

INDUSTRIAL
INSURANCE

ANNUAL REPORT 1997

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This Annual Report does not contain Industrial Insurance Company Ltd's official final accounts for 1997. The official final accounts can be inspected at Industrial Insurance, Vattuniemenkuja 8 A, 00210 Helsinki, Finland.

MANAGING DIRECTOR'S REVIEW

The past year was another year of positive development in earnings for Industrial Insurance. Thanks to the return on investments, the profit for the financial year almost doubled. Solvency strengthened further as a result of an increase in the value of quoted shares. Despite the impact of intense competition in prices on major accounts insurance in particular, both in Finland and abroad, the volume of direct insurance premiums written went up.

Industrial Insurance is the market leader in its own sector in Finland. In a company image survey carried out by TOY Research in 1997, Industrial Insurance was rated the best non-life insurer in Finland. The central assessment criteria of the survey included client service, and quality of products and services. We also continued our own extensive client satisfaction assessments, in which we received not only high marks but also invaluable feedback we can use to further upgrade our operations. This year we will extend our survey to brokers in Western and Central Europe.

Renowned for Our Expertise

Sampo's Major Accounts Services unit wants to stand out through its expertise, both in Finland and abroad.

Our operating policy, which is typical in the Nordic Countries, enables us to offer a wide range of services compared with our competitors elsewhere in Europe. We can manage the risks of our clients from underwriting and loss prevention right through to claims settlement. In Western and Central Europe, few companies can offer this kind of comprehensive service package. Service is the basis of our expertise and enables us to stand out from our competitors.

This also benefits our domestic clients who now have access to even more comprehensive and competitive services here in Finland, too.

Loss prevention has a key position in our strategy. Industrial Insurance and its clients have mutual interests in loss prevention and we want to support our clients in this respect in various ways. During the past year, we have focused on developing new risk assessment methods and quality systems relating to client services as well as on offering loss prevention training to our clients.

Increased International Activities

A major part of our clientele operates internationally, directing their investments outside Finland. We, too, have to pursue growth in international markets since the growth potential in our sector in Finland is modest. However, growth must be profitable, and therefore we specialise in those industrial segments and lines of insurance in which our expertise has traditionally been strong.

We have developed our international service skills with determination. Our own companies handle client service in an extended home market area which includes the Baltic Rim and Western and Central Europe. Elsewhere in the world, service is provided by our network partners.

During the year under review, an increasing number of our Finnish clients switched over to our international insurance programmes, which enable them to insure their risks across borders without having to take out several policies. Over 40 per cent of the premiums written by Major Accounts Services come from overseas interests, excluding statutory insurance schemes in Finland. This develop-

ment seems to be continuing and accelerating.

Our subsidiary, Sampo Industrial Insurance (SII), operating out of Great Britain, Germany and the Netherlands, has established its position as a noteworthy insurer within its own market area. We bought 100 per cent of the company's shares in 1996, so last year was its first full year as a member of the Sampo Insurance Group. During the review year, SII's result turned into profit, which was particularly satisfying. SII works in close co-operation with Industrial Insurance and Otso. The companies have launched a common project, Industry Focus, aimed at producing new industry-specific risk management solutions for the European market.

As part of the measures we have taken in order to provide comprehensive services, we have also upgraded our international co-operation network. Last year we concluded co-operation agreements with insurance companies overseas, which means that we can now offer services covering practically the whole industrialised part of the world. Our partners are reputable and solvent companies providing high-quality services in the field of industrial risk management. The main purpose of the network is to give our clients a worldwide service, but it also provides us with the latest information and ideas, which we can utilise in our own operations.

Our international operations will surely be furthered by a Claims Paying Ability Rating of A- from Standard & Poor's last year. A- represents good security, and it was also given to Sampo, Otso, and Sampo Industrial Insurance. Such a rating is particularly significant on the inter-

national market, because many clients insure their risks only with rated insurance companies.

Versatile Co-operation with Reinsurers

As an insurer of major risks Industrial Insurance has established good and long-term relationships with the leading reinsurance companies in the world. The co-operation is not restricted to the transfer of risks, but also covers such areas as product development, risk management, and loss prevention. Co-operation of this kind further enhances Industrial Insurance's ability to provide even better services for its clients.

During the past few years, several mergers have taken place within the field of reinsurance. As a result, the number of reinsurance companies has decreased but the companies are larger than before. However, this consolidation has not had a major effect in Industrial Insurance's operations. Our risks are securely spread – now among reinsurance companies which are even more solvent and provide an even wider variety of products than before.

New Challenges, New Opportunities

The tariffs for statutory accident insurance will be partially deregulated in Finland from the beginning of 1999, when the amendments to the relevant legislation come into force. For the clients of Industrial Insurance this means that a wider range of solutions and payment systems will be available. As a consequence, the status of occupational safety will be increasingly emphasised. Our competent occupational safety resources and services will remain at the disposal of our clients in the future.



Life and pension insurance services are of particular importance to our clients. The entry of Pension-Varma and Nova into the Sampo co-operation group clarifies its structures and enables close co-operation in the creation of comprehensive services for clients.

The technical and legal problems linked to the year 2000 are a great challenge for risk management, both for us and for our client corporations. Our aim is that communication, safety measures and insurance will together create the best possible conditions for our clients to manage risks attached to the millennium bug.

I wish to express my warmest thanks to our clients and partners for their confidence in us, and for their excellent co-operation during a year characterized by major changes in our operational environment. The initiation of the Major Accounts Services'

new client service model at the beginning of 1997 was a challenge for our personnel, who deserve heartfelt thanks for a job well done.

As we face another year of fresh challenges, I believe that our business operations will continue to develop in a favourable way. We intend to maintain our position on the domestic market and continue to advance in our extended domestic market. Our aim is to become the insurer of corporate risks that is particularly known for its professional expertise.

March 1998

Handwritten signature of Juha Toivola

Juha Toivola

TOTAL RISK COSTS UNDER CONTROL

Industrial Insurance and the Sampo Group Major Accounts Services (MAS) built around it is a risk management service unit rather than just a carrier of financial risks in enterprise activities. Service and know-how are of particular importance in the special profile MAS has. Know-how means the ability to find risk management solutions that secure performance and the balance sheet of our corporate clients, while at the same time keeping total risk costs under control.

Insurance itself is only one of four interdependent elements that determine the total costs associated with a risk: the others involve costs associated with loss prevention, the degree of loss that remains the client's own responsibility and administrative costs.

Insurance is More than just Shifting Risk

Tough price competition does not always clearly enough reveal the fairly significant variances that exist between the contents of different insurance products.

MAS products are broad entities in which the central emphasis lies on defining the need for and extent of cover, and on providing a comprehensive loss service where necessary.

Correctly defining the need for cover requires extensive expertise. An understanding of our customers' businesses and specialisations by line provides Sampo's MAS unit with the special facilities it needs to recognise risks that threaten client companies' future profit expectations. Property evaluation methods developed for different industry sectors make a good basis for defining insurance cover.

The correct range of insurance cover is ensured by including not only comprehensive insurance terms and conditions but also flexible sys-

tems that automatically note changes in a company's business activities. Alternative risk financing solutions are a complementary option in areas that cannot be covered by ordinary insurance.

Major Accounts Services has extensive damage handling experience both in Finland and abroad. This manifests itself as a concrete benefit for our client companies in case of loss. Our know-how is readily available e.g. in preventing subsequent losses, minimising consequential losses and limiting transportation losses. We also offer legal advice on liability losses.

Investing Together in Loss Prevention

The most effective way to impact on the total cost of risks is through loss prevention. Appropriate prevention reflects directly on the incidence of loss, on how much of a loss remains the client's own responsibility and on the price of insurance cover.

Since MAS and its client companies have fully convergent interests in loss prevention, our goal is to offer a diverse range of support for our clients' own efforts to prevent loss.

The repayment period for costs incurred in loss prevention is not easy to calculate because it contains mostly unrealised losses. However, MAS can assist its clients here, too, by defining

the costs of different technical solutions in relation to the estimated risk and benefits accruable from measures taken.

Risk Estimation Directs Proper Preventive Measures

Loss prevention measures are ideally directed at areas where risk is greatest. Risk estimation is based on the probability of a loss occurring and the potential extent of subsequent effects. Solid support for our clients means in-depth insurance industry knowledge, extensive experience in different loss classes and a versatile range of know-how in risk analyses, coming together in a combination that guarantees MAS success in accurate risk estimation.

We have a wide range of risk analysis tools available, providing the right means for different targets. In addition to extensive general analyses of business activities, we have invested in methods that offer an in-depth focus on certain special areas. The past few years have seen a particular and heavy increase in demand for analyses of information technology risks and business activity liability risks.

Safety auditing methods are emphasised in work safety issues, where Industrial Insurance's ASKELMA® method has established its leading

position as an enterprise safety tool. ASKELMA services will be further strengthened this Spring by the introduction of a method in the same product family for managing property risk and consequential risk. The Hazard and Operability Study or HAZOP analysis method is one of the most important tools in international process industry handling and is put to good use by MAS.

The demand for estimation services on work safety risks has been increased by EU requirements to estimate general risks at work. Industrial Insurance's activities aimed at controlling environmental risks have crystallised in a publication at the end of 1997, drawn up in co-operation with Neste Ltd, that brings together expertise collected and refined through years of charting such risks for companies.

The most effective way to influence safety in construction investments or factory expansion is to attend to safety matters as early as the design phase. MAS know-how is available to all our client companies in all construction projects. We also prepared publications last year about safely realising investment projects and dealing with the realisation and follow-up of building site check-ups.

For the support of our Risk Management work, we have strongly upgraded our training services in the field of loss prevention. Last year MAS arranged 42 seminars, theme days and co-operation exercises attended by more than 3,500 client representatives, and feedback on these training programs has been excellent. Training services cover widely different areas of risk management, such as safety analyses, contractual risk management, protection against chemi-

cals and gas, and protection against computer viruses.

Modern loss prevention management means quality systems control. In 1997, Industrial Insurance was the first insurance company in Finland to be granted ISO 9002 certification for its sprinkler technology consulting and check-up services. Certification was granted by Det Norske Veritas.

Client Ability and Desire to Bear Risk Defines the Proper Deductible

The size of the deductible in the insurance agreement affects significantly to the price of the insurance as well as to the amount of loss retained as the client's own responsibility, and administrative costs. The deductible also plays an important role in developing an organisation's attitude to and motivation for loss prevention.

A company's theoretical risk-bearing ability can be estimated from many angles. MAS uses different calculation formulae based on factors that include working capital, net profit, cash flow and shareholder equity.

A risk-bearing ability calculation provides scope to decide how big a deductible should be in a particular insurance solution. In practice, factors attached to fixing the right size of deductible include assumed loss development in the future, insurance payment discounts caused by a rise in the deductible, the general level of desire to assume risk and profit centres' estimation of their own risk-bearing ability. The latter can vary greatly compared to the whole business group's risk-bearing ability. Insurance solutions developed by MAS also take note of the varying needs of a customer group's different units in handling deductibles.

MAS companies have long traditions in applying uniform deductibles across risk types. Stop Loss and Global Programme risk management systems are typical multi-line, multi-year solutions. For worker's compensation insurance we have developed limited deductible payment systems.

High deductibles can also be financed by MAS alternative risk financing solutions.

Cost-Effectiveness to the Fore

Loss prevention, insurance and loss adjustment always involve administrative costs that can be cut by efficient operations and a precise division of work between different parties.

The efficiency of an insurance company's operations is directly measurable in money terms for the client. A specialised outfit like Industrial Insurance can keep its own business costs at a significantly lower level than general insurers which require field organisations. Our business costs are also low by international standards, e.g. Industrial Insurance business costs for last year stood at 12 per cent, while the figure for many other Finnish insurance companies is over 20 per cent and the European average over 30 per cent.

Several of our client companies have transferred the handling of their insurance matters to brokers, with whom MAS is glad to co-operate. In this type of co-operation, it is important to find an operating model in which different parties' know-how is as mutually complementary as possible. A clear definition of the division of tasks between the client company, insurer and broker also leads to the best pattern of cost-effectiveness.

MAJOR ACCOUNTS SERVICES BY COMPANY 1997

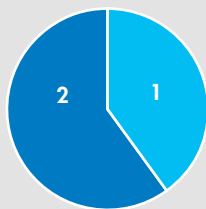
FIM millions

	Industrial Insurance	Otso	Sampo Industrial	Insurance Co. of Finland	Sampo Insurance Group *)
Turnover	1,891	259	376	55	6,273
Gross premiums written	1,274	253	344	33	4,648
Balance on technical account before the change in equalisation provision	-104	-28	7	-2	-542
Profit for the financial year	248	63	15	11	459
Technical provisions	2,970	646	182	59	11,128
Balance Sheet total at current values	6,723	1,480	557	356	-
Loss ratio %	98	83	60	186	94
Expense ratio %	12	37	33	-33	20
Combined ratio %	110	120	93	153	114
Combined ratio at fixed currency exchange rates	104	112	92	153	108
Equalisation provision	531	463	-	56	1,438
Solvency ratio %	370	839	281	6,033	233
Average number of personnel	373	51	70	19	3,059

Eliminations have not been taken into account in the calculations.

*) Non-Life Group

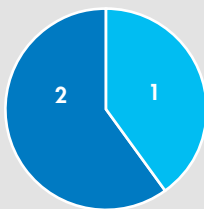
Turnover



1. Major Accounts Services *)	40 %
2. Other Non-Life Group	60 %

*) Items between Industrial Insurance, Otso, Insurance Co. of Finland and Sampo Industrial, and items between them and the other Group companies have been eliminated.

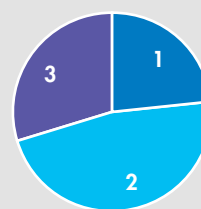
Balance Sheet total at current values



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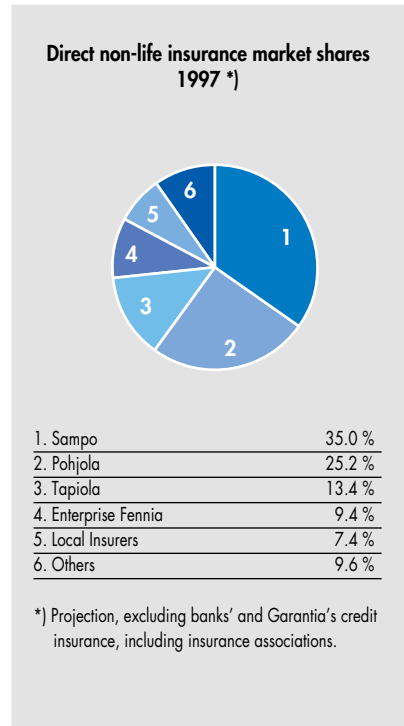
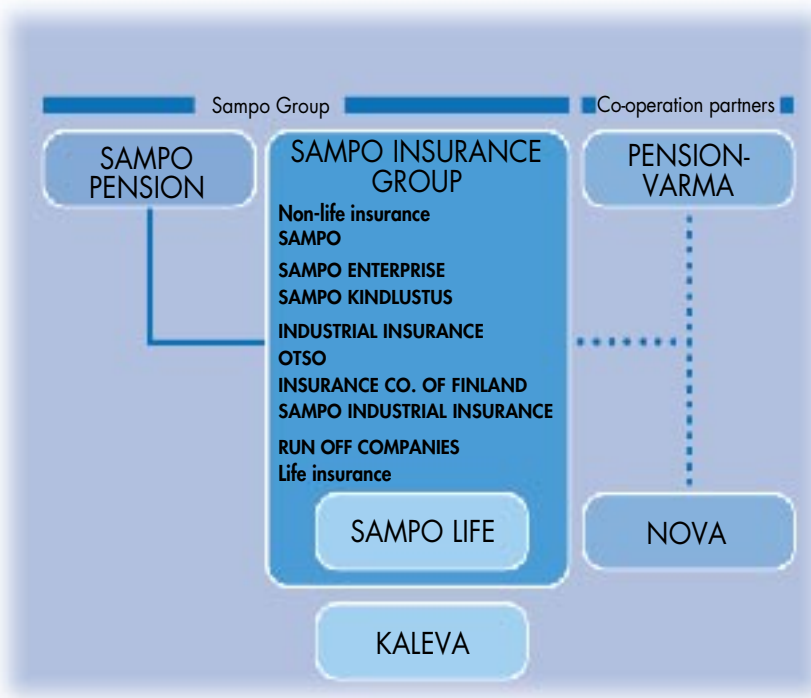
Gross premiums written by Major Accounts Services*



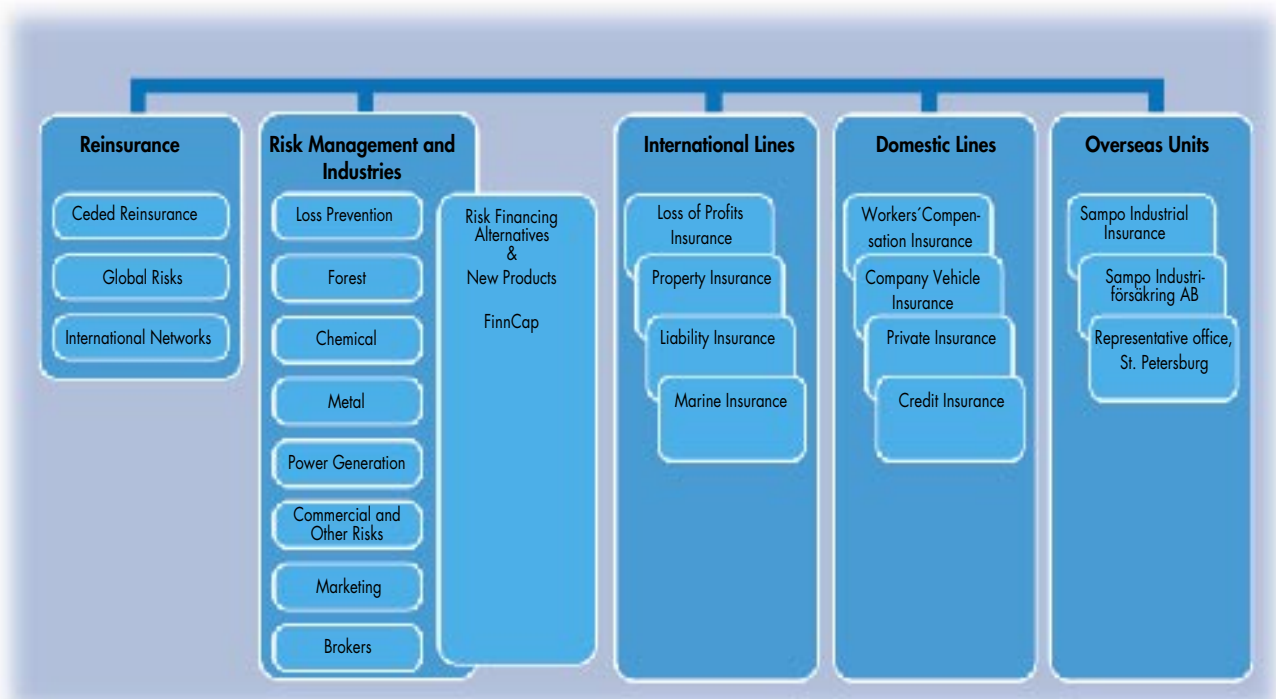
1. Statutory insurance	23 %
2. Other domestic insurance	47 %
3. Insurance from overseas	30 %

* The underwriting business between the companies has been eliminated.

SAMPO GROUP COMPOSITION AND MARKET SHARE



OPERATIONAL COMPOSITION OF MAJOR ACCOUNTS SERVICES



STRUCTURAL REORGANISATION OF LIFE AND EMPLOYMENT PENSION COMPANIES

The Sampo Group and its co-operation partners Pension-Varma, Nova and Enterprise-Fennia will effect a structural reorganisation in 1998. This aims to simplify the structures of the insurance groups and affects life and employment pension insurance companies.

The companies' Boards reached agreement on the reorganisation on November 6th, 1997. The solution follows up on another structural reorganisation finalised in 1992, where Industrial Insurance and Otso joined the Sampo Group. As a result of this, Sampo became Finland's largest non-life insurance group.

Nova Becomes a Sampo Insurance Group Company

The most significant part of the life insurance reorganisation is the merger of Sampo subsidiary, Sampo Life Insurance Company Limited (commonly known as Sampo Life), with Nova Life Insurance Company Limited. The new company, a new and stronger Sampo Life, will be part of the Sampo Insurance Group.

Sampo will buy Enterprise-Fennia's one-quarter holding of Nova

shares for FIM 200 million. It is intended that the Sampo Life merger will come into force at the turn of the year, 1998/1999. Sampo Life shares will be 60 per cent owned by Sampo and its Group companies. The new employment pension company Varma-Sampo will have 35.2 per cent and Kaleva Mutual Insurance Company 4.8 per cent.

Total premiums written by Nova and Sampo Life in 1997 stood at around FIM 2.2 billion, and the balance sheet totals were valued at slightly over FIM 15 billion.

Varma-Sampo - The Group's Employment Pension Company

In the reorganisation of the employment pension insurance business, Sampo Pension will become a mutual company, to be renamed Varma-Sampo Mutual Pension Insurance Company. Approximately 70 per cent of Pension-Varma's insurance portfolio will be transferred to Varma-Sampo. The rest of Pension-Varma's portfolio will remain in the company that will become Fennia Pension, a member of the Fennia Group. The insurance portfolio transfer will be effec-

ted according to plan on July 1st, 1998.

After the reorganisation has been effected, Sampo Insurance Group clients' statutory employment pension insurances will be concentrated in Varma-Sampo, whose premiums written will rise to approximately FIM 11.5 billion and technical provisions to FIM 70 billion.

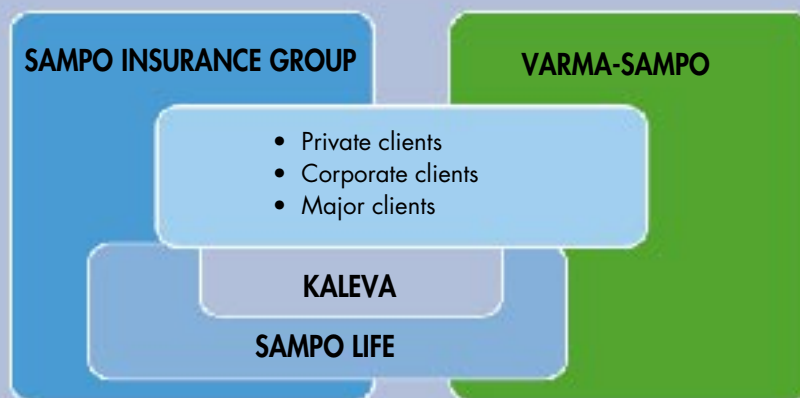
The realisation of the reorganisations laid out above is subject to the approval of the appropriate administrative bodies and regulatory authorities.

The New Situation

The merger with Nova means that Sampo's life insurance business will clearly be the largest in Finland measured by technical provisions i.e. insurance savings; the new structure will also make Sampo the leading life insurer in Finland in terms of premiums written.

After the structural reorganisation, Sampo-Varma Group's employment pension company Varma-Sampo will be Finland's largest with a market share of 35 per cent, about the same as that of Sampo's non-life companies.

SAMPO-VARMA GROUP



BOARD OF DIRECTORS' REPORT 1997

Industrial Insurance Company Ltd is a wholly-owned subsidiary of Sampo Insurance Company Limited, listed on the Helsinki Stock Exchange.

INDUSTRIAL INSURANCE GROUP

Group Result

The positive development in earnings continued, pushing the Group's profit for the financial year up to FIM 259.4 million (FIM 94.9 million in 1996). The increase in result was attributable to a fall in operating expenses, a smaller transfer to the equalisation provision than in the previous year, and growth in net investment income.

Premiums written by the Group amounted to FIM 1,592.5 million (FIM 1,565.8 million).

The value of claims incurred went up by FIM 133.0 million as a result of exchange rate fluctuations, especially the strengthening of the US dollar and the pound sterling. Since the Group companies' currency positions are, on the average, well-balanced, FIM 115.2 million was entered under investment income as exchange rate gains.

The Group's operating expenses totalled FIM 161.5 million (FIM 223.6 million). The decrease in operating expenses was attributable to a fall in reinsurance commissions as the volume went down.

Net investment income amounted to FIM 564.3 million (FIM 443.5 million), including FIM 220.4 million in investment gains, and FIM 55.9 million in value adjustments.

Including profits for the financial year the Group's unrestricted capital and reserves stood at FIM 506.7 million.

PARENT COMPANY INDUSTRIAL INSURANCE COMPANY LTD

Result and Solvency

The parent company's result for the financial year was FIM 248.1 million (FIM 130.3 million).

Gross premiums written by the company decreased to a total of FIM 1,274.4 million (FIM 1,482.1 million). Reorganisation of the insurance business coming from Sampo Industrial Insurance was the main cause to the fall. The life reinsurance portfolio was also transferred to Sampo Life at the beginning of the year under review. Claims incurred on the company's own account totalled FIM 1,026.7 million (FIM 982.4 million).

Direct insurance premiums written amounted to FIM 1,055.9 million (FIM 1,024.5 million). Direct insurance claims incurred, net of reinsurance, totalled FIM 812.2 million (FIM 738.8 million). The increase in claims incurred was caused by additional provisions of FIM 34.1 million made in statutory workers' compensation insurance and motor third party liability insurance because of increased life expectancy. A national agreement has been concluded on adding these factors to the basis of the technical provisions. Moreover, the technical provisions pertaining to statutory workers' compensation insurance were consolidated by a provision for occupational diseases.

The adjustments to the technical provisions were covered by a change in the equalisation provision, so they have no effect on Industrial Insurance's result. However, added to claims incurred they weaken the loss ratio and the unequalised balance on the technical account.

For the reasons stated above, reinsurance premiums written totalled FIM 218.0 million (FIM 457.8 million).

Reinsurance claims incurred stood at FIM 214.4 million (FIM 243.6 million). Industrial Insurance paid the whole stop loss cover gran-

ted to its subsidiary, Patria Reinsurance Company Limited, which increased the value of claims incurred by FIM 68.0 million. Patria has now used the reinsurance cover granted by Industrial Insurance in its entirety.

The value of the accrual parameters for technical provisions was decreased in Industrial Insurance's final accounts since the target level has been reached. At the end of 1997, the equalisation provision was FIM 531.2 million (FIM 520.9 million), representing 31 per cent of the total.

The technical provisions also comprise a collective guarantee item of FIM 47.8 million, which is 3 per cent of the gross technical provisions covering statutory workers' compensation insurance and motor third party liability insurance, before the equalisation provision. The collective guarantee item safeguards statutory compensations should a Finnish insurance company go bankrupt or go into liquidation. In the Profit and Loss Account, the impact of the provision is entered under extraordinary income and charges, so the collective guarantee item has no effect on the company's key figures.

Industrial Insurance's solvency capital amounted to FIM 3,870.7 million (FIM 3,183.3 million). The solvency ratio stood at 370.2 per cent (279.6 per cent), which is very high, even by international standards. This key ratio is calculated by comparing the company's solvency capital with the premiums earned, net of reinsurance.

The ratings company Standard & Poor's gave Industrial Insurance and Sampo Industrial Insurance a Claims Paying Ability rating of A-, which represents good security. The rating

is an assessment of the companies' capital adequacy and solvency. Sampo Insurance Company Limited and Otso Loss of Profits Insurance Company Limited received the same rating.

On November 28th, 1997, the Extraordinary General Meeting passed a resolution on paying FIM 40 million to the parent company as additional dividend, as proposed by the Board of Directors.

Investments

Net investment income amounted to FIM 469.7 million (FIM 392.9 million). The largest income items affecting investment results were the gains realised on investments of FIM 224.6 million (FIM 114.7 million), and dividend income of FIM 133.2 million (FIM 116.3 million).

Value adjustments, which were made mainly on quoted shares, decreased net investment income by FIM 50.7 million, whereas in 1996 value readjustments increased net investment income by FIM 61.4 million.

Charges from other investments comprise an adjustment item of FIM 17.7 million, which was entered since a provision made in the previous year proved unnecessary.

The value of the real estate portfolio owned by the company on December 31st, 1997 totalled FIM 441.7 million (FIM 455.5 million). The occupancy rate of the rented real estate portfolio was 93.7 per cent.

The current value of Industrial Insurance's investment portfolio stood at FIM 6,108.7 million at year-end (FIM 5,797.6 million). The valuation difference between current values and book values increased to FIM 2,731.8 million (FIM 2,201.9 million), mainly due to a rise in the market value of quoted shares. Of the valuation difference, 87.7 per cent was in quoted shares.

Operating Expenses, Depreciation and Other Income

Operating expenses totalled FIM 122.5 million (FIM 200.7 million).

The drop resulted from a fall in re-insurance commissions, which was attributable to a decrease in volume.

Maximum depreciation of FIM 24.7 million permitted under the Taxation of Businesses Act were made. Depreciation according to plan amounted to FIM 22.9 million.

GROUP COMPOSITION

At the close of the year under review, the Industrial Insurance Group comprised the parent company Industrial Insurance Company Ltd, and its Finnish subsidiaries Oy Finnish Captive & Risk Services Ltd, Oy Haveri Ab, Oy Imico Insurance Systems Ab, Patria Reinsurance Company Limited, and 20 Finnish housing and real estate corporations. The Group is represented overseas by Industriförsäkring AB of Sweden, and Teva Holding B.V., Sampo Industrial Holding, and Sampo Industrial Insurance N.V. operating from the Netherlands. In addition, the company has a representative office in St. Petersburg.

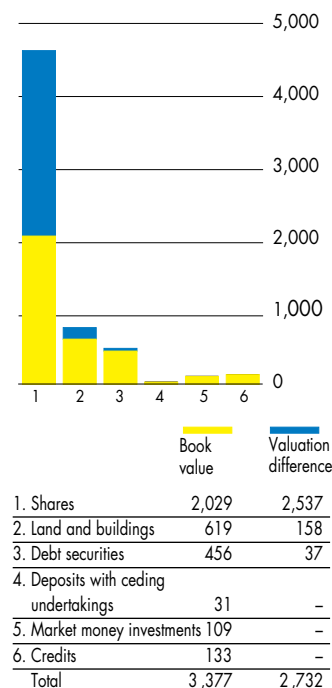
An absorption of Oy Imico Insurance Systems Ab with the parent company was entered in the Trade Register on January 5th, 1998.

Of the Group companies, only the parent company, Sampo Industrial Insurance, and Patria Reinsurance Company Limited carry on insurance activities. However, Patria does not write new reinsurance treaties, but concentrates on running off the old insurance portfolio. Sampo Industriförsäkring underwrites mainly on Industrial Insurance's and Otso's account.

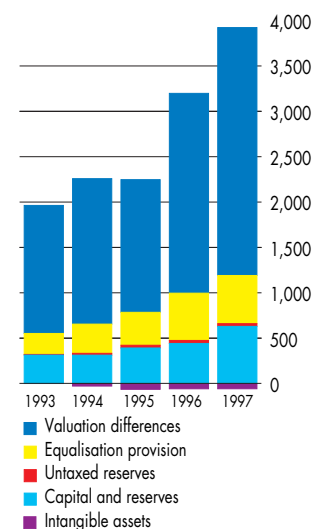
SUBSIDIARIES AND MAJOR ASSOCIATED UNDERTAKINGS

Premiums written by Sampo Industrial Insurance, which underwrites direct insurance business in Central and Western Europe, experienced a slight decrease, which was attributable to the fall in the general level of premiums. Thanks to the consolid-

Investment portfolio, FIM m
Industrial Insurance Company Ltd



Solvency capital, FIM m
Industrial Insurance Company Ltd



	1993	1994	1995	1996	1997
Capital and reserves	314	313	392	482	630
Untaxed provisions	7	20	30	33	30
Equalisation provision	231	322	363	521	531
Valuation differences	1,411	1,603	1,462	2,202	2,732
Intangible assets	-	-28	-61	-55	-52
Total	1,963	2,230	2,186	3,183	3,871

Year 1993 were calculated according to the accounting practice in force before 1995. At that time, Industrial Insurance Company Ltd was Industrial Mutual Insurance Company.

ated capital base, the company retained more business on its own account, which increased the net premiums written by over 40 per cent. The loss ratio was 60 per cent (97 per cent) after reinsurers' share. A major part of the reinsurance business is handled by Industrial Insurance and Otso. After consolidation of capital and reserves, net investment income more than doubled. This, and the good loss figures, pushed the company's profit for the financial year up to FIM 15.2 million as against FIM 19.4 million in the red in 1996.

In connection with a portfolio transfer which took place in 1993, Industrial Insurance granted a stop loss cover for Patria Reinsurance Company Limited. This cover was paid off in its entirety at the end of the financial year under review, so Industrial Insurance has no liabilities left arising from this business. Due to the commutation, the technical provisions on Patria's own account increased by FIM 243 million. Owing to the strengthening of the US dollar and the pound sterling, Patria's gross technical provisions went up by FIM 26 million. Calculated at fixed rates, the provisions decreased by FIM 78 million. Patria transferred FIM 28 million to the equalisation provision, and the loss for the financial year totalled FIM 6 million. At the end of the year, Patria's non-restricted capital and reserves were FIM 25 million in the negative.

Sampo Industriförsäkring AB, a company wholly-owned by Industrial Insurance, underwrites direct insurance business in Sweden on Industrial Insurance's and Otso's account.

The associated undertakings of the Group yielded a total profit of FIM 40.2 million (FIM 18.7 million). The share of the results from major associated undertakings included FIM 31.2 million from Nova Life Insurance Company Ltd, and FIM 8.1 million from Sampo Life Insurance Company Ltd.

STRUCTURAL REORGANISATION OF LIFE AND EMPLOYMENT PENSION COMPANIES

Together with Sampo, Sampo Life, Sampo Pension, Pension-Varma, Nova and Enterprise-Fennia, Industrial Insurance is participating in a reorganisation that will be accomplished in 1998. As a result, Nova and Sampo Life will merge and form a new company that will be called Sampo Life Insurance Company Limited. Sampo Pension and a major part of Pension-Varma's insurance portfolio will be combined into a new pension insurance company, Varma-Sampo, a mutual providing pension insurance cover for the clients of Industrial Insurance. A decision on the reorganisation was made in November 1997, and it is subject to the approval of relevant administrative organs and regulatory authorities.

ADMINISTRATION

Industrial Insurance Company Ltd's Board of Directors comprises Mr Jouko K. Leskinen, Chairman; Mr Mikko Kivimäki, Vice Chairman; members Mr Heimo Karinen, Mr Björn Mattsson, Mr Kurt Nordman and Mr Timo Poranen.

Mr Juha Toivola is Managing Director of the company.

OUTLOOK FOR 1998

Despite the intensifying competition, the value of domestic direct insurance premiums written is expected to remain stable. However, premiums written in statutory workers' compensation insurance will grow as a result of a non-recurring increase in premiums complying with a national agreement. Premiums written outside Finland are expected to grow significantly. Thanks to the rise in dividends paid by listed companies, running investment income is also expected to take an upward turn. All in all, the favourable overall development in operations is expected to continue in 1998.

BOARD PROPOSAL FOR PROFIT DISTRIBUTION

Industrial Insurance Group's distributable non-restricted capital and reserves amount to FIM 471,117,342.87. Industrial Insurance Company Ltd's non-restricted capital and reserves including profit for the financial year stand at FIM 440,594,131.24.

The Board of Directors recommends to the Annual General Meeting that a dividend of FIM 120 per share be paid of the company's profit for the financial year, or a total of FIM 60,000,000.00. FIM 380,594,131.24 is proposed to be retained on the closing account.

Helsinki, March 4, 1998

Jouko K. Leskinen

Mikko Kivimäki

Heimo Karinen

Björn Mattsson

Kurt Nordman

Timo Poranen

Industrial Insurance Group

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FIM '000

Jan. 1 to Dec. 31, 1997

Jan. 1 to Dec. 31, 1996

TECHNICAL ACCOUNT

Premiums earned				
Premiums written	1,592,494		1,565,848	
Reinsurers' share	-475,333	1,117,161	-264,564	1,301,284
Change in the provision for unearned premiums				
Total change	256,301		-3,747	
Portfolio transfer	-261,277		0	
Reinsurers' share				
Total change	16,564		-105,325	
Portfolio transfer	22,114		0	
	38,678	33,702	-105,325	-109,072
		1,150,863		1,192,212
Claims incurred				
Claims paid	-1,168,354		-1,284,274	
Reinsurers' share	202,720	-965,634	206,862	-1,077,412
Change in the provision for outstanding claims				
Total change	-195,598		-48,672	
Portfolio transfer	-36,857		0	
Reinsurers' share				
Total change	13,745		152	
Portfolio transfer	9,198		0	
	22,943	-209,511	152	-48,520
		-1,175,145		-1,125,932
Net operating expenses		-161,551		-223,607
Balance on technical account before the change in equalisation provision		-185,833		-157,327
Change in equalisation provision		-43,531		-157,904
Balance on technical account		-229,364		-315,231

FIM '000

Jan. 1 to Dec. 31, 1997

Jan. 1 to Dec. 31, 1996

NON-TECHNICAL ACCOUNT

Investment income	665,825		599,879	
Investment charges	-101,484	564,341	-156,402	443,477
Other income		884		1,332
Other charges				
Depreciation on consolidation difference	-2,396		-2,375	
Depreciation on goodwill	-9,125		-9,125	
Other	-26	-11,547	-2,871	-14,371
Tax on profit from ordinary activities				
Tax for the financial year	-98,291		-46,450	
Tax from previous periods	-6,176		2,619	
Change in deferred tax	4,254	-100,213	1,566	-42,265
Share of associated undertakings' profit after tax		40,154		18,676
Profit on ordinary activities after tax		264,255		91,618
Extraordinary income and charges				
Extraordinary income				
Premiums written	18,185		0	
Claims paid	24,888		0	
Change in equalisation provision	4,752		0	
	47,825		0	
Extraordinary charges				
Change in collective guarantee item	-47,825		0	
Other extraordinary charges	0		-4,545	
	-47,825		-4,545	
		0		-4,545
Profit after extraordinary items		264,255		87,073
Minority interest in the profit for the financial year		-4,818		7,871
Consolidated profit for the financial year		259,437		94,944

Industrial Insurance Group

CONSOLIDATED BALANCE SHEET

FIM '000

Dec. 31, 1997

Dec. 31, 1996

ASSETS

Intangible assets

Intangible rights	26,536		18,264
Goodwill	25,965		35,090
Consolidation difference	19,163		21,368
Other long-term expenses	387		474
	72,051		75,196

Investments

Investments in land and buildings			
Land and buildings	689,901		734,849
Investments in affiliated undertakings	62,905		0
Investments in associated undertakings			
Shares and participations	187,388	207,888	
Debt securities issued by, and loans to, associated undertakings	50,000	237,388	50,000
Other investments			
Shares	1,637,856	1,310,700	
Debt securities	1,282,575	1,334,417	
Loans guaranteed by mortgages	90,077	47,922	
Other loans	43,386	68,930	
Deposits with credit institutions	289,017	324,753	3,086,722
Deposits with ceding undertakings	149,635		378,679
	4,482,740		4,458,138

Debtors

Arising out of direct insurance operations			
Policyholders	83,807	101,342	
Intermediaries	92,415	176,222	210,224
Arising out of reinsurance operations	223,003		288,542
Other debtors	93,515		87,699
	492,740		586,465

Other assets

Tangible assets			
Equipment	27,746	26,531	
Other tangible assets	2,994	2,289	28,820
Cash at bank and in hand	204,755		122,126
Other assets	1,684		1,214
	237,179		152,160

Prepayments and accrued income

Interest and rents	36,933		48,950
Other	76,098		72,071
	113,031		121,021
	5,397,741		5,392,980

LIABILITIES**Capital and reserves**

Restricted				
Subscribed capital	50,000		50,000	
Legal reserve	199,991		199,991	
Revaluation reserve	22,880		36,852	
Other restricted reserves	1,382		1,383	
Currency conversion differences	3,063	277,316	1,101	289,327
Non-restricted				
Non-restricted reserves	96,095		96,119	
Profit/loss brought forward	151,194		132,468	
Profit for the financial year	259,437	506,726	94,944	323,531
		784,042		612,858
Minority interest		102,306		95,678
Technical provisions				
Provision for unearned premiums	242,542		501,617	
Reinsurers' share	-68,965	173,577	-55,374	446,243
Claims outstanding	3,606,012		3,423,215	
Reinsurers' share	-493,609	3,112,403	-493,783	2,929,432
Equalisation provision		559,687		520,908
Collective guarantee item		47,825		0
		3,893,492		3,896,583
Deposits received from reinsurers		3,286		25,492
Creditors				
Arising out of direct insurance operations	0		5,732	
Arising out of reinsurance operations	428,812		463,552	
Pension loans	0		74,266	
Deferred tax	13,848		18,102	
Other creditors	20,711		47,862	
		463,371		609,514
Accruals and deferred income		151,244		152,855
		5,397,741		5,392,980

Industrial Insurance Company Ltd

PROFIT AND LOSS ACCOUNT

FIM '000

Jan. 1 to Dec. 31, 1997

Jan. 1 to Dec. 31, 1996

TECHNICAL ACCOUNT

Premiums earned				
Premiums written	1,274,392		1,482,122	
Reinsurers' share	-266,709	1,007,683	-221,775	1,260,347
Change in the provision for unearned premiums				
Total change	298,763		-85,596	
Portfolio transfer	-261,277		0	
Reinsurers' share		37,486		-85,596
Total change	-21,758		-36,369	
Portfolio transfer	22,114		0	
	356	37,842	-36,369	-121,965
		1,045,525		1,138,382
Claims incurred				
Claims paid	-1,247,736		-1,032,113	
Reinsurers' share	159,520	-1,088,216	121,823	-910,290
Change in the provision for outstanding claims				
Total change	118,624		-105,638	
Portfolio transfer	-36,857		0	
Reinsurers' share		81,767		-105,638
Total change	-29,404		33,506	
Portfolio transfer	9,198		0	
	-20,206	61,561	33,506	-72,132
		-1,026,655		-982,422
Net operating expenses		-122,548		-200,713
Balance on technical account before the change in equalisation provision		-103,678		-44,753
Change in equalisation provision		-15,073		-157,904
Balance on technical account		-118,751		-202,657

FIM '000

Jan. 1 to Dec. 31, 1997

Jan. 1 to Dec. 31, 1996

NON-TECHNICAL ACCOUNT

Investment income	578,737		499,570	
Investment charges	-109,025	469,712	-106,662	392,908
Other income		235		432
Other charges				
Depreciation on goodwill	-9,125		-9,125	
Other	-7	-9,132	-5	-9,130
Tax on profit from ordinary activities				
Tax for the financial year	-92,592		-51,241	
Tax from previous periods	-4,753	-97,345	2,619	-48,622
Profit on ordinary activities after tax		244,719		132,931
Extraordinary income and charges				
Extraordinary income				
Premiums written	18,185		0	
Claims paid	24,888		0	
Change in the equalisation provision	4,752		0	
	47,825		0	
Extraordinary charges				
Change in collective guarantee item	-47,825	0	0	0
Profit after extraordinary items		244,719		132,931
Increase/decrease in depreciation difference		-1,791		-2,868
Increase/decrease in optional reserves				
Increase/decrease in credit loss reserve		-163		234
Decrease in transition reserve		5,293		0
Profit for the financial year		248,058		130,297

Industrial Insurance Company Ltd

BALANCE SHEET

FIM '000	Dec. 31, 1997		Dec. 31, 1996	
ASSETS				
Intangible assets				
Intangible rights		26,364		18,131
Goodwill		25,965		35,090
Other long-term expenses		387		474
		52,716		53,695
Investments				
Investments in land and buildings				
Land and buildings	283,261		285,361	
Loans to affiliated undertakings	335,750	619,011	348,169	633,530
Investments in affiliated and associated undertakings				
Affiliated undertakings				
Shares and participations	351,503		298,329	
Associated undertakings				
Shares and participations	122,423		166,842	
Debt securities issued by, and loans to, associated undertakings	50,000	523,926	50,000	515,171
Other investments				
Shares	1,555,482		1,304,472	
Debt securities	434,523		617,739	
Loans guaranteed by mortgages	89,808		47,656	
Other loans	43,386		68,904	
Deposits with credit institutions	79,966	2,203,165	149,985	2,188,756
Deposits with ceding undertakings		30,759		258,212
		3,376,861		3,595,669
Debtors				
Arising out of direct insurance operations				
Policyholders		83,807		97,925
Arising out of reinsurance operations		154,757		212,189
Other debtors		113,241		106,802
		351,805		416,916
Other assets				
Tangible assets				
Equipment	18,446		15,117	
Other tangible assets	1,259	19,705	1,259	16,376
Cash at bank and in hand		103,824		42,795
		123,529		59,171
Prepayments and accrued income				
Interest and rents		18,236		34,824
Other		68,391		63,697
		86,627		98,521
		3,991,538		4,223,972

FIM '000

Dec. 31, 1997

Dec. 31, 1996

LIABILITIES**Capital and reserves**

Restricted

Subscribed capital

50,000

50,000

Legal reserve

199,850

249,850

199,850

249,850

Non-restricted

At the disposal of the Board

151

176

Profit brought forward

192,385

142,088

Profit for the financial year

248,058

440,594

130,297

272,561

690,444

522,411

Untaxed reserves

Accumulated depreciation difference

22,111

20,320

Optional reserves

Credit loss reserve

7,820

7,657

Transition reserve

0

7,820

5,293

12,950

29,931

33,270

Technical provisions

Provision for unearned premiums

157,183

455,946

Reinsurers' share

-10,429

146,754

-32,187

423,759

Claims outstanding

2,402,687

2,521,311

Reinsurers' share

-158,853

2,243,834

-188,257

2,333,054

Equalisation provision

531,229

520,908

Collective guarantee item

47,825

0

2,969,642

3,277,721

Deposits received from reinsurers

0

22,595

Creditors

Arising out of reinsurance operations

187,856

114,359

Pension loans

0

74,265

Other creditors

21,034

49,553

208,890

238,177

Accruals and deferred income

92,631

129,798

3,991,538

4,223,972

NOTES ON THE ACCOUNTS

Accounting Principles in the Industrial Insurance Group

The final accounts have been compiled in accordance with the Accounting Act, Companies Act and Insurance Companies Act and the instructions and regulations issued by the Ministry of Social Affairs and Health, the authority supervising the insurance business. Furthermore, provisions and recommendations concerning listed companies have been taken into account.

Consolidated Final Accounts

Industrial Insurance's Consolidated Final Accounts include the parent company Industrial Insurance Company Ltd, and all the subsidiaries in which the parent company either directly or indirectly holds more than half of the voting rights. The group companies and changes in group structure are presented in the Report by the Board of Directors.

Subsidiaries' final accounts have been integrated in the consolidated final accounts according to the parent company's accounting principles. The final accounts of overseas subsidiaries have been converted in essential areas to correspond to the accounting principles of the parent company.

Subsidiaries acquired during the financial year have been consolidated as from the day of acquisition, and the subsidiaries sold until the assignment day. Intra-group transactions, amounts due to or from group companies and profit shares have been eliminated. Parent company and sub-group Balance Sheet and Notes to the Accounts comprise items relating to the affiliated and associated undertakings of the main group, entered under investments in affiliated and associated undertakings, in income and charges thereof, and in amounts due to and from affiliated and associated undertakings.

The foreign life reinsurance portfolio of Industrial Insurance Company Ltd was transferred to Sampo Life Insurance Company Limited.

Intra-group cross-shareholdings have been eliminated by using the acquisition method. Part of the difference between the acquisition cost of shares in subsidiaries and their capital and reserves at the time of acquisition has been entered under subsidiaries' land and buildings, within the limits permitted by their current values. The unallocated part has been entered under consolidation difference.

The closing figures for subsidiaries have been converted into Finnish markka at the average rate quoted by the Bank of Finland on the date of closing the companies' accounts. Currency conversion differences resulting from changes in exchange rates, which have arisen from the elimination of cross-shareholdings, are shown under restricted capital and reserves due to their origin.

Foreign Currency Items

Currency-denominated receivables, investments in the nature of receivables and liabilities have been converted into Finnish markka at the average rate quoted by the Bank of Finland on the date of closing the companies' accounts. Other investments have been valued at the lower of the rate valid on the date of acquisition or the average rate quoted by the Bank of Finland on the date of closing the accounts.

Currency conversion differences relating to insurance business have been entered as adjustment items under income and expenditure. Currency conversion differences on receivables and investments and those that it has not been possible to allocate directly to an adjustment item under income and expenses, have been presented under investments, under the items Other income and Charges arising from other investments.

Valuation and Matching

Intangible assets have been entered in the Balance Sheet at acquisition cost less planned depreciation.

Real estate shares have been entered in the Balance Sheet at the lower of acquisition cost or current value. Buildings and structures are presented at the lower of acquisition cost less planned depreciation or current value. Certain book values of real estate and real estate shares include revaluations.

Stocks and shares in the nature of investments have been entered at the lower of acquisition cost or current value. They have been valued according to the average price principle. Stocks and shares in the nature of fixed assets have been presented at the lower of acquisition price or current value, if the value adjustment has been considered permanent. They have been valued on the FIFO principle.

Debt securities are considered to include bonds and money-market instruments. They have generally been entered in the Balance Sheet at acquisition cost. The difference between par value and acquisition cost of debt securities is accrued under interest income. The counter-item is the acquisition cost.

Receivables and investments in the nature of receivables are presented at the lower of par value or current value.

Derivative contracts are valued at their current value on the date of closing the accounts. The difference between the current value of a hedging derivative contract and a lower book value/contract rate is entered as income. However, the maximum amount entered is that which corresponds to the amount of the hedged balance sheet item entered as an expense. If the book value/contract rate exceeds the current value, the loss is entered at its full amount. The difference between the current value of derivative contracts not concluded for hedging purposes and a higher book value/contract rate is entered as an expense, and the possible valuation gain is not entered.

Revaluations and revaluation adjustments on investments in the nature of investment assets are entered with impact

on the result. Revaluations on investments in the nature of fixed assets and their reversals are entered in the revaluation reserve under restricted capital and reserves. If a fixed assets investment later becomes an investment asset, the funded revaluation is reversed.

Value adjustments which have been made earlier are readjusted up to the original acquisition cost if the current value increases.

The difference between the book value and the remaining acquisition cost of investments consists of revaluations and associated undertakings' adjustments made by using the past equity method.

Depreciation

A depreciation plan has been used to determine the depreciations of intangible assets, buildings, structures and their components, and equipment. Planned depreciations have been calculated as straight-line depreciations on the original acquisition cost using the following estimated useful lives:

Intangible rights	5 years
Goodwill	5 - 20 years
Consolidation difference	3 - 10 years
Other long-term liabilities	10 years
Residential and business premises and offices	40 - 50 years
Industrial premises and warehouses	30 - 40 years
Building components	10 - 15 years
Computer hardware, cars	5 years
Other equipment	10 years

Planned depreciation corresponding to the average useful life of buildings is made annually on the revaluations entered as income, and on the allocated consolidation difference arising from buildings in the nature of investments. No depreciations are made on the revaluations of property in the nature of fixed assets.

In the Profit and Loss Account, planned depreciation on equipment and capitalised ADP systems has been divided between activities. Planned depreciation on buildings is presented under investment charges, the decrease in nega-

tive consolidation difference under other income, and planned depreciation on consolidation difference and goodwill under other charges.

Accrued acquisition costs and depreciations according to plan relating to tangible and intangible assets which have been disposed of were depreciated during the financial year from fixed assets accounting. This had no impact on the result or Balance Sheet.

Current Values

The current values of investments in land and buildings have been fixed annually, as required by the Ministry of Social Affairs and Health. Each site is assessed separately, allowing for the net income earned, location and market situation. Both in-house and outside experts have assisted in the assessment.

No valuation differences on investments have been taken into account in the current values of shares in life insurance companies which are associated undertakings.

Shares in other group companies have been valued at net asset value. With respect to shares in associated undertakings, net asset value, a value based on the equity method, or acquisition price has been used as their current value.

Shares and debt securities which are quoted on official stock exchanges or which are otherwise publicly traded, are valued at the latest available closing price based on continuous trading or, if this is not available, at buying rate. The probable sales price of other shares and debt securities, e.g. based on net asset value or the undepreciated portion of acquisition cost, has been taken as their current value.

Loans, deposits with credit institutions, and deposits with ceding undertakings have been valued at the lower of par value or probable value.

Extraordinary Income and Charges

Exceptional, nonrecurring and significant transactions, unrelated to the ordinary business activities of Group companies, are shown under Extraordinary Income and Charges. The impact of changes in accounting principles and other changes affecting the whole industry are

also presented under Extraordinary Income and Charges. In the final accounts for 1997, e.g. the items relating to the formation of the collective guarantee item for non-life insurance are shown under extraordinary items.

Taxes

Taxes on ordinary activities and on extraordinary items are presented separately in the Profit and Loss Account. Where group companies are concerned, taxes for the year have been presented in a way corresponding to the accrual basis, that is, allocated to the accounting period. The taxes for the year include any taxes paid at source on income from foreign securities and deposits with ceding undertakings.

Avoir fiscal tax credit on dividend earned has been entered in dividends, under Investment Income. Dividends, guarantee capital interests and avoir fiscal tax credit are entered in the accounting period during which the decision on the distribution of profit was made. However, avoir fiscal tax credit sums exceeding the amount of income tax for the year will not be entered, if it is probable that the credit left unused can be used in setting off the income tax of future periods, with particular regard to the expectations for the financial year immediately following.

The avoir fiscal tax credit relating to dividends received from subsidiaries and associated undertakings is transferred in the Consolidated Profit and Loss Account as a deduction from the taxes for the year.

Untaxed Reserves and Treatment of Deferred Tax

The regulations concerning Finnish accounting and taxation practice allow certain voluntary untaxed reserves, and depreciation above plan having an impact on the result and taxation, to be made in the final accounts.

In the final accounts and key figures of the Group companies, deferred tax has not been deducted from the optional reserves and accumulated depreciation difference, nor from revaluations transferred to reserves and valuation differences on

investments. When the reserves are entered as income, or revaluations transferred to reserves and valuation differences are realised only to cover expenses, the deferred tax debt is not realised. Revaluations entered as income are taxable income. The tax rate is 28 per cent.

Technical Provisions

In calculating technical provisions, various methods are applied which involve assumptions on such matters as the settlement of claims, mortality, and yield on investments. Technical provisions are annually revised on the basis of assumptions and new data received. A change in the provision for outstanding claims is reflected in the balance on technical account by a change in the equalisation provision which is usually of opposite sign. If such changes have been made in the calculation principles for technical provisions which have an essential impact on the comparability of result or key figures with respect to the previous year, this has been stated in the Board of Directors' Report and in the analyses under notes on the accounts.

The surplus or deficit of the Group's provision for outstanding claims at the beginning of the year does not exceed five per cent in the final accounts of 1997 and 1996.

In calculating the provision for outstanding claims of other than pension claims, discounting has been applied to

a part of Patria Reinsurance Company Ltd's provision for outstanding claims in foreign reinsurance. These discounted technical provisions are mainly in USD and are covered by assets in the same currency. The assets have been estimated as sufficient to secure a profit exceeding the interest rate applied. The claims settlement period used in discounting is based on Group company statistics.

Part of the capitalised acquisition costs has been deducted from the provision for unearned premiums pertaining to foreign life reinsurance, which was transferred to Sampo Life at the beginning of the financial year, in such a manner that in each contract the estimated future net income exceeds the amount of capitalised acquisition costs.

Pension Schemes

For those employed by the Finnish group companies, statutory pension cover has been arranged in compliance with the Employees' Pensions Act, TEL. Additional pension cover for the personnel has also been arranged in the insurance companies. Pension insurance premiums have been entered in the Profit and Loss Account on the accrual basis.

Changes in the Accounting Principles

Exchange rate gains and losses on cash at bank, deposits, and money-market instruments denominated in foreign currencies have been added up and entered

under other income or charges arising from investments, depending on which of these items was larger. The figures of the year of comparison have been adjusted to correspond to the new practice.

The Ministry of Social Affairs and Health has issued new instructions which specify the so-called Principle of Fairness relating to life insurance, stipulated in the Insurance Companies' Act, Chapter 13, Section 3. The Principle of Fairness has an impact on how the valuation differences of a life insurance company are divided in the long run between the owners and policyholders, without creating to the individuals belonging to either of these groups a right to claim for the said assets. Since no final decision on the application of the Principle of Fairness has been made in the Group due to the merger of Sampo Life Insurance Company Ltd and Nova Life Insurance Company Ltd and the solvency requirements that will be further specified, valuation differences have not been taken into account in the the current value of their shares. The data of the year of comparison have been adjusted accordingly.

CALCULATION METHODS FOR THE KEY FIGURES

Turnover	Premiums earned before credit losses and reinsurers' share + investment income + other income + revaluations entered as income, realised in connection with sales
Solvency ratio	The ratio of solvency capital to premiums earned for 12 months (%)
Loss ratio	The ratio of claims incurred to premiums earned (%)
Expense ratio	The ratio of operating expenses to premiums earned (%)
Gross expense ratio	The ratio of operating expenses excluding reinsurance commissions to gross premiums written (%)
Combined ratio	Loss ratio + expense ratio (%)

INDUSTRIAL INSURANCE COMPANY LTD

KEY FIGURES

KEY FIGURES PERTAINING TO SOLVENCY

FIM '000	1997	1996
Capital and reserves after proposed profit distribution	630,444	482,410
Optional reserves and accumulated depreciation difference	29,931	33,270
Valuation difference between current value and Balance Sheet book value of assets	2,731,828	2,201,891
Intangible assets	-52,715	-53,695
Other items	0	-1,509
Solvency margin	3,339,488	2,662,367
Equalisation provision	531,229	520,908
Solvency capital	3,870,717	3,183,275
Solvency ratio	370.2 %	279.6 %
Ratio of equalisation provision to its full value	31 %	26 %

KEY FIGURE PERTAINING TO EFFICIENCY

Direct insurance gross expense ratio	9.4 %	10.1 %
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ANALYSES

GROSS PREMIUMS WRITTEN

FIM'000	1997	1996
Direct insurance		
Finland	1,050,270	1,024,100
EEA countries	5,718	427
Reinsurance		
Life reinsurance	21,190	95,705
Non-life reinsurance	196,856	362,118
Gross premiums written	1,274,034	1,482,350
Credit loss on premiums	358	-228
Premiums written before outward reinsurance premiums	1,274,392	1,482,122

Industrial Insurance Company Ltd

BALANCE ON TECHNICAL ACCOUNT BY GROUP OF INSURANCE CLASS

FIM '000							Combined ratio %
	1	2	3	4	5	6	7
Direct insurance							
Statutory workers' compensation							
1997	358,800	359,227	-387,223	-21,952	-167	-50,115	114
1996	368,446	368,329	-354,138	-23,789	-169	-9,767	103
1995	349,005	347,614	-396,212	-22,006	-148	-70,752	120
Non-statutory accident and health							
1997	49,930	49,923	-37,928	-4,381	-84	7,530	85
1996	39,162	39,015	-26,313	-4,182	-302	8,218	79
1995	47,519	47,508	-35,934	-3,855	-379	7,340	84
Motor third party liability							
1997	51,728	53,024	-53,340	-6,656	-56	-7,028	113
1996	50,214	50,975	-55,359	-9,663	-49	-14,096	128
1995	49,728	46,041	-50,240	-8,914	-45	-13,158	129
Motor, other classes							
1997	62,522	62,635	-56,361	-5,195	-63	1,016	98
1996	62,282	61,160	-55,475	-5,725	-135	-175	100
1995	61,199	60,018	-55,375	-5,284	-135	-776	101
Marine, aviation and transport							
1997	191,323	180,476	-95,996	-17,902	-21,548	45,030	68
1996	175,033	178,172	-117,592	-19,052	-26,953	14,575	88
1995	200,468	203,263	-124,500	-17,608	-17,480	43,675	68
Fire and other damage to property							
1997	242,785	241,953	-223,280	-33,208	-17,495	-32,030	126
1996	235,109	238,367	-180,296	-32,022	-20,381	5,668	95
1995	239,328	240,732	-191,162	-30,179	-9,203	10,188	92
Third party liability							
1997	98,280	98,120	-45,552	-10,529	-26,555	15,484	77
1996	93,932	92,435	-47,098	-9,635	-14,727	20,975	69
1995	86,266	85,704	-70,563	-8,877	-20,037	-13,773	123
Credit and suretyship							
1997	0	0	9	0	25	34	-
1996	0	0	81	0	7	88	-
1995	0	0	51	0	0	51	-
Legal expenses							
1997	354	358	-266	-43	0	49	86
1996	350	351	-197	-147	0	7	98
1995	410	412	-352	-135	0	-75	118
Miscellaneous							
1997	266	266	-155	-363	-186	-438	-
1996	-1	-1	8	-258	-15	-266	-
1995	155	155	-22	-238	-121	-226	-
Direct insurance in total							
1997	1,055,988	1,045,982	-900,092	-100,229	-66,129	-20,468	102
1996	1,024,527	1,028,803	-836,379	-104,473	-62,724	25,227	97
1995	1,034,078	1,031,447	-924,309	-97,096	-47,548	-37,506	105

FIM '000							Combined ratio %
	1	2	3	4	5	6	7
Reinsurance							
1997	218,046	265,896	- 265,877	- 70,122	- 13,107	- 83,210	145
1996	457,823	367,723	- 301,373	- 130,361	- 5,971	- 69,981	123
1995	357,595	375,768	- 319,993	- 99,428	- 31,318	- 74,971	127
Total							
1997	1,274,034	1,311,878	-1,165,969	- 170,351	- 79,236	- 103,678	110
1996	1,482,350	1,396,526	-1,137,752	- 234,834	- 68,695	- 44,754	104
1995	1,391,673	1,407,215	-1,244,302	- 196,524	-78,866	- 112,477	110

Balance on technical account before the change in equalisation provision

1997	- 103,678
1996	- 44,754
1995	- 112,477

Change in equalisation provision

1997	- 15,073
1996	- 157,904
1995	- 66,528

Balance on technical account

1997	- 118,751
1996	- 202,658
1995	- 179,005

In the balance on technical account by group of insurance class for 1995, the change in technical provisions related to previous years that results from the change in accounting principles has not been taken into account.

Columns:

- 1 = Gross premiums written before credit loss and reinsurers' share
- 2 = Gross premiums earned before reinsurers' share
- 3 = Gross claims incurred before reinsurers' share
- 4 = Gross operating expenses before reinsurance commissions and profit participation
- 5 = Reinsurance balance
- 6 = Balance on technical account before the change in equalisation provision
- 7 = Combined ratio

Industrial Insurance Company Ltd

EXPENSES BY ACTIVITY

FIM '000	1997		1996	
Claims settlement expenses				
Directly allocated	3,704		3,626	
Share of fixed costs	40,535	44,239	29,272	32,898
Operating expenses				
Policy acquisition costs				
Direct insurance commissions	803		505	
Commissions on reinsurance assumed	46,835		111,655	
Other policy acquisition costs	24,527	72,165	21,628	133,788
Policy management expenses		59,574		44,259
Administrative expenses		38,612		56,785
Commissions on reinsurance ceded		-47,803		-34,119
		122,548		200,713
Investment management expenses				
Directly allocated *	21,873		24,666	
Share of fixed costs	3,374	25,247	3,426	28,092
Other charges		7		5
Change in deferred policy acquisition costs included in the change in the provision for unearned premiums		0		1,938

* Comprises management expenses for land and buildings and maintenance charges.

DEPRECIATION ACCORDING TO PLAN

FIM '000	1997		1996	
Depreciation according to plan by activity				
Claims paid	2,316		4,153	
Operating expenses	7,187		6,738	
Investment charges	0	9,503	0	10,891
Buildings		4,239		4,084
Goodwill		9,125		9,125
		22,867		24,100

Industrial Insurance Company Ltd

NET INVESTMENT INCOME

FIM '000	1997	1996
INVESTMENT INCOME		
Income from investments in affiliated undertakings		
Dividend income	6	0
Income from investments in associated undertakings		
Dividend income	8,566	20,169
Interest income	3,825	12,391
Income from investments in land and buildings		
Interest income from affiliated undertakings	24,264	25,622
Other income from affiliated undertakings	9,981	8,196
Other income from other than affiliated undertakings	49,097	83,342
Income from other investments		
Dividend income	124,588	96,118
Interest income from affiliated undertakings	2,324	2,112
Interest income from other than affiliated undertakings	74,270	91,533
Other income from affiliated undrtakings	6,234	0
Other income from other than affiliated undertakings	48,891	256,307
Total	352,046	323,453
Value readjustments	2,068	61,432
Gains on realisation of investments	224,623	114,685
Investment income in total	578,737	499,570
INVESTMENT CHARGES		
Charges arising from investments in land and buildings	-63,320	-63,614
Charges arising from other investments	12,087	-30,353
Interest and other expenses on liabilities to affiliated undertakings	-716	-921
Interest and other expenses on liabilities to other than affiliated undertakings	-1,700	-4,033
Total	-53,649	-98,921
Value adjustments and depreciations		
Value adjustments	-50,731	-3,192
Planned depreciation on buildings	-4,239	-4,085
Losses on realisation of investments	-406	-464
Investment charges in total	-109,025	-106,662
Net investment income before unrealised gains and losses on investments	469,712	392,908
NET INVESTMENT INCOME IN THE PROFIT AND LOSS ACCOUNT	469,712	392,908
Avoir fiscal tax credit included in income from dividends	37,285	29,118
Items included in other income and charges from other investments		
Exchange rate gains	54,208	26,096
Exchange rate losses	777	3,938

Industrial Insurance Company Ltd

MAJOR SHAREHOLDINGS

Name of company	Votes %	Book value FIM '000	Current value FIM '000
PUBLIC COMPANIES			
Banking and finance			
Merita Ltd	0.24	28,951	56,022
Investment			
Interavanti Oy	2.08	1,642	1,642
Transport and traffic			
Finnair Oyj	1.33	24,504	48,400
Finnlines Ltd	5.13	15,336	217,000
Silja Oy Ab	6.33	31,732	31,732
Trade			
Kesko Ltd	—	17,682	25,860
Oy Stockmann Ab	1.50	19,928	74,975
Metal industry			
Fiskars Oyj Abp	2.13	16,992	79,742
KCI Konecranes International Plc	0.27	2,720	7,200
Kone Corporation	0.28	24,640	32,010
Metra Corporation	3.74	74,162	201,548
Outokumpu Oyj	0.19	16,106	16,106
Partek Corporation	5.26	140,541	216,804
Rauma Oy	0.98	44,260	44,260
Rautaruukki Oy	1.12	60,484	65,532
Santasalo-Jot Oy	1.94	5,053	16,480
Valmet Corporation	1.25	67,144	73,320
Forestry			
Enso Oyj	2.76	114,398	159,980
Metsä-Serla Corporation	3.92	43,714	66,584
UPM-Kymmene Corporation	1.86	180,043	549,033
Conglomerates			
Aspyhtymä Oy	2.18	16,040	23,000
Oy Hackman Ab	0.18	4,029	6,474
Instrumentarium Corporation	0.13	2,566	3,800
Energy			
Espoon Sähkö Oyj	3.15	34,217	59,400
Food industry			
Cultor Corporation	4.82	97,631	227,920
Oy Hartwall Ab	0.15	5,442	26,460
Huhtamäki Oy	2.74	47,374	79,935
Construction industry			
Polar Corporation	0.65	3,728	3,728
Data communications and electronics			
Elcoteq Network Corporation	0.11	9,309	9,309
Helsinki Telephone Corporation	0.11	17,078	24,771
Nokia Corporation	2.88	125,074	1,131,000

Name of company	Votes %	Book value FIM '000	Current value FIM '000
Chemical industry			
Asko Oyj	0.28	9,602	9,700
Kemira Oyj	1.15	69,211	76,220
Neste Group	0.56	45,406	72,600
Media and publishing			
Aamulehti Group	3.43	41,477	44,260
Other industry			
Nokian Tyres Limited	0.98	3,600	17,300
Tamfelt Corporation	5.01	7,040	64,488
WARRANTS			
Oy Stockmann Ab	—	8,077	8,077
OTHER SHARES			
Björkboda Lås Oy Ab	12.25	1,225	3,105
MTV Group	0.84	9,025	9,025
Kustannusosakeyhtiö Otava	3.46	10,507	12,701
Oy Radiolinja Ab	1.90	2,532	2,532
Oy Realinvest Ab	2.33	20,160	20,696
Sato-Yhtymä Oy	3.42	12,156	32,822
Suomen Kantaverkko Oyj	0.67	5,000	5,000
Suomen Urheilupuiston Kannatusosakeyhtiö	12.47	1,776	1,776
Vasa-Sijoituskiinteistöt Oy	5.00	5,000	5,000
Kiinteistövarma Oy	18.52	206	206
Radiolinja Eesti As	—	1,589	1,589
Sampo Life Insurance Company Ltd*	33.33	53,175	54,676
Rakennus Oy Leo Heinänen*	20.00	1,920	1,920
Kaleva Mutual Insurance Company**,**	5.00	5,080	6,000
Nova Life Insurance Company Ltd*	25.00	60,000	132,832
Unsa Ltd*	9.74	55,373	79,412

* Associated undertaking

** Share of guarantee capital

AUDITORS' REPORT

To the Shareholders of Industrial Insurance Company Ltd

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the Managing Director of Industrial Insurance Company Ltd for the financial year 1997. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets, statement of changes in the financial position, and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on the company's administration.

The undersigned Jaakko Nyman has scrutinised the accounts for the financial year and submitted a separate report thereon.

We have conducted the audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of administration has been to examine that the Board of Directors and the Managing Director have legally complied with the rules of the Insurance Companies Act and the Finnish Companies Act.

In our opinion, the final accounts have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the profit is in compliance with the Finnish Companies Act.

Helsinki, March 24, 1998

Eric Haglund
Authorised Public Accountant

Jaakko Nyman
Authorised Public Accountant

(KPMG)

(Translation of a Finnish Original)

INDUSTRIAL INSURANCE ADMINISTRATION AND AUDITORS

January 1st, 1998

BOARD OF DIRECTORS

Chairman

Jouko K. Leskinen
President and CEO
Sampo Group



Jouko K. Leskinen



Mikko Kivimäki

Vice Chairman

Mikko Kivimäki
Chairman and President, CEO
Rautaruukki Oy



Heimo Karinen



Björn Mattson

Heimo Karinen
Chairman and CEO
Kemira Oyj

Björn Mattsson
President and CEO
Cultor Corporation

Kurt Nordman
Chairman and CEO
Helsinki Telephone Corporation



Kurt Nordman



Timo Poranen

Timo Poranen
President
Finnish Forest Industries Federation

AUDITORS

Auditors

Jaakko Nyman
M.Sc.(Econ), Authorised Public Accountant,
Supervising Auditor

Eric Haglund
B.Sc.(Econ), Authorised Public Accountant

Deputy Auditors

Thor Nyroos
B.Sc.(Econ), Authorised Public Accountant,
Deputy Supervising Auditor

Authorised Public Accountants KPMG Wideri Oy Ab

EXECUTIVE GROUP



Juha Toivola



Juha Ettala



Kirsti Fagerström

Managing Director

Juha Toivola

Senior Vice President

Juha Ettala

Claims Settler

Kirsti Fagerström,
Staff Representative

Vice President

Kristian Ignatius

Senior Vice President

Seppo Juutilainen

Vice President

Pentti Järvikare

Manager, Claims Settlement

Sirpa Kukkonen,
Staff Representative

Senior Vice President

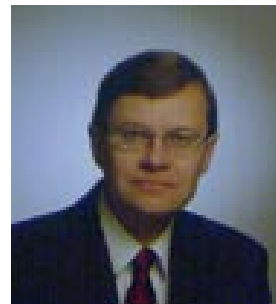
Reijo Kämäräinen

Actuary

Martti Pesonen



Kristian Ignatius



Seppo Juutilainen



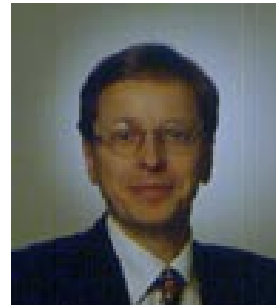
Pentti Järvikare



Sirpa Kukkonen



Reijo Kämäräinen



Martti Pesonen

SAMPO GROUP MAJOR ACCOUNTS SERVICES

Industrial Insurance Company Ltd
Otso Loss of Profits Insurance Company Ltd
Insurance Company of Finland Limited
Sampo Industrial Insurance N.V.
Sampo Industriförsäkring AB
Sampo Group Representative Office in St. Petersburg

Juha Toivola, Managing Director
Juha Toivola, Managing Director
Antti Savolainen, Managing Director
Eero Holma, Managing Director
Matti Rattik, Managing Director
Pirjo Myyryläinen, Manager

MAJOR ACCOUNTS SERVICES OPERATIONAL ORGANISATION APRIL 1, 1998

Management

Juha Toivola
Juha Ettala
Eero Holma
Seppo Juutilainen
Reijo Kämäräinen
Anders Nordman

Risk Management and Industries

Juha Ettala,
Senior Vice President *Loss Prevention*
Anna Maria Vähäkuopus *Loss Prevention Development*
Yngve Nygårdas *Forest Industry*
Kari Rämä *Forest Industry*
Björn Sjöberg *Chemical Industry*
Timo Virtanen, ad int. *Metal Industry*
Pekka Pitkämö *Power Generation*
Juhani Laaksonen *Commercial and Other Risks*
Yrjö Somersalmi *Marketing*
Juha Ettala, ad int. *Brokers*
Ilkka Ilmonen *New Products*
Lars von Hertzen *Captive Services/FinnCap*

International Lines

Reijo Kämäräinen,
Senior Vice President
Peter Granqvist *Loss of Profits Insurance*
Timo Virtanen *Property Insurance*
Esbjörn af Hällström *Liability Insurance*
Harri Ek *Marine Insurance*

Domestic Lines

Seppo Juutilainen,
Senior Vice President
Kristian Ignatius *Workers' Compensation Insurance*
Klaus Berg *Company Vehicle Insurance*
Jorma Erikäinen *Private Insurance*
Antti Savolainen *Credit Insurance*

Reinsurance and International Networks

Anders Nordman,
Vice President *Ceded Reinsurance*
Hans von Hertzen *Global Risks*
Antti Perttu *International Networks*

Overseas Units

Eero Holma,
Managing Director

COMMITTEES 1998

Non-Life Insurance Committee

Henrik Arle
Executive Vice President, CFO
Finnair Oyj

Finn Berg
Executive Vice President
Oy Rettig Ab

Hans Olof Danielsson
Vice President
Oy Karl Fazer Ab

Kari Haavisto
Chief Financial Officer
Metsäliitto Group

Tapio Hakakari
Director, Administration
KCI Konecranes International plc

Heikki Horstia
Senior Vice President,
Corporate Treasurer
Metra Oy Ab

Olli Härmänmaa
Deputy General Manager
Postipankki plc

Mauri Jaakonaho
Executive Vice President, CFO
Member of the Board
Valmet Corporation

Juhani Kari
Executive Vice President
Kemira Oyj

Kim Karvinen
Senior Vice President
Oyj Partek Abp

Veikko Kasurinen
Senior Vice President, CFO
Member of the Board
Alko Group Ltd.

Teljo Kolkka
Group Business Controller
Oy Hackman Ab

Matti Krannila
Managing Director
Oy Pohjolan Liikenne Ab

Jukka Kähkönen
Risk Manager
Enso Oyj

Veikko Lehtinen
Deputy President
Executive Board Member
Outokumpu Oyj

Erkki Luhta
Senior Vice President
ABB Oy

Pekka Luukkainen
Executive Vice President
PT Finland Ltd.

Heikki Marttinen
Chairman and CEO
Imatran Voima Oy

Kai Miesmäki
Executive Vice President
Tamrock Corporation

Matti Mustaniemi
Vice President, Finance
Wihuri Oy

Jorma Mäkinen
Vice President, Financial Control
UPM-Kymmene Corporation

Antti Norrlin
Managing Director
Koiviston Auto Oy

Jorma Niilola
Vice President, Group Treasurer
Cultor Ltd.

Karl-Erik Palin
Vice President,
General Counsel
A. Ahlstrom Corporation

Erkki Ripatti
Managing Director
Tampere Telephone Company

Heikki Rätty
Financial Director, CFO
Myllykoski Oy

Markku Sirén
Financial Director
Oy Hartwall Ab

Pekka Soveri
Finance Director
Oy G.W. Sohlberg Ab

Per-Olof Söderlund
Financial Director
Asko Group

Erkki Tavi
Administrative Director
Saarioinen Oy

Maija Torkko
Senior Vice President,
Finance and Control
Nokia Corporation

Esko Tulikoura
Senior Vice President,
Business Administration
Skanska Oy

Veikko Vaikkinen
Finance Director
VR-Group Ltd.

Seppo Viitanen
Corporate Vice President, Finance
Neste Oy

Marine Insurance Committee

Thomas Alopaeus
Director, Member of the Board
Hollming Shipping Oy

Touko Antola
Vice President, Corporate Purchasing
Metsä-Serla Oyj

Matti Elovirta
International Transport
Holding Manager
NK Cables Oy

Kaj Engblom
Managing Director
Rederi Ab Engship

Kaj Eriksson
Managing Director
Oy Rettig Ab Bore

Rolf G. W. Eriksson
President
Transfennica Ltd.

Jukka Liimatainen
Director
Kemira Oyj

Pekka Loikkanen
Corporate Risk Manager
Nokia Corporation

Kari Lounasmeri
Financial Director
Oy Helvar Merca Group Ab

Ben Lundqvist
Managing Director
Lundqvist Rederierna

Antti Malinen
Transport Manager
Finnforest Oy

Sverre Norrgård
Managing Director
Myllykoski Paper Oy

Kari Nurmela
Manager, Forwarding and
International Transports
Kesped Oy

Nils-Gustav Palmgren
Managing Director
Neptun Juridica Oy Ab

Jussi Sarvikas
Vice President, Logistics
UPM-Kymmene Corporation

Juha Silvanto
Managing Director
Steveco Oy

Jukka Suominen
President, Group CEO
Silja Oy Ab

Lars Trygg
Vice President
Finnlines Ltd.

Erkki Tuominen
Chief Financial Officer
PT Finland Ltd.

Hans Westö
Vice President, Finance
Wärtsilä Diesel Oy

Erik Yrjölä
Managing Director
Oy JIT-Trans Ltd

Accident and Industrial Safety Committee

Olli Ahola
Vice President, Corporate Personnel
Metra Corporation

Lauri Ihalainen
President
Central Organization of Finnish Trade
Unions

Juha Kivinen
Senior Vice President
Finland Post Ltd

Lasse Laatumen
Director
Confederation of Finnish
Industry and Employers

Per-Erik Lundh
President
The Finnish Metal Workers' Union

Jarmo Lähteenmäki
President
Finnish Paper Workers' Union

Pasi Merikalla
Senior Vice President,
Personnel and Administration
Kvaerner Masa Yards Inc.

Harry Mildh
Consul General

Mauri Moren
Deputy Managing Director
Finnish Forest Industries' Federation

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INDUSTRIAL INSURANCE