

ANNUAL REPORT 1999



Annual Accounts

Varma-Sampo's Annual Accounts for 1999 are available at the company's headquarters at Annankatu 18, Helsinki.

Annual General Meeting

Varma-Sampo Mutual Pension Insurance Company Annual General Meeting will convene on April 13th, 2000 at 3pm at Marina Congress Center, Helsinki.

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Illustration by Mika Launis

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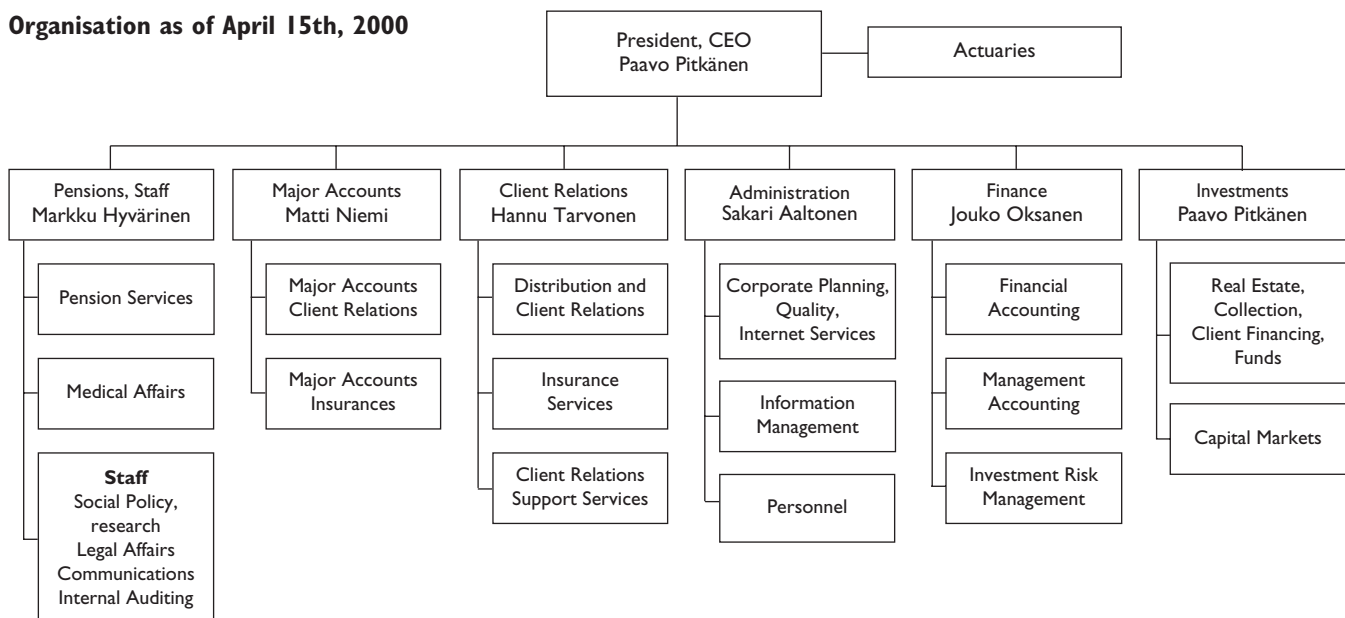
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VARMA-SAMPO IN BRIEF

Varma-Sampo is a mutual pension insurance company, owned collectively by its policyholders and the insured. The company provides statutory earnings-related pension insurances and related supplementary services for its clients, comprising companies and self-employed persons as policyholders, and employees and retired persons as the insured. Varma-Sampo has a co-operation relationship with the Sampo Group.

Highlights	1999	1998
Premiums written, FIM billion	12.3	11.8
Pension payments, FIM billion	11.4	10.7
Net return on investment at current values, %	11.4	9.3
Technical provisions, FIM billion	82.8	75.8
Solvency margin, FIM billion	19.4	12.5
Solvency, %	27.3	18.9
Lower limit of target zone, %	17.5	14.0
Investments at current values, FIM billion	87.5	76.6
Loans	9.5	11.2
Bonds	41.0	36.5
Money-market instruments	5.9	7.8
Equities	18.8	9.6
Real estate	12.2	11.5
Policyholders at Dec. 31st	62,000	61,000
Insured persons at Dec. 31st	419,000	403,000
Pensioners at Dec. 31st	260,000	250,000
Personnel (see page 45 for key figures)	601	571

Organisation as of April 15th, 2000



THE PENSION AS A PART OF SOCIAL SECURITY

Finnish social security is there to guarantee an income and health provision for all citizens. Social security encompasses social insurance, social welfare and a range of other social benefits, including child benefit and healthcare services.

In Finland, social security divides into basic income security and earnings-related income security. The former exists to guarantee every citizen an adequate minimum income, whereas the latter ensures individuals maintain a reasonable degree of the level of consumption attained during their active working life.

For most Finns, the source of income is salary earned and the main threat to that is posed by a loss of working capacity, due to illness or (possibly permanent) long-term disability. Loss of employment or the death of a family breadwinner may also change the financial situation.

The Finnish insurance business distinguishes between private and social insurances. The former refers to insurance underwritten directly by the insurance company to the insured whereas the latter - mandatory or voluntary - is regulated by or directly based on legislation.

Social insurance has its roots in mutual assistance, benefit societies and other social welfare and relief activities. The first Finnish pension legislation to cover the whole population was the National Pension Act of the late 1930s. Following the conversion of the national pension to a flat-rate benefit in the 1950s, the wage-earning population in particular started to call for a supplementary pension system. A committee was set up in response to these demands, and the first Finnish legislation on earnings-related pensions came into effect in 1962. Implementation of the new laws was entrusted to insurance companies and pension funds and foundations.

The major form of social insurance

Measured in terms of payments, pension insurance is the major form of social insurance. Its function is to afford protection during old age

and in cases of disability, long-term unemployment or the death of a family breadwinner. Finnish social security expenditure stood at around FIM 80 billion in 1998 (27% of GDP), 42% of which was spent on pensions.

Pension insurance in Finland serves three different purposes. The national pension guarantees an adequate minimum income, an earnings related pension compensates the loss of earnings on retirement and personal pensions supplement any of these. The national pension becomes payable to those who accrue none or a low earnings-related pension.

The National Pension Act covers all Finnish residents aged 16 or over. The earnings-related pension accrues from contributions made during a person's active working life. Employees receive only part of their total earnings as salary; the remainder is payable later as pension.

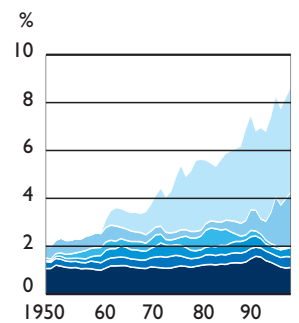
The majority of private sector employees is insured under the Employees' Pensions Act (TEL). Other pension legislation for the private-sector comprises the Temporary Employees' Pensions Act (LEL), Self-Employed Persons' Pensions Act (YEL) and the Pensions Act for Performing Artists and Certain Other Employee Groups (TaEL). Farmers and seamen are covered by specific legislation, i.e. the Farmers' Pensions Act (MYEL) and the Seamen's Pensions Act (MEL).

Public sector employees are covered by the State Employees' Pensions Act (VEL), Local Government Employees' Pensions Act (KvTEL) or the Evangelical-Lutheran Church Pensions Act (KiEL).

The largest pension company in Finland

Varma-Sampo provides statutory earnings related pension insurance under TEL and YEL legislation. There were five other companies in competition with Varma-Sampo at the end of 1999. There were also 8 industry-wide pension funds and 37 company funds providing statutory earnings-related pension insurance.

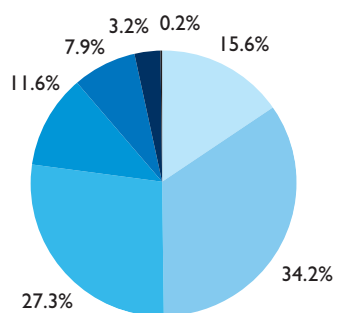
TRENDS IN THE INSURANCE BUSINESS
Premium income as a percentage of GDP



- Statutory employees' pension insurance
- Life insurance and other pension insurances
- Foreign insurance
- Motor liability insurance
- Statutory employees' compensation
- Voluntary non-life insurance

Source: Federation of Finnish Insurance Companies

MARKET SHARES IN 1998
TEL AND YEL INSURANCE



- Pension funds and foundations
- Varma-Sampo
- Ilmarinen
- Pension-Tapiola
- Pension-Fennia
- Pension-Verdandi
- Pensions-Alandia

Total: FIM 34,550 million

Source: Federation of Finnish Insurance Companies

CEO'S REVIEW

Varma-Sampo concluded its first complete year of business with a satisfactory result. The company's operational launch proceeded smoothly after the extensive restructuring of the year before. We met fresh opportunities with wholehearted commitment to improve solvency and consolidate our position as Finland's largest and leading earnings-related pension insurer.



Around 420,000 Finns were insured in Varma-Sampo at the end of the year under review. The company's premium income rose by 4.6% to stand at FIM 12.3 billion, and net return on investment at current values was around 11%. The solvency margin increased to FIM 19.4 billion. Varma-Sampo's investment portfolio was valued at FIM 87.5 billion at the year-end.

We issued more than 35,000 pension grants in 1999. Pensions handling efficiency was impacted by office relocation and the need to adjust to new systems at the beginning of the year, while training programmes also increased personnel loading. Despite their busy schedules, our staff had streamlined handling operations significantly by the year-end. An extensive project was initiated to further speed the claims settlement process, which will produce tangible results within the coming years.

A good year for investments

Conditions for investment activities were somewhat unusual in 1999, with interest rates rising more strongly than could have been anticipated. Profits from bond investments at current values were therefore marginally negative but outperformed the market benchmark.

Stock market development was rather inconsistent. The Helsinki Stock Exchange (HEX) rose steadily until the beginning of October, mainly due to healthy trading in technology and forest industry shares. IT equities performed particularly well, with shares in established companies experiencing strong growth. Shares in small, new-tech companies were extremely buoyant, and especially those that had recently completed their IPO. The market value of these companies jumped tenfold over turnover, but few are likely to fulfil their implied growth and profitability expectations.

The return on Varma-Sampo's equities portfolio exceeded 60% at current values to outperform the HEX portfolio index.

The fundamental provision of pension cover

Society has assigned two key responsibilities to earnings-related pension companies: to provide statutory earnings-related pension cover for private sector employees and maintain and grow assets collected for this purpose.

When a pension is granted, it must be done carefully and with respect to extant legislation and other regulations; the applicant's long-term livelihood is at stake. The insurance systems involved should be as straightforward as possible from the policyholder's perspective.

Rising contributable assets combined with capital markets opening up in recent years has placed greater emphasis on secure and successful investment practices for earnings-related pension funds. Net ROI levels have been substantial in earnings-related pension companies for six consecutive years now. Real volatility in net investment income has varied between six and ten percent, enabling strong growth in premium discounts that take the form of bonuses for clients. Since earnings-related pension premiums are under considerable pressure to show long-term growth, it may arguably be imprudent to refund significant amounts of premiums already paid.

In this context, I wish to restate an opinion expressed in last year's review: profits as large as these cannot be maintained indefinitely. Long-term scenarios for earnings-related pension schemes estimate that true average profit is running at no more than three percent. Effective investment operations can clearly sustain equivalent or greater long-term growth in profits and this is Varma-Sampo's stated goal.

Substantial social responsibility

A considerable proportion of any country's national assets is entrusted to earnings-related pension companies for their safe-keeping and growth. The companies must therefore operate on ethically sound principles. Varma-Sampo's Supervisory Board established such principles for the allocation of investment funds last May, and the Board of Directors issued instructions that for instance limit securities' trading rights for operators working close to investment activities.

We also initiated value processes that stress personnel teamwork combined with personal responsibility for all.

Co-operation with the Sampo Group

Sampo Insurance Company plc announced its intention last October to merge with Leonia plc. This brings together a bank and an insurance company for the very first time in Finland, so creating a financial services group able to provide an increasingly broad and versatile range of services.

Co-operation with the new group will expand Varma-Sampo's market contacts with both current and new clientele. In particular, we shall be able to supply services to SME clients through Sampo's office network.

Competition increases efficiency

The Finnish Ministry of Social Affairs and Health appointed

analysts in December 1998 to examine the competitive environment in statutory earnings-related pension provision. The aim was to spread competition in support of a decentralised system and increased productivity for earnings-related pension assets. The resulting proposals constitute a constructive step forward.

Competition regulations regarding the domestic statutory earnings-related pension scheme have altered little during its 40-year history. But circumstances have changed, not least in the growth of earnings-related pension companies' investment assets. It is almost impossible under current solvency requirements to establish, for instance, a new earnings-related pension company, foundation or fund; the transfer of insurances from one company to another is financially extremely unfavourable.

Analysts also draw attention to the increasing complexity of the statutory earnings-related pension scheme. Mastering all its aspects is a challenge even for the experts, and that very complexity reduces the system's credibility.

If earnings-related pension legislation were written today to comply with contemporary circumstances, it would be considerably simpler, containing far fewer statutes.

Favourable outlook

Varma-Sampo will continue to take future-term responsibility for the implementation of the earnings-related pension scheme. This entails continuous assessment of the durability of earnings-related pension provision.

That provision is well placed at the start of the new millennium. Strong, long-term financial growth and favourable investment markets have deepened the financial and operational base for companies in this field. This creates opportunities to make major future profits on the assets entrusted to the scheme.

Better than anticipated financial growth has relieved strain on the level of pension premiums to be paid. The available prognoses indicate there is no reason why current average premium levels should not be sustained for several years to come. There is also technically feasible potential for a drop in premiums. Those planning even a short-term decrease should, however, keep in mind the clear need for a long-term rise in the premium level.

I wish to thank Varma-Sampo clients and other interest groups for the confidence they continue to show in the company. At the same time, I am happy to take this opportunity to thank all personnel for their excellent performance.

Paavo Pitkänen

FURTHER REFORMS OF THE STATUTORY EARNINGS-RELATED PENSION SCHEME

The last year of the old millennium was exceptional for the Finnish statutory earnings-related pension scheme, in that only minor amendments were made to pension provisions. The new millennium will bring with it many reforms.



Markku Hyvärinen is Chairman of the Varma-Sampo Consultative Committee for Pension Affairs. The committee met eleven times during 1999.

Labour market organisations and the Finnish State reached agreement in Summer, 1999 on a pension reform package that constitutes a highly comprehensive and balanced entity. The new provisions reflect the common goals of Finnish society, to ensure that working capacity and job motivation for the older generation is sufficient to keep older-aged workers in the labour force. Decisions directed towards that goal naturally carry important implications for employers and employees alike.

Rehabilitation as an agent for change

The breakthrough of rehabilitation as a change agent was witnessed as early as the 1980s, and has played a key role in working life ever since.

Steps to promote working capacity have been implemented at the workplace and significant progress has been made in achieving the goals set. The resulting situation nevertheless remains unsatisfactory in terms of the efficiency and scope of the rehabilitation efforts being made.

When agreement on the reform package was reached, it was also decided that the promotion of rehabilitation would continue. The most tangible result to date has been an initiative to focus on the vocational rehabilitation of workers aged 58 to 59. They will be offered an opportunity to undergo rehabilitation assessment and may, depending on the findings, be referred either to vocational or medical rehabilitation.

Varma-Sampo took the initiative two years ago to run an experimental rehabilitation project in co-operation with clients in Oulu and Helsinki, along with the university hospitals and rehabilitation institutions in the two regions. The aim of this pilot is to ensure that problems are dealt with on the job, at the workplace and as soon as they arise. The project outcomes are being compiled in Spring, 2000 and a research report will be produced by the Autumn. The project is expected to generate fresh ideas and new tools to enhance the role of rehabilitation as a serious alternative to premature retirement.

Unemployment pension rights adjusted

Some highly radical proposals concerning the future of the unemployment pension were debated by the working group drafting the reform. It was nevertheless decided to leave the qualifying age for the pension unchanged.

However, a decision was made that the unemployment pension would no longer be projected to retirement age. The resulting loss of pension rights will be four percentage points at most. That fact that there is no longer a mandatory provision that someone retiring on an unemployment pension automatically qualifies for

a full projection of rights up to the retirement age, has meant that pension entitlement was extended to a new segment of unemployed persons. Some of these had applied for and been refused a pension under the former regulations. Estimates indicate that just under 2,000 unemployed workers aged 60 or over may now apply retroactively for a pension from the beginning of the year 2000. Varma-Sampo has notified its own clients of this right.

It was decided at the same time that the temporary legislation on unemployment pension rights be made permanent. The Act stipulates that an unemployed worker aged 55 or over may not work for a period of more than 10 months without loss of pension rights, until they have spent 500 days receiving unemployment benefit.

The unemployment pension experience rating for large-scale employers was raised from 50 to 80 per cent; their disability pension rating was simultaneously lowered from 100 to 80 per cent.

Experimentation continues

It was decided that the new provision for the lower qualifying limit for part-time pension entitlement would remain at 56 years of age to the end of 2002, and the new provisions have already made the pension more popular. Since no specific results are as yet available from the experiment, however, it has not been possible to ascertain whether the part-time pension has really developed into an alternative to the individual early retirement or disability pensions.

Some commentators have suggested that the part-time pension is now taken up by active 56-year olds in good health, who would otherwise have continued to make a full contribution to working life until retirement age. But preliminary data on retirement behaviour has demonstrated that retirement on a part-time pension seems to be fairly evenly distributed across different occupational categories, provided that arrangements for part-time employment can be

made at the workplace.

On-going legislative changes

When the individual early retirement pension was first introduced, the qualifying age was set at 55, which was something of a sensation at the time. That has since been raised twice and now stands at 60 years of age. Those born in or before 1943 are still entitled to take the pension at the age of 58. This pension benefit has become markedly less attractive during the past few years, a fact clearly reflected in the number of applications falling from their peak level.

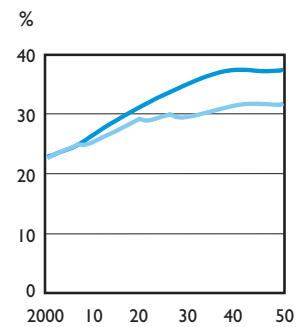
Provisions governing the early old age pension were so revised that the overall reduction in pension remuneration, based on the number of months the pension was taken early, was lowered from 0.5 to 0.4 percentage points. As a result, the loss of pension rights for someone retiring at age 60 will stand at a maximum of 24 per cent, as against 30 per cent before. On the other hand, the increase in entitlement earned by deferring the pension beyond retirement age, will be reduced from 1.0 per cent to 0.6 per cent, based on the total number of months deferred.

More improvements lie ahead

Collective bargaining negotiations have been decentralised to union level and no new changes of policy are foreseen. It appears on the whole that decisions being made on pensions have fallen out of step with salary negotiations.

The report delivered on the investigation into competition in statutory earnings-related pension provision will be a topic of discussion throughout this year, and the debate on the financing of statutory earnings-related pensions and other social security benefits will continue. The fact that development work is expected to continue throughout the year and decisions will be taken as and when necessary is considered a positive outcome.

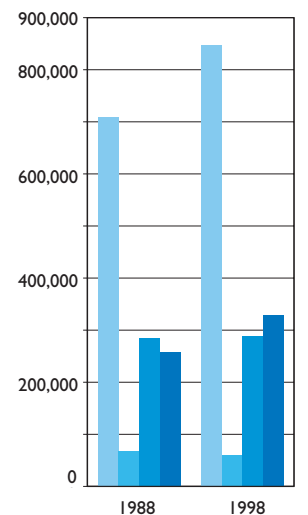
IMPACT OF A RISING RETIREMENT AGE ON PENSION EXPENSES



■ Average forecast
■ 3-year delay

Source: Central Pension Security Institute

BREAKDOWN OF PENSIONS BY TYPE



■ Old-age pension
■ Unemployment pension
■ Disability pension
■ Other*

* Survivors' pension, veteran's pension and veteran's early retirement pension, part-time pension, change-of-generation and farm closure pension

Total 1988: 1.16 million
Total 1998: 1.25 million

A pensioner may receive several types of pension benefit simultaneously.

Source: Statistics Finland

PROMOTION OF WORKING CAPACITY AS AN ELEMENT OF RISK MANAGEMENT

Disability pension payments in Finland totalled FIM 8.7 billion in 1999, a huge sum. The disability pension also makes a significant contribution to retirement provision in some respects, however, inasmuch as it ensures an income for life for someone suffering from a serious illness or who has been injured in an accident.



Sakari Tola acts as Senior Physician at Varma-Sampo and oversees the activities of the company's expert physicians.

The earnings related statutory pension guarantees that an employed or self-employed worker does not face economic disaster following a loss of working capacity. One of the cornerstones of the Finnish scheme is the principle of making certain that the insured's standard of living is maintained, at more or less the same level as before the loss of earnings.

A loss of working capacity means that the person's state of health is incompatible with the work they are doing. Depending on the type of work and working conditions, even a seriously challenged person may be fully able, given appropriate circumstances and high job motivation. Conversely, someone with a relatively minor health problem but no motivation may be very prone to apply for disability benefits.

Disability is here to stay?

From a medical perspective, it seems strange that the ongoing rise in longevity and continuous improvements in the health of the population have

had little impact on the effective retirement age. Statistics show that the disability rate has remained almost unchanged over the years.

One reason for this is disclosed by statistics from the 1990s: the sustained high rate of Finnish unemployment following the years of depression encouraged many unemployed persons to opt out of the workforce via the route offered by the unemployment pension.

There are also signs of progress, however. For more than a decade now, advances in the prevention and treatment of coronary disease have been accompanied by a steady decline in the number of disability pensions granted on those grounds. Similarly, statistics show that the rising trend in the proportion of joint and tissue related diseases underlying disability pension retirements in the 1970s and 1980s, was reversed in the course of the 1990s. This was not, however, attributable to a downtrend in the prevalence of these diseases but most likely to a change in both treatment methods and the nature of employment opportunities. Someone with a back problem was formerly ordered to rest, whereas today the recommendation is normal physical load. It is also important to remember that increasing resources have been devoted to ergonomics and to equipment that makes physical work lighter, at the same time as the number of physically demanding jobs has continued to fall.

While the proportion of physical illness contributing to disability pension retirements has fallen, the incidence of mental illness, primarily depression, has grown. It also seems that besides an actual rise in the prevalence of mental diseases, we are now also witnessing the results of social exclusion. Both more effective treatments and an immediate change of attitude at the workplace will be needed to correct the situation.

The high costs of disability

Disability insurance represents a substantial cost

for employers. Based on their experience rating, employers with more than 800 staff pay around 80% of the capital value of the disability pension, which means approximately FIM 1 million per each middle-aged employee earning an average income. Some cases of disability, such as serious illness, are obviously beyond the employer's power to influence. However, in some others, the onset of disability can be either entirely averted or at least substantially deferred through action at the workplace.

When the promotion of working capacity in a company's entire workforce is a genuinely integral element of the company's management culture, a positive working climate tends to develop. Older workers are equally respected as younger ones and a certain degree of disability is tolerated, irrespective of age. Although top performers are always going to be important to a company's success, it is also important to understand that the implied requirements of continuous over-achievement do not fit the real world and can cause feelings of inadequacy. This in turn reduces workers' potential to cope with the job and they may end up filing a pension application, despite the loss of working capacity being non-substantial.

The Evita working capacity programme

It is key to identify a potential loss of working capacity early enough to allow measures to be taken, when the worker is still interested in improving working capacity.

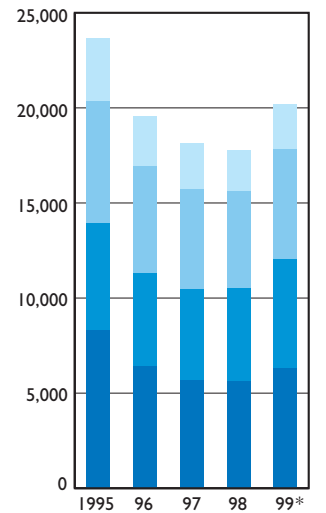
Work-related measures are in fact the key to furthering working capacity. An employee's way of working may be adjusted to make a better fit with extant working capacity; training can be offered to develop skills; or the person may be assigned another job. These types of solution are considered routine at many workplaces and not even recognised as rehabilitation. External assistance is also available; Varma-Sampo's vocational rehabilitation experts might be consulted for

advice on retraining or job rotation.

In co-operation with its clients, Varma-Sampo has designed the Evita programme for working capacity maintenance. The concept is based on quality thinking and the programme is tailor-made for business. It offers a tool to integrate working capacity promotion into personnel management and focuses on leadership, the working environment and working conditions, job motivation, economic factors, skills and health. Evita concentrates mainly on factors other than health, leaving primary responsibility for implementation in the hands of the line organisation. Occupational healthcare providers also offer valuable assistance regarding health issues.

Many of our client companies have had working capacity promotion programmes in place for many years. Evita offers examples of the different approaches that may be taken to maintaining working capacity. Clients can consult Evita experts both when starting a programme and when initiating various development projects. We also organise courses on working capacity promotion and provide benchmarking services to clients with more experience in this area.

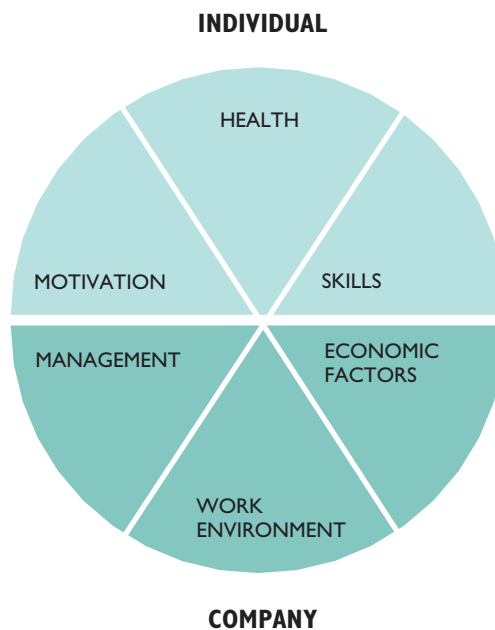
BREAKDOWN OF NEWLY STARTED DISABILITY PENSIONS BY CAUSE, TEL



* estimated

Source: Central Pension Security Institute

PROMOTION OF WORKING CAPACITY



SECURE AND PROFITABLE INVESTMENTS

A leading Finnish investor, Varma-Sampo increases the value of pension funds entrusted to it and does so in the most secure way possible. Our objective is to further strengthen our know-how, so as to achieve the best investment result at an acceptable level of risk.



Matti Niemi consistently stresses the key significance of maintaining security and profitability in the investment of pension funds. He fully supports Varma-Sampo's stated adherence to ethical business and investment principles.

A pension company's investment strategy must emphasise the long-term perspective. In order to fulfil the primary responsibility of ensuring our clients' pension security, Varma-Sampo investment operations must be based on a long-term vision spanning several decades. A 25-year-old now entering working life and who retires at the age of 65 will not do so until the year 2040.

Varma-Sampo's Supervisory Board has approved the principles of our investment plan as updated by the Board of Directors. This strategy defines matters such as the company's targets for investment security, profitability, diversification and liquidity. A routine reporting system moni-

tors the successful implementation of the plan, as well as other guidelines and regulations pertaining to our investment activities.

A major investor

Varma-Sampo investments at the end of 1999 totalled FIM 87.5 billion. Net return on investment at current values amounted to FIM 9.1 billion or 11.4%.

In a move to spread risk, we increased the proportion of foreign investments in our portfolio last year, although the largest part remained in the domestic market, as has been the case for the past few years now. We consistently pursue the highest possible return on investment at the risk level accepted and intend to continue diversifying into different instruments, industries, currencies and geographical regions.

Our investor stance is to take an active role with a long-run perspective. We monitor conditions in both Finnish and overseas investment markets, critically evaluating developments on a daily basis, in order to react swiftly and flexibly to changing market conditions by trading in securities.

The strategic goal is to improve solvency and achieve a profit level that grants us the means to distribute competitive client bonuses in the long term.

Significant fluctuations in share prices and interest rates

Investment profits in the year under review were both boosted by rising share prices, and adversely affected by the depreciation of bond values caused by declining market interest rates. Bonds accounted for 47% of Varma-Sampo investments in 1999, equities for 22%, real estate 14%, loans 11% and money market instruments for 6%.

Varma-Sampo increased the proportion of equities in its investment portfolio during 1999, valued at FIM 18.8 billion by the year-end; foreign equities accounted for FIM 1 billion of the

total and overseas capital trusts FIM 0.5 billion. The equities portfolio yielded an 80.8% return.

The percentage of real estate investments in our portfolio remained unchanged, standing at FIM 12.2 billion at the year-end. Value adjustments of FIM 312 million were made, based on the Varma-Sampo real estate strategy completed in late 1999; valuation differences rose by FIM 114 million. The return on real estate investments was 2.6% at current values.

The loan portfolio share of the investment portfolio fell against 1998. In Finnish markka terms, the value of corporate loans increased to FIM 14.5 billion. The value of loans tied to the Finnish Employees' Pensions Act (TEL) reference interest rate grew the most rapidly, amounting to FIM 5 billion at the year-end.

Money-market investments dropped to FIM 5.9 billion at a 3.2% return.

Bond investments were valued at FIM 41 billion at year-end 1999, of which Finnish Government bonds accounted for FIM 30.2 billion. As a result of the general rise in interest rates in Finland, the return on the bond portfolio at current values was negative.

Ethical principles playing a greater role

Varma-Sampo gathers buffer funds to hedge stock exchange dips and interest rate variations affecting its investment operations; this ensures we can always meet our pension obligations.

Since our operations are governed by ethical principles, it is a key objective to make responsible investments. In other words, in addition to the need for profitability and security, we willingly add the challenge of evaluating all prospective investments in terms of our responsibility to clients and society as a whole.

Varma-Sampo seeks to invest in companies that are conscious of their social responsibility and whose decision-making accounts for the environmental impact of their actions. We therefore investigate whether a company's operating prin-

ciples are based on existing legislation, and a proper respect for human worth combined with a sense of social accountability and responsibility for working conditions.

New financing options

Varma-Sampo increased the variety of its corporate financing options in the review year by launching new solutions tailor-made for small and medium-sized enterprises. At the same time, we began co-operation with Finnvera plc, a specialised financing company.

There are more than 90,000 firms in Finland with 1-5 employees in addition to the entrepreneur. These employ some 400,000 people and, together with around 80,000 sole-traders, account for the remuneration of approximately half a million Finns. The condition of these SMEs, their prospects for growth and capacity to pay wages plays a key role in the positive development of the domestic economy, and this in turn constitutes the basis for the payment of pensions into the future.

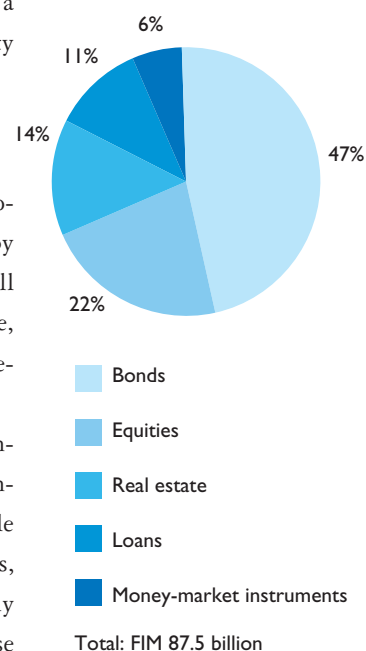
The new Varma-Sampo financing alternatives created especially for these companies include loans for SMEs and self-employed persons, as well as the Evita loan aimed at maintaining working capacity. Moreover, we continue to offer TEL premium bond loans, investment and capital loans.

Strength for the new millennium

Varma-Sampo solvency strengthened in the year under review to improve risk-bearing capacity still further. This combines with continuous operational development to provide an excellent opportunity for the greater diversification of the scope of our investments.

That solid foundation enables Varma-Sampo to continue making the best possible strategic choices based on foreseeable social and business trends.

INVESTMENT PORTFOLIO at Dec. 31st, 1999



INVESTMENT RISK MANAGEMENT PRACTICES

Risk management practices that detect and define risks help Varma-Sampo secure the continuity of its operations and attain its goals.



Jouko Oksanen is responsible for managing Varma-Sampo investment risk. The risk management function operates independently of the company's investment operations, falling under the aegis of Financial Administration.

Each year, Varma-Sampo's Board of Directors confirms a set of guidelines on the company's investment risk management strategy. These instructions are drawn up on the basis of internationally well-established practice.

Investment risk management

involves the definition of risk-taking policy and what constitutes an acceptable level of risk. Risks are continually assessed using the methods selected and by comparing a particular instance to the designated acceptable level, as well as assessment through reporting practices.

Varma-Sampo's core risk frame comprises the continuous coverage of technical provisions, their duration, the required annual return and solvency requirements. The investment horizon spans several years, whereas solvency and coverage requirements must be met continuously.

Risk management organisation

Varma-Sampo investment activities are, in accordance with the decision of the Board of Directors, based on the principle of two separate and independent practices: preparation and decision-making; and supervisory and reporting functions.

Investment risk management activities are the responsibility of Varma-Sampo Financial Ad-

ministration and the tasks that are involved include e.g.:

- The identification of property risks and selection of applicable assessment methods, as well as the designation and continuous assessment of the property risk level.
- Drawing up sensitivity analyses, such as the impact of substantial market shifts on the company's solvency, liquidity and financial performance.
- Risk reporting and possible proposals to company management.
- Supervision of compliance with the investment plan, concerning the counterpart and instrument-specific limits confirmed by the Board, and authorisation and allocation practice.

Financial Administration is also responsible for seeing that the accounting and valuation principles used in reporting by management and the Board of Directors are correct.

Risk definitions

Market risk refers to the volatility of the market value of investment objects during the reference period. The most common influences are share prices, interest and exchange rate risks, and risks attached to rent income from real estate. Inflation risk refers to a potential fall in real property values or an inflation-linked decrease in real profit.

A credit risk means loss potential due to the inability of a counterpart to meet its obligations e.g. regarding interest-bearing instruments. Credit risk can further be expressed in terms of market risk, due e.g. to an increase in interest differentials. Another type of credit risk is a loss on the value of an individual investment in equities or debentures, resulting from target company bankruptcy.

Liquidity risk results from the failure of cash flow to meet expectations and any loss of profits attached thereto. In addition, this type of risk can result from non-realizable assets, or when

they cannot be cashed in at other than a substantial loss.

Operational risks refer to errors or breaches of convention due to control system deficiencies. Legal risk stems from uncertainties regarding the legal interpretation of contracts. Modelling risk results from problems related to improper risk assessment practices.

Instrument-specific risks

Investment risk management aims to act in accordance with the investment plan, usually through the following methods:

- investment diversification by asset and object class
- secure guarantee policies
- prudent valuation practices
- asset and liability co-ordination
- sound utilisation of hedging derivatives
- adequate and timely control and follow-up systems
- availability of skilled experts
- securing sufficient solvency

Investments in equities bear risks related mainly to changes in price. Risks connected to fluctuations in the value of bonds are realised as interest rate and credit risk. These equity and bond risks are limited, for instance, by ceilings and authorised powers confirmed by the Board. Risks are monitored continuously and hedged with derivatives where necessary.

Real estate risks revolve primarily around market risks, in terms of both income from rents and the implications of value fluctuations. The loss potential on income from rents is hedged with index-linked rent agreements along with rent guarantees. Risk to net returns on real estate is managed by a careful planning of the real estate portfolio.

Credit risks attached to loans are managed in line with credit directives confirmed by the Board, as well as authorised powers and counterpart limits. The primary guiding rule is that

credit is only granted against a sufficient guarantee.

The use of derivatives comprises risks of the market, counterpart, legal and operational kind. Management of such is again governed by risk limits and authorised powers confirmed and granted by the Board.

Bond and derivative investments also involve currency-related value fluctuation and profit risks. Currency risk can be hedged by measures complying with Board approved policy on foreign exchange management.

Measuring levels of market risk

Varma-Sampo risk management strategy utilises the Value at Risk (VaR) model as its primary indicator of the total risk borne. This model expresses maximum loss potential in different fields of investment in terms of a selected level of probability in a normal market situation. This measurement tool makes suppositions about profit expectations on different kinds of investment asset, their tendency to variation, the mutual correlation between profits from assets in different types of investment field, and on the form of profit distribution and assessment horizons applied. The calculated VaR risk is monitored in proportion to Varma-Sampo's solvency status.

The model and its parameters are tested regularly to ensure accuracy. Scenario analyses are executed to assist in the assessment of Varma-Sampo's risk in exceptional market conditions.

Supervising decision-making powers

The management of a particular credit risk involves investment-object and instrument-specific investment limits confirmed by the Board of Directors. The Board has confirmed limits for investments in single objects and cumulative limits for different types of risk. Authorised organisational decision-making powers are defined separately and then monitored.

JOYS AND HARDSHIPS OF RUNNING A BUSINESS

Taken together, Varma-Sampo clients have more than 60,000 stories to tell about the joys and hardships of running a business in Finland; fascinating stories that all deserve to be told.



Hannu Tarvonen (right) emphasises the importance of an active client service function. Different clients have highly specific needs that vary according to the stage of their business development. Mr. Tarvonen is pictured here with Jorma Terentjeff, President and CEO of JOT Automation Group Oyj, inspecting the new facilities built by Varma-Sampo for JOT.

Then there are the life stories of more than 380,000 people with employees' retirement benefits insurance and close to 260,000 already drawing a pension from Varma-Sampo.

Strong enough to run a business

With the day done and night falling, Mr. Reino Rajamäki is finally ready to throw in the towel. He's clearly disappointed; nothing is working out the way it should. After the long trip from Lahti in Finland to Moerdijk in the Netherlands, followed by a hard day's work, even he has to admit that the Stala production works in this Dutch town is failing to deliver the quality required, as indeed has been the case for several years now.

Close to midnight he has one last stab at it. Drawing on the flip-chart he carries on talking: "And when the time's right we'll do it...we'll just make it happen!"

The disappointment has been lurking there

under the surface for some time now, as year after year Reino has continued hoping and believing in the ability of the Dutch production works to manufacture the high-quality pipes Stala needs.

For almost ten years, he's been travelling back and forth between Lahti and Moerdijk with production manager Matti Nyysönen and his managing director, Jan Christensen. They have prayed, coerced, plotted and demanded the Dutch company raises its production quality, but all to no avail and the inevitable is staring him in the face.

Stala Oy is a Finnish metal industry company established in 1972. Back then Reino Rajamäki was an engineer, who bought the kitchen sink production works from his former employers, Upo Oy, using what was a rare financing method at the time, known as MBO. He was later awarded an honorary title for his achievements in the manufacturing industry.

Stala specialises in stainless steel kitchen sinks and construction pipes with around 200 Finnish employees. The company has attracted a number of national awards and distinctions during more than 25 years in business.

Active role in staff well-being

Varma-Sampo has been the company's employee pension provider from the very beginning. We have also played an important financing role both when the company was founded and later in support of its development as Europe's leading manufacturer of stainless steel construction pipes. We stood by Stala when it made the painful decision to close its Dutch pipe factory. But then mixed feelings and difficult decisions are part of the everyday joys and hardships of running a business.

Stala devotes significant resources to personnel well-being and Varma-Sampo continues to play an active part in promoting and supporting that.

Veikko can do it...and so can Jorma

JOT Automation Group Plc celebrated the inauguration of its new facilities at Oulunsalo near Oulu airport in February, 2000. At the event, Finnish Minister of Finance, Sauli Niinistö, told the wife of the company's founder, Veikko Lesonen, that he was amazed that anybody could make a company grow into one of the world's leading manufacturers of production and testing lines for the mobile phone industry, at a time when the country was suffering one of the deepest depressions in its history that was also affecting global business. "Veikko can," she quickly replied. And the same goes for the company's President and CEO, Jorma Terentjeff. Under the leadership of these two men, the Oulunsalo-based company grew in just a few years' time into one of the highest market valued Finnish companies.

In February 2000, JOT Automation announced its merger with PMJ automec Plc. Both companies have contributed to Finland's growing global reputation as a high-tech country. The merged company's turnover stands at a little over FIM 1 billion and employs around a thousand people.

Insurance, financing and the promotion of working capacity

Varma-Sampo has provided pension cover for JOT's staff from the outset. We have also contributed to the company's growth, at first merely through external funding but later, and prior to the company's IPO, through equity financing. We also lived up to our responsibilities in the early 1990s, when they approached us with a request for a temporary suspension of liability.

Varma-Sampo continues to share in the success of JOT Automation, making it possible for the company to continue offering Finnish workers job opportunities in Finland. We built their new Oulunsalo facilities, near where Suomen 3C and the PKC Group facilities are also under construction. Together these will form

a sort of Hi-Tech Boulevard. Polar Electro, known the world over for its pulse meters, has been operating close by for some years now.

Tailormade customer services

Our clients' expectations in terms of the services they need are many and varied.

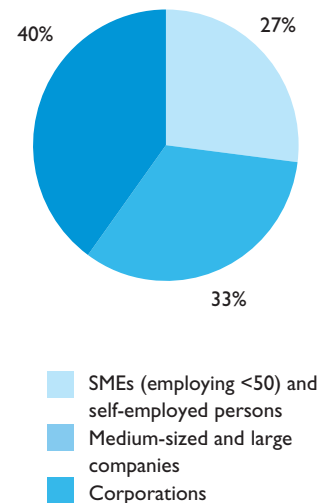
Small and medium-sized enterprises mainly expect a fairly basic, straightforward and well-designed package: simple routines to handle their pension insurance needs and quick and easy-to-understand advice on pensions and pension decisions. Most SMEs also want all-inclusive insurance services that integrate pensions with the company's other insurances.

The requirements of large, international companies naturally go well beyond the basic service package. They expect their pension provider to take an active interest in their entire operation; to get involved in the management of the company's pension overheads, offer advice on all aspects of employee retirement benefits and have the necessary experience to help design pension plans for staff posted overseas. The insurer is also expected to play an active role in designing programmes to promote increased working capacity, and to have the necessary resources and know-how to address issues related to the company's asset management.

Varma-Sampo has designed a variety of models to meet these varied expectations, offering service provision and active co-operation that take into account the needs of both small service-sector SMEs and large industrial businesses with global operations.

Varma-Sampo has in fact pioneered tailor-made service provision to suit any client's expectations. We also cater to the needs of companies making increasing use of the Internet and last year launched a comprehensive Internet pension service available at www.varma-sampo.fi.

BREAKDOWN OF PREMIUM INCOME BY CLIENT GROUP 1999



Total: FIM 12.3 billion

PROGRESSIVE INTERNET SERVICE

The electronic links required by modern business are increasingly facilitated by telecommunications networks.

Varma-Sampo's revitalised service net went online at www.varma-sampo.fi in December, 1999.



Ilkka Kohonen believes that the role of electronic tools in business management will grow. Varma-Sampo is building Internet applications to improve operational efficiency and provide new client service channels.

An e-business development project based, among other things, on user expectation surveys was launched at Varma-Sampo in Spring, 1999. The company's main operations i.e. insurance and claims services, together with investment activities, utilise electronic services to a considerable extent.

The aim of Varma-Sampo network services is to boost ways of working and reduce overlapping execution.

Data fed into the new information systems can be processed in electronic form and utilised in an increasingly efficient manner.

Increasingly critical business IS

Effective information systems for earnings related pension insurance constitute a critical stepping off point for successful insurance business operations. These systems are currently extensive entities in which separate components need to run for periods of up to 20 years. This implies special IM requirements. Complete entities comprising different system generations must be

managed so that components interface efficiently and easily. Internet services employing new technologies can then be implemented safely into the current structures.

Varma-Sampo Internet services are developed incrementally to fit client expectations and needs. The new services came online in December, 1999 marked an important progression. The next step is to improve interactivity and client-orientation still further in Summer, 2000.

The Internet is a primary service channel

Our information retrieval and web service at www.varma-sampo.fi is a comprehensive Internet-based solution designed to meet client needs now and into the future. Both current clients and those yet to come must be able to contact us irrespective of time, place and access technology. To make a success of this we shall also provide active client support to assist in the successful introduction of the new service channel.

The TEL (Finnish Employees' Pensions Act) secure online service already offers the option to handle annual notification and employment relationship insurance data on the Internet. The same applies to working with balance statements, policy itemisations and premium specifications.

In fact, many related needs can already be met this way: hard-copy pension application forms and the like may be printed, if required; calculation systems allow clients to estimate the value of e.g. a part-time pension themselves; a self-employed person or employee can obtain guidance on issues such as how to found a company.

We are as yet at only the very early stages of system development. Fresh technological innovations constantly offer new service provision options. Electronic client identification will become possible in the near future, for instance, which will provide further opportunities to create brand new applications.

Added value through networking

In addition to supplying the normal employment and self-employed persons' pension insurance services, it is our stated aim that clients will in future also be offered as versatile a service as possible via the Internet. This will handle general information related to Varma-Sampo as well as deal with the aforementioned insurance matters. These facilities will link to the comprehensive sampo.fi package already available to Sampo's corporate clients. In this way it will become possible to take care of one's insurance matters in an entirely or almost wholly paper-free environment.

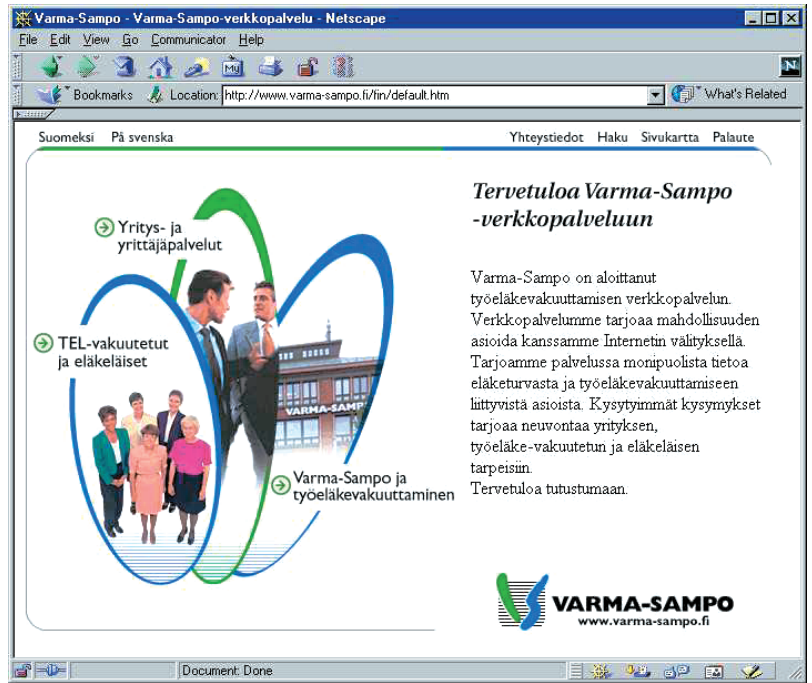
Even at this very early stage, it has already become clear that all Varma-Sampo client groups will benefit from access to an electronic service channel. We shall focus increasingly on customising services to meet the special needs of each client segment, for companies large and small, self-employed persons and private individuals. Development work continues to progress step by step, dealing with one element of the entire service entity at a time.

Enhanced teleservices

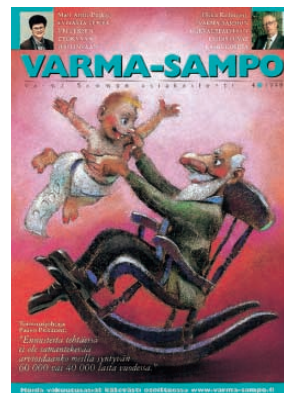
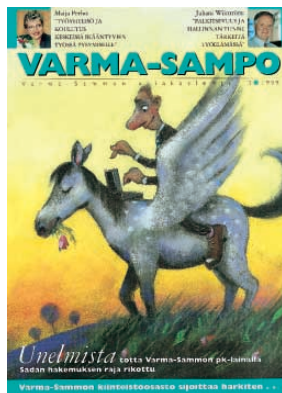
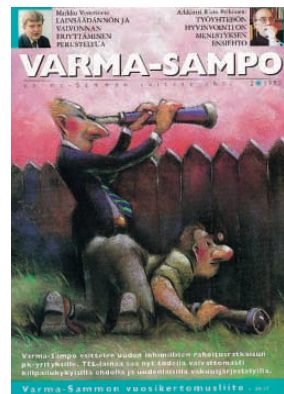
It is the client who ultimately decides on the best way to contact the company. Varma-Sampo aims to offer the best range of options available in its field. To this end, we launched a development project in the review year to build a telephone call-centre closely integrated with the new e-services.

Reliability, expertise and security

Varma-Sampo clients have come to expect three key qualities from their insurer, and that expectation will naturally extend to our e-services; these are namely reliability, expertise and safety. It is important that our network activities for their part convey Varma-Sampo's independence and fairness in all its operations.



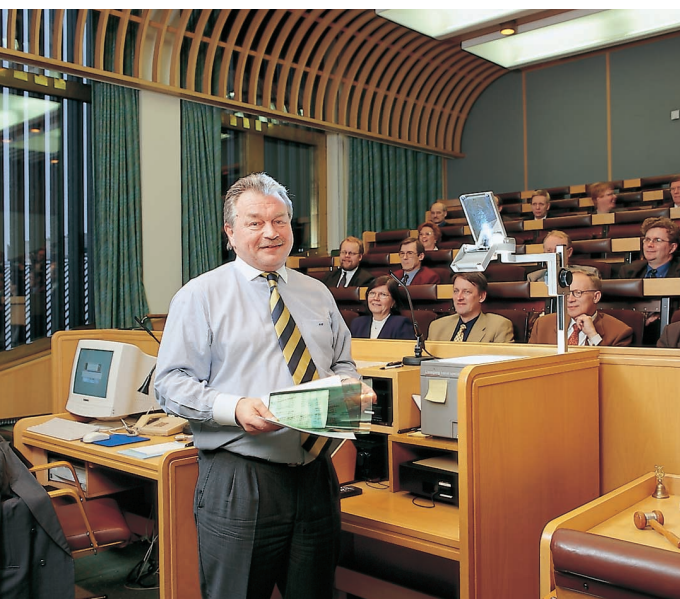
Varma-Sampo has developed and streamlined its Internet resources at www.varma-sampo.fi and now offers a substantial e-service package. English-language services will be launched on this website in Summer, 2000.



Published in Finnish and Swedish, Varma-Sampo's customer magazine appeared four times in 1999. Some of its content is also published on the company's website.

SUCCESS BUILT ON KNOW-HOW

Our success is based on skilled staff who constantly develop Varma-Sampo operations to meet client expectations in the best possible way. A flexible organisation based on teamwork is a key factor in attaining our commercial objectives.



Sakari Aaltonen underlines the role that know-how and values play in Varma-Sampo's success. The company's core values comprise responsibility and achievement, co-operation and respect for co-workers as well as active development.

The year under review was notable at Varma-Sampo for the successful establishment of consistent ways of working and a real team spirit. This approach stemmed largely from the results of a survey carried out in Spring, 1999. It examined the in-house professional atmosphere as well as internal perceptions of the Varma-Sampo image, and produced valuable information both on areas where know-how and experience are strong as well as where there is a need for further development.

Plans were therefore made and measures taken to remedy any issues needing attention and develop acknowledged strengths still further.

Personnel numbers increased by 34 in 1999. The parent company employed a total of 601 staff (578) at the year-end, 77 per cent of whom are female and 23 per cent male. The average age was 43.5. Varma-Sampo's first gender equality programme was concluded in the year under review.

Know-how development in key positions

Successfully meeting our core goals requires courage and the ability to anticipate future trends. Our operational perspective spans an exceptionally long time-period, since unlike many other businesses, the provision of earnings related pension insurance means planning decades ahead. We have to follow pension industry developments and acquire and analyse societal data and prognoses. This also implies we must question our ways of working continuously and be ready to cope effectively with change.

We have set an internal goal to get the company in top shape. The development of ways of working is a continuous and carefully monitored process. A range of quality and efficiency indicators is employed to measure that development in terms of e.g. the time and workload involved in settling applications, and the accuracy of decisions taken thereto.

One tool we allocated significant funds to in 1999 was training to boost staff know-how. The whole personnel participated in a seminar that dealt with core company operations i.e. insurance and claims services and the practice of pension fund investment. The company's products, service models and ways of working were also introduced. The seminar was conducted by members of Varma-Sampo Management Board.

Last year also saw an increase in the overall number of training programmes, aimed at a variety of different applications and ways of working. These offered each and every member of Varma-Sampo personnel the opportunity to develop their individual know-how. The company also initiated an extensive management-training programme aimed at developing supervisory skills such as training, motivation and the creation of team spirit. The proportion of supervisory training of the total rose to over eight per cent in the review year (less than one per cent in 1998).

All Varma-Sampo staff spent an average of 5.5 days in training in 1999, at a cost of more

than FIM 7,000 per person. These included both in-company arranged courses and those bought outside.

Core values recorded

The values that guide Varma-Sampo's way of working neither arose in a haphazard fashion nor were they imposed unilaterally. Several events related to these values were arranged during Spring, 1999 and participated in by over a hundred Varma-Sampo staff. These events and other discussions produced a number of key values, from a personnel perspective, related to everyday work. They can be summarised into three core concepts: responsibility and achievement; co-operation and appreciation of co-workers; and active development.

The value process was run across the whole organisation through discussions, training and teamwork. The process continues this year as a part of everyday activities and related development. The atmosphere study 2000 will track the internalisation of values and their operational implementation.

Our common values describe the way we work together and thus deepen the company culture. The aim is to motivate and help each member of staff commit to their own responsibilities and the entire working community. Our values also help us fulfil our social responsibilities in an uncompromisingly ethical manner.

Focus on quality

Quality thinking is important, both in terms of client services and in our own working. Since quality is largely attained through know-how, we continued with our quality-related training activities during 1999, to foster an even higher level of quality and efficiency in our operations.

We also began the more intensive development of the company's core processes in order to raise the effectiveness of our service offerings and introduced internal assessment tools to measure

our performance capacity.

Working capacity matters

Issues relating to staff's capacity for work are an essential aspect of the operations of a pension insurance company in particular. Varma-Sampo's working capacity programme for its personnel, co-ordinated by the company's consultant physician, was therefore completed in the year under review. The programme emphasises the importance of well-being, stamina and know-how in everyday operations, as well as each member of staff's personal responsibility for their health, work and the atmosphere in their own unit. Team spirit begins with the individual.

A working capacity group established to improve handling of matters that require swift and decisive action, continued to meet about once a month. Group meetings, as well as the work of group members in their various departments, focused on e.g. working atmosphere, general well-being and stamina, in line with the working capacity programme.

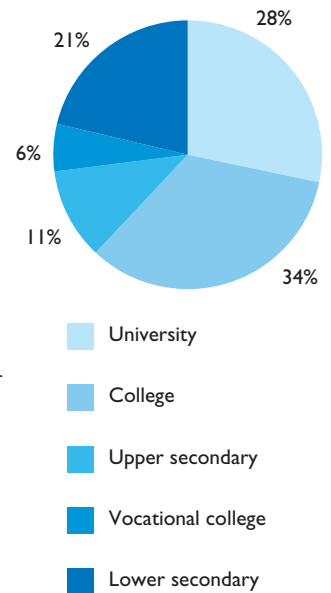
We buy in our occupational health services from Sampo Group, supplemented where appropriate from outside. Special attention is focused on preventive measures, the cost of which accounted for 15% of total health services expenditure in 1999.

Incentive payments for all personnel

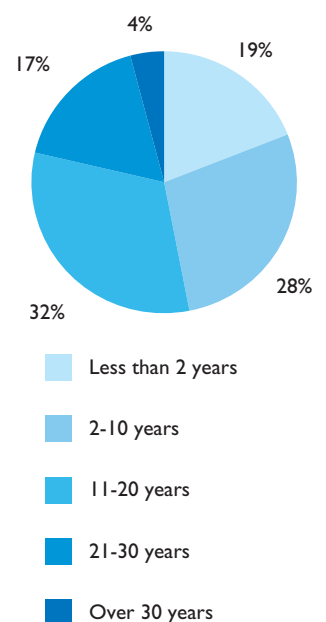
Know-how development in Varma-Sampo is an integral part of management systems, including incentive payment by results. We introduced a comprehensive bonus system in 1999 that, over and above the monthly salary, rewards the attainment of company, departmental and team objectives, as well as the discharging of annual personal performance targets.

Payments by result stood at around FIM 2.6 million in the review year or 23% of the company's total payroll. Total staff expenses for 1999 were FIM 155 million (FIM 125 million).

LEVEL OF PERSONNEL EDUCATION



PERSONNEL, YEARS OF SERVICE



BOARD OF DIRECTORS' REPORT 1999

Trends in the operating environment

Global economic conditions were buoyant in 1999. In Finland, export-driven economic growth accelerated. There was, however, a significant variation between the different industries and regions. The output of services was boosted by lively domestic demand. Investments continued to grow rapidly. Private spending increased as a result of improved employment and rising real income. The public economy's financial account moved into the black and national debt declined.

The unemployment rate continued to decline. In the private sector, new jobs were created in for example the technology and service sectors and in construction, whereas payroll numbers fell in e.g. the food as well as the engineering and metal industries. The regional trend in payroll numbers continues to reflect the geographical concentration of production and the resulting population migration.

In the securities market, economic diversity was reflected in contrasting share price trends in different industries last year. Share price indices reached record-high levels, driven especially by shares in IT companies. Interest rates rose rapidly in the eurozone. Reflecting increasingly international competition, domestic and international company reorganisations continued, influencing also production-related reorganisation. Demand for housing loans continued to be brisk and housing prices to rise.

Statutory earnings related pension scheme

The Insurance Supervision Authority commenced operations on April 1st, 1999. Among other responsibilities, the agency assumed operational supervision and the provision of individual supervisory decisions from the Insurance Department of the Finnish Ministry of Social Affairs and Health. The Ministry will still be responsible for decision-making on e.g. insurance company operating licenses as well as the calculation bases for earnings-related pensions and drafting insurance legislation.

The calculated interest rate stood at 5%

during the period January 1st to June 30th, 1999 and 5.25% as of July 1st, 1999. The employees' pension insurance contribution averaged 21.5%, just as the year before, of which the employee's contribution was 4.7%. Payments under the Self-Employed Persons' Pensions Act stood at 21.1% of confirmed earnings. The insurance contribution for 1999 was defined so that Varma-Sampo started to collect EMU buffer funds for its clearing reserve, to be employed in balancing trade cycles. As a result of the strong economic conditions, significantly more funds have accumulated in the EMU buffer as expected.

The Finnish Government's new programme includes an objective to increase the proportion of those in work of the working population and to extend the average age of leaving the labour market by 2-3 years in the long term. In a move to implement the programme, a joint committee comprising representatives of both labour market organisations and the earnings-related pension system, studied issues related to developing early retirement schemes and encouraging ageing workers to stay in the job, as well as employers' deductibles in unemployment and disability pension schemes. Based on the committee's proposals, several legislative reforms concerning the earnings-related pension system were introduced at the beginning of the year 2000.

The definition of unemployment pension was revised so as to exclude the reference to projected rights. As a result, unemployment pension may be granted in future on the basis of accrued pension right alone. The minimum age for individual early retirement schemes was raised from 58 to 60 years for those born in 1944 or later.

The advance funding system of disability and unemployment pensions was adjusted to 80% for both schemes. In conjunction with this, steps were taken to prevent avoidance of premium payments by way of artificial company arrangements.

The possibility of retiring part-time at the age of 56 was extended until year-end 2002. It

is hoped that the possibility of combining part-time work with part-time pension schemes will encourage people to stay in the job longer, while replacing other early retirement combination options. A part-time pension is followed by an old-age pension that is virtually the same as for full-time employees. Moreover, a part-time pension will not reduce an unemployment or disability pension that may follow it.

The reduction of the pension applied when a person retires earlier than the normal pensionable age was adjusted so that the reduction coefficient is now 0.4% a month. For example, the pension benefits of a person retiring at the age of 60 are reduced by 24% instead of 30%, as before. Correspondingly, the increase of the pension applied when a person defers their retirement is 0.6% instead of 1%. As a consequence, retirement at age 65 will result in a 7.2% instead of 12% increase in pension benefits.

Moreover, several amendments were introduced in the calculation bases of earnings related pension insurance companies at the beginning of the year 2000. The deductible limits of the disability pension and unemployment pension were harmonised. The unemployment and disability pension costs of employees hired at over the age of 50 are pooled between those employers carrying excess during the first three years of an employment contract.

The Act of law referring to the employment possibilities of the ageing unemployed became permanent. Unemployed persons of at least 55 years are now able to receive employment earlier without compromising their pension benefits.

A joint working group comprising representatives of labour market organisations and employment pension institutions conducted a study on the technical and socio-political aspects related to assessing working capacity and rehabilitation. In the group's opinion, the assessment of working and earning capacity, rehabilitation needs and options are part of a whole, the development of which requires that a fairly comprehensive quality system be established. In

conjunction with this, Varma-Sampo launched pilot rehabilitation projects in Helsinki and Oulu. The aim is to extend the right of insured persons, aged 58 to 59, to early rehabilitation examinations to cover all employees as of the beginning of 2002.

A plan to close the system of registered supplementary benefits at year-end 2000 is under progress. From 1999, failure to make YEL (Self-Employed Persons' Pensions Act) premium payments reduces pension benefits.

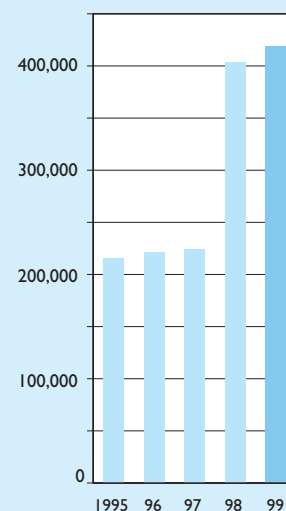
The allocation of employment pension companies' surplus to solvency and client bonuses was amended so that the maximum bonus is determined on the company's solvency position.

The changes in the solvency statute regarding employment pension companies and pension funds took effect on December 31st, 1999. At the same time, methods of calculating solvency and risk categories for investment assets as well as risk coefficients were specified. The changes had little impact on Varma-Sampo asset portfolio.

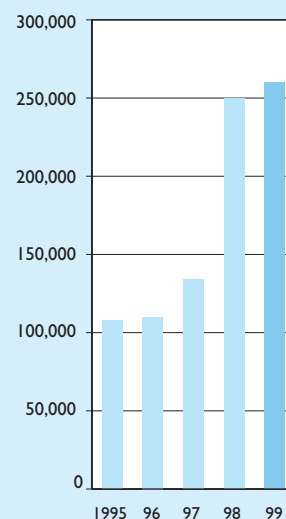
The introduction of an EU directive on additional supervision of insurance companies in Finland is at the drafting stage. Among other things, the directive deals with completing an adjusted solvency calculation for an insurance group as well as an insurance company's obligation to provide a sufficient internal audit and a risk management system.

Based on obligations given to the special receivership of Kansa Pension Insurance Company Ltd, Varma-Sampo - as is so for all other pension insurance companies - is obliged to return to the special receivership, in full or in part, the funds received from the receivership, paid into the receivership by guarantors, should such an obligation arise in the legal process. Varma-Sampo has received a total of FIM 0.7 billion of the funds in question. Should a return obligation arise, any possible impact on results will burden the employment pension system collectively.

INSURED PERSONS

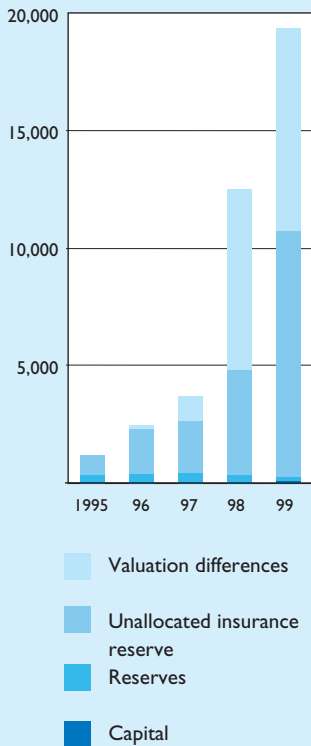


PENSIONERS



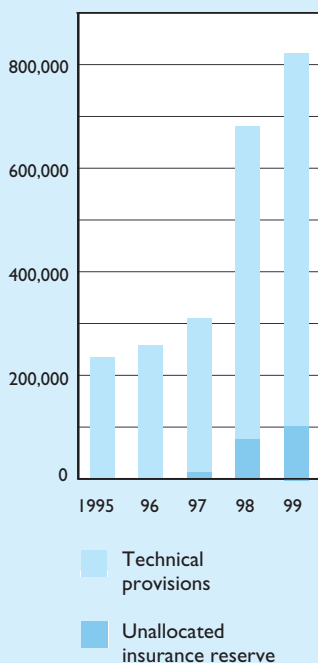
OPERATING MARGIN

FIM million



TECHNICAL PROVISIONS

FIM million



Financial review

Varma-Sampo Mutual Pension Insurance Company's first full financial year in its new form was completed in 1999. The year before, the company's scope of operations more than doubled as a result of the portfolio transfer from Pension-Varma Mutual Insurance Company to Varma-Sampo Mutual Pension Insurance Company (previously Insurance Company Sampo Pension) on July 1st, 1998. Comparative figures for the 1998 results have been obtained using calculatory pro forma figures whenever necessary. Pro forma figures are based on the assumption that the company had operated in the current extent during the whole of 1998.

The parent company's profit after tax is determined by calculation bases confirmed by the Finnish Ministry of Social Affairs and Health. As a consequence, parent company and group profitability or financial position cannot be judged on the basis of the profit and loss account, balance sheet and working capital flow statement alone. Instead, the analysis of a pension insurance company's performance must include the risk business result, investment profit and loading profit, as well as changes in valuation differences. The company's solvency is measured by its solvency margin, including equity and reserves as well as the difference between the current and book values of assets and the unallocated insurance reserve, an item included in the solvency margin.

Varma-Sampo's good performance reflected a rapid increase in share prices. On the other hand, its performance was clearly affected by bond trading losses due to a drastic increase in market interest rates. As a result of gains on equities realisations, the book value of the company's investment profit exceeds yield requirement on technical provisions by FIM 1,625 million. The loading profit, the difference between administrative costs and operating expenses, amounted to FIM 79 million (FIM 50 million pro forma). The insurance business' result, an estimated surplus of FIM 484 million, was good. The exact figure will not be available until the final accounts for the financial year have been

closed, however. Aforementioned items and an increase in investment valuation difference of FIM 4,178 million (FIM 2,858 million pro forma) included, the company's total result amounted to FIM 6,366 million (FIM 4,051 million pro forma).

The credit loss reserve was reduced by FIM 72 million and depreciation difference by FIM 18 million. A total of FIM 300 million (FIM 300 million) was transferred to the bonus reserve and FIM 1,473 million to the unallocated insurance reserve.

Varma-Sampo solvency margin rose from FIM 12.5 billion to FIM 19.4 billion during the financial year, clearly exceeding the solvency margin minimum of FIM 4.1 billion. An earnings-related pension company's solvency requirements depend on the degree of risk bearing in its investment portfolio. Varma-Sampo solvency margin, 27.3% (18.9%) of its technical provisions according to solvency requirements, is within the target range defined in the regulations with a minimum of 17.5% (14.0%). The difference between the calculated interest rate and the discount rate of the calculated yield on technical provisions, FIM 1.2 billion in 1999, was transferred to the unallocated insurance reserve to further strengthen the company's solvency. The unallocated insurance reserve includes a total of FIM 4 billion in interest difference accrued in this way during 1997-1999. As of the year 2000, the annual interest difference will be used to strengthen old-age pension claims.

Affiliated undertakings and significant participating interests

Unsa Oy, which holds a 15.5% stake in Sampo Insurance Company plc, became a wholly-owned subsidiary of Varma-Sampo on January 11th, 1999. Varma-Sampo acquired a 44.9% holding in Unsa from Sampo Group for FIM 349 million, based on a 1998 option contract.

Varma-Sampo Group's largest affiliates are Sampo Insurance Company plc with a 22.3% holding and Sampo Life Insurance Company Limited with a 35.2% holding. On February

2nd, 2000 the Boards of Directors of Sampo Insurance Company plc and Leonia Bank plc approved a plan to merge Leonia with Sampo on December 31st, 2000. Based on a letter of intent signed in October 1999, a further objective is to merge Sampo Life and Leonia Life Insurance Company Ltd.

The Group comprises, sub-groups included, a total of 250 subsidiaries and 56 affiliated undertakings, mainly real estate firms. These companies have been included in the consolidated accounts as specified in the notes to the financial statements.

Varma-Sampo Group holding in Kaleva Mutual Insurance Company's guarantee capital increased from 30% to 50% during the year. Kaleva is not included in Varma-Sampo consolidated accounts.

Insurance portfolio and pensions

Some 419,000 persons' pension provision was insured in Varma-Sampo at year-end 1999, an increase of 16,000 over the previous year. The number of insurance policies made under the Employees' Pensions Act (TEL) remained almost unchanged at 26,000, covering a total of 383,000 insured (368,000). The number of insurance policies written under the Self-Employed Persons' Pensions Act (YEL) stood at 36,000 (35,000). Supplementary pension insurance under the Employees' Pensions Act TEL covered 32,000 persons.

The company's premiums written amounted to FIM 12.3 billion (FIM 11.8 billion pro forma). Basic insurance under the Employees' Pensions Act made up FIM 11.7 billion of the total. The national payroll in 1999 is estimated to have increased by approximately 5.5% from the year before, reflecting improved employment and a rise in wage and salary levels.

Premium income from supplementary pension insurance under the Employees' Pensions Act totalled FIM 161 million (FIM 140 million pro forma), while that from the Self-Employed Persons' Pensions Act stood at FIM 590 million (FIM 558 million). Credit losses on premiums

were FIM 83 million (FIM 81 million). Insurance under the Self-Employed Persons' Pensions Act accounted for FIM 27 million of the credit losses.

Varma-Sampo provided pensions to some 260,000 persons (250,000) at the year-end, under the Employees' Pensions Act and the Self-Employed Persons' Pensions Act. A total of 28,000 persons (27,000) received pensions under the Self-Employed Persons' Pensions Act, compared to 29,000 persons receiving supplementary pension benefits (TEL, YEL). The company's pension payments totalled FIM 11.4 billion (FIM 10.7 billion pro forma).

A total of 36,000 (28,000) pension grants was issued during the year. As of July 1st, 1998, until further notice, the minimum age for part-time pension has been 56 years old until further notice and the number of applications filed for part-time pension schemes has increased considerably.

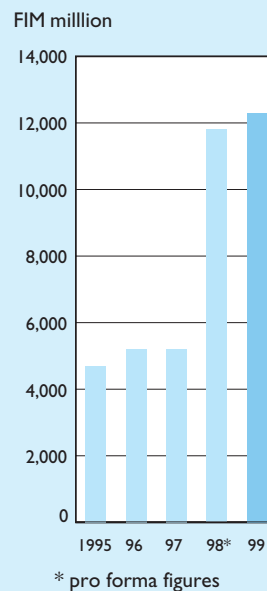
Several client companies have launched projects designed to develop working capacity. The objective is for employees to be able to stay in the job longer, which is expected to result in savings for the national economy.

Technical provisions

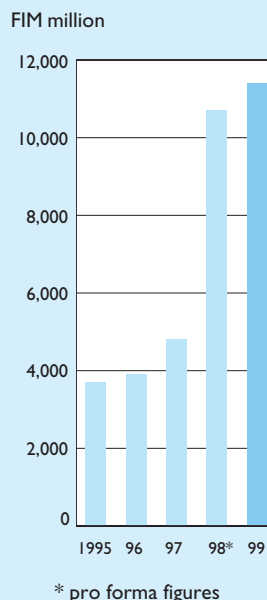
The Company's technical provisions were up FIM 7.1 billion at FIM 82.8 billion in 1999. Technical provisions are covered in accordance with the relevant statute on coverage and regulations issued by the Finnish Ministry of Social Affairs and Health. The total provision for unearned premiums of FIM 56.3 billion is employed to cover the pensions of people still in work. The provision for unearned premiums includes a bonus reserve of FIM 0.7 billion and an unallocated insurance reserve of FIM 10.4 billion, included in the company's solvency margin along with equity and asset valuation differences. Claims outstanding, valued at FIM 26.5 billion, included the funds used for covering the pensions of retired persons. The technical provisions include a clearing reserve of FIM 3.8 billion.

Varma-Sampo received liabilities totalling

PREMIUM INCOME

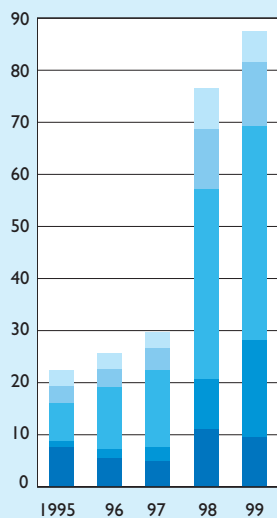


PENSION PAID



INVESTMENTS AT CURRENT VALUES

FIM billion



FIM 0.4 billion from four pension funds during 1999. The year before, the company received FIM 41.5 billion by portfolio transfer from Pension-Varma Mutual Insurance Company (now Pension Fennia) and corresponding technical provisions valued at FIM 0.4 billion.

Investment operations

An investment plan maintained by Varma-Sampo Board of Directors defines e.g. targets for investment security, profitability, diversification and liquidity and estimates investment risks. The investment plan also includes decisions on the organisation of investment operations and the principles, limits and authority regarding single investments.

Based on the investment plan principles confirmed by the Supervisory Board e.g. the market risk of an investment is adjusted for the company's risk-bearing capacity, the expected return is to be maximised at the selected risk level and the development of technical provisions is taken into account in planning the time-frame for investments and their realisation. In addition, there must be sufficient spread to prevent the size of single risk concentrations from jeopardising the company's capacity to operate.

The Board of Directors further approved guidelines for investment risk management and principles pertaining to currency hedging, to derivatives and share lending.

According to the principles on directing investments approved by the Supervisory Board, Varma-Sampo is to invest profitably and securely, guided by a responsibility to society and clients, and only in companies that observe extant legislation, respect human worth, understand their responsibility regarding social and working conditions and take environmental protection aspects into account.

The Board of Directors approved Varma-Sampo ownership policy, according to which the company aims to secure the value and appreciation of the equities in its portfolio as well as fair dividend income. As a long-term owner, Varma-Sampo also trades actively in equities in a pursuit

of its financial targets. A further aim is to own equities only in companies that follow principles based on the ethical guidelines confirmed by the Supervisory Board.

In addition to conventional investments, Varma-Sampo employs e.g. asset management services and capital trust investments. Derivatives are used to a small degree for hedging purposes.

The current value of the company's investments at December 31st, 1999 was FIM 87.5 billion (FIM 76.6 billion). Net investment income at current values stood at FIM 9.1 billion (FIM 6.6 billion pro forma) i.e. 11.4% (9.3%).

The percentage of loans of the investment portfolio fell from 15% to 11% at current values. The year-end corporate loan portfolio totalled FIM 9.5 billion (FIM 11.1 billion). The proportion of loans tied to the TEL reference rate of interest increased, totalling FIM 5.0 billion (FIM 2.6 billion). The loan portfolio yielded a 4.8% return (5.5% pro forma).

Bonds accounted for FIM 41.0 billion (FIM 36.5 billion) or 47% (48%) of Varma-Sampo investment portfolio at current values at year-end 1999. Finnish Government bonds accounted for FIM 30.2 billion (FIM 32.6 billion), other domestic bonds FIM 3.8 billion (FIM 3.1 billion) and overseas bonds FIM 7.0 billion (FIM 0.8 billion).

As interest rates rose, for example the interest rate for 10-year government benchmark bonds increased by 1.5 percentage points to 5.5%, the bond portfolio's valuation difference sank close to zero. As a consequence, the return on bond investments at current values was negative FIM 0.7 billion or -1.7% (11.1% pro forma).

Money-market investments totalled FIM 5.9 billion (FIM 7.8 billion) or 6% (10%) of the investment portfolio, generating a return of 3.2% (3.6% pro forma).

The HEX index, which represents share price development on the Helsinki Exchanges, reached a record-high level during 1999, boosted mainly by telecommunications, electronics

and forest industry sectors. Meanwhile, the trend was declining in several sectors and for several companies. The current value of Varma-Sampo equities portfolio reached FIM 18.8 billion (FIM 9.6 billion) at the year-end i.e. 22% (12%) of the investment portfolio. Investments in overseas equities amounted to FIM 1.0 billion (FIM 0.7 billion). FIM 0.5 billion (FIM 0.2 billion) was allocated to capital trusts. The remaining investment obligations in capital trusts amounted to FIM 0.6 billion at year-end 1999. The return on equities investments was 80.8% at current values (14.7% pro forma).

Varma-Sampo Group largest equity investments are Nokia Group with a current value of FIM 3.9 billion, Sampo Insurance Company plc at FIM 2.8 billion, Sonera Corporation at FIM 1.5 billion and Sampo Life Insurance Company Limited at FIM 1.3 billion.

The current value of the shares in Sampo Life grew by FIM 0.9 billion during the year. The valuation of the shares takes into account the so-called moderation principle based on the Insurance Companies Act. Unless prevented by solvency requirements, a moderate proportion of surplus must be returned as additional benefits on insurance policies entitled to these benefits. Sampo Life aims to provide a minimum bonus on insurance savings entitled to profit distribution corresponding to the return on long-term bonds issued by the Finnish Government. Based on a principle confirmed by Sampo Life Board of Directors, shareholders are entitled to equity and an 80% proportion of the valuation difference not required to secure long-term operations.

Varma-Sampo real estate portfolio stood at FIM 12.2 billion (FIM 11.5 billion) at current values at the year-end. As in the 1998, real estate accounted for 14% of the investment portfolio. The largest real estate investments were Vasa-Sijoituskiinteistöt Oy, a wholly-owned subsidiary that owns some 200 retail and wholesale objects at a current value of some FIM 1.5 billion; hydro-power plants along the river Kymi valued at FIM 0.8 billion; Varma-Sampo headquarters valued at FIM 0.6 billion; and the Arabia Art and Multi-

media Complex valued at FIM 0.4 billion. Housing projects are under construction in e.g. Helsinki, Lahti and Tampere. In all, Varma-Sampo owns some 5,000 apartments for rent. The largest office construction projects were at Pitäjänmäki, Arabianranta and Ruoholahti in Helsinki. In addition, there were projects in e.g. the Lahti, Oulu, Tampere and Turku areas. Varma-Sampo is also one of the partners in Tiejhtiö Nelostie Oy that built the Lahti motorway. As a separate real estate strategy was completed, the current values of the real estate property were updated and a total of FIM 312 million (FIM 68 million) worth of value adjustments was made on real estate. On the other hand, real estate valuation differences grew by FIM 114 million (FIM 239 million). The return on real estate investments was 2.6% at current values (6.1% pro forma).

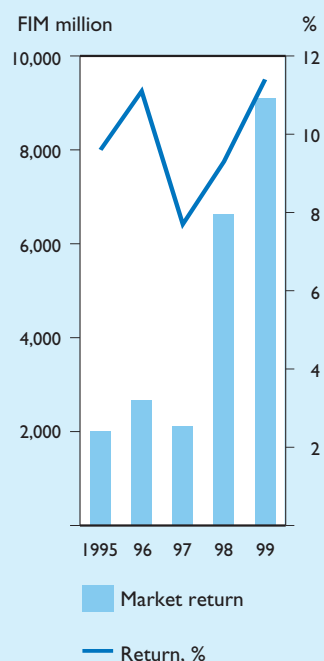
Operating expenses

Total operating expenses, depreciation on furniture and fixtures included, stood at FIM 332 million (FIM 275 million). Personnel and information management expenses related to the insurance portfolio and pensions account for the bulk of the operating expenses. Through Oy Eläkesysteemi Ab and Octel Oy, Varma-Sampo co-operates with several other pension institutions in planning and operating information systems. Varma-Sampo launched a project to develop its Internet services. An upgraded service was introduced on the World Wide Web during 1999 for e.g. reporting under the TEL system. As the scope and diversity of investment operations increased, the related personnel and information management costs grew.

Extensive changes were made and thorough tests conducted on the company's information management systems to achieve Y2K compliance, particularly in pension insurance systems, in co-operation with e.g. the affiliate Octel Oy. No IT problems were encountered at the beginning of the year 2000.

Varma-Sampo employed a year-end total of 601 people (571). The reorganisation in Summer

RETURN ON INVESTMENT ASSETS AT CURRENT VALUES



1998 was followed by an operational reorganisation, including major information management projects and rearrangement of office premises. The company headquarters were renovated in a move to house the majority of the personnel on the same premises.

Of the administrative costs included in the premium, a total of 78.7% (86.9%) was allocated to operating expenses funded from the administrative costs included in the premium. Operating expenses related to investment operations are covered by return on investment operations.

Introducing the euro

The euro was used in Varma-Sampo trading in investment markets in 1999. Moreover, Varma-Sampo was able to e.g. receive payments and payroll information related to employment contracts and provide print-outs related to insurance premiums and euro-denominated loans. The Finnish employment pension system will not adopt the euro until the beginning of the year 2000, however, as of which all earnings related pension companies will observe joint principles related to e.g. pension calculation and payment. Varma-Sampo annual results will be released in euro as of January 1st, 2002.

Annual General Meeting and administration

Votes at the Varma-Sampo Annual General Meeting are divided between policyholders in relation to premiums paid (c. 76%), the insured collectively (c. 21%) and the owner of the guarantee capital, Sampo Group (c. 3%).

The Annual General Meeting on April 29th, 1999 re-elected the following Supervisory Board members, whose terms were expiring, until the Annual General Meeting of 2002: Helena Rissanen, Seppo Berg, Juha Rantanen, Matti Kyytsönen, Erkki Etola, Ari Heiniö, Matti Honkala and Jan-Henrik Kulp. Moreover, Hans Olof Danielsson was re-elected until the Annual General Meeting of 2001. Felix Björklund resigned from the Supervisory Board. Mauri Palvi, Authorised Public Accountant, and Mikael Leskinen, Authorised Public Accountant, were elec-

ted as auditors and KPMG Wideri Oy Ab and Paula Pasanen, Authorised Public Accountant, as deputy auditors.

Of the Board members whose terms were expiring, the Supervisory Board on December 14th, 1999 re-elected Jarmo Lähteenmäki, Arto Ojala, Jouko K. Leskinen and Kari O. Sohlberg for a new term from January 1st, 2000 to December 31st, 2002. Mikko Mäenpää was elected as a Board member and 2nd Deputy Chairman for the period February 1st to December 31st, 2000, replacing Esa Swanljung, who resigned.

Future outlook

Systematic development of the pension scheme supports the management of pension payments in the short- and especially long-term. The amendments to the employment pension system introduced at the beginning of the year 2000 aim at postponing the average retirement age. Provided that the economy continues to boom, employment is forecast to improve, further boosting the Finnish economy's capacity. There will be no pressure for premium increases in the near future.

Fluctuations in interest rates and particularly in share prices will continue to play a key role in the company's results and solvency. The worldwide and extended economic upswing has significantly boosted the values of several asset types, while increasing the risk of a decline in asset values and return on investments. A 1% increase in interest rates would reduce Varma-Sampo result at current values and solvency by approximately FIM 1.7 billion. Similarly, a 20% decline in share prices would result in a FIM 4 billion reduction.

Varma-Sampo solvency and risk-carrying capacity are good at the start of the year 2000. This has provided us with an excellent opportunity to diversify our investments and to follow our goal of spreading investment risk still further.

PROFIT AND LOSS ACCOUNT

Jan. 1st to Dec. 31st, FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
Technical account				
Premiums written	12,340.5	8,474.8	12,340.5	8,474.8
Investment income	6,220.1	3,159.6	6,111.5	3,258.7
Refund from provision for joint liability	84.2	34.8	84.2	34.8
Payments toward joint liability	-127.5	30.2	-127.5	30.2
Claims incurred				
Claims paid	-10,187.6	-7,012.3	-10,187.6	-7,012.3
Change in claims reserve	-1,810.1	-14,377.9	-1,810.1	-14,377.9
Liability transfer	131.7	130.1	131.7	130.1
Portfolio transfer		13,042.4		13,042.4
	-11,866.0	-8,217.7	-11,866.0	-8,217.7
Change in premium reserve				
Total change	-5,246.7	-30,310.9	-5,246.7	-30,310.9
Liability transfer	285.5	287.3	285.5	287.3
Portfolio transfer		28,283.4		28,283.4
	-4,961.2	-1,740.2	-4,961.2	-1,740.2
Change in uncovered provision				
Obligatory uncovered provisions				
Total change	-213.1	111.1	-213.1	111.1
Liability transfer	-3.8	-2.0	-3.8	-2.0
Portfolio transfer		-247.3		-247.3
	-216.9	-138.2	-216.9	-138.2
Statutory charges	8.0	-13.6	8.0	-13.6
Net operating expenses	-226.1	-190.3	-226.1	-190.3
Investment charges	-1,285.6	-1,485.3	-1,297.1	-1,674.7
Technical underwriting result	<u>-30.5</u>	<u>-85.9</u>	<u>-150.6</u>	<u>-176.2</u>
Non-technical account				
Direct taxes on ordinary activities				
Taxes for the financial year	-38.6	-12.8	-38.7	-23.3
Taxes from previous financial years			0.1	3.5
Share of associated undertakings' profit after tax			346.2	-9.3
Profit on ordinary activities	-69.1	-98.8	156.9	-205.3
Increase (-)/decrease (+) in depreciation difference	17.8	22.7	35.5	65.7
Increase (-)/decrease (+) in optional reserves	72.0	93.0	71.0	92.6
Profit/loss for the financial year before minority interest	20.7	16.9	263.4	-47.0
Minority interest in the result for the financial year			3.1	-1.7
Profit/loss for the financial year	<u>20.7</u>	<u>16.9</u>	<u>266.6</u>	<u>-48.7</u>

BALANCE SHEET

Dec. 31st, FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
ASSETS				
Intangible assets				
Other expenses with long-term effects	7.3	3.8	7.3	3.8
Investments				
Investments in land and buildings				
Land and buildings	6,733.3	6,023.0	11,142.4	10,668.3
Loans	4,630.7	4,728.4	39.3	11.2
	11,364.0	10,751.4	11,181.7	10,679.5
Investments in associated undertakings and participating interests				
Shares and participation in associated undertakings and participating interests	2,228.8	1,963.3	3,432.5	3,273.4
Loans	1,020.0	1,025.2	20.0	25.2
	3,248.8	2,988.5	3,452.5	3,298.6
Other financial investments				
Equities	8,838.3	6,473.9	9,130.3	6,756.6
Money-market instruments	46,776.3	41,072.1	46,776.3	41,072.1
Loans guaranteed by mortgages	1,272.5	3,158.9	1,272.5	3,158.9
Other loans	7,236.0	7,004.3	7,243.3	7,012.2
Deposits	93.0	664.0	93.0	664.0
	64,216.1	58,373.3	64,515.5	58,663.9
	78,829.0	72,113.2	79,149.7	72,642.0
Uncovered liabilities				
Obligatory uncovered liabilities	184.4	397.4	184.4	397.4
Other uncovered liabilities		3.3		3.3
	184.4	400.7	184.4	400.7
Debtors				
Direct insurance operations				
Policyholders	358.9	369.3	358.9	369.3
Other debtors				
Receivable, portfolio transfer	912.8	1,178.7	912.8	1,178.7
Other debtors	39.0	46.5	31.8	37.1
	1,310.7	1,594.5	1,303.5	1,585.1
Other assets				
Tangible assets				
Furniture and fixtures	45.4	50.3	45.4	50.3
Other tangible assets	2.8	2.8	2.8	2.8
	48.2	53.1	48.2	53.1
Liquid assets	61.0	53.5	133.5	186.7
	109.2	106.6	181.7	239.8
Pre-payment and accrued income				
Accrued interest and rent	1,860.5	1,961.0	1,818.9	1,932.5
Other pre-payments and accrued income	1,456.7	1,448.5	1,495.1	1,476.5
	3,317.2	3,409.6	3,314.0	3,409.0
TOTAL ASSETS	83,757.8	77,628.4	84,140.6	78,280.3

Dec. 31st, FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
LIABILITIES				
Capital and reserves				
Restricted				
Guarantee capital	71.0	71.0	71.0	71.0
	71.0	71.0	71.0	71.0
Non-restricted				
Non-restricted reserves				
Security fund	16.8		16.8	
Profit/loss brought forward	0.2	0.1	-123.9	-58.4
Profit/loss for the financial year	20.7	16.9	266.6	-48.7
	37.7	17.0	159.5	-107.1
	108.7	88.0	230.5	-36.1
Minority interest			177.9	632.0
Untaxed reserves				
Accumulated depreciation difference	34.6	52.4	97.6	130.0
Optional reserves	144.1	216.1	173.2	244.1
	178.7	268.5	270.7	374.1
Technical provisions				
Premium reserve	56,340.8	51,094.1	56,340.8	51,094.1
Claims reserve	26,471.3	24,661.2	26,471.3	24,661.2
	82,812.1	75,755.3	82,812.1	75,755.3
Deposits received from reinsurers	0.2	0.5	0.2	0.5
Creditors				
Other creditors	45.1	46.5	24.4	27.6
Accruals and deferred income	613.0	1,469.6	624.8	1,526.9
TOTAL LIABILITIES	83,757.8	77,628.4	84,140.6	78,280.3

ACCOUNTING PRINCIPLES

The bookkeeping and annual accounts of an insurance company are regulated by the Finnish Act on Employment Pension Insurance Companies, Insurance Companies Act, Accounting Act, Companies Act, and the instructions, regulations and guidelines issued by the Insurance Supervision Authority of the Ministry of Social Affairs and Health. The annual accounts have been compiled in accordance with these regulations. Based on the transitional provision, the new instructions, regulations and guidelines issued by the Ministry of Social Affairs and Health and the Insurance Supervision Authority at year-end 1999 have not been applied.

Consolidated accounts

Those subsidiaries in which the Group holds more than 50% of the votes have been consolidated in the consolidated accounts, with the exception of Pensionservice Ltd., Rahastopalvelu RP Oy and Oy Eläkesysteemi Ab, which have been consolidated by use of the equity method. The parent company has 209 real estate companies as subsidiaries. In addition, the subsidiary Vasa-Sijoituskiinteistöt Oy has 36 real estate subsidiaries and the subsidiary El-Sam Asunnot Oy has five.

The consolidated accounts have been compiled as combinations of the profit and loss accounts and balance sheets of the parent company and its subsidiaries, from which intra-group income and charges, profit distribution, amounts due to or from Group companies and cross-shareholdings have been eliminated. Subsidiaries acquired during the year are consolidated as from the day of acquisition. Minority interests in the profit or loss for the financial year and in capital and reserves are shown as separate items.

Intra-group cross-shareholdings have been eliminated using the acquisition method. The resulting consolidation difference is allocated to subsidiaries' asset items within the limits permitted by their current values, and depreciated in accordance with the depreciation plans of these asset items. In addition to the planned depreciation for the financial year, value adjustment write-offs have been made in the case of some real estate objects. Revaluations on Group shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary. No such adjustments were made in 1999.

The companies comprised in Varma-Sampo's consolidated accounts are listed in the notes to the accounts.

Investments in participating interests

Companies intended for long-term holding in which the Group holds 20-50% of votes are included in the consolidated accounts using the equity method. Housing and real estate companies have not been treated as associated undertakings, however. Since the expenses arising from these companies are covered by the maintenance charges collected from their owners, their non-inclusion has a minimal effect on Group profit and non-restricted capital and reserves.

The most significant associated undertakings are Sampo Insurance Company plc, 22.3% of the final accounts of which have been consolidated on the basis of shareholding, and Sampo Life Insurance Company Limited, in which the Group's holding is 35.2%. As both companies are significant investments from Varma-Sampo's perspective, the differ-

ence between the acquisition price of their shares and their capital and reserves on the acquisition day is depreciated over 20 years.

Investments in associated undertakings are presented in the Notes to the balance sheet.

Valuation and matching of investments and their current values

Investments in land and buildings are entered at the lower of acquisition cost less depreciation, plus revaluation or current value. The probable current value of hydro-power plants has been determined using repurchase option prices based on long-term real-yield lease-back arrangements. The sellers of hydro-power plants have a repurchase right at these prices once the lease period ends. The current values of land and buildings and real estate shares are determined per item in the manner required by the Ministry of Social Affairs and Health, on the basis of opinions submitted by an expert appraiser. The current value of investments in land and buildings is estimated annually. The current values of Arava (state-subsidised) real estate have been derived from market prices in accordance with a circular from the Ministry of Social Affairs and Health.

No real estate revaluations have been entered for 1999. The value adjustments of FIM 311.6 million made are entered in the profit and loss account under value adjustments.

Equities are entered at the lower of acquisition cost or current value. Previous value adjustments on securities are entered in the profit and loss account as value readjustments in respect of the value appreciation (FIM 461.1 million).

A value depreciation of FIM 54.6 million was entered simultaneously. The last available closing prices at the balance sheet date are used as current values for listed securities. The current value of other shares is the purchase price or the probable net realisable value. The average price principle is used in calculating the capital gains on securities for investment.

Money-market instruments are entered in the balance sheet at acquisition cost, adjusted with the difference between the acquisition cost and the nominal value. The allocation is entered as a deduction or addition in interest income over the maturity of the debt instrument. The amount of allocations entered under acquisition cost is shown in the notes to the balance sheet. Changes in value due to interest rate fluctuations are not entered.

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value has been entered in the profit and loss account for the hedged balance sheet item, no entry has been recorded in the profit and loss account for the hedging contract, unless the negative value change exceeds the positive value change in the hedging contract. When a value readjustment has been entered for the hedged item, the value change of the derivative used is entered in its entirety as an expense. Closed derivative contracts have been entered in the profit and loss account in the closing of the accounts. Resulting income and expenses are entered as adjustments in value adjustments and readjustments. Income and expenses from interest rate derivatives are entered under interest income. The entries which have an impact on result total FIM -232.3 million.

Premium receivables, loans, other receivables and deposits are valued at the lower of nominal value or probable value.

Foreign currency denominated investments are entered at the rate of the day of transaction, and the Bank of Finland average rate quoted on the balance sheet date is used as the current value. Exchange rate gains and losses are entered in the profit and loss account as adjustments of income or expenses according to the matching principle.

The current value and valuation difference of investments are shown in the notes to the balance sheet.

Depreciation

The acquisition cost of depreciable investments is capitalised and entered as depreciation under expenses during its economic useful life. Depreciation is made according to plan. In some items, value adjustment write-offs have been included. The straight-line depreciation method is applied using the following economic useful lives:

Residential, office and business premises, hotels	40-60 years
Industrial premises and warehouses	25-50 years
Hydro-power plant buildings	70 years
Hydro-power plant machinery and equipment	30 years
Technical equipment in buildings	10 years
Computer hardware, software, motor vehicles	5 years
Furniture and fixtures	10 years
Office machines	7 years
Furniture and fixtures at Dec. 31st, 1997	3 years
Other long-term expenses	5-10 years

The maximum depreciation allowed under the Act on the Taxation of Business Profits has been made in the case of some buildings.

As a general rule, the depreciation period of the buildings of Vasa-Sijoituskiinteistöt Oy Group is 30 years, and, if the useful life is less than 20 years, a 7% net expenditure write-off has been applied as the depreciation plan.

Tax on profit

Tax complying with the tax calculation of the tax form is entered as tax for the financial year on an accrual basis. The avoifiscal tax credit related to dividends received is entered under investment income and presented in the investment income analysis in the notes. Dividends and avoifiscal tax credit are recorded for the financial year in which the dividend distribution was decided. The tax credit is not, however, entered in an amount exceeding the income tax for the financial year.

Pension arrangements

The statutory and supplementary pension coverage for the personnel is arranged through TEL insurance. The Managing Director and his deputy are entitled to retire at the age of 60 as separately agreed. Pension premiums are entered on an accrual basis.

NOTES TO THE PROFIT AND LOSS ACCOUNT

FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
PREMIUMS WRITTEN				
Direct insurance				
TEL basic insurance				
Employer contribution	9,125.6	6,184.8	9,125.6	6,184.8
Employee contribution	2,553.0	1,730.3	2,553.0	1,730.3
Additional premium collected to amortise uncovered provisions*	8.7	3.3	8.7	3.3
	<u>11,687.3</u>	<u>7,918.4</u>	<u>11,687.3</u>	<u>7,918.4</u>
TEL supplementary coverage	160.6	89.3	160.6	89.3
YEL minimum coverage	588.4	557.2	588.4	557.2
YEL supplementary coverage	1.4	0.9	1.4	0.9
Transition premium to the State Pension Fund	-10.1	-5.3	-10.1	-5.3
	<u>12,427.6</u>	<u>8,560.6</u>	<u>12,427.6</u>	<u>8,560.6</u>
Reinsurance	0.4	0.3	0.4	0.3
Gross premiums written	<u>12,428.0</u>	<u>8,560.8</u>	<u>12,428.0</u>	<u>8,560.8</u>
Credit loss on premiums	-83.2	-81.0	-83.2	-81.0
Premiums written before outward reinsurance premiums	<u>12,344.8</u>	<u>8,479.9</u>	<u>12,344.8</u>	<u>8,479.9</u>
Reinsurers' share	-4.3	-5.1	-4.3	-5.1
Total premiums written	<u><u>12,340.5</u></u>	<u><u>8,474.8</u></u>	<u><u>12,340.5</u></u>	<u><u>8,474.8</u></u>
* including employer and employee contributions				
CLAIMS PAID				
Direct insurance				
Paid to pensioners				
TEL basic insurance	10,058.5	6,790.9	10,058.5	6,790.9
TEL supplementary coverage	506.9	294.4	506.9	294.4
YEL and MYEL minimum coverage	822.7	785.5	822.7	785.5
YEL supplementary coverage	1.6	1.5	1.6	1.5
	<u>11,389.7</u>	<u>7,872.3</u>	<u>11,389.7</u>	<u>7,872.3</u>
Payments/refunds from provision for joint liability				
TEL pensions	-1,041.1	-685.6	-1,041.1	-685.6
YEL pensions	-230.1	-225.2	-230.1	-225.2
	<u>-1,271.2</u>	<u>-910.8</u>	<u>-1,271.2</u>	<u>-910.8</u>
Reinsurance	-0.1	0.3	-0.1	0.3
	<u>10,118.4</u>	<u>6,961.7</u>	<u>10,118.4</u>	<u>6,961.7</u>
Working capacity maintenance expenses	6.9	3.5	6.9	3.5
Claims management expenses	63.6	50.9	63.6	50.9
Claims paid before reinsurers' share	<u>10,188.9</u>	<u>7,016.1</u>	<u>10,188.9</u>	<u>7,016.1</u>
Reinsurers' share	-1.3	-3.9	-1.3	-3.9
Total claims paid	<u><u>10,187.6</u></u>	<u><u>7,012.3</u></u>	<u><u>10,187.6</u></u>	<u><u>7,012.3</u></u>

FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
NET INVESTMENT INCOME				
Investment income				
Income from associated undertakings				
Interest income	55.8	28.6	0.8	28.6
Income from investment in participating interests				
Dividend income	25.6			
Interest income	1.2	0.1	8.0	0.1
	26.8	0.1	8.0	0.1
Income from real estate investment				
Interest income				
From associated undertakings	226.4	199.5		
Other	21.9	17.9	15.9	13.7
Other income	647.6	420.1	698.4	458.8
	895.9	637.5	714.3	472.5
Income from other investments				
Dividend income	356.3	99.7	336.1	120.2
Interest income	2,655.6	2,028.0	2,658.4	2,035.3
Other income	48.9	14.1	213.1	249.9
	3,060.8	2,141.8	3,207.6	2,405.4
Total	4,039.3	2,808.0	3,930.7	2,906.6
Value readjustments	461.0	9.8	461.0	9.8
Gains on realisation	1,719.8	341.8	1,719.8	342.3
Total investment income	<u>6,220.1</u>	<u>3,159.6</u>	<u>6,111.5</u>	<u>3,258.7</u>
Investment charges				
Charges on real estate investments	-355.8	-283.5	-169.9	-129.7
Charges on other investments	-89.0	-61.8	-113.9	-213.6
Interest charges and other charges on liabilities	-32.4	-21.5	-33.0	-35.4
	-477.2	-366.8	-316.8	-378.7
Value adjustments and depreciation				
Value adjustments	-555.6	-1,064.6	-574.5	-1,075.4
Planned depreciation on buildings	-55.2	-46.5	-208.2	-213.2
	-610.8	-1,111.2	-782.7	-1,288.6
Losses on realisation	-197.7	-7.4	-197.7	-7.4
Total investment charges	<u>-1,285.6</u>	<u>-1,485.3</u>	<u>-1,297.2</u>	<u>-1,674.6</u>
Net investment income in the profit and loss account	<u>4,934.5</u>	<u>1,674.3</u>	<u>4,814.4</u>	<u>1,584.0</u>
Avoir fiscal tax credit included in dividend income	38.7	12.9	38.7	12.9

FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
TOTAL OPERATING EXPENSES BY OPERATION				
Claims paid				
Expenses related to claims administration	63.6	50.9	63.6	50.9
Working capacity maintenance expenses	6.9	3.5	6.9	3.5
	<u>70.5</u>	<u>54.4</u>	<u>70.5</u>	<u>54.4</u>
Operating expenses	226.1	190.3	226.1	190.3
Investment charges				
Costs on real estate investment	13.0	9.1	13.0	9.1
Other investment charges	30.3	24.5	30.3	24.5
	<u>43.3</u>	<u>33.5</u>	<u>43.3</u>	<u>33.5</u>
Total	<u>339.9</u>	<u>278.2</u>	<u>339.9</u>	<u>278.2</u>
DEPRECIATION BY OPERATION				
Claims paid	1.2	3.1	1.2	3.1
Operating expenses	16.4	8.1	16.4	8.1
Investment charges	1.1	1.4	1.1	1.4
Total	<u>18.7</u>	<u>12.6</u>	<u>18.7</u>	<u>12.6</u>
PERSONNEL EXPENSES				
Wages, salaries and bonuses	112.6	90.1	112.6	90.1
Tax value on fringe benefits	2.4	2.3	2.4	2.3
Pension expenses	21.8	18.5	21.8	18.5
Other social expenses	18.6	14.3	18.6	14.3
Total	<u>155.4</u>	<u>125.2</u>	<u>155.4</u>	<u>125.2</u>
of which paid to the Board of Directors, Supervisory Board and Managing Director	<u>2.5</u>	<u>2.1</u>	<u>2.5</u>	<u>2.1</u>
There are no pension commitments for members of the Supervisory Board and the Board of Directors with the exception of the Managing Director and his deputy who are entitled for retirement at age 60.				
Average number of personnel during the financial year	597	445	597	445
OPERATING EXPENSES				
Insurance acquisition costs				
Commissions, direct insurance	5.5	4.7	5.5	4.7
Other insurance acquisition costs	11.2	14.5	11.2	14.5
	<u>16.7</u>	<u>19.2</u>	<u>16.7</u>	<u>19.2</u>
Insurance policy management expenses	133.2	105.8	133.2	105.8
Other management expenses	76.2	65.3	76.2	65.3
Total	<u>226.1</u>	<u>190.3</u>	<u>226.1</u>	<u>190.3</u>

NOTES TO THE BALANCE SHEET

INVESTMENTS, PARENT COMPANY CURRENT VALUE ON INVESTMENTS AND VALUATION DIFFERENCES

FIM million	Remaining acquisition cost 1999	Book value 1999	Current value 1999	Remaining acquisition cost 1998	Book value 1998	Current value 1998
Investments in land and buildings						
Land and buildings	3,286.9	3,158.9	3,428.3	2,783.1	2,911.1	3,153.0
Shares in associated undertakings	3,104.1	3,055.1	3,657.4	2,633.5	2,682.5	3,194.7
Other real estate shares	347.9	347.9	368.7	321.1	321.1	344.8
Shares in real estate investment companies	171.4	171.4	180.2	108.3	108.3	117.1
Loans to associated undertakings	4,284.7	4,284.7	4,284.7	4,717.2	4,717.2	4,717.2
Debtors, real estate companies	346.0	346.0	346.0	11.2	11.2	11.2
Investments in associated undertakings and in significant participating interests						
Shares and participations	2,228.8	2,228.8	3,224.5	1,963.3	1,963.3	1,799.7
Loans	1,020.0	1,020.0	1,020.0	1,025.2	1,025.2	1,025.2
Other investments						
Equities	8,838.3	8,838.3	15,615.3	6,473.9	6,473.9	7,764.5
Money-market instruments	46,776.3	46,776.3	46,782.0	41,072.1	41,072.1	43,660.5
Loans guaranteed by mortgages	1,272.5	1,272.5	1,272.5	3,158.9	3,158.9	3,158.9
Other loans	7,236.0	7,236.0	7,236.0	7,004.3	7,004.3	7,004.3
Deposits	93.0	93.0	93.0	664.0	664.0	664.0
	<u>79,005.9</u>	<u>78,828.9</u>	<u>87,508.5</u>	<u>71,936.2</u>	<u>72,113.2</u>	<u>76,615.2</u>
The remaining acquisition cost of money-market instruments includes the difference between the nominal value and acquisition cost, released to interest income or charged to interest income				<u>-739.0</u>		
	<u>-1,344.1</u>					
Book value includes						
Revaluations entered as income		173.0			173.0	
Other revaluations		<u>4.0</u>			<u>4.0</u>	
		<u>177.0</u>			<u>177.0</u>	
Valuation difference (difference between current value and book value)			<u>8,679.5</u>			<u>4,502.0</u>

INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND
SIGNIFICANT PARTICIPATING INTERESTS, PARENT COMPANY

FIM million	1999	1998
Loans		
Original acquisition cost, Jan. 1st	1,025.2	2.0
Increase		1,023.4
Decrease	<u>-5.2</u>	<u>-0.3</u>
Remaining acquisition cost, Dec. 31st	<u>1,020.0</u>	<u>1,025.2</u>
Shares and participations		
Original acquisition cost, Jan. 1st	1,963.3	5.1
Increase	355.0	1,958.2
Decrease	<u>-89.5</u>	
Remaining acquisition cost, Dec. 31st	<u>2,228.8</u>	<u>1,963.3</u>

Shares and participations, Dec. 31st, 1999	Parent company holding, %	Group* holding, %	Book value	Profit/loss	Capital and reserves
Sampo Life Insurance Company Ltd, Group	35.2	35.2	373.6	118.1	933.7
Sampo Insurance Company plc, Group **	6.9	22.4	737.1	707.7	4,508.4
Oy Eläkesysteemi Ab	65.0	69.0	2.0	-3.3	0.7
Pensionservice Ltd	84.6	84.6	1.0	0.2	3.7
Kiinteistövarma Oy	49.6	49.6	0.4		1.1
Octel Oy	47.3	50.0	10.4	2.0	23.2
Rahastopalvelu RP Oy	30.0	80.0	0.1	0.1	0.5
Unsa Ltd	100.0	100.0	1,082.3	-8.0	857.5
Sampo-Varma Investment Research Oy	50.0	50.0	5.7	0.1	11.5
Kaleva Mutual Insurance Company	30.0	50.0	15.6		
SV Benefic Oy	28.0	47.0	0.4		
Other			0.2		
			<u>2,228.8</u>		

* Total shares held by parent company and subsidiaries

** Profit/loss and capital and reserves from 1998

LIABILITIES

	1999	1998
Investment commitments		
Commitments to subscribe to shares in capital trusts	1,135.9	712.0
Derivative contracts		
Currency contracts		
Currency futures contracts, underline instrument current value	320.6 -1.2	170.3 -0.9

As the exchange rate differences of balance sheet items are entered into the profit and loss account, the valuation differences of currency futures contracts are treated in the same manner. Currency futures contracts are hedging items.

OTHER INVESTMENTS, PARENT COMPANY at Dec. 31st, 1999

Shares and participations

	% of shares	% of votes	Book value, FIM m		% of shares	% of votes	Book value, FIM m
Banks and finance				HK Ruokatalo Oyj	3.3	0.6	9.5
Merita Bank plc	1.3	1.3	346.4	Huhtamäki Van Leer Oyj	2.3	2.3	141.7
				Lännen Tehtaat plc	2.8	2.8	11.0
Insurance				Olvi plc	4.5	1.0	11.3
Pohjola Group Insurance Corporation	0.2	0.4	28.6	Raisio Group plc	0.4	0.1	17.1
Investment				Construction			
Kiinteistösjoiutus Oyj Citycon	0.9	0.9	6.3	Lemminkäinen Corporation	2.6	2.6	23.0
Technopolis Oulu Oyj	3.0	3.0	5.1	YIT Corporation	0.8	0.8	14.1
Transport				Telecommunication and electronics			
Finnair Oyj	0.5	0.5	10.3	Aspocomp Group Oyj	6.6	6.6	63.2
Finnlines Plc	4.2	4.2	154.5	Comptel Plc	1.6	0.3	7.9
Trade				Eimo Oyj	0.9	0.2	10.6
Kesko Corporation	1.7	0.4	112.1	Elcoteq Network Corporation	0.7	0.1	8.0
Stockmann plc	2.0	3.7	97.3	F-Secure Corporation	0.1	0.1	1.1
Tamro Corporation	2.1	2.1	43.7	Helsinki Telephone Corporation	0.4	0.4	33.3
Other services				HPY Holding Corporation	1.1	1.1	109.0
A-Rakennusmies Oyj	0.9	0.9	3.4	Instrumentarium Corporation	3.0	3.0	139.6
Aldata Solution Oyj	1.8	1.8	6.4	JOT Automation Group Plc	2.2	2.2	41.7
Jaakko Pöyry Group Oyj	3.0	3.0	28.8	Nokia Group	0.3	0.3	587.4
Novo Group Plc	6.4	6.4	64.6	Perlos Corporation	1.9	1.9	75.7
Tietoenator Corporation	1.4	1.4	200.1	PKC Group Oyj	1.5	1.5	7.7
Metal and engineering				PMJ automec Oyj	0.8	0.8	7.5
Fiskars Corporation	4.3	5.6	171.2	Sonera Corporation	0.5	0.5	413.5
KCI Konecranes International Abp	1.6	1.6	47.3	Teleste Corporation	4.5	4.5	36.3
Metra Corporation	2.6	4.2	155.2	Vaisala Oyj	3.9	0.8	71.6
Metso Corporation	2.7	2.7	285.7	Chemicals			
Outokumpu Oyj	1.8	1.8	170.7	Asko Oyj	5.3	5.3	163.3
Partek Corporation	2.4	2.4	92.1	Kemira Oyj	1.8	1.8	84.5
Rautaruukki Corporation	3.7	3.7	212.6	Orion Corporation	3.0	4.6	282.4
Raute Plc	9.9	1.6	19.0	Media and publishing			
Forest industry				Alma Media Corporation	6.0	3.9	151.9
Metsä-Serla Corporation	2.0	6.8	151.8	Janton Oyj	0.8	0.8	3.9
Stora-Enso Oyj	1.2	3.5	551.5	Sanoma-WSOY Oyj	0.5	0.1	47.5
UPM-Kymmene Corporation	1.2	1.2	421.3	Talentum Oyj	0.4	0.4	4.1
Multi-business				Other industries			
Aspo Plc	5.7	5.7	9.4	Amer Group Plc	0.5	0.5	12.1
Finvest Oyj	6.2	1.2	19.8	Nokian Tyres Ltd	2.7	2.7	52.6
Hackman Oyj Abp	4.2	0.9	16.4	Rapala Corporation	1.4	1.4	12.1
Kyro Corporation	0.9	0.9	11.2	Sanitec Corporation	2.9	2.9	125.7
Lassila & Tikanoja plc	3.9	3.9	77.4	Tamfelt Corporation	6.1	9.1	73.4
Energy				I-list			
Fortum Corporation	1.1	1.1	226.1	Exel Oyj	4.4	4.4	7.0
Länsivoima Oyj	5.3	5.3	93.1	Martela Oyj	1.4	0.4	5.0
Food industry				Stonesoft Oyj	0.7	0.7	6.9
Atria Oyj	1.2	0.2	4.7	Suomen Helasto Oyj	3.2	3.2	2.0
Hartwall plc	0.1	0.0	6.1	NM-list			
				Oyj Liinos Abp	1.3	1.3	8.5
				Proha Plc	1.7	1.7	2.9

	% of shares	% of votes	Book value, FIM m		% of shares	% of votes	Book value, FIM m
SysOpen plc	1.7	1.7	7.9	Carrefour SA, France	0.01	0.01	11.8
TH Tiedonhallinta Oyj	2.0	2.0	5.2	Castorama Dubois, France	0.02	0.02	11.9
Tieto-X Oyj	2.8	2.8	5.7	Citigroup Inc, USA	0.00	0.00	5.4
TJ Group Plc	0.5	0.5	4.2	Clariant AG, Switzerland	0.02	0.02	7.7
				Credit Suisse Group, Switzerland	0.00	0.00	6.2
Other				DaimlerChrysler AG, Germany	0.00	0.00	5.1
A. Ahlstrom Corporation	3.3	0.6	143.6	Danisco, Denmark	0.11	0.11	14.3
Aktia Sparbank Abp	1.0	1.0	5.0	Danone, France	0.00	0.00	4.1
Fingrid Oyj	12.5	5.5	83.0	Deutsche Bank NPV Regd, Germany	0.00	0.00	8.9
Garantia Insurance Company Ltd	16.9	16.9	41.9	Deutsche Lufthansa AG, Germany	0.00	0.00	2.9
Helsinki Exchanges Group Ltd	1.9	1.9	13.5	Electrolux B, Sweden	0.05	0.05	19.7
Jyväs-Helmi Oy	16.0	16.0	51.9	Elsevier, the Netherlands	0.03	0.03	13.6
Kustannusosakeyhtiö Otava	13.9	13.9	52.6	Equant N.V., the Netherlands	0.01	0.01	7.8
Nordben Life and Pension				Ericsson B, Sweden	0.01	0.01	33.1
Insurance Company Ltd, Guernsey	10.0	10.0	4.6	Exxon Mobil Corp, USA	0.00	0.00	6.4
Oy Palace Hotel Ab	5.2	5.2	1.0	Fortis (NV) NL, the Netherlands	0.01	0.01	7.1
Setec Oy	9.9	9.9	13.1	France Telecom SA, France	0.00	0.00	4.8
Tornator Oy	7.7	7.7	40.0	General Electric, USA	0.00	0.00	4.4
WD Power Management Oy	13.0	13.0	0.0	Glaxo Wellcome Plc, United Kingdom	0.00	0.00	19.8
Other			8.8	Granada Group Plc, United Kingdom	0.00	0.00	4.3
				Hays Plc, United Kingdom	0.01	0.01	4.8
Foreign shares				Hennes & Mauritz AB, Sweden	0.00	0.00	4.3
ABB LTD, Switzerland	0.01	0.01	8.2	ING Groep N.V., the Netherlands	0.00	0.00	5.1
Abbott Laboratories, USA	0.00	0.00	2.0	Intel Corp, USA	0.00	0.00	6.0
ABN-Amro Holding, the Netherlands	0.00	0.00	6.4	Johnson & Johnson, USA	0.00	0.00	3.4
Adecco SA, Switzerland	0.02	0.02	10.8	JP Morgan, USA	0.00	0.00	4.3
Aegon N.V., the Netherlands	0.00	0.00	5.2	Kingfisher Plc, United Kingdom	0.01	0.01	5.1
Ahold NV, the Netherlands	0.00	0.00	5.3	L.V.M.H., France	0.00	0.00	7.3
Air Liquide, France	0.00	0.00	1.3	Lafarge SA, France	0.02	0.02	12.9
Alcatel, France	0.00	0.00	3.7	Laurus NV, the Netherlands	0.04	0.04	5.3
Allied Irish Banks Plc, Ireland	0.01	0.01	4.1	Lloyds TSB Group Plc, United Kingdom	0.00	0.00	8.2
Alpha Credit Bank S.A, Greece	0.01	0.01	3.8	Lucent Technologies Inc, USA	0.00	0.00	6.0
American Electric Power, USA	0.00	0.00	1.6	Mannesmann AG, Germany	0.01	0.01	24.6
American Express, USA	0.00	0.00	3.1	Marschollek (MLP) Priv, Germany	0.02	0.02	2.9
Argentaria, Caja Postal y Banco Hipotecario de Espana.S.A., Spain	0.00	0.00	2.8	Mediaset SpA, Italy	0.00	0.00	3.1
Assa Abloy B, Sweden	0.07	0.07	11.5	Merck & Co, USA	0.00	0.00	3.2
Atlas Copco A, Sweden	0.04	0.04	7.9	Metro AG, Germany	0.00	0.00	2.9
Autoliv, Sweden	0.06	0.06	7.9	Microsoft Corp, USA	0.00	0.00	7.1
Aventis-Xetra, France	0.01	0.01	16.1	Mobistar SA, Belgium	0.04	0.04	1.1
AXA UAP, France	0.01	0.01	13.4	National Westminster Bank Plc, United Kingdom	0.00	0.00	5.7
Banco Santander Central Hispano S.A., Spain	0.00	0.00	4.4	Novartis AG, Switzerland	0.00	0.00	4.2
Banque Nationale de Paris, France	0.00	0.00	11.3	Novo Nordisk B, Denmark	0.03	0.03	16.7
Barclays Bank Plc, United Kingdom	0.01	0.01	12.2	Orkla A, Norway	0.06	0.06	8.8
BASF, Germany	0.00	0.00	3.9	Pharmasia B F, Sweden	0.01	0.01	8.0
BBA Group Plc, United Kingdom	0.02	0.02	3.3	Philips Electronics NV, the Netherlands	0.01	0.01	17.8
Bergesen B, Norway	0.13	0.13	6.8	Pinault-Printemps-Redoute SA, France	0.01	0.01	5.9
BP Amoco Plc, United Kingdom	0.00	0.00	15.3	Porsche AG, Germany	0.04	0.04	5.0
British Aerospace Plc, United Kingdom	0.01	0.01	4.5	Preussag AG, Germany	0.01	0.01	3.8
British Sky Broadcasting Group Plc, United Kingdom	0.01	0.01	7.7	PT Multimedia Servicos, Portugal	0.04	0.04	8.0
British Telecommunications Plc, United Kingdom	0.00	0.00	19.6	Rentokil Initial Plc, United Kingdom	0.00	0.00	2.6
				Roche Genusscheine (PTG Certs), Switzerland	0.00	0.00	10.2

	% of shares	% of votes	Book value, FIM m	Book value, FIM m
Royal Bank of Scotland Plc, United Kingdom	0.00	0.00	2.9	51.1
Royal Dutch Petroleum Company, the Netherlands	0.00	0.00	22.3	178.4
SAP AG, Germany	0.01	0.01	7.8	10.3
Schneider Electric SA, France	0.01	0.01	8.8	28.3
SGL Carbon AG, Germany	0.07	0.07	6.1	14.3
Shell Transport & Trading Plc, United Kingdom	0.00	0.00	5.6	0.8
Siemens AG, Germany	0.00	0.00	8.8	27.0
Skandia Fria, Sweden	0.01	0.01	3.4	3.6
Smedvik B, Norway	0.24	0.24	3.9	3.0
Smithkline Beecham Plc, United Kingdom	0.00	0.00	14.1	
Societe Generale, France	0.07	0.07	3.0	
Stagecoach Holdings Plc, United Kingdom	0.01	0.01	2.4	
Standard Chartered Plc, United Kingdom	0.01	0.01	8.6	
STMicroelectronics NV, the Netherlands	0.00	0.00	3.4	
Suez Lyonnais Des Eaux, France	0.03	0.03	4.7	
Swiss Reinsurance, Switzerland	0.00	0.00	3.6	
Tecnost SpA, Italy	0.01	0.01	4.8	
Telefonica SA, Spain	0.00	0.00	13.6	
Texaco, USA	0.00	0.00	3.0	
The Swatch Group, Switzerland	0.00	0.00	2.7	
TNT Post Group, the Netherlands	0.01	0.01	3.4	
Total B, France	0.01	0.01	25.1	
Unicredito Italiano SpA, Italy	0.00	0.00	4.3	
Wal-Mart Stores, USA	0.00	0.00	2.6	
Veba AG, Germany	0.00	0.00	6.9	
Whitbread plc, United Kingdom	0.02	0.02	5.5	
Vivendi, France	0.01	0.01	13.8	
VNU N.V., the Netherlands	0.03	0.03	11.5	
Vodafone Air Touch Plc, United Kingdom	0.00	0.00	23.0	
Volvo B, Sweden	0.04	0.04	17.5	
WPP Group Plc, United Kingdom	0.01	0.01	3.5	
Capital trusts				
Access Capital, France			3.6	
Bio Fund Ventures I Ky, Finland			9.8	
Bio Fund Ventures II Ky, Finland			0.1	
EQT Finland, Finland			5.0	
EQT Scandinavia II, Sweden			24.1	
Fenno Rahasto Ky, Finland			28.6	
Finnmezzanine Rahasto I Ky, Finland			19.5	
Finnventure Rahasto III Ky, Finland			16.0	
Finnventure Rahasto V Ky, Finland			1.8	
Forenvia Venture I Ky, Finland			3.6	
Garantia PK-Lainarahasto Ky I, Finland			0.7	
Garantia PK-Lainarahasto Ky II, Finland			6.0	
IDI Equity, Sweden			13.9	
Industri Kapital 2000, Sweden			3.6	
Industri Kapital -94, Sweden				51.1
Industri Kapital -97, Sweden				178.4
MB Equity Fund II Ky, Finland				10.3
MB Mezzanine Fund II Ky, Finland				28.3
Nordic Mezzanine, Finland				14.3
Promotion Capital I Ky, Finland				0.8
Sponsor Fund I Ky, Finland				27.0
Telecomia Venture I Ky, Finland				3.6
WD Power Investment Ky, Finland				3.0
Equity funds				
Alfred Berg Small Cap Europe B, Finland				30.0
Evli European Smaller Comp. B, Finland				30.0
Evli Nordic Smaller Companies A, Finland				19.9
Fondita Nordic Smaller Cap B, Finland				15.0
Gyllenberg European A, Finland				30.0
Gyllenberg Small Firm B, Finland				2.0
Mandatum Global, Finland				50.3
Merita Private Fund B, Finland				50.0
Merita Pro Global Equity A, Finland				23.1
Merita Pro Global Equity B, Finland				20.0
Opstock Global Equity, Finland				27.7
Total				8 838.4

FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
OTHER LOAN RECEIVABLES ITEMISED BY GUARANTEE				
Bank guarantee	3,537.9	3,704.7	3,537.9	3,704.7
Guarantee insurance	3,323.9	2,763.9	3,323.9	2,763.9
Other guarantees	374.2	535.7	374.2	535.7
Remaining acquisition cost	<u>7,236.0</u>	<u>7,004.3</u>	<u>7,236.0</u>	<u>7,004.3</u>
TOTAL PENSION LOAN RECEIVABLES				
Loans to associated undertakings and significant participating interests	5.0	7.3	5.0	7.3
Other loans guaranteed by mortgages	1,007.4	2,787.3	1,007.4	2,787.3
Other loan receivables	6,802.0	6,641.6	6,802.0	6,641.6
Remaining acquisition cost	<u>7,814.4</u>	<u>9,436.2</u>	<u>7,814.4</u>	<u>9,436.2</u>
DEBTORS, ASSOCIATED UNDERTAKINGS AND SIGNIFICANT PARTICIPATING INTERESTS				
Other receivables	<u>2.0</u>	<u>1.1</u>	<u>2.0</u>	<u>1.1</u>
CREDITORS, ASSOCIATED UNDERTAKINGS AND SIGNIFICANT PARTICIPATING INTERESTS				
Other liabilities	<u>1.6</u>	<u>1.0</u>	<u>1.2</u>	<u>1.0</u>
OPTIONAL RESERVES				
Credit loss reserve, Jan. 1st	216.1	309.1	216.1	309.1
Decrease (-)/increase (+)	-72.0	-93.0	-72.0	-93.0
Credit loss reserve, Dec. 31st	144.1	216.1	144.1	216.1
Other optional reserves, Jan. 1st			28.0	14.7
Increase			1.2	16.0
Decrease			-0.1	-2.7
Optional reserves, Dec. 31st	<u>144.1</u>	<u>216.1</u>	<u>173.2</u>	<u>244.1</u>

FIM million	PARENT COMPANY		GROUP	
	1999		1999	
CAPITAL AND RESERVES				
Restricted				
Guarantee capital		71.0		71.0
Non-restricted				
Security reserve, Jan. 1st				
Profit for the previous financial year	16.8	16.8	16.8	16.8
Other profit brought forward	17.0		-107.1	
Employed during financial year	16.8		16.8	
Profit for financial year	20.7	20.9	266.6	142.7
		<u>37.7</u>	<u>266.6</u>	<u>159.5</u>
		<u>108.7</u>		<u>230.5</u>
GUARANTEE CAPITAL				
	Number	Book value	Number	Book value
Industrial Insurance Company	16	16.0	16	16.0
Sampo Life Insurance Company Limited	14	14.0	14	14.0
Sampo Enterprise Insurance Company Limited	8	8.0	8	8.0
Sampo Insurance Company plc	33	33.0	33	33.0
SOLVENCY MARGIN				
	1999		1998	
Capital and reserves after proposed profit disposal	108.7		88.0	
Optional reserves and accrued depreciation difference	178.7		268.5	
Valuation difference between current values on assets and book values of balance sheet items	8,679.5		4,502.0	
Unallocated insurance reserve	10,440.2		7,695.4	
Interest on guarantee capital proposed for distribution	-4.3			
Intangible assets	-7.3		-3.8	
	<u>19,395.5</u>		<u>12,550.2</u>	
Solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	4,149.1		2,068.8	

WORKING CAPITAL FLOW STATEMENT

Jan. 1st to Dec. 31st, FIM million	PARENT COMPANY		GROUP	
	1999	1998	1999	1998
Source of funds				
Cash-flow financing				
Profit before interest expenses, extraordinary items, reserves and tax	-30.4	-85.9	-117.5	-162.3
Adjustment items				
Changes in technical provisions	7,273.1	44,574.4	7,273.1	44,574.4
Unrealised losses and gains on investments	-39.6	1,101.4	388.8	1,278.9
Depreciation	16.6	9.8	16.6	9.8
Capital financing				
Provision for renovations in real estate companies				14.1
Increase in minority interest				568.8
Source of funds in total	<u>7,219.7</u>	<u>45,599.6</u>	<u>7,561.0</u>	<u>46,283.7</u>
Application of funds				
Profit disposal				
Tax	38.7	12.8	38.7	19.8
Interest on long-term liabilities			33.0	13.9
Other profit disposal		0.5		3.3
	<u>38.7</u>	<u>13.4</u>	<u>71.7</u>	<u>37.0</u>
Investments				
Net increase in investments	6,676.2	45,640.1	6,547.1	46,193.3
Net increase in intangible and tangible assets	15.2	41.7	15.2	41.7
Capital and loan refunds				
Decrease in minority interest			451.0	
	<u>6,691.4</u>	<u>45,681.7</u>	<u>7,013.3</u>	<u>46,234.9</u>
Application of funds in total	<u>6,730.1</u>	<u>45,695.1</u>	<u>7,085.0</u>	<u>46,272.0</u>
Increase/decrease in working capital	<u>489.6</u>	<u>-95.5</u>	<u>476.0</u>	<u>11.7</u>
Increase/decrease in working capital				
Debtors	-283.8	-480.7	-281.6	-523.8
Liquid assets	7.4	-95.3	-53.2	35.9
Prepayments and accrued income	-92.3	1,769.4	-94.9	1,766.9
Deposits received from reinsurers	0.3	-0.5	0.3	-0.5
Creditors	1.4	10.2	3.3	78.0
Accruals and deferred income	856.6	-1,298.6	902.1	-1,344.7
Increase/decrease in working capital	<u>489.6</u>	<u>-95.5</u>	<u>476.0</u>	<u>11.7</u>

DISPOSAL OF PROFIT

The Board of Directors propose that the FIM 20,687,884.38 profit for the year shown in the balance sheet be disposed as follows:

to be transferred to the security reserve (optional reserve)	FIM 15,900,000.00
to be paid as interest on guarantee capital	FIM 4,348,750.00
to be transferred to the Board of Directors' expense account	FIM 400,000.00
to be carried over on the profit and loss account	FIM 39,134.38

Helsinki, February 29th, 2000

Georg Ehrnrooth

Mikko Kivimäki

Mikko Mäenpää

Markku Jokinen

Erkki Kangasniemi

Lasse Laatumen

Jouko K. Leskinen

Jarmo Lähteenmäki

Arto Ojala

Kari O. Sohlberg

Paavo Pitkänen
President, CEO

Markku Hyvärinen

Taisto Lassila
Chief Actuary

AUDITORS' REPORT

To the owners of Varma-Sampo Mutual Pension Insurance Company

We have audited the accounting records, annual accounts and administration of Varma-Sampo Mutual Pension Insurance Company for the financial year from January 1st to December 31st, 1999. The annual accounts, prepared by the Board of Directors and the Managing Director, include the Board of Directors's report, consolidated and parent company profit and loss accounts, balance sheets and notes to the annual accounts. Based on our audit we express an opinion on these annual accounts and on the pension insurance company's administration.

A supervisory auditor's report dated March 16th, 2000 has been issued on the supervisory audit carried out under the supervision of Mauri Palvi, Authorised Public Accountant.

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 annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts, assessing the overall accounting

principles used and significant estimates made by the management, as well as evaluating the overall annual account presentation. The purpose of our audit of administration has been to examine that the Supervisory Board, the Board of Directors and the Managing Director have legally complied with the rules of the Insurance Companies Act and the Act on Employment Pension Insurance Companies.

In our opinion, the annual accounts have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of annual accounts in Finland. The annual accounts 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 annual accounts can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Director of the pension insurance company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on the distribution of profit is in compliance with the Finnish Insurance Companies Act.

Helsinki, March 22nd, 2000

Mauri Palvi
Authorised Public Accountant

Mikael Leskinen
Authorised Public Accountant

(Translation of a Finnish Original)

STATEMENT BY THE SUPERVISORY BOARD

The Supervisory Board has received the Annual Accounts for Varma-Sampo Mutual Pension Insurance Company for the financial year 1999, together with the consolidated accounts and Auditors' Report concerning these.

The Supervisory Board states to the Annual General Meeting that it has found no cause for criticism concerning the

Annual Accounts, consolidated accounts or Auditors' Report.

The Supervisory Board recommends that the Board of Directors' proposal for the disposal of the profit for the financial year be accepted.

Helsinki, March 28th, 2000

For the Supervisory Board

Raimo O. Honkanen
Deputy Chairman of the Supervisory Board

KEY FIGURES

The profit and loss accounts and balance sheets of earnings-related pension companies do not convey an adequate picture of the actual result and financial situation of the company. In order to make comparison easier, the companies have agreed to present key figures in a consistent manner on the extent of operations, profit-making and distribution of profit, and the solvency status of the

company.

For Varma-Sampo, 1999 was the first normal operating year since the company commenced operations to their current extent on July 1st, 1998, when a part of Pension-Varma's insurance portfolio was transferred to Sampo Pension, which then changed its name to Varma-Sampo. Due to this structural reorganisation and the tech-

nique applied to it, the official result of Varma-Sampo in 1998 does not convey an accurate picture of the company's actual result. Pro forma figures are therefore used for 1998 in the 5-year time series presented here. Pro forma figures could not, however, be presented in all analyses. Figures prior to 1998 are those of Sampo Pension.

VOLUME

FIM million	1999	1998	1997	1996	1995
Premium income	12,340	11,800	5,150	5,158	4,684
Turnover	18,648	16,500	7,351	7,160	6,560
Payroll	55,608	52,515	23,366	22,839	21,310
Technical provisions	82,812	75,755	31,067	25,922	23,539
Balance Sheet total at current values	92,437	82,130	33,986	28,440	24,970

PERFORMANCE ANALYSIS

The actual total income of an earnings-related pension company comprises the risk business result, investment result and loading profit, and the change in valuation differences.

FIM million	1999	1998	1997	1996	1995
Sources of surplus					
Pure premium result	484	660	287	308	238
Return on investments	1,625	483	407	254	85
Loading profit	79	50	24	25	28
Total surplus	2,188	1,193	718	587	351
Change in valuation differences	4,178	2,858	340	1,053	626
Total	6,366	4,051	1,058	1,640	977
Disposal of profit to increase solvency					
to equalisation reserve	484	660	287	308	238
to untaxed reserves	-90	-116	18	44	28
to unallocated insurance reserve	1,473	332	253	138	
to capital and reserves	17	17	4	5	5
change in valuation differences	4,178	2,858	340	1,053	626
Total	6,062	3,751	903	1,548	897
Transfer to bonus reserve	300	300	155	92	80
Proposed disposal of profit	4	-	-	-	-
Total	6,366	4,051	1,058	1,640	977

RETURN ON INVESTMENT ACTIVITIES

The following table presents the return on investment activities for the past five years. It has not, however, been possible to draw up a more detailed specification of changes in value included in the 1998 pro forma estimate.

FIM million	1999	1998	1997	1996	1995	
Direct income	3,511	3,588	1,497	1,437	1,383	
Changes in value in the profit and loss account						
Gains on realisation of investments	1,720	..	262	102	169	
Value readjustments	461	..	95	122	19	
Unrealised gains on investments	0	..	0	0	0	
Losses on realisation of investments	-198	..	-15	0	0	
Value adjustments on investments, additional depreciation and unrealised gains/losses on investments	-556	..	-39	-7	-155	
Annual depreciation	-55	1,372	.. 181	-24 279	-21 196	-20 13
Investment income in total	4,883	3,769	1,776	1,633	1,396	
Other interest rate items	194	184	176	69	93	
Required return on technical provisions	-3,452	-3,470	-1,545	-1,448	-1,402	
Return on investment activities	1,625	483	407	254	87	

INVESTMENT INCOME

The following table specifies investment income in 1999. The total yield of the investment portfolio at current values was 11.4%, which has been calculated by using the time-weighted average value of monthly current values, corrected with the change in valuation differences, as the average portfolio.

FIM million	Direct income	Change in value in Profit and Loss Account	Total	Book value, average portfolio	Yield on book value, %	Change in value differences	Investment income in total	Current value, average portfolio	Yield on current value, %
Loans	489	0	489	10,218	4,8	0	489	10,218	4,8
Bonds	1,902	26	1,928	36,739	5,2	-2,578	-650	39,274	-1,7
Other debt securities and deposits with credit institutions	241	0	241	7,612	3,2	-5	236	7,676	3,1
Shares and participations	369	1,708	2,077	9,526	21,8	6,646	8,722	10,795	80,8
Investments in land and buildings	553	-362	191	10,935	1,7	115	306	11,828	2,6
Investment net operating expenses	-43		-43				-43		
Investments in total	3,511	1,372	4,883	75,031	6,5	4,178	9,061	79,791	11,4 ¹⁾
Other interest rate items			194						
Investment income in total			5,077						
Required return on technical provisions			3,452						
Return on investment activities			1,625						

1) The average income at current values is 11.1%, if the average value of current values of the investment portfolio at the beginning and end of the year is used as the average portfolio.

LOADING PROFIT

Loading profit for 1998 has also been presented as a pro forma estimate. It has not, however, been possible to draw up a reliable specification for each function. As of 1998, administrative costs allocated to investment activities are covered by the investment income.

FIM million	1999	1998	1997	1996	1995
Administrative costs of premiums	365	337	191	180	170
Other income	3	3	3	3	2
Operating expenses by function including depreciation					
Claims	-63	..	-29	-30	-25
Policy acquisition expenses	-17	..	-17	-27	-26
Policy management expenses	-133	..	-68	-45	-43
Administration	-76	..	-41	-41	-35
Investment activities	-	-	-15	-15	-15
Other	0	-289	0	-158	0
Tax on profit	0	0	0	0	0
Other charges	0	0	0	0	0
Loading profit, FIM million	79	50	24	25	28
Loading profit of load income, %	79	85	88	86	84

BONUSES

A part of the return is reserved annually as a bonus reserve. The following table presents the changes in the bonus reserve, including the proportion transferred to client bonuses. The latter has also been proportioned to the payroll and to the number of continuous TEL employment relationships at the year-end.

FIM million	1999	1998	1997	1996	1995
Bonus reserve, Jan. 1st	683	531	239	202	161
Bonuses paid during the financial year	-290	-148	-71	-55	-39
Transfer to client bonuses	300	300	155	92	80
Bonus reserve, Dec. 31st	693	683	323	239	202
Transfer to client bonuses / payroll, %	0.54	0.57	0.66	0.40	0.38
Transfer to client bonuses / continuous TEL employment relationship, FIM	783	815	816	491	435

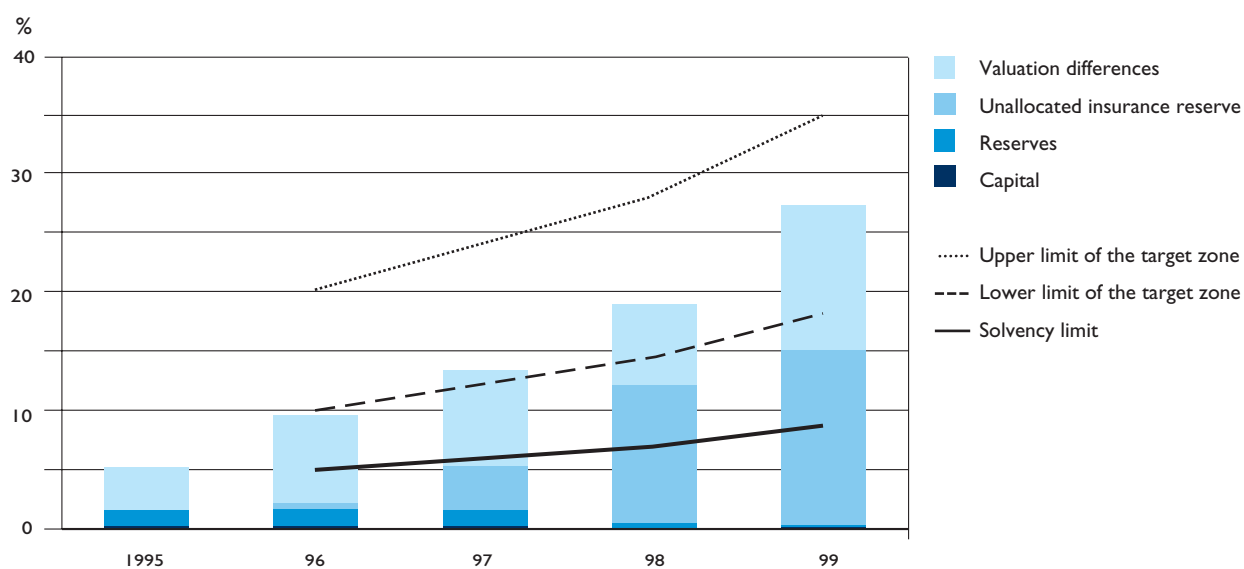
SOLVENCY

Solvency is measured by the solvency margin, which is formed by capital and reserves, untaxed reserves, the unallocated insurance reserve and the valuation differences between the current values and book values of property. The equalisation reserve provides for volatility in the risk business result.

FIM million	1999	1998	1997	1996	1995
Solvency margin					
Untaxed reserves	179	269	384	366	322
Unallocated insurance reserve	10,440 ¹⁾	7,695	1,026	138	0
Capital and reserves	104	88	72	68	62
Valuation differences	8,672	4 498	2,232	1,891	839
Solvency margin in total	19,395	12,550	3,714	2,463	1,223
Solvency margin of the target zone lower limit, %	156	135	111		
Equalisation reserve	3,832	3,210	1,222	935	472

¹⁾ In addition to the share to be transferred from the result, FIM 1,250 million of the result in accordance with the calculated interest rate has been transferred to the unallocated insurance reserve in 1999.

SOLVENCY MARGIN/TECHNICAL PROVISIONS



SUPERVISORY BOARD

Varma-Sampo Supervisory Board comprises 28 members, elected by the Annual General Meeting for a period of three years so that a maximum of 10 members resigns each year. Seven members of the Board are representatives of major employer bodies and seven represent major employee organisations.

The Supervisory Board elects a Chairman and at least one Deputy Chairman annually. Varma-Sampo Supervisory Board had two Deputy Chairmen in 1999.

The Supervisory Board oversees the company's administration by the Board of Directors and the Managing Director. Moreover, it elects the members and deputy members of the Board as well as the Chairman and Deputy Chairman.

The Supervisory Board submits its statement to the Annual General Meeting, concerning the parent company and Group Annual Accounts and the Auditors' Report. In addition, the Supervisory Board confirms the principles of the company's investment plan on an annual basis, and decides on any major reductions or expansions in the company's operations or on significant operational changes. The Supervisory Board also advises the Board of Directors in all matters of significant importance.

The Varma-Sampo Supervisory Board convened on three occasions in 1999.

Supervisory Board at February 29th, 2000

Chairman

Heikki Marttinen, born 1946
President & CEO of Fortum Corporation
Term expires in 2001

Deputy Chairman

Jukka Härmälä, born 1946
CEO of Stora Enso Oyj
Term expires in 2001

Deputy Chairman

Raimo O. Honkanen, born 1934
Managing Director of Savonlinja Oy
Term expires in 2001

Seppo Berg, born 1943

Head of administration and finance,
Finnish Metalworkers' Union
Term expires in 2002

Hans Olof Danielsson, born 1942

President of Oy Karl Fazer Ab
as of March 15th, 2000
Term expires in 2001

Erkki Etola, born 1945

Chairman of Oy Etola Ab and Oy Etra Ab
Term expires in 2002

Ari Heiniö, born 1945

Managing Director of Stockmann plc
Term expires in 2002

Matti Hellstén, born 1943

Chairman, Federation of Special
Service and Clerical Employees
Term expires in 2000

Markku von Hertzen, born 1948

Managing Director of the Finnish
Association of Graduates in Economics and
Business Administration
Term expires in 2001

Matti Honkala, born 1945

Chairman and CEO of Kesko Corporation
Term expires in 2002

Matti Huttunen, born 1939

Director of the Lapland service centre
of the Central Organisation of Finnish
Trade Unions
Term expires in 2000

Erkki Isokangas, born 1946

Managing Director of Saarioinen Oy
Term expires in 2000

Jyrki Juusela, born 1943

President & CEO of Outokumpu Oyj
Term expires in 2001

Seppo Koskinen, born 1946

Chief shop steward, Paroc Oy Ab
Term expires in 2000

Jan-Henrik Kulp, born 1943

Senior Vice President, UPM-Kymmene
Corporation
Term expires in 2002

Matti Kyytsönen, born 1949

Managing Director of ISS Suomi Oy
Term expires in 2002

Jere Lahti, born 1943

Chairman and CEO of SOK Corporation
Term expires in 2000

Lauri Lyly, born 1953

Chairman, Finnish Electrical
Workers' Union
Term expires in 2001

Björn Mattsson, born 1941

Deputy Chief Executive Officer
of Danisco A/S
Term expires in 2000

Pentti Nieminen, born 1941

Managing Director of Linkosuo Oy
Term expires in 2001

Pekka Paasikivi, born 1944

President & CEO of Oras Ltd
Term expires in 2001

Antti Piippo, born 1947

Chairman of Elcoteq Network Corporation
Term expires in 2001

Juha Rantanen, born 1952

President & CEO of A. Ahlström
Corporation
Term expires in 2002

Antti Remes, born 1947

Managing Director of Tradeka Group Ltd
Term expires in 2000

Helena Rissanen, born 1949

Chairman of the Union of Salaried
Employees in Industry
Term expires in 2002

Hannu Roine, born 1942

Group President of Isku Oy
Term expires in 2000

Christoffer Taxell, born 1948

President & CEO of Partek Corporation
Term expires in 2000

Jorma Vaajoki, born 1949

President & CEO of Metsä-Serla Corporation
Term expires in 2000

BOARD OF DIRECTORS

Varma-Sampo Board of Directors consists of 12 members and three deputy members. Board members and deputy members, Chairman and at least one Deputy Chairman are elected by the Supervisory Board. Members of the Board of Directors are elected for a period of three calendar years so that four members' terms expire each year. Three Board members and one deputy member are elected from among the candidates suggested by major employer organisations; correspondingly, three members and one deputy member are representatives of major employee organisations.

The Board of Directors is responsible for the company's administration and operational organisation in an appropriate manner. The Board appoints the Managing Director, the Chief Actuary and the Senior Physician. The Board may also appoint a deputy to the Managing Director as well as Executive Vice Presidents and Directors.

In 1999 Varma-Sampo Board met a total of 13 times.

Board of Directors at February 29th, 2000

Chairman

Georg Ehrnrooth, born 1940

President & CEO of Metra Corporation

Term expires in 2001

Member of the Boards of Metra Corporation, Sampo Insurance Company plc, Oy Karl Fazer Ab and Sandvik AB, Chairman of the Boards of Sanitec Corporation and Assa Abloy AB, member of the Supervisory Board of Rautaruukki Corporation.

Deputy Chairman

Mikko Kivimäki, born 1939

President & CEO of Rautaruukki Corporation

Term expires in 2001

Chairman of the Board of Rautaruukki Corporation, member of the Boards of MeritaNordbanken and the Confederation of Finnish Industry and Employers, Deputy Chairman of the Boards of Metso Corporation and Industrial Insurance, member of the Supervisory Board of YIT Corporation, Chairman of the Board of Finnish Maritime Administration, member of the Board and the labour issues committee of the Federation of Finnish Metal, Engineering and Electrotechnical Industries.

Deputy Chairman (until January 31st, 2000)

Esa Swanljung, born 1949

Chairman of the Finnish Confederation of Salaried Employees until January 31st, 2000, Managing Director of the Federation of

Employment Pension Institutions as of April 1st, 2000.

Term ended on January 31st, 2000.

Member of the Economic Council, member of the Supervisory Board of Sampo Insurance Company plc, Chairman of the Supervisory Boards of the Education and Redundancy Payments Fund and the Unemployment Insurance Fund, Vice Chairman of the Supervisory Board of OKOBANK Group Central Cooperative.

Deputy Chairman (as of February 1st, 2000)

Mikko Mäenpää, born 1954

Chairman of the Finnish Confederation of Salaried Employees as of February 1st, 2000

Term expires in 2000

Member of the Economic Council and the Supervisory Board of the Unemployment Insurance Fund

Markku Jokinen, born 1949

Managing Director of Sievin Jalkine Oy

Term expires in 2001

Member of the Small and Medium Enterprise Council of the Confederation of Finnish Industry and Employers, member of the Board of the Association of Finnish Shoe and Leather Industries, Chairman of the Board of the Finnish Employers' General Group, Chairman of the regional advisory committee of Enterprise Sampo, Chairman of the Section of Clothing and Footwear of the National Board of Economic Defence, member of the Council of Representatives of the Confederation of Finnish Industry and Employers, deputy member of the Sievi municipal government.

Erkki Kangasniemi, born 1945

President, The Trade Union of Education in Finland, OAJ

Term expires in 2001

1st Vice President of Confederation of Unions for Academic Professionals in Finland and President of the Finnish Negotiation Organisation for Academic Professionals in the Public Sector, member of the Supervisory Boards of Kaleva Mutual Insurance Company, the Education and Redundancy Payments Fund and Okopankki Oyj, member of the Board of the VVO Group.

Lasse Laatonen, born 1950

Director, the Confederation of Finnish Industry and Employers

Term expires in 2000

Member of the Boards of the Central Pension Security Institute, LEL Employment Pension Fund and the Federation of Accident Insurance Institutions, member of the Enlarged Board of the Social Insurance Institution, member of the Appeal Tribunal and the labour affairs council of the Ministry of Labour.

Jouko K. Leskinen, born 1943

CEO & President of Sampo Group

Term expires in 2002

Member of the Boards of Sampo Insurance Company plc, Finnlines Group and Nokia Group, Chairman of the Boards of Industrial Insurance, Kaleva Mutual Insurance Company, Pee-Mediat Oy and Enterprise Sampo, Vice Chairman of the Boards of Sampo Life Insurance Company Limited and UPM-Kymmene Corporation, Vice Chairman of the Board and Management Board of the Federation of Finnish Insurance Companies, Chairman of the Supervisory Board of Helsingin Osuuskautppa, member of the Supervisory Boards of Finnair Oyj, Fortum Corporation and Orion Corporation.

Jarmo Lähteenmäki, born 1957

Chairman of the Paperworkers' Union

Term expires in 2002

Member of the Supervisory Boards of OKOBANK Osuuspankkien Keskuspankki Oyj and Okopankki Oyj, Vice Chairman of the Supervisory Board of the Education and Redundancy Payments Fund, member of the Board of the Central Organisation of Finnish Trade Unions.

Arto Ojala, born 1944

Managing Director of the Employers' Confederation of Service Industries in Finland

Term expires in 2002

Kari O. Sohlberg, born 1940

President & CEO of G.W. Sohlberg Corporation

Term expires in 2002

Vice Chairman of the Boards of Perlos Corporation and Sampo Insurance Company plc, member of Board of G.W. Sohlberg Corporation, Chairman of the Boards of the Finnish Fair Corporation and ADR-Haapää Oy, member of the Supervisory Board of Merita Bank Plc.

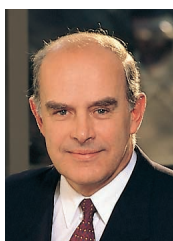
Paavo Pitkänen, born 1942

President & CEO of Varma-Sampo Mutual Pension Insurance Company

Term expires in 2000

Member of the Boards of Metra Corporation, Partek Corporation, Stora Enso Oyj, Sampo Insurance Company plc and the Central Pension Security Institute, Vice Chairman of the Supervisory Board of Alma Media Corporation, member of the Supervisory Board of Kesko Corporation, Vice Chairman of the Board and Management Board of the Federation of Finnish Insurance Companies, Chairman of the Boards of Sampo Life Insurance Company Limited and the Federation of Employment Pension Institutions.

Markku Hyvärinen, born 1948
Executive Vice President of Varma-Sampo Mutual Pension Insurance Company
Term expires in 2000
Chairman of the Supervisory Board of Finnair Oyj and member of the Board of Kaleva Mutual Insurance Company.



Georg Ehrnrooth



Mikko Kivimäki



Esa Swanljung



Mikko Mäenpää

Deputy members:

Mikko Ketonen, born 1945
Chairman of the Board of TS-Yhtymä Oy
Term expires in 2001
Swedish consul in Turku, member of the Supervisory Board of Merita Bank Plc, 2nd Vice Chairman of the Turku Chamber of Commerce.



Markku Jokinen



Erkki Kangasniemi



Lasse Laatunen



Jouko K. Leskinen

Janne Metsämäki, born 1960
Legal Adviser, the Central Organisation of Finnish Trade Unions
Term expires in 2001
Member of the Boards of the Unemployment Insurance Fund and The Finnish Work Environment Fund, deputy member of the Board of the Central Pension Security Institute.



Jarmo Lähtenmäki



Arto Ojala



Kari O. Sohlberg



Paavo Pitkänen

Timo Poranen, born 1943
President of the Finnish Forest Industries Federation
Term expires in 2001
Member of the Boards of KCI Konecranes International Abp, Industrial Insurance and the Helsinki University of Technology, deputy member of the Board of Fingrid Oyj, member of the Supervisory Boards of OKOBANK Osuuspankkien Keskuspankki Oyj and the Finnish Fair Corporation, member of the Association Directors' Committee of the CEPI, member of the Board of the Finnish chapter of the International Chamber of Commerce, member of the delegation of the Finnish-Swedish Chamber of Commerce.



Markku Hyvärinen



Mikko Ketonen



Janne Metsämäki



Timo Poranen

Secretary
Erkki Rajaniemi, born 1959
General Counsel, Varma-Sampo Mutual Pension Insurance Company

AUDITORS

Supervisory Auditor
Mauri Palvi, born 1951
Authorised Public Accountant

Mikael Leskinen, born 1949
Authorised Public Accountant

Deputy Auditors
KPMG Wideri Oy Ab

Paula Pasanen, born 1955
Authorised Public Accountant

CONSULTATIVE COMMITTEES

CONSULTATIVE COMMITTEE FOR PENSION AFFAIRS

Chairman

Markku Hyvärinen

Executive Vice President

Varma-Sampo Mutual Pension Insurance Company

Antti Mattila

Secretary for technology affairs

Central Organisation of Finnish Trade Unions (until January 31st, 2000)

Sinikka Näätsaari

Secretary for Social Affairs

Central Organisation of Finnish Trade Unions (as of February 1st, 2000)

Artturi Pennanen

Secretary General

Paperworkers' Union

Veikko Simpanen

Secretary of Social Policy Affairs

Finnish Confederation of Salaried Employees

Anja Uljas

Head of research and development

Finnish Association of Graduates

in Economics and Business Administration

Riitta Wärn

Senior Adviser

Employers' Confederation of Service

Industries in Finland

Johan Åström

Legal Adviser

Confederation of Finnish Industry and

Employers

Ilkka Kohonen

Director, Strategic Planning

Varma-Sampo Mutual Pension

Insurance Company

Marja Korpilahti

Department Manager

Varma-Sampo Mutual Pension

Insurance Company

Osmo Rinne, Director

Varma-Sampo Mutual Pension

Insurance Company

Sakari Tola

Senior Physician

Varma-Sampo Mutual Pension

Insurance Company

CONSULTATIVE COMMITTEE OF SELF-EMPLOYED PERSONS AND EMPLOYERS

Chairman

Stig Gustavson

President & CEO

KCI Konecranes International Oyj

Jorma Eloranta

President & CEO

Patria Industries Oyj

Esa Haavisto

Managing Director

Oy Hacklin Ltd.

Kim Hanslin

Managing Director

McDonald's Oy

Jukka Hyryläinen

Managing Director

Katko Oy Konerauta

Antero Ikäheimo

Managing Director

Lappset Group Oy

Kari Kivikoski

Managing Director

Soilituote Oy, Ermiso Oy

Martti Lappalainen

Managing Director

Suur-Savon Sähkö Oy

Heikki Lehtonen

President & CEO

Componenta Corporation

Jussi Länsiö

Managing Director

Oyj Hartwall Abp

Kalervo Nieminen

Managing Director

Nostokonepalvelu Oy

Esko Ollila

Chairman

Purso Oy

Jukka Ottela

Managing Director

Esan Kirjapaino Oy

Olli Reenpää

Managing Director

Otava-Kuvalehdet Oy

Tuomo Räsänen

Development Director, Retail

Nokian Tyres plc

Mauri Saarelainen

President

Honkarakenne Oyj

Erkki Solja

Managing Director

Kiilto Oy

Lauri Syrjälä

Managing Director

Oy Terinit Ab

Heikki Takamäki

Retailer

Rauta-Otra Nekala, Heikki Takamäki Oy

Jorma Takanen

President & CEO

Scanfil Oy

Tapio Tammi

Managing Director

Gamga Oy

Reino Uusitalo

Managing Director

Pyroll Group Ltd.

Kaija Ward

Chairman

Eurokangas Oy

John Eric Westö

Administrative Director

Finnish National Opera

Juha Vine

Chairman

Groveswing Oy

Tapani Vuorela

Director for the foundation

The Deaconess Institute in Helsinki

Pertti Yliniemi

Managing Director

Olostunturi Oy

Deputies

Timo Miettinen
Chairman
Ensto Oy

Juha Silvano
Managing Director
Steveco Oy

Saara Sinivuori
Managing Director
Aleksin Ravintolat Oy

Olavi Viljanmaa
Managing Director
Urho Viljanmaa Oy

CONSULTATIVE COMMITTEE OF THE INSURED

Chairman
Erkki Ruotsalainen
Imatra Steel Oy Ab
Central Organisation of Finnish Trade Unions

Deputy Chairman
Seppo Räikkönen
Imatra Steel Oy Ab
Finnish Confederation Of Salaried Employees

Kari Halme
Stora Enso Oyj
Confederation of Unions for Academic Professionals in Finland

Vesa Hirvonen
Outokumpu Oyj
Confederation of Unions for Academic Professionals in Finland

Jouko Hortttanainen
UPM-Kymmene Oyj
Confederation of Unions for Academic Professionals in Finland

Heikki Salo
ABB Industry Oy
Confederation of Unions for Academic Professionals in Finland

Nina Schleifer
Oy Medix Biochemica Ab
Confederation of Unions for Academic Professionals in Finland

Tapio Vankalo
Xyrofin Oy
Confederation of Unions for Academic Professionals in Finland

Markku Björn
Sokos Hotels Oy
Central Organisation of Finnish Trade Unions

Erkki Flink
Vapo Oy
Central Organisation of Finnish Trade Unions

Ellen Helo
Tradeka Group Oy
Central Organisation of Finnish Trade Unions

Risto Kärkkäinen
UPM-Kymmene Oyj
Central Organisation of Finnish Trade Unions

Eero Nokelainen
Metsä Tissue Corporation
Central Organisation of Finnish Trade Unions

Eero Pennanen
Metra Corporation
Central Organisation of Finnish Trade Unions

Heikki Ruuskanen
Savon Sanomat
Central Organisation of Finnish Trade Unions

Venho Takkinen
Koiviston Auto Oy
Central Organisation of Finnish Trade Unions

Seija Väisänen
Fazer Suklaa Oy
Central Organisation of Finnish Trade Unions

Kari Ylikauppila
Fortum Corporation
Central Organisation of Finnish Trade Unions

Simo Virolainen
Honkarakenne Oyj
Central Organisation of Finnish Trade Unions

Carita Holopainen
The Deaconess Institute in Helsinki
Finnish Confederation of Salaried Employees

Pirkko Kalttonen
Stora Enso Oyj
Finnish Confederation of Salaried Employees

Matti Kangas
Tietoenator Corporation
Finnish Confederation of Salaried Employees

Tarja Nyman
Fazer Leipomot Oy, Oululainen
Finnish Confederation of Salaried Employees

Esko Paunonen
Ahlstrom Machinery Oy
Finnish Confederation of Salaried Employees

Sirkka Pitkänen-Schenk
Matkahuolto Oy
Finnish Confederation of Salaried Employees

Leo Suokas
UPM-Kymmene Corporation
Finnish Confederation of Salaried Employees

Pekka Teinilä
TS-yhtymä Oy
Finnish Confederation of Salaried Employees

Ulla Väisänen
Sampo Insurance Company plc
Finnish Confederation of Salaried Employees

MANAGEMENT

Managing Director

Paavo Pitkänen, born 1942
President, CEO

Deputy to Managing Director

Markku Hyvärinen, born 1948
Executive Vice President, Insurance
& Pensions

Matti Niemi, born 1947

Executive Vice President, Investments

Sakari Aaltonen, born 1952

Director, Information Management
& Administration

Ilkka Kohonen, born 1945

Director, Strategic Planning

Jouko Oksanen, born 1951

Chief Financial Officer

Hannu Tarvonen, born 1952

Director, Client Relations

Päivi Tanska-Salokari, born 1959

Employee Representative
(until December 31st, 1999)

Hilkka Vainio, born 1947

Employee Representative
(as of January 1st, 2000)

CHIEF ACTUARY

Taisto Lassila, born 1940

SENIOR PHYSICIAN

Sakari Tola, born 1946



Management Board, sitting from left: Hilkka Vainio, Paavo Pitkänen, Markku Hyvärinen and Matti Niemi. Standing from left: Ilkka Kohonen, Jouko Oksanen, Erkki Rajaniemi, Sakari Aaltonen and Hannu Tarvonen.

ASSISTANT DIRECTORS

Ari Anttonen, born 1962
Client Relations

Ralf Joutsenlahti, born 1953
Client Relations

Esko Kivisaari, born 1957
Research

Jorma Kuokkanen, born 1953
Investments

Petri Kuusisto, born 1964
Investments

Veikko Loukola, born 1943
Insurance

Jorma Luostarinen, born 1944
Personnel

Heikki Malin, born 1944
Public Affairs

Irmeli Otava-Keskinen, born 1950
Information Management

Erkki Rajaniemi, born 1959
Legal Affairs
Secretary to the Board of Directors, Supervisory Board and Management Board.

Osmo Rinne, born 1938
Projects

Marja-Terttu Verho, born 1947
Communications

KEY TERMINOLOGY

Bonus reserve

Part of the premium reserve to which portions of the investment surplus and loading profit have been transferred, for the payment of future client bonuses.

Client bonus

Rebate payable to policyholders out of the bonus reserve.

Equalisation reserve

The amount of the claims reserve accumulated from the pure premium result and used to equalise any fluctuations in risk business.

Expense loading

Premium component covering the total operating expenses of a pension insurance company, excluding investment management expenses and those for the promotion of working capacity.

Investment surplus

Net investment return at book value, inclusive of interest income entered under other items in the profit and loss account, less the required rate of return on technical provisions. The investment surplus at current values also includes the change in valuation differences.

Loading profit

Expense loading less total operating expenses, excluding investment management expenses and those for the promotion of working capacity. Operational efficiency is measured using a percentage that reflects the expense loading usage rate. The lower the usage rate, the higher the efficiency of operations.

Obligatory provisions not covered

A deficiency in the technical provisions margin, arising from the statutory lower contributions rate in 1994, amortised through the collection of higher contributions in the years 1996-2000.

Pure premium result

The underwriting result corresponding to the difference between the risk premium and claims expenditure. A positive premium result accumulates the equalisation reserve and a negative result shrinks the reserve.

Receivables - portfolio transfers

A deficiency in the technical provisions margin arising from the bankruptcy of Pension Kansa. This represents payments towards the joint liability, and claims on the special receivership's estate. The latter constitutes an assessment of the value of the assets still held by the estate. Payments directed at joint liability are covered through the pooled component.

Required rate of return on technical provisions

The required rate of return on investments constituting the technical provisions margin. This so-called calculated rate of interest is confirmed annually by the Finnish Ministry of Social Affairs and Health, at the request of the pension insurance companies. The rate stood at 5.0% for the period January 1st, 1999 to June 30th, 1999 and has been at 5.25% since July 1st, 1999.

Solvency margin

Net insurance company assets i.e. the excess of assets at current values over liabilities. The solvency margin comprises capital and reserves, valuation differences and the unallocated insurance reserve. The level of the solvency margin is assessed against solvency requirements.

Solvency requirements

Solvency requirements are calculated on the risks inherent in the investments that make up the technical provisions margin. The central quantity is represented by the solvency limit, in relation to which are determined the minimum level of the solvency margin, and the target zone upper and lower limits.

The minimum level of the solvency margin is two-thirds of the solvency limit. The lower limit of the target zone is twice, and the upper limit four times, the solvency limit. The solvency margin and aforementioned solvency requirements are generally calculated in proportion to the technical provisions.

Technical provisions

Technical provisions comprise the premium and claims reserves. The premium reserve represents the capital value accumulated by the end of the financial year, of the funded components of pensions in respect of future contingencies. The premium reserve also includes the bonus reserve and unallocated insurance reserve. The claims reserve is the capital value of the funded components of future pensions in respect of contingencies that have already occurred. The claims reserve also comprises the equalisation reserve.

Technical provisions to be covered

Technical provisions plus liabilities in respect of pooled pension expenditure and policyholders, less the premium reserve for self-employed persons' pension insurance. (Under transitional provisions, 98% of technical provisions had to be covered in 1999.)

Turnover

Premiums written before the deduction of credit losses and the reinsurers' share, plus the return on investments, other returns and realised valuation gains entered in the profit and loss account.

Unallocated insurance reserve

Part of the premium reserve that is included in the company's solvency margin and counts towards solvency per se. The remaining investment surplus and loading profit are transferred to the unallocated insurance reserve, which serves as a buffer against investment value fluctuations. Legislation determined that a part of the investment return earned in 1997-1999 had to be used to accumulate the unallocated insurance reserve.

Valuation difference

The difference between the current and book values of assets included in the solvency margin. Changes in valuation differences are added to the company's total operating profit.

CONTACTS

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www.varma-sampo.fi