

Annual Report 2002

Securing Pensions

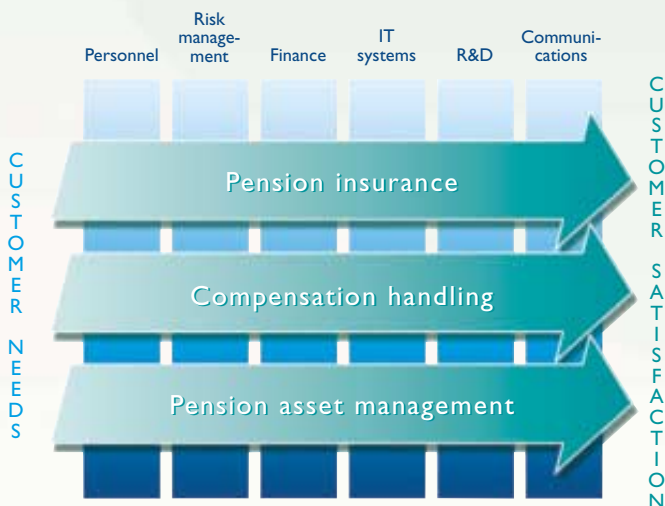
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Cover illustration: "Carrier pigeon" by Mika Launis

According to our vision, we

- *Secure employment pension cover.*
- *Actively develop the Finnish statutory earnings-related pension scheme.*
- *Invest pension assets profitably and securely.*
- *Offer the highest standard of know-how.*



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Reviews

–Well-being grows from competitive, high-quality work, as well as results and expertise. The key question is how to attract people to remain in working life longer than at present, Paavo Pitkänen says.

For reviews on the future pensions reform in Finland as well as Varma-Sampo's customer services, investment operations, social responsibility and personnel, please turn to pages 4–23.



Annual Accounts

Based on new regulations by the Insurance Supervision Authority, key figures are included in the Notes to the Annual Accounts. The profitability or financial position of an employment pension company must be assessed by comparing: investment income at current values to the required return on technical provisions, operating expenses to the administrative costs of premium and claims expenditure to corresponding premium income.

The Annual General Meeting will convene on 10 April 2003 at 3 pm at the company headquarters, Annankatu 18, Helsinki.

For the Annual Accounts, see pages 24–49.



Year 2002 in brief

In 2002 Varma-Sampo published 28 press releases, all of which can be found in Finnish at www.varma-sampo.fi. Page 57



Corporate governance

Labour market organisations are significantly involved in the administration of all Finnish employment pension companies. So half the members of the Varma-Sampo Supervisory Board and Board of Directors are proposed by the central organisations of employers and employees. As part of the company's social responsibility, three consultative committees convene at Varma-Sampo. Pages 54–60



Key terminology

What is a solvency margin? Technical reserves? Key figures include several terms typical to Finnish employment pension companies. These terms are explained on page 58.

Varma-Sampo in brief

Varma-Sampo Mutual Pension Insurance Company is the largest employment pension insurer in Finland. Premiums written totalled € 2.4 billion in the year 2002 and pension payments stood at € 2.4 billion. The value of the company's investments stood at around € 17.8 billion at the close of 2002. Varma-Sampo is responsible for the earnings-related pension cover of more than 700 000 people and co-operates in customer service with If P&C Insurance and Sampo Life.

In Varma-Sampo's Annual General Meeting votes are divided as follows:

- Policyholders approx. 76 per cent
- Insured approx. 21 per cent
- Sampo Group (owner of guarantee capital) approx. 3 per cent

Key figures

	2002	2001
Premiums written, € mill.	2 406	2 404
Pension payments, € mill.	2 356	2 192
Technical provisions, € mill.	17 340	16 686
Solvency margin, € mill.	2 409	2 844
Solvency margin/ technical provisions*, %	15.5	19.5
Solvency margin/ solvency limit	2.1	2.4
Investment assets, € mill.	17 820	17 151
Investment income, € mill.	338	173
Yield on invested capital, %	1.9	1.0
Transfer to client bonuses, € mill.	26	42
Number of policyholders 31 Dec.	62 000	62 000
Number of insured 31 Dec.	435 000	438 000
Number of pensioners 31 Dec.	279 000	272 000
Parent company personnel 31 Dec.	609	616

* in accordance with solvency requirements

Varma-Sampo Group 31 Dec. 2002

Associated undertakings

- Vasa-Sijoituskiinteistöt Oy (100%)
- Osakevarma Oy (100%)
- Tampereen Kiinteistö Invest Oy (99.6%)
- Esy Oy (70%)
- Approx. 260 real-estate firms

Significant participating interests

- Octel Oy (50%)
- Silta Oy (39.1%)
- Ovenia Oy ¹⁾ (37.5% ²⁾)
- Approx. 70 real-estate firms

¹⁾ formerly Kiinteistövarma Oy

²⁾ from 10 January 2003

CEO's review

Well-being from work

The change in the age structure in Finland is entering a new phase. The baby boom generation will soon turn 60 years of age and gradually leave working life. In the past few decades, 10 000–15 000 more people have entered into employment than retired on pension, but the situation will be almost the reverse as early as in 2005. There will be around 400 000 people fewer in the 20–59 years-old age group by 2030 than now and the number of over 65 year-olds will increase by more than 600 000.

Well-being grows out of internationally competitive, high-quality work, its results and expertise. The growth of a national economy helps create new jobs and lower unemployment, which requires a sufficient number of skilled people. The key question is how we can encourage people to enter working life earlier than at present and extend the average retirement age.

Preparations for extending the retirement age have

been underway for many years. The goal is to support both the capacity and motivation to work, and the appreciation of ageing people in such a way that both the employee and employer consider remaining at work for longer to be both meaningful and useful. Varma-Sampo has invested in well-being at work by developing its own Evita service. The meaningfulness of work, know-how and expertise are ultimately built at the workplace. Positive results have been achieved at national level: 55–59 year-olds are the only age group in which the proportion of those at work is higher than 12 years ago.

In addition to developing the content of work and motivation, we need financial incentives. These objectives have been the basis for the significant employment pension reform on which labour market organisations in Finland made a joint proposal in September 2002. Parliament passed legislation in February 2003.

Labour shortage in Finland as baby-boomers retire



Pension reform rewards remaining at work

Amendments to the Pension Acts that will enter into force at the beginning of 2005 will add even greater reward for choosing to remain at work. The employee can retire at the age of 63, but continuing at work will increase the pension annually by 4.5 per cent of wages, which offers a very significant financial incentive to continue working. Early retirement pension systems will at the same time be reduced in number. The goal is to make early retirement pension slightly less attractive.

Another far-reaching reform is linked to the prolonged lifespan. When the earnings-related pension scheme was created at the beginning of the 1960s, the life expectancy of a 60-year-old was a further 13 years. Today, that figure is 17 years and rises by approximately one year in a decade. It is only natural that this increases pension expenditure respectively. The reforms mean that the amount of a pension commencing after the year 2009 will be adapted to the rise in life expectancy. The resulting decrease in the pensions level can be compensated by working a little longer. The number of years on pension will increase nevertheless.

Challenging investment environment

Stock exchanges continued their global fall for the third consecutive year and Varma-Sampo investment income has not reached the high levels of the late 1990s. Our investment strategy has assured risk-bearing capacity and prepared for unfavourable times ahead. In these circumstances, the yield on investments for the year 2002 – nearly two per cent – is moderate. Nevertheless, that is insufficient in the long term.

Varma-Sampo solvency continues at a secure level, and the solvency margin is more than double the solvency limit. Markets remain challenging and are uncertain. There are many risk factors in world politics and the economy that are directly reflected in capital markets. Nevertheless, I believe that the company's policy of conscientious risk-taking and its capability in situational assessment will facilitate an increase in the long-term yield to 3–4 per cent higher than the rate of inflation. This goal was achieved in the period from 1998–2002.

The same pay – the same pension

Working life has changed. Short employment contracts have become more common and changing jobs a natural part of working life. The system as it stood has treated people with exactly the same pay and work histories differently, depending on the number of separate instances of employment. The new pension system brings equality there.

Although the pension reform will increase the anticipated pension of most people, its total effect will dampen pension expenditure. This is above all due to the fact that the reforms will prolong the stay at work and extend retirement. Based on the law as it stands, it has been estimated that the employment pension premium would rise from the current 21.4 per cent to nearly 29 per cent of payroll by the year 2030. Estimates based on the new legislation bring this forecast down by three percentage points.

The same challenges concern almost all member states of the European Union. The Finnish reform is one of the first and has been internationally recognised with e.g. a positive reception from the OECD. The development mechanism of the Finnish pension system has once again proved that it works.

Number of pension applications increased

The number of pension decisions grew by 11 per cent in 2002 over the previous year. The change in the age structure is clearly visible. In the years to come, we must continue to ensure that we will be able to handle decisions on a growing number of pension applications in the changing circumstances. We are at the same time planning a substantial overhaul of our information systems that must be completed when the pension reform enters into force in the year 2005.

The year has been highly significant in the history of the earning-related pension scheme. It has also been an industrious one for Varma-Sampo and still more concrete work lies ahead of us. Our goal is to provide good, high-quality services for our customers, work that will continue into the future.

I wish to thank our clients for their confidence and the staff for their good work.

Paavo Pitkänen

Pension reform rewards work

Changes largely in effect by 2005

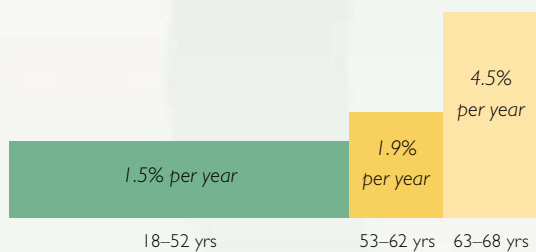
The private sector employment pension reform offers incentives to remain at work and a new freedom of choice for retirement on old age pension. If the reforms encourage Finns to continue in working life for 2–3 years longer than at present, the pressure to raise employment pension premiums due to the ageing population will remain manageable.

Pension will accrue from work as a whole

As of the beginning of 2005, pension will be calculated from income earned during a person's adult working life. A pension will no longer be dependent on a division into separate instances of employment, but will accumulate based on through-life earnings.

When calculating a pension, annual income will be adjusted to retain its value using a factor by which the change in wages accounts for 80 per cent and change in prices for 20 per cent. Pensions paid are adjusted annually by the pension index in which the change of wages accounts for 20 per cent and change in prices for 80 per cent.

New pension accrual percentages



Pension accrues at 1.5% per year from unsalaried periods

Remaining at work is worthwhile

Scaling the accrued pension would encourage people to extend their working life. It is possible to increase a pension significantly by working beyond the age of 63 years, as between 63 and 68 pension accrues by 4.5 per cent per year.

The scaling of pension accrual is partly financed by an increase of 27 per cent in the amount of pension contribution of people greater than 53 years-old.

Amount of employment pension no longer limited

As a result of the pension reform, the amount of employment pension will no longer be limited by the so-called coordination of benefits.

Nowadays employment pension can be at most 60 per cent of working income. If more pension accrues, the excess will be reduced.

The new law abolishes the limit, so continuing at work – especially beyond 63 years – will considerably increase the pension.

Flexible retirement on an old age pension

As of the year 2005, there will no longer be a common retirement age, but one can retire on old age pension by choice between the ages of 63 and 68.

A 63-year-old can retire on the full pension earned to date. However, remaining at work is now worthwhile, because the concluding years add significantly to the pension.

It will be possible to retire on early old age pension at 62 years old at the earliest. The pension will then be decreased by the early retirement reduction, which is 0.6 per cent per month from 62–63 years of age.

Changes in the disability pension

As of the beginning of 2005, new disability pensions will always include a so-called projected pension, providing that the person had been in some prior employment.

Projected pension is calculated from the income of the five calendar years preceding the disability.

Projected pension is calculated from the beginning of the disability to the age of 63 years. The accrual percentage is:

- 1.5 per cent per annum until the age of 50, and
- 1.3 per cent per annum from 50 to 63 years.

Because the right to early disability pension has been abolished for people born in 1944 or later, the vocational nature of a disability will be emphasised in estimating the disability pension right of those over 60 years of age, when they have had a long working life, and the work has been taxing. Those born in 1943 or earlier can still apply for early disability pension.



The information and advice day arranged by the Finnish Pension Alliance TELA at Sanomatalo in Helsinki in September attracted a large number of people interested in their employment pension.

Unemployment pension will gradually be eliminated

People born in 1950 or later will no longer be entitled to unemployment pension. Instead, they can receive unemployment allowance until 65 years of age. An unemployed person can also choose to retire on old age pension at the age of 62 without a reduction for early retirement. Those born in 1949 or before will retain their right to unemployment pension.

Reform will increase employee options

Tarja Tieto works in information technology and will be 53 years old in December 2004. The pension reforms will affect her as follows:

- Tarja will be transferred to a higher pension accrual level.
- The 1.9 per cent pension accrual will continue for 10 years.
- At 62, Tarja may consider retiring on early old age pension. The pension accrual incentive of 4.5 per cent per year from the age of 63 onwards will encourage her to stay at work longer.
- When retiring begins to seem a more attractive option, Tarja can choose the time of her retirement between the ages of 63 and 68 years old.

Life expectancy coefficient controls the increase of pension expenditure

A life expectancy coefficient will be introduced into the earnings-related pension scheme in 2009. The decrease caused by the factor can be compensated for by remaining at work for longer.

Right to employment pension rehabilitation

The rehabilitation reform that will enter into force at the beginning of 2004 is closely related to the goals of the pension reform. A preference for rehabilitation will be further emphasised compared to disability pension.

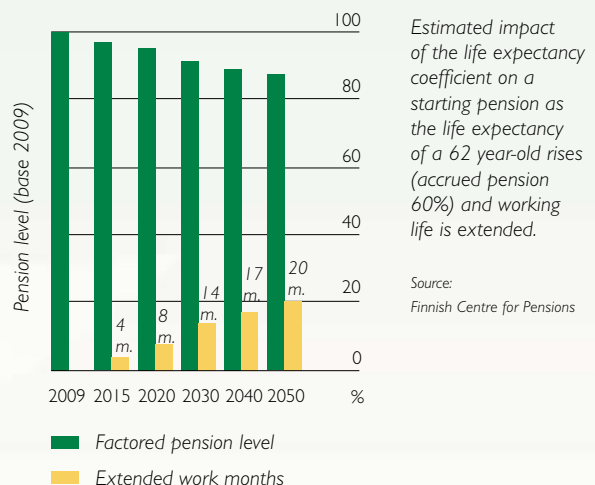
Employment pension rehabilitation is at this point discretionary. It will become the employee's right if he or she is in danger of becoming unable to work through disability, and if that threat can be decreased through rehabilitation.

A longer working life brings together many factors

The baby boom generation born after the war is nearing retirement age, so it will be apparent in just a few years time whether the goals set for the pension reform will be achieved.

The incentives offered by the reforms alone will not, however, be sufficient. A prolonged working life implies sufficient job opportunities. Working life and conditions must be developed by improving the quality of work and the atmosphere at the workplace, so that motivation remains high and Finns will want to remain in work for longer than at present.

Impact of life expectancy coefficient on pension



Many high-quality service channels – chosen by the customer

Entrepreneurs and small businesses appreciate ease of use

The majority of Finnish entrepreneurs and small and medium-sized employers prefer to deal with statutory employment pension insurance as part of their other insurance cover. The customer chooses the insurance group that will help them get things done smoothly, with expertise and at a competitive price.

Varma-Sampo serves entrepreneurs and small businesses in cooperation with IfP&C Insurance Ltd. IfGroup has a strong, nearly 24 per cent market share in the Nordic non-life insurance market and 34 per cent in Finland.

Varma-Sampo supports the If service network in developing employment pension expertise and managing customer relations by taking responsibility for telephone and online services for employment pension insurance, and providing expert assistance and training.

Large and international companies emphasise versatility

Large and international companies want services bundled in a way that meets their needs. They usually handle employment pension matters directly with the Varma-Sampo contact organisation that tailors the service type and a package to meet the needs of the client company.

The most comprehensive service concept in the industry combines basic, additional services and mediated services.

Basic services include:

- attending to the customer relation
- insurance and pension services

Additional services such as these can be attached to major accounts service packages:

- training, advice and consultation related to well-being at work, and related to social security for overseas work
- competitive financing solutions
- pension advice meetings for personnel

The additional services provided by Varma-Sampo cooperation partners are:

- supplementary pension solutions for corporate management
- supplementary pension and fund services for client company employees
- services for outsourcing personnel administration
- personnel fund services
- pension fund management services



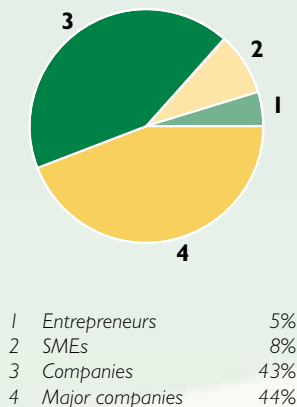
Markus Kaitila also sells employment pension insurances at If small business client office in Kluuvi, Helsinki.



Managing Director Pekka Ala-Jaakkola and Development Director Mervi Pulkkanen of Esperi Oy met Account Manager Kirsti Keravuori before Christmas.

A manager is appointed for each major account, who handles the customer relationship and coordinates basic and additional services as part of the customer service package.

Premiums written per client group



Total € 2.4 billion

Customers satisfied with Varma-Sampo services

Suomen Gallup Observa Oy researched customer satisfaction among Varma-Sampo major accounts in autumn 2002. Personal interviews were held in 20 client companies to gauge customer opinions on the current level of services and future needs and expectations.

Customers gave feedback openly to Varma-Sampo, commending especially the expertise and negotiation skills of account managers, and flexible management of day-to-day routines related to pension insurance.

Customer satisfaction is often based on dealing with a familiar contact person. Experienced contact staff understand the operations of the client company and offer competent advice.

Hollming operates in three lines of business

Hollming Ltd was founded in 1945 to build schooners as war indemnity and has expanded from a shipyard into a diversified business.

Today, it is an international operator in three lines of business. Norpe Ltd manufactures commercial refrigeration systems for food retailers. The Mechanical Engineering Division comprises four units: Auramarine Ltd, Hollming Works Ltd, Kankaanpää Works Ltd and Robotiikka Ltd. Shipping services are provided by Crystal Pool Ltd, market leader in chemicals transportation between the Baltic Sea and the North Sea.

–To succeed and secure jobs in Finland it is essential to utilise the best features of the country and its people: cooperation, flexibility and organisational skills. We must also protect the younger members of our workforce and create new, secure jobs even in varying economic conditions, says Risto Salo, Managing Director.

Honkarakenne – from family business to market leader

Honkarakenne Oyj started over 40 years ago when the five Saarelainen brothers made something new out of logs. Their first house machine-made of round-edged logs was completed in 1962.

Today, Honkarakenne is the leading log house manufacturer in the world, making individual houses for leisure and all-year use.

–We have cooperated well with Varma-Sampo for years, creating good pension systems that work complemented with individual pension plans, says Mauri Saarelainen, President.

Lappset puts the joy and fun into play

Lappset Group Oy designs and manufactures children's playground equipment, such as swings, climbing frames and merry-go-rounds.

The concept is to create an inspiring environment that supports the learning and development of physical exercise and creativity for people of all ages. Lappset continuously develops its products based on results from research into child development.

–We invest in endurance, environmental friendliness and product safety, stresses Antero Ikäheimo, company founder and Chairman.

Lappset exports playground equipment to 40 countries. Exports account for more than 70 per cent of turnover.

Many high-quality service channels – chosen by the customer

By telephone, face-to-face and online

Varma-Sampo service is planned with the human lifespan in mind to make sure we reach insured employees and entrepreneurs of all ages. Advice on pension benefits is offered directly and through the employer.

Varma-Sampo provides information about pension benefits by telephone, direct customer service and online – the customer can choose how.

The telephone is the most popular channel. In discussion with a pension expert the insured can find out about the accrual of their employment pension or different pension alternatives depending on their situation in life. Estimates on the amount of employment pension in different cases are calculated to help with decision-making. In 2002, Advisory Services received 43 400 calls. A total of 31 900 personal pension estimates were made on request.

Personal pension advice is provided at the company head office in Helsinki city-centre. A total of 2 270 people visited the service point in 2002.

Advisory Services sends a pension estimate to one age class every year. Each age class gets an estimate at five-year intervals after turning 30 years-old. Those with bonus insurance receive a pension estimate once a year along with a magazine containing articles and information about pension provision. Varma-Sampo also publishes other Finnish and Swedish language support materials.

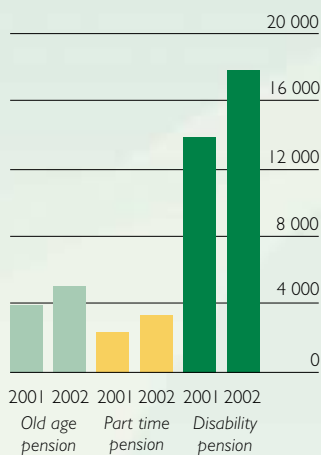
Pension reform and well-being at work are of interest

Employers can request meetings organised by Advisory Services to discuss pension topics of their choice. Employment pension evenings are arranged all over Finland for client company employees. Themes in 2002 included pension reform, well-being at work and rehabilitation.

The goal is to keep employees in working life

Varma-Sampo supports employment pension rehabilitation to help an employee or entrepreneur remain in working life or return to work.

Customer inquiries concerning various pension benefits 2001–2002



Katri Merikanto handles TEL and YEL insurances for policyholders by telephone and through online services. – A typical caller wants to adjust the value of the company's advance premium payments, to order certificates or ask for help using the e-folder, Katri explains.



Check out your pension provision online

Varma-Sampo launched a new online service for employees and entrepreneurs in December 2002. It is intended for all insured who are interested in their personal pension provision. They can check their personal employment record and so determine an estimated value for their old age pension or early old age pension. Those insured in Varma-Sampo can also order estimates for other pensions. Users access the service with an electronic identity card or through a banking service.

Employment pension rehabilitation can be considered if:

- illness weakens working capacity incurring a risk of disability pension, or the person is already on fixed-term rehabilitation assistance,
- the applicant has professional qualifications through training or work, and
- has been working for around five years or longer.

Employment pension rehabilitation may include e.g. work trial periods, work training or vocational retraining. Varma-Sampo can pay for examinations determining the need and opportunities for rehabilitation.

Guidance, advice and consultation are essential to employment pension rehabilitation:

- Guidance in planning a suitable rehabilitation programme and support during it.
- The risk of disability and planning, implementing and evaluating different programmes for the workplace are discussed with representatives of occupational health care and personnel administration of the client company.
- Alternatives are discussed with e.g. the Finnish Social Insurance Institution, employment exchange offices, educational establishments and private rehabilitation service providers.

The sooner action is taken the better to help a rehabilitated person stay at or return to work:

- Around 30 per cent going into rehabilitation from pension return to work.
- Around 60 per cent going into rehabilitation from working life return to employment.

Varma-Sampo surveys every other year the satisfaction of those rehabilitated: more than 90 per cent of respondents were satisfied in 2002. They appreciate the opportunity to receive vocational training and so remain in working life.

The number of pensioners is growing

Varma-Sampo was paying pensions to around 279 000 persons at 31 December 2002, a total of more than € 200 million every month.

Customer service is available to pensioners by telephone, post and on the Internet. Nearly 40 people work

A trial period makes it easier to return to work

Work trial is a form of rehabilitation supported by the employment pension company – a kind of easy start after a long sick leave. The employee can return to work by first taking shorter days with a lighter workload.

A work trial lasts 3 months on average, while Varma-Sampo pays the employee a rehabilitation allowance amounting to the disability pension plus 33 per cent.

in our telephone services to ensure accessibility. Swedish-language customers are offered assistance in their mother tongue.

Varma-Sampo Internet services allow a pensioner to check, for example, on which dates pension is paid, how pension is taxed, and information about working while drawing a pension. It is possible to order an employment pension card online for discounts on e.g. buses, trains and airplanes. A change of address can also be reported online.

Pensions paid right on time

According to the Pensions Act, employment pensions are paid on the first banking day of each month.

Varma-Sampo sends a letter to each pensioner every year containing information about the year to come: the amount of the pension and withholding tax, and the pension payment dates. The letter also shows the total amount of pensions paid and tax withheld in the current year.

An annual survey is conducted concerning pensioner satisfaction with written communications, how smoothly the payment system works, and the availability and quality of telephone services. Customer service has been highly rated year after year.

Well-being at work helps employees cope

Emphasis on the management of ageing and diversity

In the year 2002, Evita Services focused especially on surveys and pilot projects studying coping at work for ageing employees. The goal is to create a basis for new products and services to help client companies more efficiently support the ability of people of different ages to cope at work, people who need different management approaches.

Positive well-being carries its own reward

Evita Services mapped factors that support coping at work for those who worked up to the old age pension level of 65 years. The study involved more than 300 employees. It revealed that supportive factors can be divided first into the employee's personal qualities, such as good health, responsibility, orientation to work and strong life management, and second into work-related factors that include appreciation, equality in the working community and a good working atmosphere.

According to the survey, around 40 per cent of the respondents were willing to continue in working life in some form even after retiring on old age pension.

Mentoring is a practical tool for companies

The development of well-being at work requires employees to understand its importance and how they can affect it, as well as action in the working community. Evita Mentoring promotes both aspects.

Mentoring comprises mentor pair meetings where the elements affecting well-being at work are discussed. The process is supported by a workbook for the pairs that points to the different parts of the Evita Circle.

Mentor pairs work through the sectors of the Evita Circle in eight two-hour meetings and compile a summary of their own ideas. Furthermore, the pairs gather feedback and ideas for the development of well-being at work in their own units or the whole organisation. Development proposals are reviewed with management at the end of the programme.

Varma-Sampo has produced a planning booklet for those responsible for personnel development in client companies, which introduces Evita Mentoring and where to find its most suitable application for the company. Two training days were arranged in the autumn and experts from 17 client companies participated.



Evita Circle containing areas of a company's operations central to well-being at work.



A seminar for client companies

Varma-Sampo arranged a seminar in August about well-being at work to honour the 40th anniversary of the statutory earnings-related pension scheme. It attracted around 200 representatives from client companies and other interest groups.

The CEO of Varma-Sampo presented the company's views on promoting well-being at work. The Ministry of Labour explained how the coping programme is proceeding, while the Personnel Director of Nordkalk Corporation presented the results of an age structure survey conducted together with Evita Services. The results of the survey and the Evita Mentoring programme were published.

Eltel Networks invests in the well-being of the aged at work

Eltel Networks Oy designs, builds and maintains electrical and telecommunication networks that are vitally important for society. The company employs a staff of approximately 1 600 of which around 920 work in Finland.

Eltel Networks has developed well-being at work together with Evita since 2001. Evita Evaluation was conducted in January 2002. A planning day was arranged in August, and the advancement of different development projects was planned.

One of the development projects is to reduce the risk of disability.

– Our vision is to keep our staff in better condition and at work for longer. At the same time, we aim to pass the expertise of older to younger employees more efficiently, says Pekka Salo, Executive Vice President.

At the moment, Eltel is considering the means to reach that goal. These include changing the corporate culture, developing cooperation with occupational health care services, mapping coping at work, and developing mentoring programmes.

An evolving job motivated a printing house employee

In 2002, Evita Services surveyed factors that support coping at work for employees working to the old age pension age of 65. One participant was Yrjö Toppinen, who worked in a line of business for almost 50 years that was constantly changing, which kept him motivated and alert.

– I was lucky to work in a job that I liked. I also worked with people of all ages – and you can't get much done on your own, Mr. Toppinen stresses. He also appreciated the fact that his employer encouraged him to take training.

Yrjö Toppinen participated in an Evita Services survey that mapped the factors encouraging us to continue at work until the age of 65. Yrjö worked in the printing business for almost 50 years.



Varma-Sampo develops rehabilitation together with client companies

Employment pension rehabilitation is one way to help employees remain in working life longer, and hold on to skilled employees and save on pension costs. It is a form of vocational rehabilitation that helps manage problems related to illness and working capacity.

An employment pension company can pay for the employee to conduct e.g. work trials, training or vocational re-training.

Varma-Sampo develops its rehabilitation activities by comparing its own ways of working with the expectations of client companies. A development project began in 2002, before which customer wishes were surveyed.

Varma-Sampo conducted group interviews in eight client companies to identify working capacity problems, and a company's alternatives when poor health prevents an employee remaining in their current job until retirement. The roles of occupational health care, the employment pension company and a local rehabilitation network in supporting a sick employee's return to work were discussed.

On the basis of the interviews, Varma-Sampo is developing new rehabilitation services and recording good rehabilitation practices in cooperation with client companies.

Expert in insuring overseas workers

Social security levels vary from country to country

The social security systems in different countries significantly differ from each other in terms of, for instance, level, structure and financing. When an employee moves from one country to another, waiting periods and limitations concerning the payment of benefits abroad must be taken into account. These should be clarified in advance – working together with experts.

Finnish pension provision and social security bear international comparison – it is usually worthwhile remaining within their scope for as long as possible. The experts at Varma-Sampo International Services will provide guidance in this matter. They clarify how the social security systems of different countries work, how social security agreements are reconciled, and demonstrate the different limitations and waiting periods.

International Services relies on its extensive files about social security in different countries, and good access to international data and insurance companies.

Finland rates highly in international comparisons

When examining social security in the context of working overseas, the Finnish earnings-related pension scheme

UPM-Kymmene has long traditions in overseas assignments

UPM-Kymmene Corporation is one of the leading paper manufacturers in the world. The company focuses on magazine paper, newsprint, fine and special papers, materials conversion and wood products. UPM-Kymmene operations are highly international, with production plants in 18 countries and a comprehensive sales and distribution network in more than 170 countries.

The company has developed its own set of instructions known as Expatriate Policy to follow for overseas work.

– We have around 170 staff assigned overseas at the moment, says Benita Öhman, HR Manager.
– The majority are working in Germany, France, Great Britain or the US, and we have also placed more employees in China recently.

– Varma-Sampo International Services have been particularly helpful in dealing with complex, special questions such as problems related to the pension provision and social security of expatriates.



Before embarking on an overseas assignment, it is well worth checking what the situation will be concerning social security.

is compared with corresponding systems in other countries. Comparisons show that where the Finnish system is different is also where its strength will lie in the years to come, as the number of people retiring on pension grows. The pension reform will guarantee sufficient and equal pensions and a durable system.

The demand for equality is promoted by the Finnish national pensions scheme. This kind of a system is rare outside the Nordic countries. Uniform pension provision by the earnings-related pension scheme is another factor linked to equality. Because there is no income ceiling that would limit the accrual of pension, voluntary supplementary pensions are not necessary.

The durable nature of the financing of the Finnish pension system is partly based on the fact that a portion of the insurance premiums collected annually are placed in funds to finance future pensions.

Varma-Sampo invests in special expertise

Varma-Sampo invests in expertise in social security related to overseas work. Up-to-date information and the ability to compare social security benefits in different countries are crucial.

International Services offers advice and helps client companies calculate and estimate the level and costs of social security, in different scenarios and in practice. Solutions for supplementary insurance cover are also available where necessary.

Skilled staff are a competitive advantage

High quality fosters success

Varma-Sampo steers its operations through measures such as setting common goals for the organization. High quality through efficiency was the theme for 2002. The goal was to encourage employees to pay attention to cost-efficiency, speed and faultless operations. The development of online services and their efficient utilisation both in-house and among clients became focal points.

Varma-Sampo invests in high quality in all operations. In 2002, Varma-Sampo introduced the more challenging European Foundation for Quality Management criteria in place of the assessment tools of the Finnish quality prize system. EFQM is used in locating elements that require development and the means to manage that, in the organization and its ways of working.

Changes under control

Finland's 40 year-old employment pension scheme holds an established position and is under continuous development. Dealing with the pension reforms agreed upon in 2002 will be a big job for the personnel – in terms of both time and the amount of work. That is one of the reasons why the theme for the year 2003 is Managing change.

Recruitments are a challenge

Recruitments will be a challenge to the efficient and flexible development of expertise. A familiarisation programme was developed and a model for training new supervisors created during the year.

The activity of mapping staff skills has been a feature at Varma-Sampo for a long time, and more than half of the personnel have individual know-how maps. The process can be further refined by focusing on essential areas of expertise, which facilitates follow-up. The current personnel guidance system works efficiently in the development of skills mapping.

Well-being makes the difference

Varma-Sampo invests strongly in the well-being of its personnel. The company has been highly graded by its staff in the internal corporate image surveys conducted at regular intervals.

Varma-Sampo was ranked in the top five in a survey comparing job satisfaction in 118 Finnish companies, published by Corporate Image Oy in autumn 2002. Companies were categorised according to overall personnel satisfaction and internal corporate image. The result creates a good basis for the further development of well-being at work.

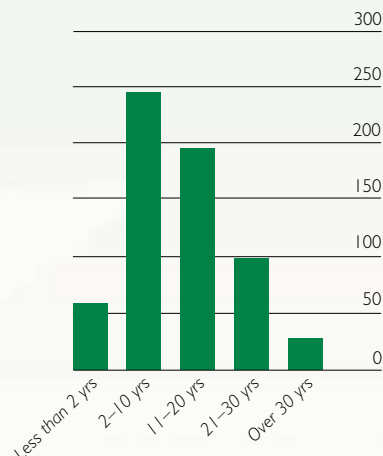
Varma-Sampo as an employer in 2002

- Varma-Sampo personnel numbered 615 on average in the year 2002. At the end of the year, there were 796 people in permanent or fixed-term employment in the Group.
- The number of part-time staff continued to rise. At the end of the year, a total of 59 employees were working part-time, mostly people on partial child care leave or a part-time pension.
- 76% of personnel were women and 24% men. The proportion of men and women employed remained unchanged.
- At the end of the year, the average age of personnel was 44 years and 11 months (2001: 44 years and 7 months).



Minna Ahlfors (left), Terttu Saarinen, Seppo Malin, Aini Keskinen and Kimmo Haavisto participated in a training programme for account managers in autumn 2002. The main theme was customer relations management.

Breakdown of personnel by years served 2002



Social responsibility in everyday activities

Social, economic and ecological responsibility

Social responsibility is divided into social, economic and ecological elements. At Varma-Sampo it means, above all, taking responsibility for the maintenance and development of employment pension provision and social security. The company implements its responsibility, for instance, in personnel policy, social policy, environmental protection and in different business areas.

An active forerunner in social policy

Varma-Sampo wants to be a reliable social policy actor that knows its responsibility. This calls for broad-range expertise and a mastery of the field of social security as a whole, as well as the ability to anticipate societal development.

In a decentralised employment pension system the mutual confidence of all parties is a fundamental prerequisite of operations. It requires good cooperation between the company and its customers, as well as immediate interaction with different social interest groups. This is about everyday activities.

The fact that employment pension insurance is statutory requires that the law is applied in the same way by all pension institutions. Cooperation in implementing tasks related to the execution of employment pension law is coordinated by the Finnish Centre for Pensions. Cooperation advances high-quality customer service and the legal protection of the insured, as well as the legality and efficiency of operations.

The goals that Varma-Sampo sets are guided by customer-orientation. Interaction between the insured, policyholders and cooperation partners steers the development of the company's operations.

Bringing well-being to the workplace

Keeping skilled staff in working life is a great challenge, because in the coming years a great number of people will leave the labour market in Finland. In order for an employee to cope in working life, they must be sufficiently healthy and have to be able to upgrade their expertise.

Although the principal responsibility for the maintenance and promotion of well-being at work lies with companies and their employees, Varma-Sampo aims to work hand-in-hand with client companies and entrepreneurs' organisations to promote well-being at work for employees and entrepreneurs.

Pension decisions concern long-term livelihood

Pension decisions are carefully made on the basis of employment pension laws and the instructions and regulations for their application. Consideration may primarily be given in granting benefits linked to a decline in the capacity to work, such as disability pension.

Varma-Sampo operations in making pension decisions are based on the principles and regulations of good administrative practice. The decisions are unbiased and made in such a way that in judicially similar cases the decisions are also similar.

Applications are handled correctly and in time. Varma-Sampo monitors, for instance, the number of negative decisions handed out by the company and whether or not these are modified during the appeal system.

A total of 70 per cent of disability pension applications are approved at first approach.

If a pension application is rejected, especially precise arguments are given for the decision. The applicant is told on what grounds the decision was made and can therefore deduce which issues should be raised in any appeal, and what new statements and information should be acquired.



The rejection of a disability pension application may put the applicant in a socially and financially difficult position. Therefore, before the final decision is made, Varma-Sampo will investigate with the applicant the possibility of employment pension rehabilitation.

A secure employer

Taking care of well-being at work is part of Varma-Sampo's everyday operations. The company has its own programme for promoting well-being at work that emphasises the importance of coping, progressing and most especially expertise in everyday operations. Developing expertise also increases the feeling of mastery of work, improves working capacity and enhances the ability to cope.

The development of expertise is a key goal in Varma-Sampo, because the operating environment changes rapidly. The company has to be able to recognise what expertise will be needed in the future and how future challenges can be met. Existing expertise and tacit knowledge also have to be utilised more efficiently. Varma-Sampo pays special attention to maintaining the professional competence of ageing employees.



The personnel report for the year 2002 published in April tells about Varma-Sampo personnel in words and pictures. The report is available in Finnish only.

Varma-Sampo supports the Finnish Association of People with Mobility Disabilities

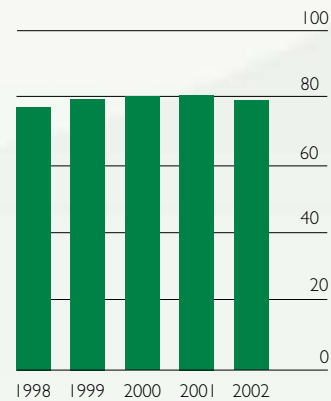
Varma-Sampo, Sampo Group and IfP&C Insurance Company Ltd cooperate with the Finnish Association of People with Mobility Disabilities (FMD). The companies have supported the association, for instance, in collecting the self-financing portion for building the Käpylä Rehabilitation Centre in Helsinki and promoting the living conditions of the disabled. In 2002, a new rehabilitation centre was completed in Laakso, Helsinki.

FMD promotes change in society for equal opportunities for all to act and participate. The association promotes the human rights of the disabled and produces services for them.

FMD promotes the well-being at work of its personnel together with the Evita experts of Varma-Sampo. The association has implemented a number of development projects such as Evita Evaluation.

– Developing the working community is a continuous process. We are planning new projects based on our results, says Juha Kotikangas, Financial Director of FMD.

Approved disability pension decisions 1998–2002



Social responsibility in everyday activities

In a profitable and secure way

The core task of Varma-Sampo is to secure pensions. Hence the pension funds administered by the company are invested in a profitable and secure way. So the social effects of potential investment objects can only be assessed when this basic requirement is met.

The effects of investments on society are assessed as a part of normal investment operations. In practice, social responsibility is taken into account through the active selection of investment objects and the corporate governance principles.

Varma-Sampo was the first employment pension company to introduce ethical principles in investment operations. They emphasise the following issues:

- Varma-Sampo invests in a profitable and secure way.
- Varma-Sampo invests knowing its social and customer responsibility.

- Varma-Sampo aims at investing only in such companies whose operating principles are:
 - Compliance with the currently valid legislation
 - Respect for human values
 - Awareness of social responsibility and responsibility for working conditions, and
 - Taking into account the perspectives of environmental protection.

Varma-Sampo actively estimates societal effects when investing in listed shares and corporate bonds. The goal is to find investment objects that represent best practice in the line of business, in terms of the social responsibilities they meet.

Estimating social effects mainly concerns other than Finnish and Nordic companies because it is considered that, in those countries, issues concerning the environment and working conditions are comprehensively governed by law.

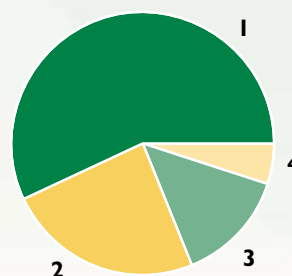
How is social responsibility realised in the equities portfolio?

Varma-Sampo examined the social responsibility of the 101 foreign companies in its equities portfolio in summer 2002. Enquiries were made of around 400 companies listed on the Dow Jones STOXX 600 index or in the company's equities portfolio. A total of 115 replies were received.

According to the survey:

- 62 companies belonged to at least one index of social responsibility.
- 18 companies not belonging to an index submitted a report on social responsibility.
- 21 companies did not answer or their reply was considered insufficient.

Social responsibility in the Varma-Sampo equities portfolio



1	Finnish companies	57%
2	Companies included in SRI	24%
3	Companies sending a social responsibility report (not Finnish, not SRI)	14%
4	No response	5%

Total equities portfolio € 3.0 billion

Real estate investor with environmental responsibility

Varma-Sampo's environmental responsibility is mainly related to real estate investments: construction and real estate management.

In construction operations, Varma-Sampo aims to take into account the economic and environmental issues from the construction phase to the demolition of the building. The consumption of electricity, water and heating energy is continuously tracked in all residential, business and office buildings owned by the company.

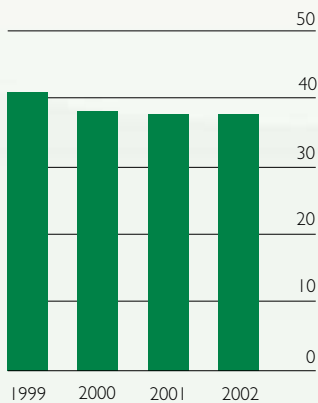
Office buildings are included in a real estate and construction business energy-saving agreement signed by Oventia Oy in the year 2000. Its objective is to reduce heating energy consumption by 10 per cent by the year 2005 and by 15 per cent by 2010, as well as to halt the increase of electricity consumption and turn the trend around to a decrease by the year 2005. Around 8–10 units of real estate owned by Varma-Sampo are annually reviewed as per agreement. The goal is that all office buildings will have been assessed by the end of 2005.

Environmental responsibility at Varma-Sampo premises

Varma-Sampo operates out of three real estate units in Helsinki city-centre. Waste is collected and sorted at all of them. The company's furniture and equipment suppliers meet the requirements of the ISO 14001 and quality 9002 norm. Special attention is paid to environmental safety in the operations of external service providers.



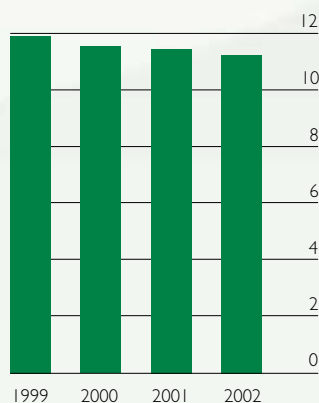
Consumption of heating energy at Varma-Sampo real estate items *
kWh/m³/year



Normal variation 34–57 kWh/m³/year

* those in the follow-up system

Consumption of electricity at Varma-Sampo real estate items *
kWh/m³/year



* those in the follow-up system

Improved investment income in challenging circumstances

Equities portfolio reduced

Varma-Sampo investment assets are divided into four types of asset:

- fixed income investments
- equities
- real estate, and
- alternative investments.

In 2002, the proportion of fixed income investments increased, and that of equities decreased mainly due to falling stock exchange rates. The proportion of real estate and alternative investments or, for instance, private equity investments and hedge fund investments, was increased. The changes were, however, minor in terms of the whole portfolio.

Investment assets have been effectively diversified, both geographically and by investment object, so that risk concentrations do not endanger the security of pensions.

Investment income at 1.9 per cent

Varma-Sampo investment income for the year 2002 stood at 1.9 per cent, while in the previous year the figure was one per cent. The yield is low, and it does not correspond to the interest calculated on technical provisions, which means that the company's solvency declined. Neither does the yield meet the long-term expected real income of three per cent. However, only a few pension funds in the world achieved a positive yield, because stock markets were weak. With this background the total yield can be considered moderate.

In late 2002, the decline in solvency partly limited the company's possibilities to change the relative weights of asset types in the investment portfolio. This was mainly due to the risk buffer system introduced by Varma-Sampo to ensure the company's solvency in all market situations.

Investment strategy revised

The expected nominal yield recorded in Varma-Sampo's investment strategy was revised due to yet another year of falling interest rates combined with lower than expected inflation. The changes will best be seen in the long-term risk premium of equities. In the long term, equities investments are now expected to provide a three percentage points higher yield than fixed income investments, while the risk premium was previously five percentage points. The long-term expected real income from investments adjusted for inflation remained at three per cent.

Finland's biggest investor

● Entrusted with an investment property of € 17.8 billion, Varma-Sampo is the biggest investor in Finland: an important actor in the capital markets and a significant real estate investor.

● Varma-Sampo is a long-term investor. The purpose of the company's investment operations is to accumulate the assets received as pension premiums to pay present and future pensions.

● The pillars of Varma-Sampo investment operations are profitability and security. The best possible yield is sought for investments at the selected risk level. In order to reduce risk, the investment portfolio is effectively diversified.

● Varma-Sampo is a responsible investor. The company's corporate governance principles aim to increase the value of the company's assets in the long term. The goal is to encourage those companies whose shares Varma-Sampo owns to keep up good administrative practice.

The main principles of Varma-Sampo corporate governance

Varma-Sampo shareholder policy is recorded in the company's corporate governance principles:

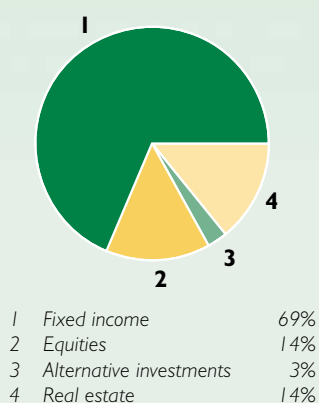
● The operations goal of a company selected as an investment object must be to create added value.

● Varma-Sampo actively exercises its voting right as a shareholder.

● Expertise and independence need to be key factors in electing the Board members.

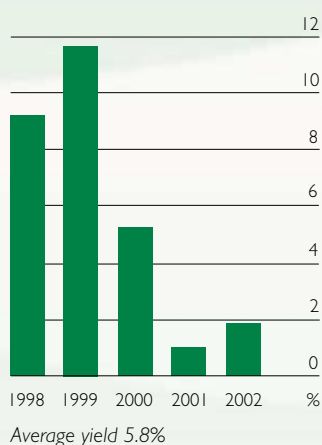
● The operations of a company as an investment object must be as transparent to investors as possible.

Investment assets at 31 Dec. 2002



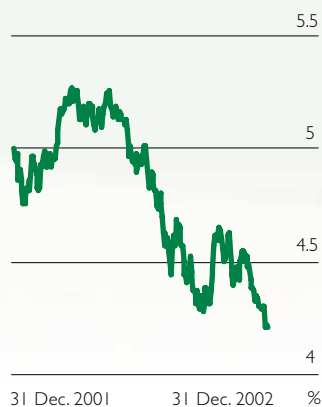
Total portfolio € 17.8 billion

Investment income 1998–2002



Development of 10-year interest rate

Germany's 10-year bonds



The state of the economy reflected in fixed income investments

The weak economic development and modest expectations for growth were reflected in interest rates both in Europe and the US. The fall in long-term interest rates clearly increased the return on Varma-Sampo's fixed income portfolio. The bond yield was therefore high compared with the prevalent level of interest rates. Short-term market rates fell to record lows.

In the fixed income markets, corporate bonds yielded one percentage point less than government bonds. In the corporate bond markets, credit losses set historical records as a result of the bankruptcies of a few large companies. Companies invested less than before, which was manifested as a fall in the supply of new corporate bonds. The private sector accounted for around one-third of Varma-Sampo bonds.

The demand for TEL premium loans and investment loans was low throughout the year. The majority of the securities for the loans were bank guarantees and credit insurances.

Largest fixed income investments at 31 Dec. 2002

Issuer	Current value € million	Nominal value € million	Fixed income portfolio, %
Italy	1 186.9	1 100.0	11
France	928.5	850.0	9
Germany	767.8	725.0	7
Spain	638.2	580.0	6
Belgium	628.3	580.0	6
Total	4 149.7	3 835.0	39

Total fixed income portfolio €12.3 billion

Improved investment income in challenging circumstances

The third year of falling stock markets

The indexes that describe the development of world stock exchanges fell considerably for the third consecutive year in 2002. The value of Varma-Sampo investments declined by a fifth, while the European stock markets sustained a much harder fall.

The most significant new investment was the purchase of 10 per cent of If P&C Insurance Ltd. The equities portfolio has been broadly diversified, excluding the financing sector in which the majority of the assets have been invested in Sampo and If.

Less than 10 per cent of equities investments are handled through external asset managers. The majority of assets entrusted to external parties are administered by Sampo Rahastoyhtiö Oy.



Largest equities investments at 31 Dec. 2002

	€ million	Equity holding*, %	Votes,* %
Sampo plc	324.9	8.1	8.0
If P&C Insurance Holding AB	185.0	10.1	10.5
Stora Enso plc	91.5	1.0	3.5
Nokia Corporation	87.9	0.1	0.1
UPM-Kymmene Corporation	77.1	1.0	1.0

* Holding and share of votes in the company

Total equities portfolio € 3.0 billion

Varma-Sampo complies with the insider trading guidelines approved by the company's Board of Directors that cover the recommendation made by the Federation of Finnish Insurance Companies.

Glossary

● Corporate governance

The management and supervision systems of a company; organising business operations with reference to interest groups.

● Hedge fund

A generic term for investment trusts that seek a positive return in all market conditions. This so-called absolute return is based on extremely active investment policy. Hedge funds can invest in equities of both listed and unlisted companies, different fixed income objects and derivatives.

● Risk buffer system

The risk buffer system determines the highest possible risk level. This buffer is the amount by which the solvency margin

may exceed the limits set for it – by the Insurance Supervision Authority – in case of a market disturbance. The maximum risk level has been determined so that the company will remain operational even after a major market disturbance.

● Solvency or solvency margin

The net assets of an employment pension company i.e. the excess of assets at current values over liabilities. For a more detailed description, see Key terminology on p. 58.

● Technical provisions

See Key terminology on p. 58.

Real estate investment income grew

The amount of vacant space increased in real estate markets and the cost of renting office space in particular fell. Nevertheless, Varma-Sampo was able to increase income from its real estate investments.

During the year 2002, Tampereen Kiinteistö Invest Oy was in practice transferred completely to Varma-Sampo. The company is a major real estate investor in Tampere and owns the majority of the Finlayson area.

Varma-Sampo enhanced the administration of its real estate investments by outsourcing leasing and construction operations to its participating interest Ovenia Oy. The

ownership of Ovenia Oy was expanded when Kapiteeli Ltd became a new shareholder.

Alternative investments mainly in capital trusts

Alternative investments are mainly in capital trusts, as well as other investments made on special conditions. The first hedge fund investment was made in October and amounted to USD 50 million.

Investment commitments in capital trusts stood at over € 300 million. Capital trusts produced a clearly better return than stock markets.

Largest real estate investments at 31 Dec. 2002

Current value	€ million	Real estate portfolio, %
Vasa-Sijoituskiinteistöt Oy	242	9.7
Kymijoki power plants and Draco Oy	135	5.4
Koy Hämeentie 135, Helsinki	113	4.5
Tampereen Kiinteistö Invest Oy, Tampere	97	3.9
Company premises (Annankatu 18, Bulevardi 7 and Lönnrotinkatu 12, Helsinki)	96	3.8
Total	683	27.3

Total real estate portfolio € 2.5 billion



The Finlayson area in Tampere city-centre is valuable in terms of its cultural history.

Ovenia Oy – Finland's biggest real estate service company

Ovenia Oy (formerly Kiinteistövarma Oy) provides leasing, maintenance, construction and real estate management services, mainly to its owners – Varma-Sampo, Kapiteeli, Sampo, Sampo Life and Kaleva.

–We are Finland's largest real estate service company, says Ari Puska, Managing Director. Ovenia manages real estate assets of € 4.5 billion, and its annual purchases amount to around € 120 million.

Ovenia represents real estate owners to the lessees and monitors the situation from the perspective of a long-term investor.

–Retaining the value of real estate and taking care of customer satisfaction is important to us.



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Annual Accounts

The Annual Accounts for 2002 and Notes are available at the parent company headquarters, address Annankatu 18, FIN-00120 Helsinki, Finland.

The Annual Accounts have been drawn up in accordance with the following guidelines:

- Act on Employment Pension Insurance Companies
- Insurance Companies Act
- Accounting Act and Companies Act
- Decree on an insurance company's annual accounts and consolidated accounts as issued by the Ministry of Social Affairs and Health.

Annual General Meeting

The Annual General Meeting will convene on 10 April 2003 at 3:00 pm at the company headquarters at Annankatu 18, Helsinki.

Trends in the economic operating environment

The international economic situation recovered in the first half of 2002, but the outlook weakened again towards the end of the year due to increasing risk in global politics. The growth of the world economy slowed and general uncertainty continued. Economic growth in Finland was around 1.5 per cent. Despite the weak economic situation, Finnish exports and industrial output increased while investments and the employment rate remained at approximately the level of the year before.

The US and European Central Banks continued to loosen monetary policy during the year. Both nominal and real interest rates remained at a very low level. Stock exchange rates continued to fall and fluctuate intensely for the third year in succession. Stock indexes were negative worldwide for all lines of business. Interest rates on long-term bonds rose early in the year, but then fell clearly below their original level.

The value of international pension funds has declined radically in recent years. That has increased the pension expenses of companies and weakened the position of pensioners especially in the US. The Finnish statutory earnings-related pension scheme has remained solvent, thanks to both its structure and less weight placed on equities in investments compared with the international average.

The great employment pension reform

The Finnish population is ageing, and the age classes entering working life are smaller than those leaving. It is necessary for the long-term labour requirements of the Finnish national economy, and to keep pension expenditure at a moderate level, that staying longer in working life is promoted and the average retirement age is raised. The pension reform that is based on mutual agreements of labour market organisations is the most significant since the earnings-related pension scheme was created 40 years ago. The objective of the reform is, for instance, to adapt the system to correspond to changed working conditions and prolonged lifetime e.g. so that the amount of pension is not dependent on the employment history, to support and reward both coping with and staying at work, and to extend the average retirement age. The government proposal also states that the purpose is to combine the pension acts concerning private

sector employees.

Early disability pension will be abolished for those born after 1943. For people born in 1947 or later, the age limit on part-time pension returned to 58 years from the beginning of 2003, and the old age pension granted after part time pension will be decreased. The present right to unemployment pension will be retained for those born before 1950.

The reform, currently in reading in Parliament, is planned to enter into force on 1 January 2005. According to the government bill, the amount of employment pension will be affected by all income from a work history regardless of the duration of individual instances of employment. Pension will start to accrue at the age of 18 at 1.5 per cent, will rise to 1.9 per cent at 53 years and to 4.5 per cent at 63 years. Pension will accrue until the age of 68. Employees and entrepreneurs will participate in paying for their improving pension provision from the age of 53 by contributing a higher employment pension premium than at present. Furthermore, according to the government bill, when calculating a pension the wages of previous years will be adjusted, using a factor by which the change in wages accounts for 80 per cent and change in cost of living for 20 per cent. All pensions paid are adjusted by an index in which the change of wages accounts for 20 per cent and change in prices for 80 per cent.

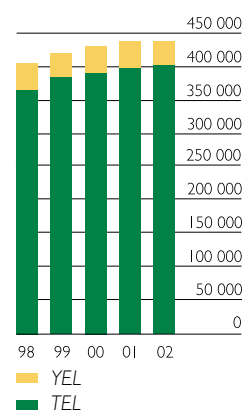
It is planned that pension from unsalaried periods be calculated from the income that forms the basis of other earnings-related benefits, and pension will accrue from state funds during periods of study and during the home care of children under three years old.

According to the government proposal, an employee or entrepreneur can flexibly retire on old age pension by their own decision at the age of 62–68, and the pension will be calculated from the wages or working income earned up to that date. It will be possible to retire on old age pension without reduction for early retirement at the age of 63.

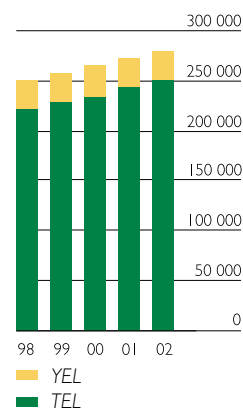
A life-expectancy coefficient is planned for introduction in 2009 with which pension provision will be adapted to the longer lifetime. Integration would be abolished from earnings-related pensions starting from the year 2005, excluding traffic and industrial injury pensions.

In terms of calculation, the present employment assessment will end on the planned entry

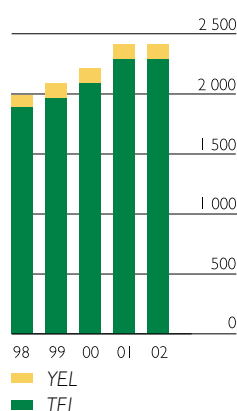
Insured persons



Pensioners



Premiums written
€ million



date of the law on 1 January 2005, after which the pension will be calculated on the basis of the wages and accrual percentage of each year. The protective regulation in accordance with the bill secures on certain conditions that the pension accruing from a continuous employment when the law enters into force is at least on a par with the present regulations until the year 2012.

According to the government bill, employment pension institutions and the Social Insurance Institution are obliged to arrange vocational rehabilitation, if an appropriately diagnosed illness, condition or injury poses a threat of disability to the employee. This amendment is intended to enter into force at the beginning of 2004.

Other changes concerning the earning-related pension scheme

The payment of compensations for the gradual abolition of the basic level of national pension will commence at the beginning of October 2003. Compensations will be paid to those whose employment pension was cut earlier, due to the integration of the national pension, and for whom the basic level of national pension was gradually decreased.

Relating to the proposals of the working party appointed to research the issue of increasing the competition within the statutory earnings-related pension scheme, the terms of TEL and YEL insurances were amended on 1 October 2002, in such a way that notice can be given on the insurance to transfer it to another company after the end of the complete quarter following the notice. Such a transfer can only be made once a year. Furthermore, the regulations will be complemented so that the options to transfer and receive the insurance portfolio of an employment pension company, insurance operations of a pension fund and the liabilities of a pension fund, between pension institutions will be expanded. There would have to be a five-year interval from the previous transfer of the same insurance portfolio.

The premium loans granted from March 2002 carry a 0.3 percentage point interest rate margin, and granting loans no longer reduces client bonuses. Nevertheless, the interest is always at least 4 per cent.

As of 2003, employment pension companies start to pay the share of bonus transfers allocated to the insurance, without allocating it over several years as before. In connection with this change,

the share of provision for current bonuses was complemented in the Annual Accounts for 2002 by around € 9 million.

Financial review

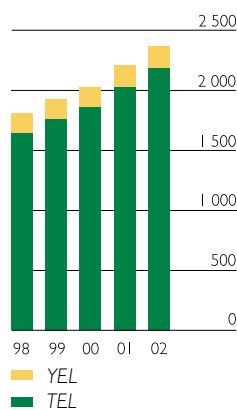
When assessing the financial performance or position of an employment pension company, the following comparisons must be made: returns on investments at current values to the yield requirement on technical provisions; operating expenses to administrative costs included in insurance payments; and claims expenditure to corresponding premium income. According to the new regulations, key figures are included in the Notes to the Annual Accounts. These key figures are essentially the same as those previously presented in the annual reports of employment pension companies.

Varma-Sampo solvency is indicated by the solvency margin that stood at € 2 409 million (€ 2 844 million) at the end of 2002, with 15.5 per cent (19.5 per cent) of technical provisions based on solvency requirements. The solvency margin requirements depend on the degree of risk-bearing inherent in a company's investments. The solvency margin at the year-end was 2.1 times (2.4 times) compared with the solvency limit. The solvency margin comprises capital and reserves, accrued appropriations, the unallocated insurance reserve, and valuation differences.

Net investment income at current values stood at € 338 million (€ 188 million), or 1.9 per cent (1.0 per cent). This fell short of the requirement for technical provisions by € 418 million (€ 566 million). The yield requirement on technical provisions is mainly based on the calculated interest rate, which was confirmed before the beginning of the year and stood at 5.25 (5.75) per cent. As a result, the solvency margin fell. Operating expenses were lower than the administrative costs included in insurance payments, and the loading profit stood at € 16 million (€ 16 million). Claims expenditure was lower than the corresponding premium income, and the insurance business surplus was estimated at € 38 million (€ 47 million). The company's total result stood at € -363 million (€ -503 million). The result of the Profit and Loss Account (as in Articles of Association), amounting to € 5 million, is determined by calculation bases confirmed by the Ministry of Social Affairs and Health.

The clearing reserve for covering insurance

Pension payments
€ million



business risks increased by € 37 million to € 798 million (€ 761 million).

A total of € 26 million (€ 42 million), the maximum amount allowed by the calculation bases, was transferred to the bonus reserve. The bonus transfer was around 0.24 per cent (0.39 per cent) of the total payroll of the insured.

Insurance business

The average payment level of the employees'

million). The total payroll of the insured is estimated to grow by two percent from the previous year. Varma-Sampo was responsible for insuring the pension provision of around 435 000 persons at year-end 2002, which was 3 000 less than a year before. Reasons for the decrease include changes in the personnel numbers of client companies, an increase in the number of employees retiring on pension, and the result of transfer business.

The total value of pensions paid in 2002 was

	31 Dec. 2002	31 Dec. 2001
No. of insured		
TEL *)	399 000	402 000
YEL	36 000	36 000
Total	435 000	438 000
*) TEL additional pension insurance	20 000	28 000
No. of insurances		
TEL	26 000	26 000
No. of pensioners *)		
Old age pension	146 000	142 000
Survivor's pensions	48 000	48 000
Disability pension	44 000	43 000
Unemployment pension	16 000	17 000
Early old age pension	12 000	10 000
Early disability pension	5 000	6 000
Part-time pension	8 000	6 000
Total	279 000	272 000
*) Those receiving YEL pension	28 000	28 000

pension insurance was 21.1 per cent of payroll, as in the previous year. The employees' contribution was 4.4 per cent (4.5 per cent). The payment under the Self-Employed Persons' pensions Act YEL was 21.1 per cent (21.0 per cent) of confirmed earnings.

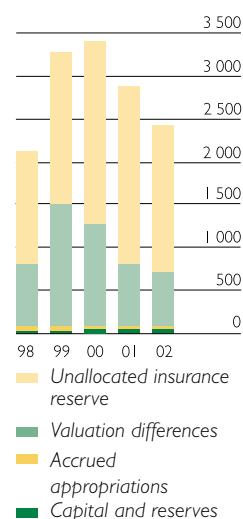
Varma-Sampo is Finland's biggest private sector employment pension insurer. The total TEL payroll of those insured in the company for the year 2002 stood at around € 11 billion. The company's market share of the employment pension business estimated on the basis of the payroll in 2002 was around 39 per cent.

The company's premiums written stood at € 2 406 million (€ 2 404 million), of which basic insurance under the Employees' Pensions Act TEL accounted for € 2 273 million (€ 2 278 million), and insurance under the Self-Employed Persons' Pensions Act YEL for € 111 million (€ 106

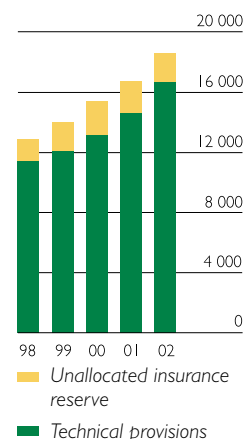
€ 2 356 million (€ 2 192 million). Some 22 700 (20 700) new pension applications were handled during the year. The number of pension estimates was 30 per cent higher and the number of pension decisions 11 per cent higher than in the previous year. The number of part-time pension decisions increased by 87 per cent to 3 556, and the number of disability pension decisions by 12 per cent to 7 062. At the year-end, Varma-Sampo was paying pensions under the Employees' Pensions' Act TEL and the Self-Employed Persons' Pension Act YEL to around 279 000 persons (272 000).

Varma-Sampo conducted a survey in its client companies about coping at work for employees who had worked until the age of 65. According to the survey, coping at work is affected by an employee's personal qualities, such as good health, responsibility, work orientation and strong life

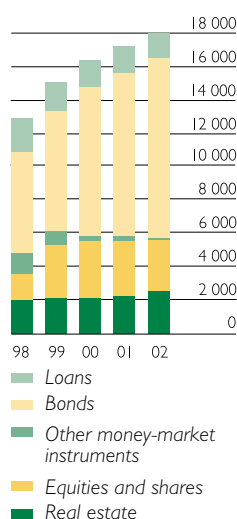
Solvency margin € million



Technical provisions € million



Investments at current value, € million



management, as well as by work-related factors, such as appreciation, equality in the working community and a good working atmosphere.

As a result of the restructuring of Nordic insurance business, the non-life insurance companies of Sampo plc were transferred to the ownership of If Group at the beginning of the year. Through its non-life insurance business customer service and sales network, If also serves Varma-Sampo customers and provides services to small and medium-sized TEL and YEL clients.

Varma-Sampo continued to expand and develop its electronic services. An increasingly large proportion of customers uses the online service. The varma-sampo.fi-vakuutettu service allows the insured to check their personal employment record and the income that affects the amount of future pension, as well as determine an estimated value for their own old age pension and early old age pension.

Technical provisions

Technical provisions grew by 3.9 per cent to € 17 340 million (€ 16 686 million) during the year. A bonus reserve of € 30 million (€ 197 million) and an unallocated insurance reserve of € 1 684 million (€ 2 038 million) are included in technical provisions. The equalisation reserve stood at € 798 million (€ 761 million).

Varma-Sampo received a total of € 4 million in liabilities from three pension funds.

Investment operations

All figures for investment activities are presented at current values. Calculation principles are presented in the Notes to the Annual Accounts.

Varma-Sampo investments stood at € 17 820 million (€ 17 151 million) at the year-end. Investment income stood at € 340 million, or 1.9 per cent (1.0 per cent).

The loan portfolio amounted to € 1 266 million (€ 1 418 million) or 7 per cent (8 per cent) of investment assets at year-end 2002. Loans with guarantee made up 81 per cent (76 per cent) of the total. A total of around € 278 million of new loans was drawn during the year. The loan portfolio yielded a return of € 63 million (€ 65 million), or 4.7 per cent (4.8 per cent).

Bonds accounted for € 10 826 million (€ 9 888 million), or 61 per cent (58 per cent) of investment assets, and they were 97 per cent (98 per cent) € 0 denominated. Euro denominated

public corporation bonds amounted to € 6 356 million (€ 6 238 million), financing bonds to € 1 689 million (€ 1 292 million), and corporate bonds to € 2 424 million (€ 2 003 million). The average risk-weighted credit rating of the bond portfolio was A (A+). The average term of the bond portfolio was 5.1 years (5.2 years) at the end of 2002. The return on bond investments stood at € 840 million (€ 470 million), or 8.7 per cent (5.0 per cent). In comparison, the return on the Salomon Euro Government index stood at 9.5 per cent and that of the Merrill Lynch Euro Corporate index at 8.5 per cent.

Other money-market instruments and deposits totalled € 179 million (€ 256 million), or 1 per cent (2 per cent) of investment assets, resulting in a return of € 15 million (€ 14 million), or 3.4 per cent (3.9 per cent).

Equities and shares owned by Varma-Sampo stood at € 3 029 million (€ 3 284 million) at the year-end, or 17 per cent (19 per cent) of investment assets. Most international stock exchange indexes continued to fall in 2002 for the third year in a row: the Dow Jones STOXX 600 yield index fell by -31 per cent (-17 per cent), the HEX All-Share Index by -14 per cent (-22 per cent); 73 per cent of shares, or € 2 215 million (€ 2 747 million) were euro denominated. A total of € 195 million (€ 168 million) was invested in capital trusts. In addition, Varma-Sampo has undertaken to subscribe to capital trust shares for € 301 million (€ 271 million). The return on investments in shares was € -720 million (€ -509 million), or -19.7 per cent (-14.7 per cent).

During the year, Varma-Sampo invested € 191 million in the shares of If P&C Holding AB (10.06 per cent of share capital) and the subordinated loan issued by its subsidiary. On the other hand, Varma-Sampo Group decreased its ownership in Sampo plc to 8.1 per cent (12.5 per cent).

Varma-Sampo real estate portfolio stood at € 2 050 million (€ 2 305 million) at the year-end, or 14 per cent (13 per cent) of investment assets. Varma-Sampo invested € 234 million in real estate during the year, selling € 19 million. The largest real estate investment was increasing the ownership of Tampereen Kiinteistö Invest Oy to 99.6 per cent. Tampereen Kiinteistö Invest Oy is the biggest owner of the so-called Finlayson area in Tampere city-centre and the owner of the Pyyntikin trikootehdas building. Other large real estate acquisitions were the head office of

Outokumpu Oyj in Espoo, the head office of Wärtsilä Corporation in Helsinki, and the premises of Stockmann plc in Pitäjänmäki, Helsinki. At year-end 2002, the total real estate area owned by Varma-Sampo Group amounted to nearly 2.1 million square metres (1.9 million square metres). The real estate portfolio was divided according to invested capital as follows: office space and business premises 59 per cent, residential flats 17 per cent, industrial facilities 13 per cent, hydropower plants 7 per cent, and other premises 4 per cent. The return on real estate investments was € 149 million (€ 139 million), or 6.5 per cent (6.4 per cent). Varma-Sampo will continue to sell items with a poor yield or unsatisfactory expectations of an increase in value, and attention will be paid to sufficient yield on new items.

Total operating expenses and personnel

Total operating expenses rose by three per cent on the previous year to € 71 million (€ 69 million). Of the administrative costs included in the premium, 78 per cent (79 per cent) was allocated to operating expense funded from these costs. Operating expenses related to investment operations that are covered by the return on investments, amounted to € 10 million. Personnel and information management costs form the majority of the operating expenses.

Varma-Sampo Group personnel, excluding temporary employment relationships, totalled 796 (772) at the year-end, of which 609 (616) worked in the parent company. As a result of outsourcing, 20 people were transferred to work for another employer. The number of personnel increased in pension and insurance operations and decreased in administrative support. Varma-Sampo uses a payment by results system for the entire personnel, including a company-specific and personal element. The company-specific element was affected by the result of investment operations, client acquisition and cost-efficiency.

Varma-Sampo company operations will be concentrated to the head office so that the other premises can be vacated.

Internal supervision and risk management

Varma-Sampo Board of Directors has determined what internal supervision comprises, decided on its organisation, assessed whether it has been appropriately arranged, verified common guide-

lines for internal supervision in the whole group and approved a risk management plan. Arrangements for risk management are described in more detail in the Notes.

The judicial compliance operations commenced in the company ensure that the company follows laws and authorities' orders, as well as recognising different legal risk situations in advance.

Associated undertakings and significant participating interests

At the year-end, Varma-Sampo consolidated accounts comprise, sub-groups included, a total of 264 subsidiaries and 69 significant participating interests, mainly real estate firms.

In order to simplify the group structure, Varma-Sampo's wholly owned subsidiary Unsa Ltd that mainly owned shares of Sampo plc, was merged into the parent company. The merger will not affect the benefits of those insured in Varma-Sampo or the result of investment operations at current values.

Varma-Sampo's share in participating interest Kiinteistövarma Oy decreased to 37.5 per cent when Kapiteeli Ltd became a shareholder with the same share. The result was Finland's largest company specialising in leasing, managing and maintaining real estate, as well as construction and real estate administration.

Annual General Meeting and administration

Decisions at the Annual General Meeting are made by policyholders with around 76 per cent of the votes, the insured holding some 21 per cent, and the guarantee capital owner, Sampo Group, with around 3 per cent of the votes. The Annual General Meeting on 19 April 2002 re-elected the following Supervisory Board members whose terms were due to expire: Erkki Etola, Matti Honkala, Jan-Henrik Kulp, Matti Kyytsönen, Hannu Penttilä, Juha Rantanen and Helena Rissanen, and Riku Aalto was elected to replace Seppo Berg, for the term ending at the Annual General Meeting of 2005. Furthermore, Jorma Vaajoki and Eero Aittola resigned and Jouko M. Jaakkola and Tapio Kuula were elected to replace them, respectively, each for the term ending in 2003. Mauri Palvi, Authorised Public Accountant, and Mikael Leskinen, Authorised Public Accountant, were elected as auditors, and KPMG Wideri Oy Ab and Paula Pasanen, Authorised Public Accountant, as deputy auditors.

The Supervisory Board elected Matti Honkala Chairman, and Jukka Härmälä and Pekka Paasikivi as Deputy Chairmen. On 10 December 2002, the Supervisory Board re-elected the Board of Directors' members Jarmo Lähteenmäki, Arto Ojala, Kari O. Sohlberg and Björn Wahlroos whose terms were due to expire for the term running from 1 January 2003 – 31 December 2005.

Future outlook

The capacity of the Finnish pension system to respond to the challenges set by the ageing population is good, if the current basic structures of the system are further developed, the reforms agreed on followed and their swift implementation taken care of, as was stated in the national pension strategy report that was published in June. The social welfare expenses committee 2000 that contemplated the financing of social welfare expenses in the future also stated that retaining the current level of well-being in Finland will also be possible in the future in conditions of international competition. The financial status of the Finnish employment pension system can still be considered good despite a few weak investment years. Nevertheless, the durability of the pension system is centrally affected by the growth of the national economy and by competitiveness. Im-

proving investment income in the long term is also essential for the bearing capacity of the earnings-related pension scheme.

As a result of the ageing of the baby boom generation, the number of pension applications will clearly increase in the coming years. Varma-Sampo has prepared for that by developing systems and ways of working and by increasing staff. The investment in the development of pension insurance operations will be very large in the forthcoming years due to preparations of and for the employment pension reform. Other activities underway at the same time include the rehabilitation reform and the correction of employment pensions due to the gradual abolition of the basic level of national pension.

The development of capital markets has a crucial effect on Varma-Sampo financial performance and solvency. Despite almost three years' fall in stock exchange rates, the company's solvency and risk-bearing capacity remain at a secure level. The uncertain situation in the international economy and politics continues and is also reflected in the capital markets. Estimating the economic development is difficult. There is no quick, significant improvement in sight. Varma-Sampo seeks new income and growth opportunities through the active selection of investment targets.

The Board of Directors proposes that the € 5 454 434.17 profit for the year shown in the Balance Sheet be disposed as follows:

– to be transferred to the security reserve (optional reserve)	€ 4 650 000.00
– to be paid as interest on guarantee capital	€ 746 333.92
– to be transferred to the Board of Directors' expense account	€ 40 000.00
– to be carried over on the profit and loss account	€ 18 100.25

Helsinki, 14 February 2003

Georg Ehrnrooth

Mikko Kivimäki	Mikko Mäenpää	Markku Hyvärinen	Markku Jokinen
Erkki Kangasniemi	Lasse Laatonen	Jarmo Lähteenmäki	Arto Ojala
Paavo Pitkänen <i>Managing Director</i>	Kari O. Sohlberg	Björn Wahlroos	Pasi Mustonen <i>Chief Actuary</i>

Profit and Loss Account

I Jan.–31 Dec., € million	PARENT COMPANY		GROUP	
	2002	2001	2002	2001
Technical account				
Premiums written	2 406.0	2 404.2	2 406.0	2 404.2
Investment income	1 377.6	1 327.2	1 298.8	1 303.6
Claims incurred				
Claims paid	-2 107.5	-1 963.6	-2 107.5	-1 963.6
Change in claims reserve	57.3	-616.1	57.3	-616.1
Liability transfer	2.2	96.0	2.2	96.0
	-2 047.9	-2 483.8	-2 047.9	-2 483.8
Change in premium reserve				
Total change	-711.4	-745.1	-711.4	-745.1
Liability transfer	2.0	262.3	2.0	262.3
	-709.4	-482.7	-709.4	-482.7
Statutory charges	-3.3	-3.2	-3.3	-3.2
Net operating expenses	-45.2	-44.3	-45.2	-44.3
Investment charges	-956.6	-680.1	-971.3	-683.5
Other technical underwriting expenses	-13.2	-32.2	-13.2	-32.2
Technical underwriting result	8.0	5.1	-85.5	-21.9
Non-technical underwriting result				
Share of participating interests' profit after tax			1.1	0.8
Direct taxes on ordinary activities				
Taxes for the financial year	-2.9	-8.4	-17.8	-41.6
Profit/loss on ordinary activities	5.1	-3.3	-102.2	-62.7
Appropriations				
Change in depreciation difference	0.5	0.1		
Change in optional reserves		12.1		
	0.5	12.2		
Income taxes				
Taxes for the financial year	-0.1	-3.5		
Minority interest in the result for the financial year			0.5	0.6
Profit/loss for the financial year	5.5	5.4	-101.7	-62.1

Balance Sheet

31 Dec., € million	PARENT COMPANY		GROUP	
	2002	2001	2002	2001
ASSETS				
Intangible assets				
Other expenses with long-term effects	1.1	1.7	1.1	1.7
Investments				
Investments in land and buildings				
Land and buildings	1 412.0	1 251.8	2 185.2	2 030.8
Loans to associated undertakings	853.4	842.7		1.0
	2 265.4	2 094.5	2 185.2	2 031.8
Investments in associated undertakings				
Shares and participations in associated undertakings	4.4	189.5	1.5	0.8
Loans to associated undertakings	2.0	66.7	2.0	2.7
Shares and participations in significant participating interests	3.3	3.3	3.8	3.4
	9.7	259.4	7.4	7.0
Other financial investments				
Equities and shares	2 877.5	2 600.9	2 956.0	3 029.4
Money-market instruments	10 317.7	9 715.9	10 317.7	9 715.9
Loans guaranteed by mortgages	205.2	225.0	205.2	225.0
Other loans	1 060.7	1 127.4	1 060.9	1 128.5
Deposits	111.1	84.0	111.1	84.0
	14 572.1	13 753.1	14 650.8	14 182.8
	16 847.1	16 107.0	16 843.4	16 221.6
Uncovered liabilities				
Direct insurance operations				
Policyholders	76.9	104.3	76.9	104.3
Other debtors				
Receivables portfolio transfer	45.3	71.7	45.3	71.7
Other debtors	172.1	199.4	174.1	205.0
	294.3	375.4	296.3	381.0
Other assets				
Tangible assets				
Furniture and fixtures	5.2	6.3	5.2	6.3
Other tangible assets	0.5	0.5	0.5	0.5
	5.6	6.8	5.6	6.8
Liquid assets	37.8	26.0	59.3	33.1
	43.5	32.8	64.9	39.9
Pre-payment and accrued income				
Accrued interest and rent	278.1	276.1	284.3	271.7
Other pre-payments and accrued income	20.6	32.8	22.1	33.3
	298.7	308.9	306.4	304.9
TOTAL ASSETS	17 484.7	16 825.8	17 512.0	16 949.1

31 Dec., € million	PARENT COMPANY		GROUP	
	2002	2001	2002	2001
LIABILITIES				
Capital and reserves				
Guarantee capital	11.9	11.9	11.9	11.9
Other reserves	30.8	26.4	30.8	26.4
Profit brought forward	0.1	0.1	109.2	174.6
Profit/loss for the financial year	5.5	5.4	-101.7	-62.1
	48.3	43.7	50.3	150.8
Accrued appropriations				
Depreciation difference	3.5	4.0		
Minority interest				
			31.2	22.1
Technical provisions				
Premium reserve	11 812.3	11 100.9	11 812.3	11 100.9
Claims reserve	5 528.0	5 585.4	5 528.0	5 585.4
	17 340.3	16 686.3	17 340.3	16 686.3
Creditors				
Direct insurance operations	7.5	7.8	7.5	7.8
Other creditors	76.4	70.2	70.8	66.9
	83.8	78.0	78.3	74.7
Accruals and deferred income				
	8.7	13.8	11.9	15.2
TOTAL LIABILITIES	17 484.7	16 825.8	17 512.0	16 949.1

Statement of Source and Application of Funds

I Jan.–31 Dec., € million	PARENT COMPANY		GROUP	
	2002	2001	2002	2001
Operational cash-flow				
Gain (loss) on ordinary activities	8.0	5.1	-85.5	-21.9
Adjustment items				
Changes in technical provisions	654.1	1 361.2	654.1	1 361.2
Unrealised losses and gains on investments	561.8	306.2	561.3	306.2
Depreciation	13.3	13.6	68.7	59.8
Taxes on ordinary activities	-3.1	-11.9	-17.8	-41.6
Change in short-term debts	-57.9	-168.8	-25.5	-158.5
Cash-flow before change in working capital	1 176.2	1 505.3	1 155.2	1 505.2
Change in working capital				
Change in short-term receivables	91.4	34.2	83.3	28.2
Change in short-term debts	0.8	-11.7	0.3	-9.6
Total operational cash-flow	1 268.3	1 527.8	1 238.7	1 523.8
Investment cash-flow				
Net investments and gains on disposals	-1 255.1	-1 561.2	-1 213.4	-1 563.8
Investments and gains on intangible, tangible and other assets	-0.5	0.7	1.7	0.7
Total investment cash-flow	-1 255.6	-1 560.4	-1 211.7	-1 563.1
Financing cash-flow				
Interest paid on guarantee capital and other profit distribution	-0.9	-0.8	-0.9	-0.8
Total financing cash-flow	-0.9	-0.8	-0.9	-0.8
Change in liquid assets	11.8	-33.5	26.2	-40.1
Liquid assets, 1 Jan.	26.0	59.4	33.1	73.2
Liquid assets, 31 Dec.	37.8	26.0	59.3	33.1

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 drawn up in accordance with these guidelines.

Consolidated Accounts

Those subsidiaries in which the Group holds more than 50 per cent of the votes have been consolidated in the Consolidated Accounts, with the exception of Esy Oy that has been consolidated using the equity method. Unsa Ltd merged into its parent company during the financial year. Because the assets and liabilities of Unsa Ltd were already included in the Consolidated Accounts in the previous years, the result of the Consolidated Accounts for the latest financial year deviate from the total amount of the result of associated undertakings for the financial year.

During the financial year, the parent company increased its ownership of Tampereen Kiinteistö Invest Oy to 99.6 per cent. The parent company has 218 (221) real estate companies as subsidiaries. Tampereen Kiinteistö Invest Oy has four real estate subsidiaries, Vasa-Sijoituskiinteistöt Oy has 35 real estate subsidiaries and the subsidiary El-Sam Asunnot Oy has five. The companies comprised in Varma-Sampo's Consolidated Accounts are listed in the Notes to the Annual Accounts.

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 the year 2002.

Copies of the Consolidated Accounts are available at the parent company headquarters, address Annankatu 18, FIN-00120 Helsinki, Finland.

Investments in significant participating interests

Companies intended for long-term holding in which the Group holds 20–50 per cent of votes are included in the Consolidated Accounts using the equity method. Housing and real estate companies have not been treated as participating interests,

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.

As a result of ownership arrangements during the financial year, the ownership of the parent company in Kiinteistövarma Oy decreased from 49.6 per cent to 37.5 per cent.

Investments in significant participating interests 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 hydropower plants has been determined using repurchase option prices based on long-term real-yield leaseback arrangements. The sellers of hydropower 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 Insurance Supervision Authority, mainly on the basis of opinions submitted by the company's own experts. The current value of investments in land and buildings is estimated annually. The current values of Arava (state-subsidised) real estate are based on calculated assignment compensations. No real estate revaluations have been entered for the year 2002. The value adjustments made are entered in the Profit and Loss Account under value adjustments.

Equities and shares are entered in the Balance Sheet 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. A value depreciation 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. Investments in capital trusts are entered in the Balance Sheet at acquisition cost or, if current value is lower at the time of closing, at current value.

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. If 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. Resulting income and expenses are entered

as adjustments in value adjustments and re-adjustments. The negative value changes of **other derivative contracts** are entered in the Profit and Loss Account. The profits and losses resulting from the termination or expiration of contracts are entered as income or expenses for the financial year. Income and expenses from interest rate derivatives are entered under interest income.

Loaned securities are presented in the Notes to the Balance Sheet. The borrower is a clearing company that has provided a guarantee for the loan.

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 European Central Bank average rate quoted on 31 December is used as the current value.

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. Revaluation of buildings entered as income is also depreciated 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
Hydropower plant buildings	70 years
Hydropower plant machinery and equipment	30 years
Technical equipment in buildings	10 years
Computer hardware and software	3 years
Motor vehicles	5 years
Furniture and fixtures	10 years
Office machines	7 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 per cent net expenditure write-off has been applied as the depreciation plan.

Profit for the year, and capital and reserves

In an employment pension company, the parent company's profit after taxes in the Profit and Loss Account, is determined by calculation bases confirmed by the Finnish Ministry of Social Affairs and Health. The division of the parent company's capital and reserves between the insurance portfolio and the owners of the guarantee capital is presented in the Notes to the Annual Accounts.

Taxes

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.

Imputed tax liability or claim has not been calculated for the accrual of closing account transfers or other temporary differences between book value and taxable value, because the company's net result is determined by calculation bases confirmed by the Finnish Ministry of Social Affairs and Health. Neither has the imputed tax liability or claim been calculated in the mutual real estate companies owned by the Group, because they are not significant for the company in question or the Group. Closing account transfers and valuation differences shown in the Notes to the Annual Accounts will be entered as income only against expense entries.

Operating expenses and depreciation by function

In the Profit and Loss Account, the net operating expenses from operations related to the maintenance of compensation and working capacity are included in claims paid, and expenses related to investment management are included in investment charges. The expenses of insurance operations and administration are presented as net operating expenses.

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. It has, however, been agreed with regard to the Managing Director that his retirement will be discussed in the Board of Directors in 2003, when the possibility of his continuing after the age of 62 years-old will be decided on. Pension premiums are entered on an accrual basis.

Key figures for financial development

The key figures have been calculated and presented in accordance with the regulations of the Insurance Supervision Authority concerning Notes.

Net investment income at current values over invested capital has been calculated by type of investment and for the total amount of investments with reference to daily or monthly time-weighted cash or output flow.

The yield for the period has been calculated using a modified Dietz formula (time and money-weighted formula) so that invested capital has been calculated by adding to the opening market value the cash flow for the period (cash flow/output flow = purchases – sales + expenses) weighted by the relative share of the length of the period that is left from the event date to the end of the period.

Notes to the Balance Sheet

PARENT COMPANY INVESTMENTS INVESTMENTS AT CURRENT VALUE AND VALUATION DIFFERENCES

31 Dec., € million	Remaning acquisition cost 2002	Book value 2002	Current value 2002	Remaining acquisition cost 2001	Book value 2001	Current value 2001
Investments in land and buildings						
Land and buildings	489.2	507.2	584.4	456.8	474.8	543.5
Shares in associated undertakings	776.3	784.6	952.1	667.0	675.2	815.6
Other real estate shares	48.0	48.0	50.0	65.9	65.9	71.9
Shares in real estate investment companies	72.2	72.2	89.7	35.9	35.9	37.4
Loans to associated undertakings	814.6	814.6	814.6	780.2	780.2	780.2
Debtors, real estate companies	38.8	38.8	38.8	62.5	62.5	62.5
Investments in associated undertakings						
Shares and participations	4.4	4.4	4.4	189.5	189.5	359.5
Loans	2.0	2.0	2.0	66.7	66.7	66.7
Investments in significant participating interests						
Shares and participations	3.3	3.3	3.3	3.3	3.3	3.3
Other financial investments						
Equities and shares	2 877.5	2 877.5	3 021.3	2 600.9	2 600.9	2 921.2
Money-market instruments	10 317.7	10 317.7	10 587.5	9 715.9	9 715.9	9 769.8
Loans guaranteed by mortgages	205.2	205.2	205.2	225.0	225.0	225.0
Other loans	1 060.7	1 060.7	1 061.0	1 127.4	1 127.4	1 127.4
Deposits	111.1	111.1	111.1	84.0	84.0	84.0
	16 820.9	16 847.1	17 525.3	16 080.7	16 107.0	16 867.9
The remaining acquisition cost of money-market instruments includes:						
– the difference between the nominal value and acquisition cost, released or charged to interest income						
– income from index-bound loans						
Book value includes						
Other revaluations		26.3			26.3	
Valuation difference (difference between current value and book value)			678.2			760.9

Notes to the Balance Sheet

PARENT COMPANY INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND SIGNIFICANT PARTICIPATING INTERESTS

31 Dec., € million	2002
Shares and participations in associated undertakings	
Acquisition cost, 1 Jan.	189.5
Increase	3.3
Decrease	-188.4
Acquisition cost, 31 Dec.	4.4
Loans to associated undertakings	
Acquisition cost, 1 Jan.	66.7
Increase	0.0
Decrease	-64.6
Acquisition cost, 31 Dec.	2.0
Shares and participations in significant participating interests	
Acquisition cost, 1 Jan.	3.3
Increase	0.1
Decrease	-0.1
Acquisition cost, 31 Dec.	3.3

Shares and participations in associated undertakings

31 Dec. 2002	Domicile	Shares, %	Votes, %	Book value € million
Esy Oy	Helsinki	70.0	70.0	1.0
Osakevarma Oy	Helsinki	100.0	100.0	3.3
				4.4

Shares and participations in significant participating interests

31 Dec. 2002	Domicile	Shares, %	Votes, %	Book value € million
Kiinteistövarma Oy	Helsinki	37.5	37.5	0.1
Silta Oy	Helsinki	39.1	39.1	1.3
Octel Oy	Helsinki	50.0	50.0	1.9
				3.3

OTHER INVESTMENTS, PARENT COMPANY

Equities and shares 31 Dec. 2002	Shares %	Book value € million	Current value € million	Equities and shares 31 Dec. 2002	Shares %	Book value € million	Current value € million
Domestic companies, listed				Foreign companies, listed			
Aldata Solution Oyj	2.33	1.4	1.4	Otava-Kuvalehdet Oy	14.73	8.8	11.8
Alma Media Corporation	4.59	13.7	13.7	Setec Oy	9.93	2.2	3.0
Amer Group Plc	2.78	16.9	23.5	Tornator Timberland Oy	13.13	10.5	10.5
Aspo Plc	5.84	1.6	4.5	Other		0.5	0.5
Aspocomp Group Oyj	5.29	3.3	3.3	Total		75.6	89.0
Belton-Yhtiöt Oyj	3.17	1.1	1.2	Foreign companies, listed			
Elisa Communications Corporation	3.08	24.3	24.3	A T & T Wireless Group	0.02	3.7	3.1
Exel Oyj	4.85	1.6	1.6	ADRX Group	0.11	1.1	1.0
Finnlines Plc	2.01	8.2	8.2	AdvancePCS	0.15	2.5	2.4
Fiskars Corporation	4.26	18.7	18.7	Akzo Nobel N.V.	0.15	13.0	13.0
Fortum Corporation	0.64	25.2	33.8	Alcoa Inc.	0.04	9.1	7.6
Hackman Oyj Abp	3.41	2.5	3.2	Amgen Inc.	0.01	7.8	6.6
Huhtamäki Oyj	2.34	19.0	22.6	Astra Zeneca Plc	0.00	2.4	2.4
Instrumentarium Corporation	2.88	25.8	53.0	Baker Hughes Incorporated	0.01	1.4	1.5
Jaakko Pöyry Group Oyj	4.40	8.0	9.1	Bank of Ireland	0.09	8.8	8.8
KCI Konecranes International Abp	3.77	12.6	12.6	BASF AG	0.04	7.6	7.6
Kemira Oyj	3.64	29.2	29.2	BG Group Plc	0.04	5.1	5.1
Kesko Corporation	1.45	16.0	16.0	BNP Paribas SA	0.04	13.9	13.9
Kone Corporation	0.18	3.1	3.3	BOC Group Plc	0.26	18.8	17.7
Lassila & Tikanoja Plc	4.45	10.8	10.9	BP Amoco Plc	0.02	29.7	28.9
Lemminkäinen Corporation	2.59	3.9	7.1	Capio AB	0.68	3.3	4.0
Marimekko Corporation	4.96	1.3	1.9	Caremark Rx Inc.	0.06	2.4	2.3
Metso Corporation	2.36	33.1	33.1	Carrefour SA	0.07	20.5	20.5
Metsä Tissue Corporation	2.41	6.0	7.6	Chevrontexaco Corp.	0.01	6.4	5.3
M-real Corporation	1.23	17.3	17.3	Cloetta Fazer AB B	4.28	10.1	10.0
Nokia Corporation	0.12	59.6	87.9	Compass Group plc	0.17	20.0	19.2
Nokian Tyres Ltd	2.06	6.3	7.4	ConocoPhillips	0.02	5.8	5.4
Orion Corporation	2.15	31.0	31.0	Cooper Cameron Corporation	0.06	1.3	1.4
Outokumpu Oyj	1.30	18.6	18.6	Cortefiel S.A.	1.29	4.4	4.4
Perlos Corporation	2.35	7.4	7.4	Danisco A/S	0.82	14.0	14.1
Rautaruukki Corporation	4.01	19.1	19.1	Delta Air Lines Inc.	0.53	8.9	7.5
Raute Plc	9.96	3.0	3.0	Diageo plc	0.04	15.1	14.8
Sampo plc	8.06	299.5	324.9	E.On AG	0.04	11.5	11.5
Stockmann plc	0.99	7.0	7.0	Electricidade de Portugal S.A.	0.06	2.9	2.9
Stora Enso Oyj	1.01	91.0	91.5	Electrolux AB	0.30	15.0	14.8
Tamfelt Oyj Abp	6.11	14.6	15.2	Eni S.p.A.	0.05	27.3	27.3
Tamro Corporation	1.52	5.1	6.6	Europolitan Vodafone AB	0.24	4.4	4.5
Teleste Corporation	4.63	1.9	1.9	Excel Plc	0.27	8.7	8.3
Tietoerator Corporation	2.42	26.0	26.0	Express Scripts Inc.	0.08	2.9	2.7
UPM-Kymmene Corporation	0.97	61.6	77.1	Exxon Mobil Corporation	0.00	11.7	10.0
Uponor Oyj	5.50	28.4	40.6	Game Group Plc	0.91	2.0	1.9
Vaisala Oyj	4.42	14.3	17.7	Glaxosmithkline Plc	0.01	13.3	12.7
Wärtsilä Corporation	3.58	26.3	26.3	Havas Advertising SA	0.49	5.6	5.6
YIT Corporation	7.27	28.5	36.3	Hays plc	0.38	9.8	9.3
Other		1.6	1.6	HCA Inc.	0.03	6.3	5.9
Total		1 055.6	1 208.2	Iberdrola S.A.	0.10	12.0	12.1
Domestic companies, unlisted				Ihc Caland NV	0.16	2.5	2.5
Ahlstrom Corporation	3.89	19.6	27.8	Interbrew	0.07	7.1	7.1
Ahlström Capital Oy	3.87	4.7	6.0	International Business Machines Corporation (IBM)	0.01	7.9	6.7
Aktia Sparbank Abp	1.04	0.8	0.8	Invensys Plc	0.06	1.8	1.8
Fingrid Oyj	12.48	14.0	14.0	ISS A/S	0.80	12.0	12.0
Garantia Insurance Company	17.13	7.1	7.1	IVAX Corporation	0.12	2.9	2.6
Head Future Technologies Oy	4.72	1.0	1.0	Kelda Group Plc	0.12	3.0	3.2
HEX Plc	1.85	2.3	2.3	King Pharmaceuticals Inc	0.04	1.7	1.6
Kaleva Mutual Insurance Company	30.00	2.6	2.6	Kingfisher Plc	0.26	24.5	23.3
Nordben Life and Pension (Ordinary)	0.79	0.8	0.8	Koninklijke Ahold NV	0.12	14.0	14.0
Nordben Life and Pension (Preference)	9.21	0.8	0.8	Koninklijke Numico NV	0.34	6.8	6.8

Notes to the Balance Sheet

Equities and shares 31 Dec. 2002	Shares %	Book value € million	Current value € million	Equities and shares 31 Dec. 2002	Shares %	Book value € million	Current value € million
L'Oreal SA	0.01	5.2	5.3	FIXED INTEREST FUNDS			
Nestle SA	0.02	18.8	19.5	Sampo Yhteisökorkko Tuotto		98.5	98.5
Norsk Hydro ASA	0.08	7.9	8.5	EQUITY FUNDS			
Novartis	0.01	7.2	7.3	Alfred Berg Small Cap Europe B		7.8	7.8
Novo Nordisk A/S B	0.07	6.0	6.1	Carnegie Global Healthcare		12.4	12.4
Orange SA	0.03	9.2	11.1	Hermes European Focus Fund I		20.0	20.1
Pearson Plc	0.23	17.3	16.3	Mandatum Global A		90.0	90.0
Pernod-Ricard SA	0.28	14.8	14.8	Mandatum Emerging Asia Kasvu		33.5	33.5
Pfizer Inc.	0.01	20.4	18.2	Sampo Japani Osake Kasvu		43.9	43.9
Pharmacia Corporation	0.01	4.9	4.0	Seligson & Co APS Far East		2.0	2.3
PSA Peugeot Citroen	0.13	13.4	13.4	Total		209.6	209.9
Reed Elsevier NV	0.31	26.2	26.2	CAPITAL TRUSTS			
RIG (Transocean Inc.)	0.02	1.2	1.1	Abingworth Bioventures III B L.P.		4.5	3.8
Royal Dutch Petroleum Co NV	0.04	32.7	32.7	Access Capital Fund LP II A		0.8	0.8
Sainsbury (J) plc	0.14	11.5	11.2	Access Capital Fund LP II B		0.7	0.7
Sandvik AB	0.19	10.6	10.5	Access Capital Fund LP II C		2.2	2.2
Sanofi-Synthelabo SA	0.02	7.3	7.3	Access Capital LP		2.4	2.4
Schwarz Pharma AG	0.12	1.4	1.8	Alpha Private Equity Fund 4 CI LP		4.4	4.4
Scottish Power Plc	0.09	9.3	9.0	Behrman Capital III L.P.		6.2	5.5
Serono SA (BR)	0.02	1.2	1.3	Bio Fund Ventures I Ky		1.2	1.2
Singulus Technologies AG	0.78	3.6	3.6	Bio Fund Ventures II Ky		3.0	3.0
SkyePharma plc	0.37	1.5	1.4	Blackstone Capital Partners IV LP		0.1	0.1
Snam Rete Gas S.p.A.	0.08	4.6	4.9	CapMan Equity VII B		0.8	0.8
St. Jude Medical Inc.	0.07	4.1	4.7	EQT Finland B.V.		2.2	2.2
Suez Lyonnais Des Eaux SA	0.05	9.0	9.0	EQT Northern Europe UK No. 1		30.9	30.9
Swatch Group	0.33	8.2	8.8	EQT Scandinavia II B.V.		11.1	10.6
Svenska Handelsbanken AB A	0.15	12.6	12.7	Eqvitec Technology Fund II Ky		1.2	1.2
Syngenta AG	0.18	11.0	11.0	Fenno Rahasto Ky		6.0	6.0
Telecom Italia Mobile SpA	0.02	8.7	8.7	Finnmezzanine Rahasto I		1.6	1.6
Telecom Italia SpA	0.02	6.9	6.9	Finnventure rahasto III		1.4	1.4
Telefonica S.A.	0.04	15.4	15.4	Finnventure rahasto V Ky		7.2	7.2
TeliaSonera AB	0.10	16.0	16.0	Forenia Venture I Ky		0.5	0.5
Tenet Healthcare Corporation	0.04	3.3	3.1	Garantia PK-lainarahasto II		0.2	0.2
Tesco plc	0.07	14.6	14.0	Gilde Buy-Out Fund II SV-capital		7.4	7.4
Teva Pharmaceutical Industries Ltd	0.04	3.1	3.3	Industri Kapital 1994 LP I-IV		5.1	5.1
Tomra Systems ASA	0.48	5.2	5.3	Industri Kapital 1997 LP I-IV		28.5	28.5
T-Online International AG	0.03	1.7	1.7	Industri Kapital 2000 LP I-IV		23.0	23.0
Total Fina SA	0.04	34.0	34.0	Industrial Devel. & Inv. Equity KB		2.3	2.2
TPG NV	0.30	22.0	22.0	MB Equity Fund II		6.5	6.5
UBS AG	0.02	12.7	13.2	MB Equity Fund III		0.8	0.8
Unilever NV CVA	0.06	18.3	19.3	MB Mezzanine Fund II		3.6	3.6
Walgreen Co	0.01	4.4	4.2	Merlin Biosciences Fund LP		2.8	2.8
Weatherford International Ltd.	0.04	2.0	1.9	Nokia Venture Partners II LP		4.0	3.5
Vendex KBB N.V.	0.77	7.2	7.2	Nordic Mezzanine Limited		1.8	1.8
Verenigde Nederlandse				Permira Europe II LP2 (Schroder Ventures)		5.5	5.5
Uitgeversbedrijven NV	0.25	15.1	15.1	Promotion Capital I Ky		0.4	0.4
Vestas Wind Systems A/S	0.17	1.7	1.7	Sponsor Fund I Ky		3.7	3.7
Vinci S.A.	0.10	4.8	4.8	Sponsor Fund II Ky		0.3	0.3
Vodafone Airtouch Plc	0.05	57.0	53.9	Telecomia Venture I Ky		0.2	0.2
Vodafone Telecel - Comunicacoes				Warburg Pincus Private Equity VIII, L.P.		13.0	11.4
Pessoais. S.A.	0.34	5.4	5.4	WD Power Investment		1.8	1.8
Wyeth Corporation	0.02	9.3	8.0	Total		199.2	195.2
Other		0.2	0.8	HEDGE FUNDS			
Total		1 005.3	987.1	Blackstone Distressed Opport. Offshore Fund Ltd B		10.2	9.8
Foreign companies, unlisted				Blackstone Fifth Avenue Offshore Fund Ltd Class A		30.7	28.8
If Skadeförsäkring Holding AB A	7.99	145.0	146.9	Blackstone Madison Avenue Offshore Fund Ltd Cl. B		10.2	9.8
If Skadeförsäkring Holding AB B	2.07	37.6	38.1	Total		51.1	48.4
Total		182.6	185.0	Total		2 877.5	3 021.3

31 Dec., € million	PARENT COMPANY		GROUP	
	2002	2001	2002	2001
LOAN RECEIVABLES				
ITEMISED BY GUARANTEE				
Bank guarantee	471.8	521.9	471.8	521.9
Guarantee insurance	490.8	529.8	490.8	529.8
Other guarantees	98.1	75.7	98.3	76.8
	1 060.7	1 127.4	1 060.9	1 128.5
TOTAL PENSION LOAN RECEIVABLES				
Loans to associated undertakings	2.0	1.1	2.0	1.1
Other loans guaranteed by mortgages	170.3	182.4	170.3	182.4
Other loan receivables	927.0	992.8	927.0	992.8
	1 099.3	1 176.4	1 099.3	1 176.4
RECEIVABLES, PORTFOLIO TRANSFERS				
Joint liability receivables	5.2	18.4	5.2	18.4
Receivables from special receivership's estate	40.1	53.3	40.1	53.3
	45.3	71.7	45.3	71.7
TECHNICAL PROVISIONS				
Premium reserve				
Future pensions	10 098.4	8 955.4	10 098.4	8 955.4
Unallocated insurance reserve	1 683.8	2 037.9	1 683.8	2 037.9
Bonus reserve	30.1	107.5	30.1	107.5
Total premium reserve	11 812.3	11 100.9	11 812.3	11 100.9
Claims reserve				
Current pensions	4 730.5	4 824.5	4 730.5	4 824.5
Equalisation amount	797.6	760.9	797.6	760.9
Total claims reserve	5 528.0	5 585.4	5 528.0	5 585.4
Total technical provisions	17 340.3	16 686.3	17 340.3	16 686.3
ADDITIONAL BENEFITS OF STATUTORY PENSION INSURANCE				
Bonus reserve, 1 Jan.	107.5	127.2	107.5	127.2
Client bonuses paid during financial year	-112.3	-61.7	-112.3	-61.7
Transfer to bonus reserve	26.0	42.0	26.0	42.0
Supplement to bonus reserve	8.9	-	8.9	-
Bonus reserve, 31 Dec.	30.1	107.5	30.1	107.5
SOLVENCY MARGIN				
Capital and reserves	48.3	43.7		
Interest on guarantee capital proposed for distribution	-0.7	-0.8		
Accrued appropriations	3.5	4.0		
Valuation difference between current values on assets and book values of balance sheet items	678.2	760.9		
Unallocated insurance reserve	1 683.8	2 037.9		
Intangible assets	-1.1	-1.7		
Other items	-2.7	-		
	2 409.2	2 844.0		
Minimum solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	774.3	779.2		

Notes to the Balance Sheet

31 Dec., € million	PARENT COMPANY 2002			GROUP 2002		
CAPITAL AND RESERVES						
Guarantee capital			11.9			11.9
Other reserves, 1 Jan.	26.4			26.4		
Profit for the financial year 2002	4.5	30.8		4.5	30.8	
Other profit brought forward	5.4			112.5		
Other change				2.1		
Security reserve	-4.5			-4.5		
Distributed interest on guarantee capital	-0.8			-0.8		
The Board of Directors' expense account	-0.1			-0.1		
Profit/loss for financial year	5.5	5.5	36.4	-101.7	7.5	38.4
			48.3			50.3

GUARANTEE CAPITAL

	Number	Book value
Sampo Life Insurance Company Limited	14	2.4
Sampo plc	57	9.6

CAPITAL AND RESERVES AFTER PROPOSED PROFIT DISTRIBUTION

<p> Holders of guarantee capital Guarantee capital Proposed distribution to holders of guarantee capital Policyholders </p>	<p> 11.9 0.7 35.6 48.3 </p>
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DISTRIBUTABLE FUNDS

Profit/loss for financial year		5.5			-101.7
Other capital and reserves					
Other reserves	30.8			30.8	
Profit brought forward	0.1	30.9		109.2	140.0
Optional reserves and depreciation difference					-18.1
Total distributable funds		36.4			20.2

Other notes to the Annual Accounts

31 Dec., € million	2002	2001
LIABILITIES, PARENT COMPANY		
Derivative contracts		
Interest rate derivatives		
<u>Closed</u>		
Forward and future contracts	Underlying instrument	1 300.0
	Current value	-21.7
Interest rate and currency swaps		
<u>Open</u>		
Interest rate and currency swaps	Underlying instrument	54.4
	Currency swaps	0.9
Currency derivatives		
<u>Open</u>		
Currency futures contracts	Underlying instrument	381.4
	Current value	9.9
Share derivatives		
<u>Open</u>		
Forward and future contracts	Underlying instrument	21.9
	Current value	0.3
Option contracts		
Exercised	Underlying instrument value of warrants	0.2
	Current value of warrants	0.0
		1.0
		0.1
Taken out	Underlying instrument	1.1
	Current value	0.0
Investment commitments		
Commitments to subscribe to shares in capital trusts		300.6
		270.8
Guarantees given on own behalf		
Pledged book assets		0.2
Total amount associated with collective registration for value-added taxation		
Deduction from new buildings and renovation of real estates in 1998–2002/1997–2001		10.5
		10.2
Total amount associated with collective registration for value-added taxation		
Associated undertakings		6.4
Significant participating interests		0.1
Other		0.8
		1.0
		7.3
		4.9

Loaned securities

Shares

Number	13 012 116	4 334 640
Remaining acquisition cost	98.3	56.3
Current value	122.8	104.5

Bonds

Nominal value	1 028.0	–
Remaining acquisition cost	1 027.3	–
Current value	1 035.6	–

Loaned securities are mainly foreign items. All loans can be cancelled at any time.

Risk management

According to the decision by the Board of Directors, internal supervision is a process that aims to confirm the following:

- 1) reaching the goals and objectives set
- 2) economical and efficient use of resources
- 3) sufficient management of risk-related operations
- 4) reliability and correctness of economic and other management information
- 5) compliance with laws, regulations and instructions, and
- 6) compliance with the decisions of the Board and other bodies, internal plans, rules and procedures.

Risk management is an element of internal supervision.

Risk management aims to ensure that the realisation of risks will not cause significant financial loss, endanger the continuity of operations, or cause a loss of faith in the company. The most essential company-level risks are related to investment operations and information management. Other significant risks at that level are unreliability of management information, problems in the company's physical operating environment, inefficient distribution channels, risk related to failure to comply with the regulations, uneconomical and inefficient use of resources, agreement and counter-party risks, as well as risks related to public image.

The investment plan determines, for instance, the general security of investment goals, the spread and liquidity goals for investments, and the principles of arranging foreign currency business. At least once a year, the Board of Directors assesses the risk inherent in the company's investments in terms of change in value, expected yield, security and foreign currency business; and assesses the company's risk-bearing capacity in terms of investment in the short and long term, including an estimate of the development of the solvency position.

The most substantial risk regarding the company's result and solvency lies in investment markets, and equities in particular. The total risk of Varma-Sampo investments is measured using the VaR (Value at Risk) model. On a one-month horizon at a reliability level of 97.5 per cent, the figure stood at around € 440 million at year-end 2002, as it did one year earlier. This figure describes, measured as a 97.5 per cent probability, the biggest possible decrease in the value of the company's investment portfolio, in a normal market situation over a period of one month. The goal is to maximise the expected yield on investments at the selected overall risk level. During the year, the Board of Directors has determined the maximum

risk level of the investment portfolio that takes into account the solvency position of the employment pension company and the development of the VaR figure for the investment portfolio. Furthermore, investment risks are eliminated, for instance, by spreading investments by type and target, by analysing the investment portfolio and targets, by avoiding risk concentrations, through securing guarantee policy, through cautious valuation practice, by reconciling assets and liabilities, by using derivatives, through a sufficient and right-timed monitoring and follow-up system, and by minimising counter-party risks. As for real estate, attention will also be paid to technical and location risks.

Insurance business risks are related to the sufficiency of the insurance premiums collected and the technical provisions accrued in relation to the pensions that are the company's responsibility. The company is prepared for the fluctuation of the annual result of insurance business with the equalisation reserve that has a risk-theory determined lower and upper limit. Technical analyses are used in the risk management of insurance business.

At Varma-Sampo the appropriate supervisor takes responsibility for his or her area. Each must arrange, maintain and test internal supervision and risk management, and ensure compliance with law and the authorities' orders. Each function is in turn responsible for seeing that verified strategies, plans, internal rules, and the decisions of the Board and other bodies are followed. Risk limits and the indicators used are defined separately in each function. A separate risk management committee follows and guides the organising of risk management in the different functions of the company. The investment committee in turn follows investment risks.

The preparatory, decision-making, and implementing investment function, and the function that supervises investment risks and draws up reports (Financial Administration) have been separated from each other. The supervising function measures investment risks, draws up scenario and sensitivity analyses relating to the Varma-Sampo result and the company's solvency on the basis of the risks, and follows compliance with the risk limits and authority defined for different types of investment by the Board of Directors.

Key figures and analyses

Varma-Sampo commenced operations at their current extent on 1 July 1998. As a result, pro forma figures are used for 1998. The calculation of the year 1999 figures differs slightly from that used as of year 2000. Otherwise the figures are comparable.

SUMMARY

	2002	2001	2000	1999	1998
Premiums written, € million	2 406.0	2 404.2	2 206.9	2 075.4	1 984.6
Pension payments, € million ¹⁾	2 356.2	2 192.4	2 022.7	1 915.7	1 799.6
Net investment income at current values, € million	339.6	173.1	817.6	1 524.0	1 114.7
Yield on invested capital, %	1.9	1.0	5.3	11.7	9.3
Turnover, € million	3 796.5	3 741.2	3 890.4	3 136.4	2 775.1
Total operating costs, € million	70.8	68.6	65.1	57.2	46.8
of turnover, %	1.9	1.8	1.7	1.8	1.7
of TEL and YEL payroll, % ²⁾	0.5	0.5	0.5	0.5	0.4
Total result, € million	-363.4	-502.8	258.8	1 070.7	681.3
Technical provisions, € million	17 340.3	16 686.2	15 325.1	13 928.0	12 741.1
Solvency margin, € million	2 409.2	2 844.0	3 389.7	3 262.1	2 110.8
of technical provisions, % ³⁾	15.5	19.5	25.9	27.3	18.9
in relation to solvency limit	2.1	2.4	2.9	3.1	2.7
Equalisation reserve, € million	797.6	760.9	719.8	644.5	539.9
Pension assets, € million ⁴⁾	18 014.7	17 445.4	16 548.3	15 387.8	13 498.3
Transfer to client bonuses of TEL payroll, %	0.2	0.4	0.7	0.5	0.6
Client bonus payments of TEL payroll, %	0.6	0.6	0.6	0.5	0.6
TEL payroll, € million	10 852.3	10 695.9	9 933.9	9 352.6	8 832.4
YEL payroll, € million	566.5	546.9	514.0	505.0	480.0
TEL policyholders	25 900	26 000	26 000	26 000	26 000
TEL insured persons	398 500	401 500	394 000	383 000	368 000
YEL policyholders	36 300	36 300	36 300	36 000	35 000
Pensioners	279 000	272 000	263 000	257 000	250 000

¹⁾ Pensions paid to pensioners

²⁾ Calculation of ratio includes total operating costs without administrative costs from investment operations and maintenance of working capacity

³⁾ Ratio calculated as percentage of technical provisions used in calculating the solvency limit

⁴⁾ Technical provisions + valuation differences

PERFORMANCE ANALYSIS

€ million

Sources of profit

	2002	2001	2000	1999	1998
Insurance business surplus	38.2	47.4	70.0	81.4	111.0
Investment surplus at current values	-418.0	-566.2	179.1	976.0	561.9
+ Net investment income at current values	337.5	188.0	831.0	1 556.6	1 145.5
- Required return on technical reserves	-755.6	-754.2	-651.9	-580.6	-583.6
Loading profit	16.4	16.0	9.8	13.3	8.4
Total	-363.4	-502.8	258.8	1 070.7	681.3

Distribution of profit

To increase solvency	-398.3	-544.9	189.9	1 020.2	630.9
Equalisation reserve	36.7	41.0	70.0	81.4	111.0
Solvency margin	-435.0	-585.9	119.9	938.8	519.9
Change in unallocated insurance reserve	-355.1	-1 15.1	347.3	247.7	55.8
Change in valuation difference	-84.8	-4 64.0	-235.1	702.7	480.7
Change in accrued appropriations	-0.5	-12.2	-14.0	-15.1	-19.5
Profit for the financial year	5.5	5.4	21.7	3.5	2.9
Transfer to client bonuses	26.0	42.0	69.0	50.5	50.5
Supplement to bonus reserve	8.9	0.0	0.0	0.0	0.0
Total	-363.4	-502.8	258.8	1 070.7	681.3

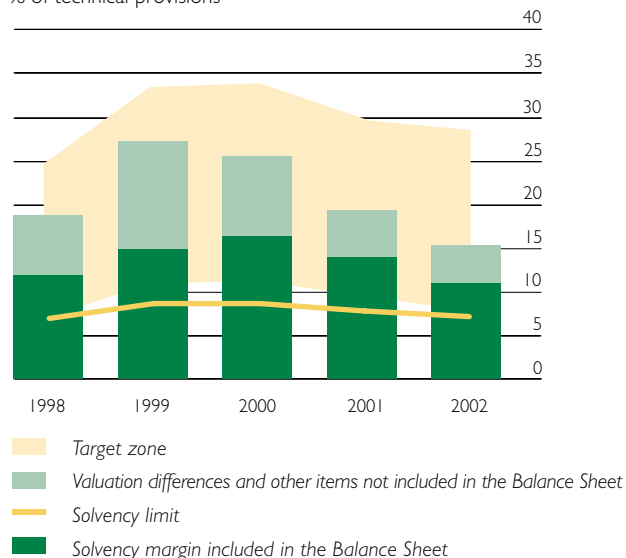
SOLVENCY

Solvency limit (in relation to technical provisions used in calculating the solvency limit)

%	2002	2001	2000	1999	1998
Solvency margin and its limits	7.5	8.0	8.8	8.8	7.0
Lower limit of the target zone	14.9	16.1	17.6	17.5	14.0
Upper limit of the target zone	29.8	32.1	35.2	35.0	28.1
Solvency margin	15.5	19.5	25.9	27.3	18.9
- Solvency margin included in the Balance Sheet	11.1	14.3	16.6	15.1	12.1
- Valuation differences and other items not included in the Balance Sheet	4.4	5.2	9.4	12.2	6.8

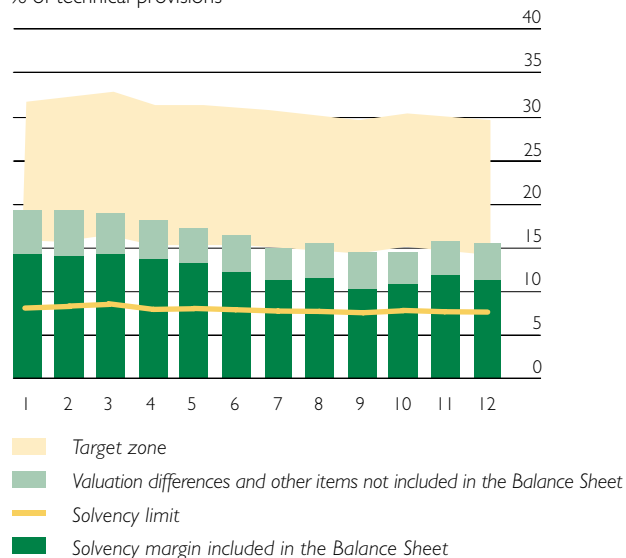
Solvency margin 1998-2002

% of technical provisions



Solvency margin by month 2002

% of technical provisions



INVESTMENT ALLOCATION AT CURRENT VALUES

	2002		2001		2000		1999		1998	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Loans ¹⁾	1 266.3	7.1	1 417.6	8.3	1 468.8	9.0	1 624.1	10.8	1 881.8	14.6
Bonds	10 826.4	60.8	9 888.4	57.7	8 947.8	55.0	7 172.4	47.7	6 138.9	47.6
Other money-market instruments and deposits	178.9	1.0	255.9	1.5	216.1	1.3	997.4	6.6	1 315.9	10.2
Equities and shares	3 028.5	17.0	3 283.8	19.1	3 482.1	21.4	3 168.6	21.1	1 608.6	12.5
Real estate	2 519.9	14.1	2 305.1	13.4	2 152.7	13.2	2 062.9	13.7	1 940.6	15.1
Other investments ²⁾	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total investments	17 820.1	100.0	17 150.8	100.0	16 267.5	100.0	15 025.4	100.0	12 885.8	100.0

¹⁾ accrued interest included

²⁾ Other investments included in the balance sheet, if not classified into the afore-mentioned investment classes e.g. due to non-significant value.

INVESTMENT YIELD SPECIFICATION AND SURPLUS

€ million	2002	2001	2000	1999	1998
Direct income	795.3	805.1	723.8	623.1	634.2
Loans	63.1	65.2	70.7	82.2	105.5
Bonds	514.6	488.8	428.3	319.9	350.0
Other money-market instruments and deposits	15.2	13.8	18.8	40.5	34.6
Equities and shares	93.7	115.3	99.0	62.1	36.3
Real estate	116.2	112.8	102.3	93.0	82.9
Other investments	0.0	0.0	0.0	0.0	0.0
Unallocated costs and operating expenses from investment activities ¹⁾	-7.4	9.1	4.7	25.4	24.9
Changes in book value in bookkeeping ²⁾	-373.0	-153.1	342.4	230.8	24.6
Equities and shares	-467.1	-180.1	348.7	287.3	33.0
Bonds	109.2	30.2	1.8	4.4	13.3
Real estate	-15.0	-3.2	-8.2	-60.9	-21.7
Other investments	0.0	0.0	0.0	0.0	0.0
Net investment income in bookkeeping	422.3	652.0	1 066.2	853.9	664.8
Change in valuation differences	-84.8	-464.0	-235.1	702.7	480.7
Equities and shares	-346.9	-444.2	-372.9	1 117.8	-
Bonds	216.6	-48.8	101.6	-433.6	-
Real estate	47.6	29.1	35.8	19.3	-
Other investments	-2.1	0.0	0.3	-0.8	-
Total yield on investment	337.5	188.0	831.1	1 556.6	1 145.5
Required return on technical provisions	755.6	754.2	651.9	580.6	583.6
Investment surplus, book value	-333.2	-102.2	414.3	273.3	81.2
Investment surplus, current value	-418.0	-566.2	179.2	976.0	561.9

¹⁾ includes e.g. such items in the Profit and Loss Account not entered in investment income

²⁾ sales gains and losses and other changes in book value

NET INVESTMENT INCOME AT CURRENT VALUES

€ million	Total yield ¹⁾ 2002	Invested capital ²⁾ 2002	Yield on invested capital, %				
			2002	2001	2000	1999	1998
Loans	63.1	1 335.1	4.7	4.8	4.8	4.9	5.5
Bonds	840.3	9 696.6	8.7	5.0	6.5	-1.7	11.1
Other money-market instruments and deposits	15.1	445.8	3.4	3.9	3.8	3.1	3.4
Equities and shares	-720.3	3 664.8	-19.7	-14.0	2.4	80.8	15.0
Real estate	148.8	2 284.8	6.5 ⁴⁾	6.4	6.4	2.6	6.1
Other investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total investments	347.0	17,427.1	2.0	1.0	5.4	11.8	9.3
Unallocated costs, expenses and operating expenses from investment activities ³⁾	-7.4						
Net investment income at current values	339.6	17 427.1	1.9	1.0	5.3	11.7	9.3

¹⁾ Net investment income at current values = Change in the current values at the end and beginning of the financial year – cash-flow during the financial year

Cash-flow is the difference between purchases / costs and sales / income.

²⁾ Invested capital = Current value at the beginning of the financial year + time-weighted cash-flows on a daily / monthly basis

³⁾ Includes e.g. such interest items in the Profit and Loss Account that are not entered under investment income

⁴⁾ Yield in accordance with KTI Index (Institute for Real Estate Economics) 6.5%

Yield in accordance with KTI Index for investment real estate objects (excluding objects in own use) 6.9%

LOADING PROFIT

€ million	2002	2001	2000	1999	1998
Administrative costs of premium	74.6	73.9	65.3	61.4	56.7
Operating expenses by function ¹⁾	-59.0	-58.6	-56.2	-48.6	-48.8
Other income and expenses	0.8	0.7	0.7	0.5	0.5
Loading profit	16.4	16.0	9.8	13.3	8.4
 Administrative costs / Administrative costs of premium, %	 78	 79	 85	 79	 85

¹⁾ Excluding costs for working capacity maintenance and costs of investment operations

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 1 January to 31 December 2002. The Annual Accounts, prepared by the Board of Directors and the Managing Director, include the Board of Directors' 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 3 March 2003 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 disclo-

tures 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, 11 March 2003

Mauri Palvi
Authorised Public Accountant

Mikael Leskinen
Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board has received the Annual Accounts for Varma-Sampo Mutual Pension Insurance Company for the financial year 2002, 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 distribution of the profit for the financial year be accepted.

Helsinki, 25 March 2003

For the supervisory Board

Matti Honkala
Chairman of the Supervisory Board

Corporate governance

General

Varma-Sampo is an employment pension company whose administration is primarily determined in accordance with the Finnish Act on Employment Pension Insurance Companies, and partly in accordance with the Insurance Companies Act and Companies Act. More precise instructions are presented in the Articles of Association.

Varma-Sampo's operational elements are the Annual General Meeting, the Supervisory Board, the Board of Directors and the Managing Director.

The statutory earnings-related pension scheme was created by an agreement of the government and labour market organisations. The tripartite model still plays a key role in the development of the system, which can also be seen in the companies' administration. At least half of the members of the Supervisory Board and the Board of Directors of employment pension companies must be elected from persons suggested by the central employer and employee organisations.

Owners

Varma-Sampo is a mutual company whose owners are:

- policyholders with a valid TEL or YEL insurance in the company
- the insured, such that within the scope of each valid TEL basic insurance in the company they are jointly owners per insurance, and
- owners of the guarantee capital which is included in the company's capital and reserves.

Annual General Meeting

Decisions at the Annual General Meeting are made by owners, i.e. policyholders, the guarantee capital owners, and the elected representatives of the insured as stated above.

The votes of the policyholders and insured are determined according to the insurance premiums paid to the company. The votes of all voting owners are divided as follows:

- policyholders around 76%
- the insured around 21%, and
- guarantee capital owners (Sampo Group) around 3%.

The Annual General Meeting is held annually before the end of May at a time determined by the Board of Directors.

In the Annual General Meeting

- the following shall be presented: Annual Accounts and Consolidated Accounts, the Auditors' Report, and the Statement by the Supervisory Board on them.
- the following shall be decided:
 - confirming the Profit and Loss Account and Balance Sheet and the Consolidated Profit and Loss Account and Consolidated Balance Sheet,
 - the actions to be taken related to the profit or loss shown on the adopted Balance Sheet and Consolidated Balance Sheet,
 - granting discharge from liability to the members of the Board of Directors and the Supervisory Board, and the

Managing Director,

– remuneration to the members of the Supervisory Board, and

- remuneration to Auditors and Deputy Auditors.
- the following shall be elected
 - members of the Supervisory Board, and
 - Auditors
- any other issues mentioned in the notice given of the meeting shall be handled.

In 2002, the Annual General Meeting of Varma-Sampo was held on 19 April 2002. No Extraordinary General Meetings were held.

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 are representatives of major employer organisations and seven represent major employee organisations. The Supervisory Board elects a Chairman and at least one Deputy Chairman amongst themselves annually. The Supervisory Board now has two Deputy Chairmen.

The Supervisory Board supervises the company's administration by the Board of Directors and the Managing Director. Additionally, the Supervisory Board:

- confirms the remuneration to the members of the Board of Directors
- elects the members and deputy members of the Board of Directors and the Chairman and Deputy Chairmen among them
- submits its statement to the Annual General Meeting concerning the Annual Accounts and Consolidated Accounts and the Auditors' Report
- confirms the principles of the company's investment plan annually
- decides on any major reductions or expansions in the company's operations or on significant operational changes, and
- advises the Board of Directors in all matters of significant importance

The Supervisory Board convened on three occasions in 2002.

Board of Directors

Varma-Sampo Board of Directors comprises 12 members and three deputy members. Board members and deputy members, the Chairman and at least one Deputy Chairman are elected by the Supervisory Board. The Board of Directors currently has two Deputy Chairmen.

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 other executives. The Board advises the Managing Director and handles the creation of an organisation necessary to company operations and their arrangement.

The Board of Directors convened on ten occasions in 2002.

Managing Director and his deputy

Varma-Sampo's Managing Director and deputy to the Managing Director are appointed by the Board of Directors.

The Managing Director takes care of the company's current administration as advised by the Board of Directors and is responsible for the daily management of the company. The deputy to the Managing Director acts as Managing Director when the Managing Director is prevented from attending to his duties.

Supervisory Board at 14 Feb. 2003

Chairman

Matti Honkala, born 1945
President and CEO, Kesko Corporation
Term expires 2005

Deputy Chairman

Jukka Härmälä, born 1946
CEO, Stora Enso Oyj
Term expires 2004

Deputy Chairman

Pekka Paasikivi, born 1944
Chairman, Oras Ltd
Term expires 2004

Riku Aalto, born 1965

Director of Finance,
Finnish Metalworkers' Union
Term expires 2005

Pekka Ahmavaara, born 1944

Vice President, The Central Organization of Finnish Trade Unions SAK
Term expires 2003

Eero Aittola, born 1942

Term ended 17 March 2002

Seppo Berg, born 1943

Term ended 19 April 2002

Hans Olof Danielsson, born 1942

Term expires 2004

Erkki Etola, born 1945

Managing Director,
Oy Etola Ab and Oy Etra Ab
Term expires 2005

Stig Gustavson, born 1945

President and CEO,
KCI Konecranes International Plc
Term expires 2004

Matti Hellsten, born 1943

Specialist, Finnish Federation of
Special Service and Clerical Employees
Term expires 2003

Markku von Hertenzen, born 1948

Managing Director, Finnish Association
of Graduates in Economics and Business
Administration
Term expires 2004

Erkki Isokangas, born 1946

Managing Director, Saarioinen Oy
Term expires 2003

Jouko M. Jaakkola, born 1944

President and CEO, M-real Corporation
Term expires 2003

Jyrki Juusela, born 1943

President & CEO, Outokumpu Oyj
Term expires 2004

Seppo Koskinen, born 1946

Chief shop steward, Paroc Oy Ab
Term expires 2003

Jan-Henrik Kulp, born 1943

Executive Vice President,
Senior Financial Advisor,
UPM-Kymmene Corporation
Term expires 2005

Tapio Kuula, born 1957

President, Power and Heat Sector,
Fortum Corporation
Term expires 2003

Matti Kyytsönen, born 1949

Managing Director, ISS Suomi Oy
Term expires 2005

Jere Lahti, born 1943

Term expires 2003

Lauri Lyly, born 1953

Chairman, Finnish Electrical
Workers' Union
Term expires 2004

Pentti Nieminen, born 1941

Managing Director, Linkosuo Oy
Term expires 2004

Antti Norrlin, born 1963

Group President,
Koiviston Auto Corporation
Term expires 2004

Hannu Penttilä, born 1953

Managing Director, Stockmann plc
Term expires 2005

Antti Piippo, born 1947

Founder and Principal Shareholder,
Elcoteq Network Corporation
Term expires 2004

Juha Rantanen, born 1952

President & CEO, Ahlstrom Oyj
Term expires 2005

Antti Remes, born 1947

President, Tradeka Group Ltd
Term expires 2003

Helena Rissanen, born 1949

2nd President,
Union of Salaried Employees TU
Term expires 2005

Hannu Roine, born 1942

Group President, Isku Oy
Term expires 2003

Christoffer Taxell, born 1948

Term ended 26 May 2002

Board of Directors at 14 Feb. 2003



Chairman
Georg Ehrnrooth, born 1940
Term expires 2004
Member of the Boards of Wärtsilä Corporation, Sampo plc, Oy Karl Fazer Ab, Sandvik AB and Nokia Corporation; Chairman of the Board of Assa Abloy AB; Vice Chairman of the Board of Rautaruukki Corporation.



Deputy Chairman
Mikko Kivimäki, born 1939
President & CEO, Rautaruukki Corporation
Term expires 2004
Member of the Board of Rautaruukki Corporation; Deputy Chairman of the Board of Metso Corporation; member of the Boards of the Confederation of Finnish Industry and Employers and of YIT Corporation; member

of the Board and labour issues committee of the Federation of Finnish Metal, Engineering and Electrotechnical Industries; Chairman of the Board of the Finnish Maritime Administration.



Deputy Chairman
Mikko Mäenpää, born 1954
President, Finnish Confederation of Salaried Employees STTK
Term expires 2003
Member of the Supervisory Board of the Unemployment Insurance Fund and of the Education Payments Fund; member of the Economic Council; member of the Representatives of the Finnish Centre for Pensions; member of the consultative committee of Finland 2015 and of Forest Forum for Decision-Makers; member of the Board of Council of Nordic Trade Unions; member of the Board of European Trade Union Confederation ETUC and of Trade Union Advisory Committee TUAC



Markku Jokinen, born 1949
Managing Director of Sievin Jalkine Oy, Sievi Marketing Oy and Sievi Tools Oy
Term expires 2004
Member of the Council of Representatives and the Small and Medium Enterprise Council, the Confederation of Finnish Industry and Employers, the Boards of the Finnish Employers' General Group and the Section of Clothing and Footwear of the National Board of Economic Defence; Chairman of Sievi AB, Sievi GmbH, Lapuan Nahka Oy and Kiinteistö Oy Sievin Hirvipojat; Vice-chairman of Kiinteistö Oy Kenkäkangas; Member of the Boards of the Association of Finnish Shoe and Leather Industries, Sievin Jalkine Oy and Sievi Marketing Oy; Deputy member of the Sievi municipal government; member of the Supervisory Board of Sievin Osuuspankki.



Erkki Kangasniemi, born 1945
President, The Trade Union of Education in Finland, OAJ
Term expires 2004
1st Vice-President of the Confederation of Unions for Academic Professionals in Finland; 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 Laatunen, born 1950
Director, the Confederation of Finnish Industry and Employers
Term expires 2003
Member of the Boards of the Finnish Centre for Pensions, LEL Employment Pension Fund and the Federation of Accident Insurance Institutions; Vice Chairman of the Board of the Social Insurance Institution; deputy member of the labour affairs council of the Ministry of Labour.



Jarmo Lähteenmäki, born 1957
Chairman, Finnish Paperworkers' Union
Term expires 2005
Member of the Supervisory Boards of OKO-BANK Osuuspankkien Keskuspankki Oyj and Okopankki Oyj; Vice Chairman of the Supervisory Board of the Finnish Education and Redundancy Payments Fund; member of the Board of the Central Organization of Finnish Trade Unions.



Arto Ojala, born 1944
Director General, Employers' Confederation of Service Industries in Finland
Term expires 2005
Member of the Board of the association sponsoring the Research Institute of the Finnish Economy; member of the Executive Board of the Centre for Finnish Business and Policy Studies; member of the Board and Executive Board of the Finnish Employers' Management Development Institute; member of the Economic Council and the Council for labour affairs; member of the Management Board of the Unemployment Insurance Fund; Chairman of the Board of The Taxpayers' Association of Finland; member of UNICE Executive Committee.



Kari O. Sohlberg, born 1940
Term expires 2005
Chairman of the Boards of Perlos Corporation, the Finnish Fair Corporation, ADR-Haanpää Oy and Association for Promoting Voluntary National Defense of Finland; member of the Board of G. W. Sohlberg Corporation.



Björn Wahlroos, born 1952
President & CEO, Sampo plc
Term expires 2005
Member of the Board of Sampo plc.



Paavo Pitkänen, born 1942
President & CEO, Varma-Sampo
Term expires 2003
Member of the Boards of Stora Enso Oyj, Wärtsilä Corporation and Sampo plc; Chairman of the Board of The Finnish Pension Alliance TELA; member of the Board of the Federation of Finnish Insurance Companies.



Markku Hyvärinen, born 1948
Executive Vice-President, Varma-Sampo
Term expires 2003
Member of the Board of If P&C Insurance Holding Ltd (publ); Vice Chairman of the Board of Kaleva Mutual Insurance Company; Chairman of the Supervisory Board of Finnair Oyj.

Deputy members



Mikko Ketonen, born 1945
Chairman of the Board, TS-Yhtymä Oy
Term expires 2004
Swedish Consul in Turku; member of the Central Chamber of Commerce of Finland; Chairman of Turku School of Economics Support Foundation; Vice Chairman of the Turku Chamber of Commerce.



Janne Metsämäki, born 1960
Legal Adviser, The Central Organization of Finnish Trade Unions
Term expires 2004
Member of the Management Board of the Finnish Unemployment Insurance Fund; member of the Boards of The Finnish Work Environment Fund and LEL Employment Pension Fund; deputy member of the Board of the Finnish Centre for Pensions.



Timo Poranen, born 1943
President,
Finnish Forest Industries Federation
Term expires 2004
Member of the Boards of the Finnish Employers' Management Development Institute, KCI Konecranes International Plc, the Helsinki University of Technology and Wood Focus Oy; member of the Supervisory Boards of the Finnish Fair Corporation; Chairman of the Association Directors' Committee of the Confederation of European Paper Industries 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; Chairman of the Management Board of the Finnish Rail Administration.

Secretary

Tuula Kallio, born 1961
Legal Counsel, Varma-Sampo

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

As a part of our social responsibility, three different consultative committees convene at Varma-Sampo; of the insured, of self-employed persons and employers, and for pension affairs.

The Consultative Committee for Pension Affairs is a co-operation body between Varma-Sampo and labour market organisations. Its function is to make recommendations to the company on issues regarding disability pensions and individual early retirement pensions, based on employment pension law. The committee has eight members appointed by the Board of Directors, two of whom represent Varma-Sampo, i.e. the Chairman and Vice Chairman. In addition, there are two other Varma-Sampo representatives participating in the committee's work.

Chairman

Markku Hyvärinen, Executive Vice-President,
Varma-Sampo

Vice Chairman

Professor **Sakari Tola**, Senior Physician, Varma-Sampo

Jouko Ahonen, Secretary General,
Finnish Paperworkers' Union

Lasse Laatonen, Director,
Confederation of Finnish Industry and Employers

Sinikka Näätäsaari, Secretary for Social Affairs,
Central Organization of Finnish Trade Unions

Irma Pahlman, Legal Counselor,
Finnish Confederation of Salaried Employees

Anja Uljas, Head of R&D, Finnish Association of
Graduates in Economics and Business Administration

Riitta Wärn, Senior Advisor,
Employers' Confederation of Services Industries
in Finland

Also participating in committee work:

Kari Ahtiainen, Adjudication Specialist, Varma-Sampo

Ilkka Kohonen, Senior Vice-President, Varma-Sampo

The Consultative Committee of the Insured is a consultative body that acts as an intermediary between Varma-Sampo and the insured (TEL). Its objective is to further co-operation and communication between the company and employees insured by the company. One of its functions is to provide relevant information on working conditions and changes therein. Varma-Sampo, for its part, provides the committee with the necessary information on its operations, and about current issues, in the field of employment pension insurance. The committee's 28 members represent companies or organisations insured at Varma-Sampo. They are appointed by the Board of Directors, based on the proposals of major central employee organisations.

Chairman

Seppo Räikkönen, Imatra Steel Oy Ab
Finnish Confederation of Salaried Employees

Vice Chairman

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

Representatives of the Confederation of Unions for Academic Professionals in Finland

Kari Halme, Stora Enso Oyj
Jouko Horttanainen, UPM-Kymmene Corporation
Kristiina Inberg-Rauhanen, Kesko Corporation
Kauko Koskinen, Jaakko Pöyry Group Oyj
Erika Salmela, ABB Industry Oy

Representatives of the Central Organization of Finnish Trade Unions

Markku Björn, Sokotel Oy
Ellen Helo, Tradeka Group Oy
Risto Kärkkäinen, UPM-Kymmene Corporation
Arja Launamo, Fazer Suklaa Oy
Hannu Paronen, Vierumäen Teollisuus Oy
Eero Pennanen, Assa Abloy Oy
Erkki Ruotsalainen, Imatra Steel Oy Ab
Seppo Räsänen, Savon Sanomat Oy
Kari Virtanen, Koiviston Auto Oy
Kari Ylikauppila, Fortum Corporation
Simo Virolainen, Honkarakenne Oyj
Timo Virtanen, Metsä Tissue Corporation

*Representatives of the Finnish Confederation
of Salaried Employees*

Pirkko Kalttonen, Stora Enso Oyj
Matti Kangas, TietoEnator Corporation
Pauli Karhu, Wärtsilä Corporation
Tarja Nyman, Fazer Leipomot Oy, Oululainen
Esko Paunonen, Andritz Oy
Sirkka Schenk, Matkahuolto Oy
Marika Siren, If P&C Insurance Company Ltd
Leo Suokas, UPM-Kymmene Corporation
Pekka Teinilä, TS-Yhtymä Oy

The Consultative Committee of Self-employed Persons and Employers is a joint consultative body that acts as an intermediary between Varma-Sampo and companies, as well as self-employed persons and entrepreneurs, with insurance policies in Varma-Sampo. Its objective is to further co-operation and communication between Varma-Sampo and its policyholders. The committee comprises a maximum of 40 members, appointed by the company's Board of Directors, from among the representatives of employers and self-employed persons insured by the company. The committee convenes at the request of the Chairman or Varma-Sampo CEO.

Chairman

Antero Ikkäheimo
Chairman, Lappset Group Oy

Vice Chairman

Erkki Solja
Managing Director, Kiilto Oy

Harri Broman, Managing Director,
Broman Group Oy

Markku Haavisto, Managing Director,
Connex Finland Oy

Tom Hakalax, Chairman, PKC Group Oyj

Kim Hanslin, Managing Director, Tiimari Oyj

Jukka Hyryläinen, Managing Director,
Katko Oy Konerauta

Martti Jalonen, Managing Director,
Länsiauto Oy ja Auto-Jalonen Oy

Pekka Kauranen, Administrative Director,
Finnish National Opera

Mika Kiljunen, Managing Director,

Matkatoimisto Kohdematkat Kaleva Oy

Jari Kokkonen, President, University Pharmacy

Timo U. Korhonen, Managing Director,
NCC Rakennus Oy

Martti Lappalainen, Managing Director,
Suur-Savon Sähkö Oy

Matti Lappalainen, Managing Director,
Vaasan & Vaasan Oy

Antti Lemmetyinen, Director,
the Deaconess Institute in Helsinki

Jussi Länsiö

Timo Miettinen, Chairman, Ensto Capital Oy

Kalervo Nieminen, Managing Director,
Nostokonepalvelu Oy

Jari Ollila, Managing Director, Purso Oy

Jukka Ottela, Managing Director, Esan Kirjapaino Oy

Ahti Paananen, Managing Director, Viitapuu Oy

Simo Parhankangas, Managing Director,
Close Control Oy

Antti Reenpää, Managing Director,
Otava Kustannusosakeyhtiö

Tuomo Räsänen, Managing Director, Carel Capital Oy,
Chairman, Markantalo Oy

Mauri Saarelainen, President, Honkarakenne Oyj

Seppo Saarelainen, Managing Director,
Betonimestarit Oy

Teuvo Salminen, Executive Vice President,
Jaakko Pöyry Group Oyj

Risto Salo, CEO, Hollming Ltd

Ralf Sandström, Managing Director, Restel Oy

Juha Silvanto, Managing Director, Steveco Oy

Saara Sinivuori, Managing Director,
Aleksin Ravintolat Oy

Heikki Takamäki, Managing Director,

Heikki Takamäki Oy, Rauta-Otra Nekala

Jorma Takanen, Managing Director, Scanfil Oyj

Reino Uusitalo, Managing Director, Pyroll Oy

Jorma Wiitakorpi, Managing Director,
Patria Industries Oyj

Juha Vine, Chairman, Groveswing Oy, Solepex Oy

Antti Värtelä, Managing Director, Falck Security Oy

Heikki Väänänen, Chairman, Karelia Yhtymä Oyj

Kaija Ward, Chairman, Eurokangas Oy

Pertti Yliniemi, Chairman, Olostunturi Oy

Management

Managing Director
Paavo Pitkänen, born 1942

Deputy to Managing Director
Markku Hyvärinen, born 1948
Executive Vice-President,
Pension Services

Matti Niemi, born 1947
Major Accounts

Sakari Aaltonen, born 1952
Administration and
Information Management

Ilkka Kohonen, born 1945
Pension Services

Jorma Leinonen, born 1946
Investments

Jouko Oksanen, born 1951
Finance

Hannu Tarvonen, born 1952
Client Relations and
Insurance Services

Chief Actuary
Pasi Mustonen, born 1964

Senior Physician
Professor **Sakari Tola**, born 1946

Consultant physicians
Mari Antti-Poika, born 1946

Per-Henrik Groop, born 1956

Juhani Juntunen, born 1943

Matti Klockars, born 1940

Heikki Nikkilä, born 1955

Pekka Palin, born 1950

Ritva-Liisa Peltomäki, born 1953

Henrik Riska, born 1945



Varna-Sampo's Executive Group consists of (seated, left) Sakari Aaltonen, Markku Hyvärinen, secretary Erkki Rajaniemi, Paavo Pitkänen, personnel representative Merja Haikonen and (standing, left) Ilkka Kohonen, Hannu Tarvonen, Jorma Leinonen, Matti Niemi and Jouko Oksanen.

Other executives

Ari Anttonen, born 1962
Major Accounts, Client Relations

Carina Geber-Teir, born 1972
Communications

Ralf Joutsenlahti, born 1953
Corporate Client Relations

Eija Kaipainen-Perттtula, born 1958
Insurance Services

Jorma Kuokkanen, born 1953
Real Estate,
Client Financing and Collection

Petri Kuusisto, born 1964
Capital Markets

Taisto Lassila, born 1940
Actuaries

Veikko Loukola, born 1943
Projects

Heikki Malin, born 1944
Public Affairs

Irmeli Otava-Keskinen, born 1950
Information Management

Erkki Rajaniemi, born 1959
Legal Affairs

Jukka Ruuth, born 1962
Internal Auditing

Highlights of the year 2002

January

Varma-Sampo sold its shares in SV Benefic Oy to Silta Oy. Specialising in personnel administration and the supply of pension institution services, Silta cooperates with Varma-Sampo.

Varma-Sampo reduced its ownership in Sampo. The sale amounted to around € 173 million, and the shares sold accounted for 3.6 per cent of the shares of Sampo plc. After the sale, Varma-Sampo and its subsidiaries owned 8.9 per cent of the shares of Sampo.

Varma-Sampo Board of Directors appointed Jorma Leinonen Chief Investment Officer.

February

Varma-Sampo published its result for the year 2001 on 21 February 2002.

April

The Annual General Meeting held on 19 April confirmed the Annual Accounts of Varma-Sampo and granted discharge from liability to the members of the Board of Directors and the Supervisory Board, and the Managing Director. The General Meeting also decided on merging Unsa Ltd into Varma-Sampo.

Varma-Sampo increased its ownership in Tampereen Kiinteistö Invest Oy to 99.6 per cent.

Varma-Sampo started to support the PulloPois! project financed by the Nuorten Ystävät foundation. The project is implemented in the Oulu region by the Nuorten Ystävät association. Working together with local authorities, it aims to prevent the use of intoxicants by children and youths, as well as influence parents' attitudes.

June

The President of Finland granted Varma-Sampo's Senior Physician Sakari Tola the title of Professor.

Varma-Sampo sent the age class calculation, or pension estimate, to around 38 000 TEL insured.

August

Varma-Sampo published an interim report on 15 August outlining company operations and the result for January–June. The solvency margin that indicates the company's solvency stood at € 2 452 million and is still twice the solvency limit.

Varma-Sampo published a survey mapping factors that support coping at work for people who stay in employment up to the age of 65.

Varma-Sampo introduced its Evita mentoring programme developed for the promotion of well-being at work in its client companies.

September

Varma-Sampo CEO, Paavo Pitkänen, commented on the Finnish national employment pension reform in a speech made in Vaasa on 11 September. He said that the goal is to adapt the system to the changed working conditions and encourage employees to remain in work for longer than at present. At the same time the reform increases people's freedom of choice.

October

Varma-Sampo stated that as a result of transfer business, the TEL insurance of some 700 companies and the YEL insurance of around 900 entrepreneurs will be transferred to it. The company's TEL market share of around 39 percent decreased by approximately 0.15 percentage points.

Varma-Sampo and Sampo Group outsourced the management services of their real estate assets to Kiinteistövarma Oy (now Ovenia Oy) that they own and that also offers corresponding services to If P&C Insurance and Kaleva. Kiinteistövarma is responsible for leasing, maintenance and construction of the companies' real estate investments.

The shareholders of Kiinteistövarma Oy and Kapiteeli Ltd agreed to combine their real estate management operations by 1 January 2003. The new company will handle real estate assets with a balance sheet total of € 4.5 billion.

November

Varma-Sampo arranged its annual TEL days in Kuopio, Oulu, Turku, Tampere, Lahti and Helsinki. The events drew around 1 200 representatives of client companies.

December

Varma-Sampo Supervisory Board re-elected members of the Board of Directors, Jarmo Lähteenmäki, Arto Ojala, Kari O. Sohlberg and Björn Wahlroos whose terms were due to expire.

Varma-Sampo opened a new online service for the insured that requires user identification. The varma-sampo.fi-vakuutettu service allows employees and entrepreneurs to get an estimated value for their old age pension and early old age pension entitlements.

Key terminology

Bonus reserve

Part of the premium reserve to which portions of the investment surplus and loading profit have been transferred, on the basis of the company's solvency status, 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 the pure premium result.

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.

Insurance premium result

The underwriting result is the difference between the insurance premium and claims expenditure. A positive insurance premium result accumulates the equalisation reserve and a negative result shrinks the reserve.

Investment surplus

Net investment return at book value, inclusive of the change in valuation differences and interest income entered under other items in the Profit and Loss Account, less the required rate of return on technical provisions.

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.

Receivables, portfolio transfers

A deficiency in the technical provisions margin arising from the bankruptcy of Pension Kansa. This represents payments towards joint liability, and claims on the special receiver's estate.

Required rate of return on technical provisions

The required rate of return on investments constituting the technical provisions margin. This is confirmed annually by the Finnish Ministry of Social Affairs and Health at the request of the pension insurance companies. The required rate of return is mainly determined according to the so-called calculated interest rate that stood at 5.25 per cent for the year 2002.

Solvency margin

Net insurance company assets i.e. the excess of assets at current values over liabilities. The solvency margin comprises capital and reserves, accrued appropriations, the valuation difference and the unallocated insurance reserve.

Solvency requirements

Solvency requirements, or the minimum solvency margin, are calculated on the risks inherent in the investments that make up the technical provisions margin. Solvency requirements are generally calculated in proportion to the technical provisions. 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. 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.

Target zone See solvency requirements

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.

Turnover

Premiums written before the deduction of credit losses and the reinsurers' share, plus the investment income, other returns and realised valuation gains entered into the profit and loss account.

Unallocated insurance reserve

Part of the premium reserve that is included in the company's solvency margin and contributes to solvency per se. The remaining investment surplus and loading profit are transferred to the unallocated insurance reserve (see Bonus reserve), which serves as a buffer against investment value fluctuations.

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 income from investment operations.

Contact information

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www.varma-sampo.fi

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