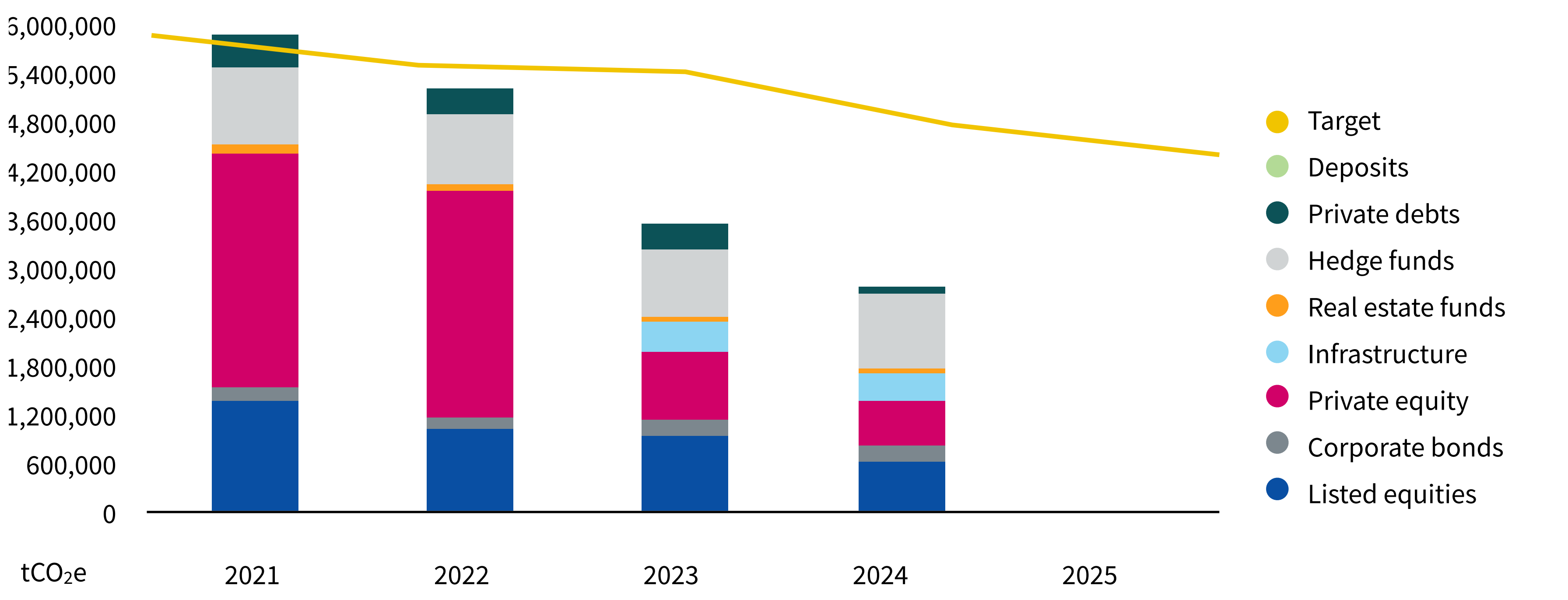
*The emissions of real estate investments have been reported as part of Varma's scope 2 emissions.

Carbon footprint attribution of listed equities

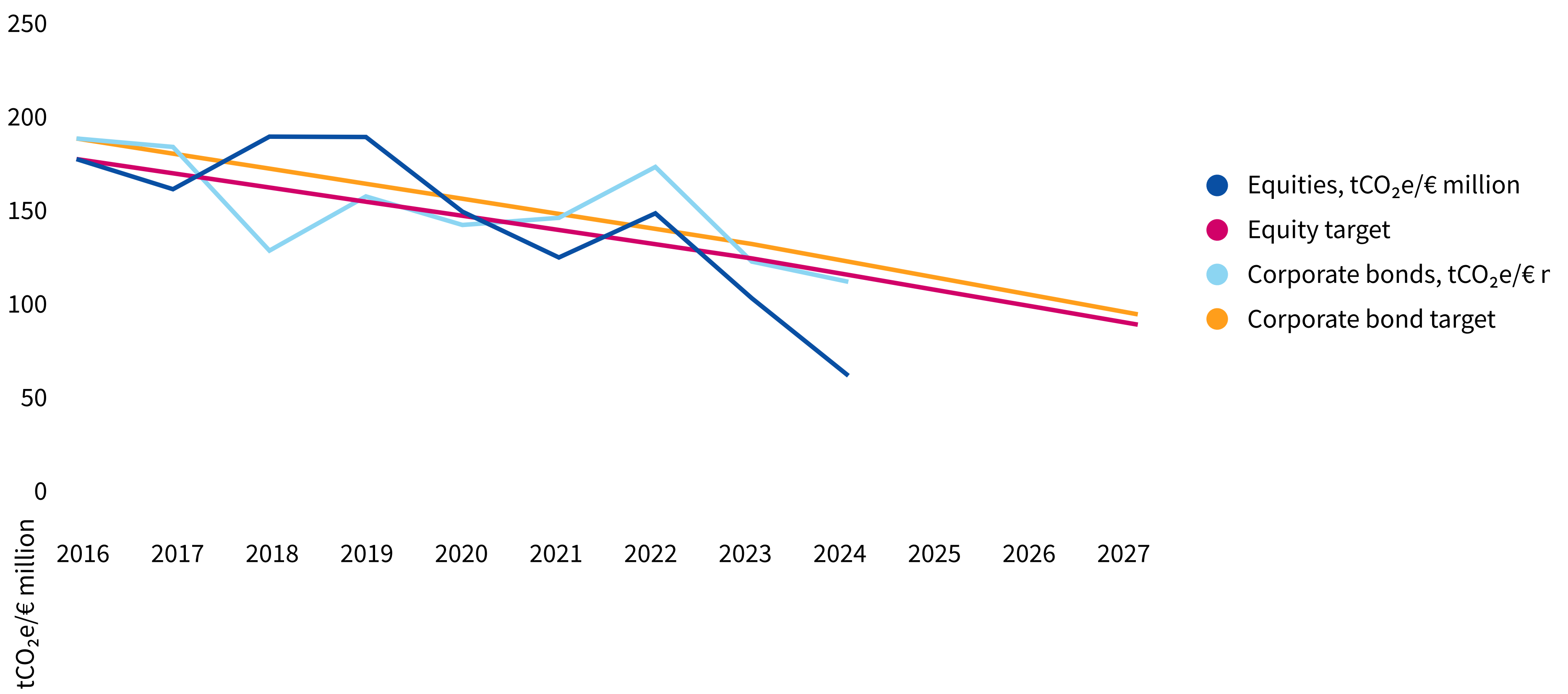


Tracking the carbon footprint of investments

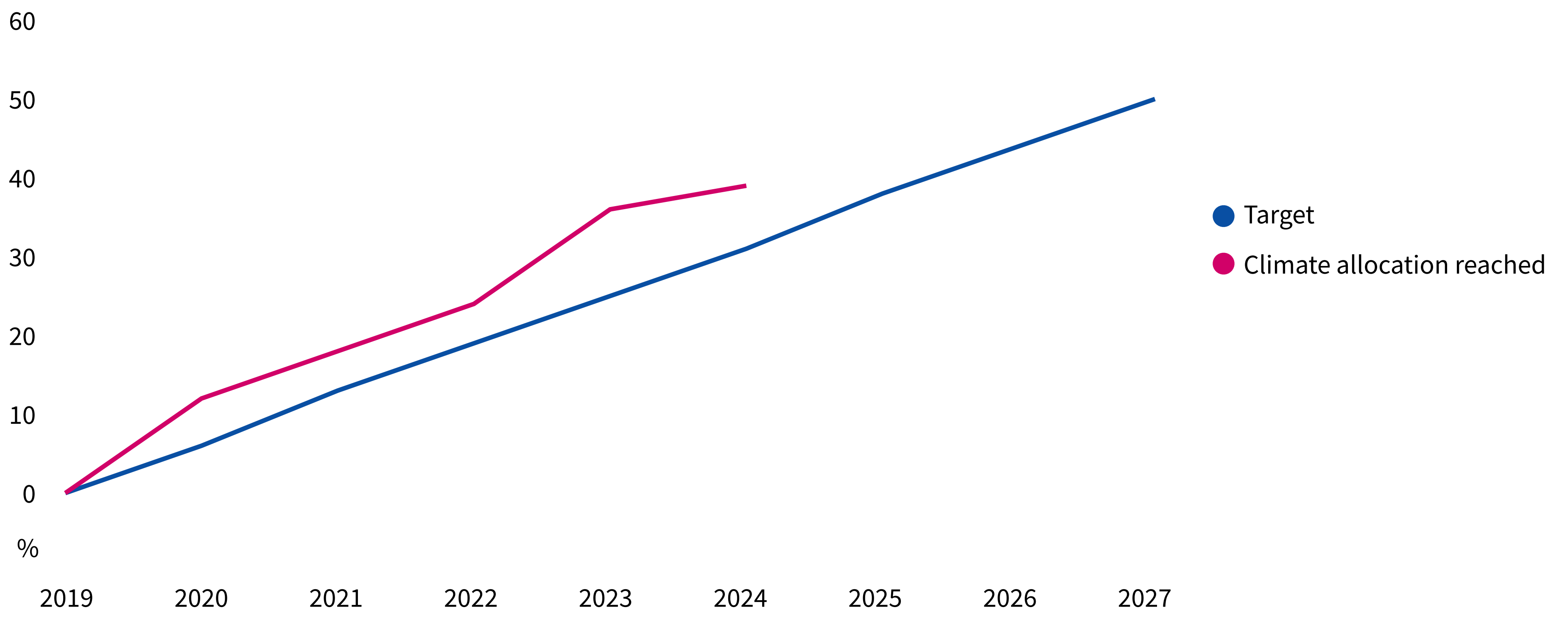
Development of absolute CO_2 emissions of the investment portfolio



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



Development of the climate allocation



Scenario analyses as part of risk management

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

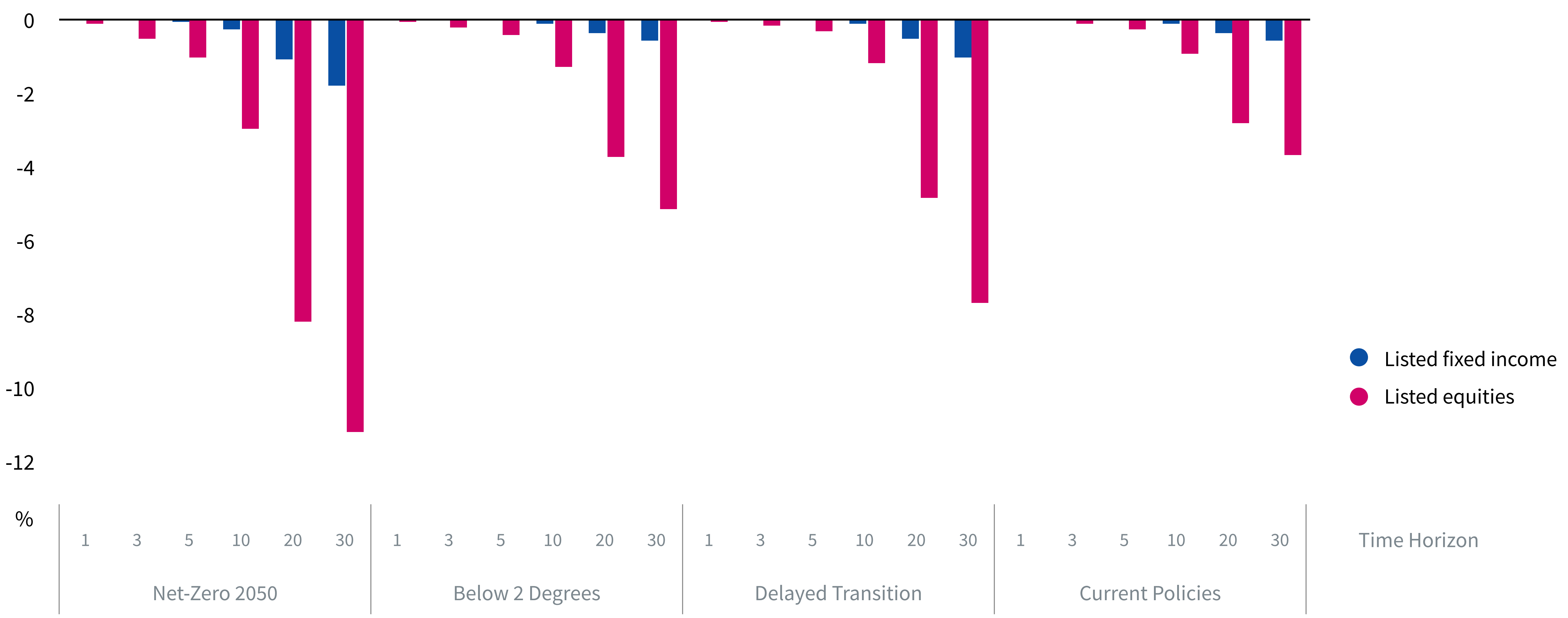
Varma carried out a resilience analysis related to climate risks as a Climate Value at Risk (VaR) calculation. The calculation measures the potential costs of climate change in the future, discounted to present value. The short, medium, and long-term goals of transition risks and physical risks for companies have been discounted to present value, and the Climate VaR value corresponding to this indicates the potential impact of climate change on the market value of the investment portfolio as a percentage. Climate VaR covers the largest asset category of Varma's investment assets, i.e. listed equity investments. The calculation below represents the situation on 30 September 2024.

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

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

We are committed to the low-carbon roadmap for electricity generation, which means that electricity generation capacity based on fossil fuels in our investment portfolio will decrease to 10 per cent by 2030 in accordance with the Network for Greening the Financial System's (NGFS) Net Zero 2050 scenario. In 2024, the weighted proportion of renewable energy in our portfolio was 60 per cent, of fossil fuels 9 per cent and of others, such as nuclear power, 31 per cent.

Climate VaR in listed investments



Climate VaR tool for climate risks

Climate VaR

Transition risks and opportunities + **Physical risks**

Policies, pledges, international pacts

Green technology

Acute and chronic

Costs of reducing emissions

Low-carbon revenue and patents

Damage caused by physical phenomena

NGFS scenarios' assumptions

NGFS scenarios		Net-Zero 2050	Below 2°C	Delayed transition	Current policies
General	Description	An ambitious scenario in which global warming is limited to 1.5 degrees Celsius above the pre-industrial level by 2100. Strict measures related to climate change and significant innovations enable net-zero CO_2 emissions by 2050.	A scenario in which measures to mitigate climate change limit the temperature increase to 2 degrees by 2100 with a 67% probability. In this scenario, net-zero emissions are expected to be reached in 2070.	A scenario which assumes that global emissions will not decrease before 2030, after which significant measures on climate change will limit global warming to 2 degrees.	The assumption of the scenario is that only the already published actions will be implemented, which leads to high physical risks. Emissions will increase until 2080, resulting in irreversible physical changes.
	Temperature rise	1.4	1.8	1.6	3
	Transition type	Fast and orderly	Fast and orderly	Delayed	No transition
	Technology change	Fast	Moderate	Slow/fast	Slow
	Utilisation of carbon sinks	Moderate/high	Moderate	Low/moderate	Low
	Geographical differences	Moderate	Low	High	Low
CO_2	CO_2 emissions 2030 vs. 2020	-43%	-22%	-5%	-5%
	CO_2 emissions 2050 vs. 2020	-102%	-78%	-85%	-10%
	tCO_2 price in 2030, USD	187.00	46.00	9.00	9.00
	tCO_2 price in 2050, USD	590	136	350	8
	Likelihood of exceeding a 1.5-degree change 2100	4%	21%	17%	65%
	Likelihood of exceeding a 2-degree change 2100	28%	71%	63%	97%
Consumption of primary energy	2030 vs. 2020	-13%	0%	8%	8%
	2050 vs. 2020	-17%	-12%	-15%	19%
Energy production capacity 2030	Renewables	85%	77%	66%	73%
	Fossil	12%	21%	31%	24%
	Others	3%	3%	3%	3%
Energy production capacity 2050	Renewables	95%	95%	95%	94%
	Fossil	0%	3%	1%	5%
	Others	5%	2%	4%	2%
Annual GDP growth	2030 vs. 2020	2.70%	2.90%	3.00%	3.00%
	2050 vs. 2020	2.30%	2.30%	2.20%	2.30%

Sectors exposed to climate change in Varma's investments

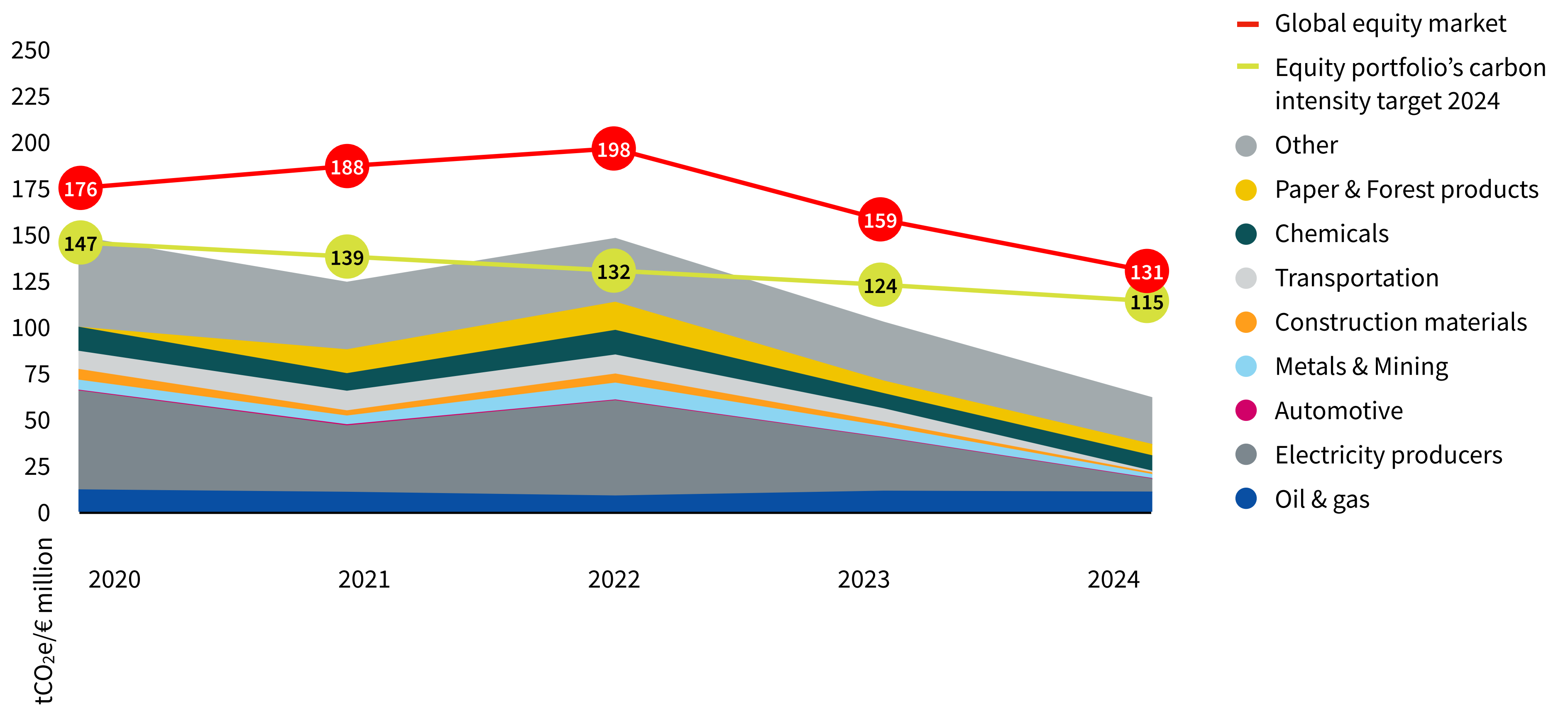
We also monitor and analyse the impact that different high-risk industries have on the climate risks of Varma's investments in different asset classes. In order to attain the climate goals, we must identify, within the high-risk sectors, investees that are able to adapt their operations and benefit from the transformation to a lower-carbon society.

Climate-change-related opportunities

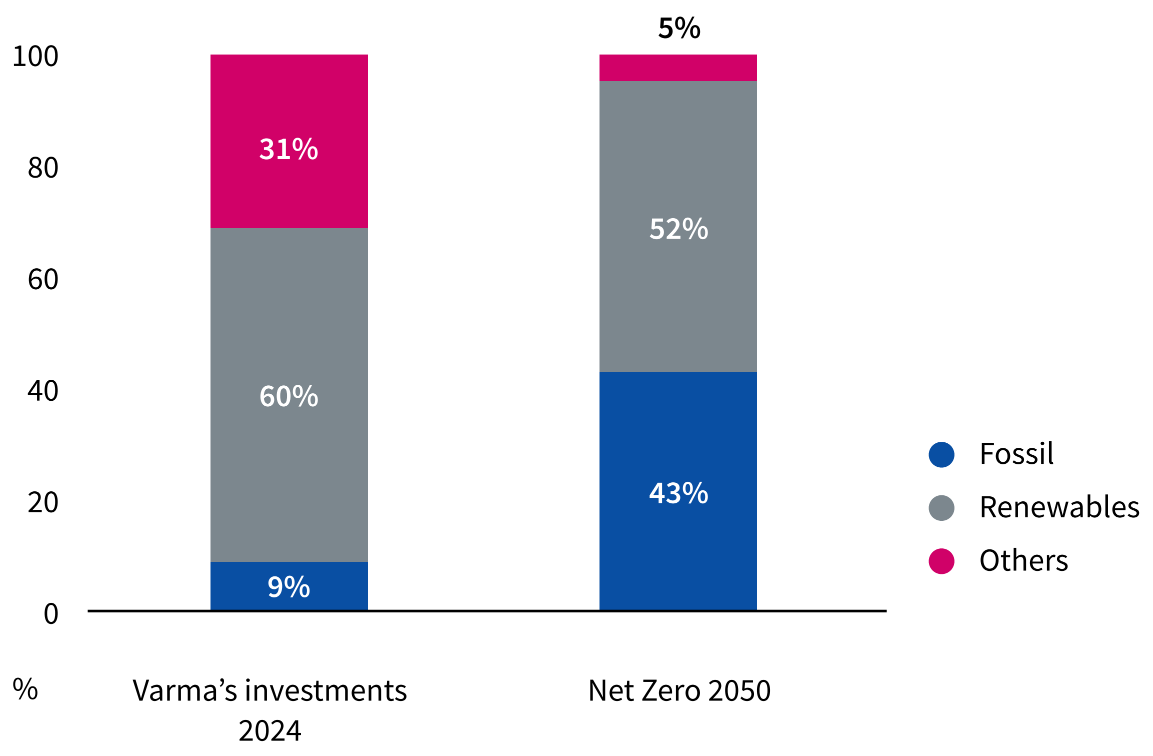
Responsible investment and mitigating climate change apply to all of Varma's asset classes and investment processes.

Climate change also presents investors with new opportunities. We have created a climate allocation, which includes investments in companies whose business benefits from actions to mitigate climate change, whose operations do not cause significant greenhouse gas emissions, who have a clear strategic and science-based target of reducing greenhouse gas emissions and whose operations offer carbon sinks. The climate allocation, which covers all asset classes, accounted for 39.3 per cent of all of Varma's investments at the end of 2024.

Contribution of different transition industries to the weighted carbon intensity of Varma's equities



Electricity generation mix of Varma's investments vs. target level



Attending to biodiversity in investments

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

The analysis of economic risks and opportunities and positive impacts related to biodiversity has been complicated by the scarcity and lack of commensurable indicators that can be applied to a variety of investees.

On the other hand, biodiversity is already mentioned in many companies' strategies and sustainability policies. For an investor assessing risks and opportunities related to biodiversity, it is critical to find such science-based background information that takes different views broadly into account. The framework of physical and transition risks used in the assessment of climate risks can also be used for assessing biodiversity risks. Furthermore, biodiversity loss has broader systemic risks, just like climate change.

Our 2024 reporting is adapted from the recommendations of the Taskforce on Nature-related Financial Disclosures' (TNFD) framework. Through the double materiality assessment, we have identified biodiversity as a material sustainability theme in our investments and in direct real estate investments. This is why our TNFD report also focusses on our direct and fund investments.

Roadmap guided our activities in 2024

In 2022, we published a Biodiversity Roadmap, with the purpose of creating a framework for responsible investment requirements, policies and goals to prevent biodiversity loss. Our goal is to ensure that the biodiversity and climate targets carry equal weight and that together they promote our environmental sustainability. How the climate and biodiversity work is applied depends on the asset class and type of investment. We aim to systematically assess the risks and impacts of our investments in terms of biodiversity loss.

Our environmental policy, published in 2024, helps us carry out systematic biodiversity assessments covering the entire investment portfolio. This includes target setting and reporting. Active monitoring and policy updates based on the development of global anti-biodiversity-loss measures are also essential. These actions help promote the protection of biodiversity and reduce the related risks to finances and business operations.

Biodiversity survey of high-risk sectors

In 2024, we conducted a second biodiversity survey of risk industries as part of an analysis of the impacts of our investments and a risk assessment. The survey looked into the portfolio companies' attitudes and preparedness for risks linked to biodiversity loss. The survey included 318 (282) companies in high-risk sectors from around the world and covered listed equity investments and exchange-traded funds (ETFs). Companies with a market value exceeding one million euros were included.

The survey examined high-risk industries. Varma has defined electricity generation, oil and gas, the extractive industry, forest industry, automotive industry, construction industry, transport industry, food industry and chemical industry as sectors of this kind. Last year, food, pharmaceutical, and cosmetics industries, packaging material manufacturers, fashion and luxury goods industries, and waste management companies were also included in the risk industries.

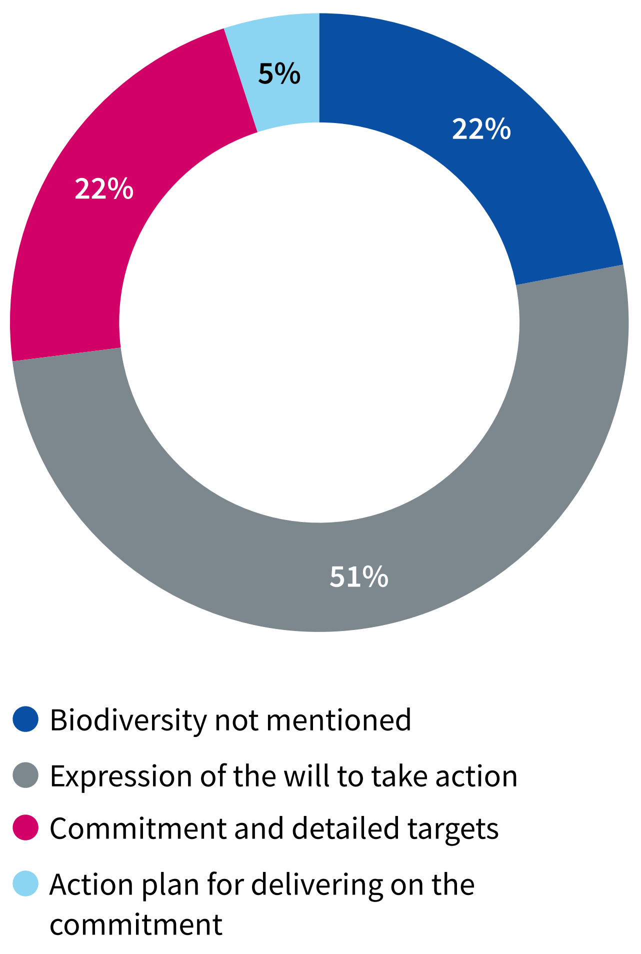
The survey was carried out so that the companies' publicly available biodiversity policies were divided into four categories: (0) no mention of the topic, (1) statement of intent to take action, (2) commitment and detailed targets for taking biodiversity into account, and (3) a detailed implementation plan to fulfil the commitment.

Of the companies, 30 (27) per cent had set targets for considering the prevention of biodiversity loss in their operations. Nevertheless, less than half, 43 (51) per cent, of the companies had expressed their intent to take action to consider or compensate biodiversity loss. However, only 9 (5) per cent of all companies had a concrete implementation plan. Around a fifth, 18 (22) per cent, of the companies had not considered biodiversity issues in their public policies at all.

According to our survey, European companies were more advanced in setting targets than companies operating in North America and Asia, with the exception of Japan. In Japan, half of the examined companies have set targets for preventing biodiversity loss.

Our goal is to follow the development and implementation of the biodiversity work of our investees operating in high-risk industries as part of our risk management.

Survey of portfolio companies' attitudes and preparedness to biodiversity



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Integrating biodiversity in investment decisions

In line with our environmental policy, biodiversity will be integrated into the investment process. The integration initially focusses on our direct investments and high-risk sectors. Biodiversity will be included in the selection and monitoring process of fund management companies. The goal is to improve the biodiversity monitoring of unlisted and fund investments.

We work together with other investors

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

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

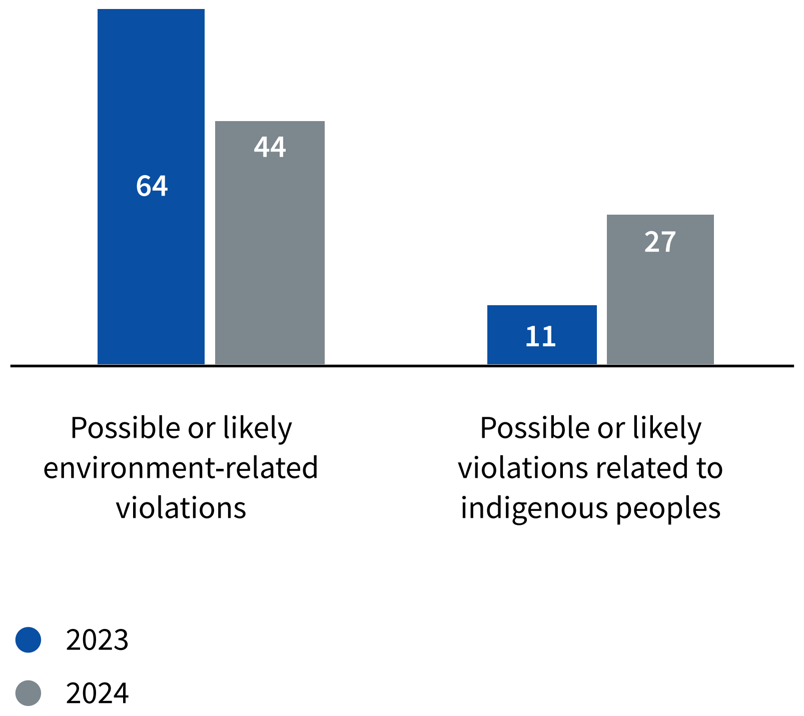
Active ownership and engagement

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

We communicate with risk-industry companies and encourage them to report transparently on the biodiversity impacts and risks of their operations.

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

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



In 2024, we engaged, together with other investors, in 44 possible or likely violations linked to the environment and 27 possible or likely violations linked to indigenous peoples. Read more about our norm violation monitoring in the section 'Responsible investment'.

Metrics and targets

The TNFD has published 14 core global metrics that companies can use to quantify their impacts and dependencies on nature. We report partially on the metrics on risks and opportunities as well as impacts and dependencies that the TNFD recommends all companies disclose regardless of their industry. We also report on the core dependency and impact disclosure metrics that the TNFD has recommended exclusively for financial institutions.

In accordance with the TNFD framework's recommendations, we report on our investments in companies in sectors with the greatest risks related to biodiversity through their impacts and dependencies. The sectors reported are based on the sectors defined by the TNFD.

We also report our investments in companies with major operations in areas prone to biodiversity loss.

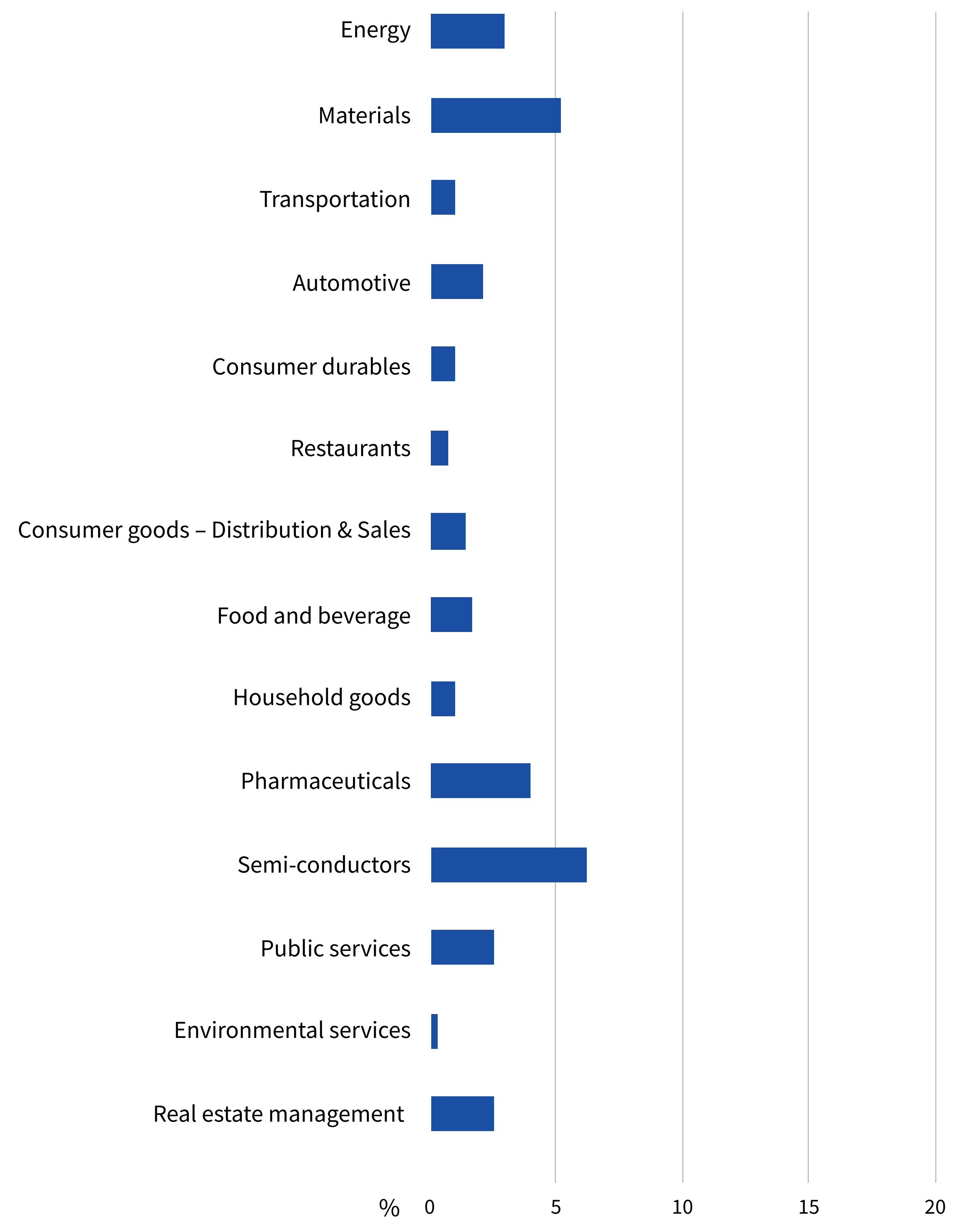
We regularly update our environmental policy's section on biodiversity and the related targets and gradually set more detailed targets and procedures by asset class. We examine different methods of assessing risks related to biodiversity loss in different asset classes, sectors and companies.

Reporting on biodiversity

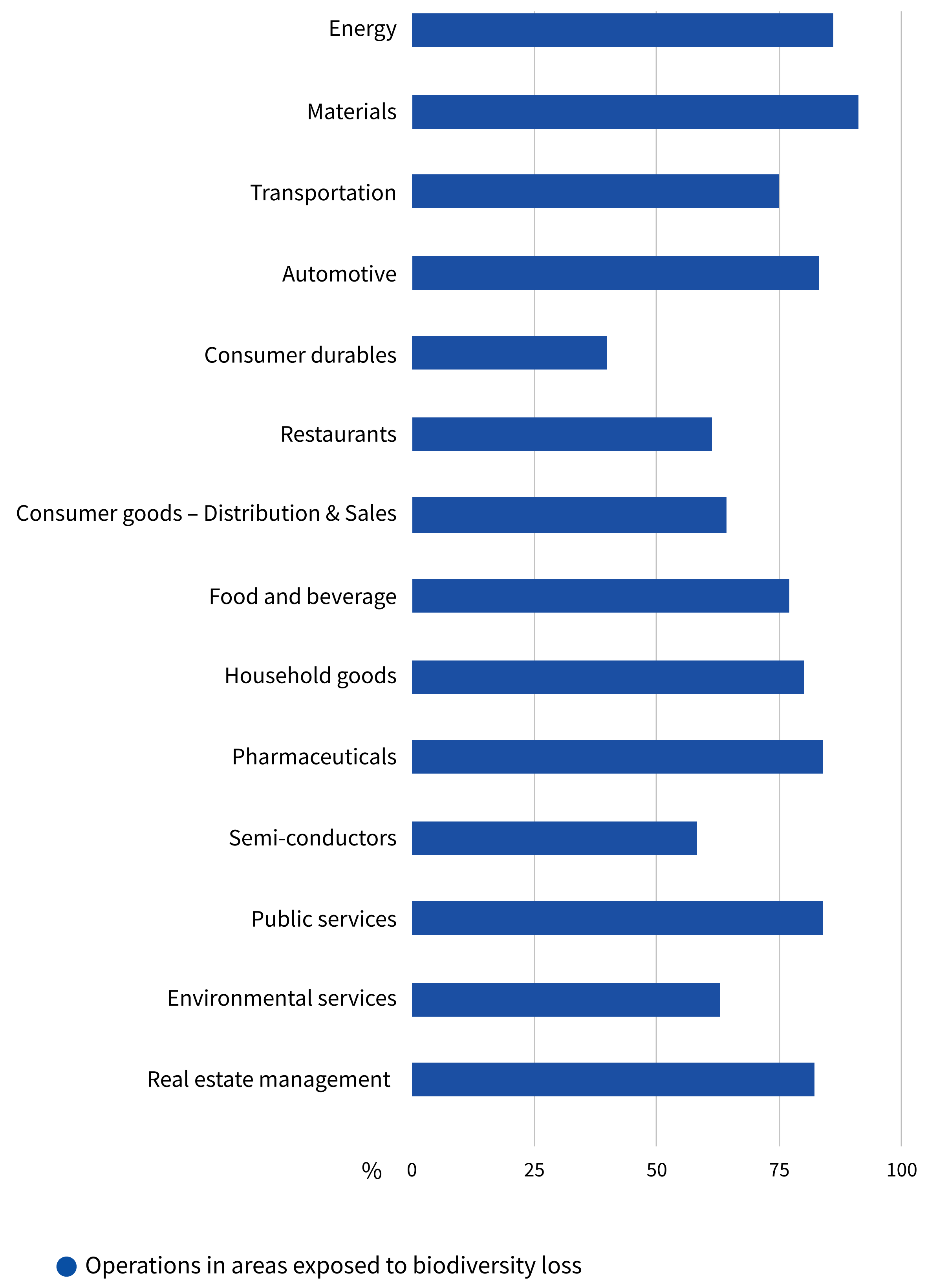
Our aim is to remain aware of our investment portfolio's risks, impacts and dependencies with regard to biodiversity. Our reporting will initially focus on listed investments. As the quality of data improves, we will expand our reporting to other asset classes.

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

Share of sectors exposed to biodiversity loss in listed equity investments in 2024



Share of high-risk-sector business operations in areas exposed to biodiversity loss of listed equity investments in 2024



Environmental risks and opportunities

Biodiversity-related impacts and dependencies in listed equity investments 2024	Dependency on average (0–1)	Average overlap with key biodiversity areas (ha)	Average overlap with key biodiversity areas (sites)
Energy	0.7	453.3	27.9
Materials	0.64	345.6	5.0
Transportation	0.62	0.6	0.5
Automotive	0.68	39.7	134.9
Consumer durables	0.56	0.9	1.0
Restaurants	0.69	73.4	4.0
Consumer goods – Distribution & Sales	0.15	8.3	9.3
Food and beverage	0.76	3.8	1.4
Household goods	0.65	3.7	3.7
Pharmaceuticals	0.62	0.1	0.3
Semiconductors	0.34	0.1	1.0
Public services	0.53	21,750.0	49.7
Environmental services	0.3	7.1	0.7
Real estate management	0.63	1,870.0	18.1

Climate-related risks and opportunities

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

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

Varma's risks related to climate change are discussed in more detail on page 9.

Risks and opportunities related to biodiversity loss

Almost all industries face risks resulting from biodiversity loss. The risks can be divided into physical, legal, transition and systemic risks. Physical risks are, for example, the depletion of natural resources or disturbances in the operating environment. Legal risks include increasing regulation and international agreements, for instance. Transition risks refer to changes, for example, in the operating environment, technology and consumer behaviour that the measures preventing biodiversity loss could entail. Systemic risks mean an extreme risk in which biodiversity loss can lead to the collapse of entire regional ecosystems.

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

Varma reports on the biodiversity-related dependencies and impacts of listed equity investments for 2024.

Environmental risk and opportunity management and strategy

The Responsible Investment & Sustainability department assesses environmental risks. Of the environmental risks, climate change has been identified in the risk and solvency assessment as a risk related to the operating environment. Additionally, sustainability risks have been identified as part of the risk and solvency assessment. As regards investees, the risks were related to possible and likely factors affecting the investee's value. We monitor sustainability risks by striving to identify adverse business interests and violations of international agreements and norms in our investment portfolio. Varma enters possible and likely sustainability risks related to its investees into its risk management system. The risks are discussed on a monthly basis by the Investment Committee.

Information on environment-related policies – e.g. exclusions and due diligence – is also given in Varma's principles for responsible investment and in the active ownership and engagement principles. Both of these have been approved by Varma's Board of Directors.

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

Our impact	Potential impact on investing	Means of management
Transition risks	Regulatory impact, e.g. emission rights prices, carbon tax, varying regulation. Investees' ability to identify new business opportunities and develop new technologies to mitigate climate change and prevent biodiversity loss. Consumer behaviour and tightening regulation may influence the market and investees' reputation.	• Due diligence process for high-risk industries • Reducing carbon intensity • Exclusions • Replacing district heating with geothermal heating in properties • Scenario analyses in listed equity and corporate bond investments as well as real estate investments • Biodiversity monitoring of high-risk sectors • Biodiversity guidelines for real estate
Acute physical risks	Extreme weather conditions and natural disasters, e.g. floods and hurricanes. For example, the drying up of rivers may affect logistics costs, crop damage due to drought or excess rainfall may influence the cost of food production, heat may increase the cooling costs of business premises, winter clothing sales may suffer from mild winters, and tourism may be negatively affected by unfavourable weather conditions, like snow scarcity (e.g. ski resorts and restaurants in their vicinity).	• In real estate investments, the use of flood surveys and flood maps: properties will not be built in or acquired from areas at risk of floods • In private equity investments, company analyses and supply chain management
Chronic physical risks	Drought, heat waves and rain. For example, attempts are being made to mitigate the California wildfires caused by annual drought by undergrounding electricity transmission networks (reduced chance of wildfire ignition); in food production, coffee and cacao plantations are being moved permanently away from locations where agricultural conditions have become unfavourable. Acute physical risks turn chronic.	• Facade solutions for new buildings, building condition assessments • Modelling of companies' geographical production locations • Assessing risk management in supply chains • Scenario analyses in listed equity and corporate bond investments as well as real estate investments
Physical risks (biodiversity)	Physical risks are caused by an investee's direct or indirect dependency on the availability of a natural resource or ecosystem service. For example, the lower production potential of an agricultural country, extreme weather conditions, such as droughts and storms, and reduction in pollinators.	• Monitoring of how investees identify and prepare for potential risks caused by biodiversity loss
Systemic risks (biodiversity)	Systemic risks mean an extreme risk in which biodiversity loss can lead to the collapse of entire regional ecosystems. If the Amazon rainforest is destroyed, for example, rainfall volumes can change as far afield as the United States. In these types of situations, biodiversity loss can be identified as a clear cause of systemic risks impacting the economy.	• Due diligence in industries at risk due to biodiversity loss • Analysis of investments in geographical areas that are sensitive to biodiversity loss

Investment due diligence and exclusions

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

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

- industries that are significantly exposed to both climate- and nature-related risks: the oil & gas industry, electricity & heat production, and the automotive, mining, concrete, construction materials, forestry, transport and chemical industries;
- industries that are significantly exposed to nature-related risks (according to the TNFD framework): packaging materials, waste, textiles, apparel and luxury goods, food, pharmaceuticals and cosmetics;
- companies producing alcohol, legal cannabis products, adult entertainment or gambling;
- defence industry companies whose production of controversial weapons accounts for less than 5 per cent of their net sales.

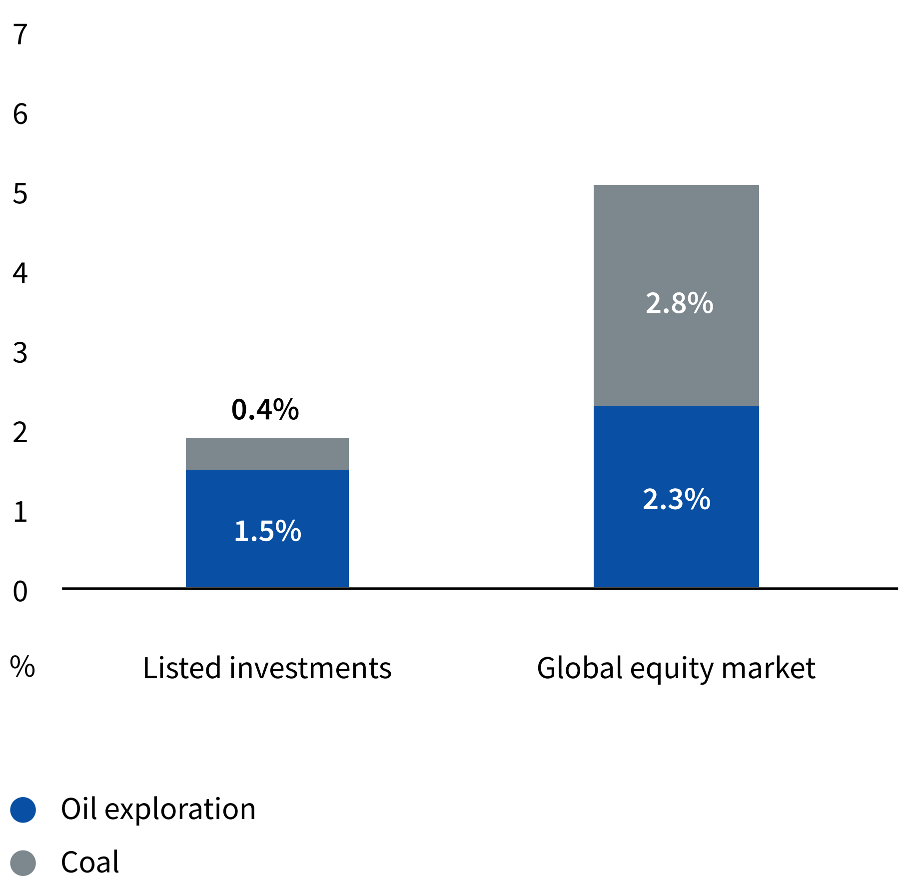
The due diligence process also applies to companies with coal- or lignite-based operations accounting for 5–10 per cent of their net sales, production capacity or production.

In our climate targets, we are committed to exiting from all coal investments by the end of 2025. We do not make new investments in companies with coal-based operations accounting for more than 10 per cent of their net sales, production or production capacity. The exception to this general rule is companies that have a science-based target of reducing emissions to help limit global warming to 1.5 degrees Celsius. We are also committed to excluding oil exploration from our investments by the end of 2030. As part of our efforts to mitigate climate change, since 2015 we have excluded from our direct investments companies with coal- or lignite-based operations accounting for more than 30 per cent of their net sales, production capacity or production. We do not make new direct investments in companies with coal- or lignite-based operations accounting for more than 10% of their net sales, production capacity or production.

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

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

Proportion of oil and coal in listed investments



Engaging with investee companies

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

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

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

Firstly, Varma engages with companies in an effort to rectify the situation if the investee company has violated local laws or international agreements. Secondly, through engagement, Varma as an investor can promote sustainability and sustainability reporting.

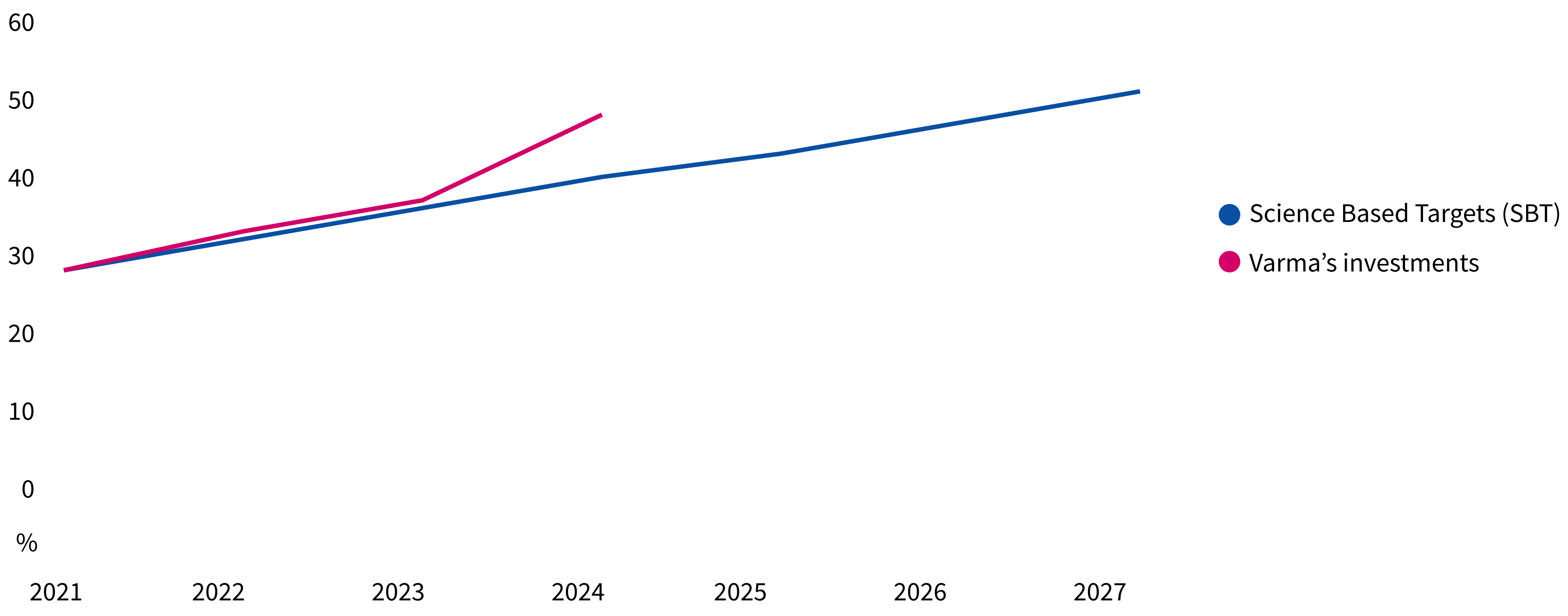
We encourage our investees to set science-based emission reduction targets in accordance with the Science Based Targets initiative (SBTi). We regularly monitor the proportion of our SBT investments in the different asset classes. We also encourage our investees to report on financial risks and opportunities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

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

Varma categorises its investee companies that violate international norms and agreements into three categories, the most severe of which may lead to a company getting blacklisted if it does not sufficiently rectify its operations. Violations in the second most severe category are included in Varma's engagement process. Read more about the monitoring of norms in the section 'Responsible investment'.

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

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



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