Annual Accounts
2003

VARMA

Varma Annual Accounts 2003

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The Annual Accounts for 2003 and Notes are available at the Parent Company headquarters at Annankatu 18, Helsinki, Finland.

Board of Directors’ Report 2003

Trends in the economic operating environment

The recovery of the world economy was polarised in 2003. Growth was swift in Asia, and in the United States where the budget deficit continued its rapid expansion. The euro zone was characterised by slow economic growth and its strengthening currency.

In Finland, gross domestic product was estimated to have increased by just over one per cent in 2003. The weakening dollar hindered the recovery of the domestic economy while exports grew slowly and in some sectors fell back. Capacity utilisation was low compared with the long-term average. Industrial investments decreased to the extent that percentage investment hit an historic low. Increasing economic globalization affected companies’ investment decisions as jobs moved abroad to some extent. The size of the domestic workforce decreased, and unemployment rose in industry in particular. The real purchasing power of households was increased by rising salaries, public institutions’ income transfers to households and inflation falling to around one per cent. Retail sales increased and low interest rates accelerated investment in residential housing. The rate of personal saving has been exceptionally low and in fact borrowing has outstripped saving for several years now.

Interest rates stayed low and in the first part of the year uncertainty in the global political situation brought share prices down. Equities have risen notably since then despite uncertainty in world economic indicators. Share prices on the Finnish stock exchange (HEX) rose more modestly than on international exchanges. After falling early in the year, interest rates on long-term bonds rallied and rose to a somewhat higher level than before. The falling dollar damaged returns on dollar denominated investments. Tax reform being planned in Finland urged companies to distribute extra dividends. International investors moved aggressively into the Finnish real estate market.

Earnings-related pension scheme

The government programme of spring 2003 stated that the basis and goals of pension policy lie in the growth of the economy, general trust in the sustainability of the system and people continuing in work longer than is now the case. Reform concerning earnings-related pension benefits in the private sector is to be completed and the necessary amendments become law on 1 January 2005. New legislation will then be drawn up that would ultimately replace the present Employees’ Pensions Act, Temporary Employees’ Pensions Act, and the Pensions Act for Performing Artists and Certain Other Employee Groups, entering into force in 2007. It is intended that all pension institutions would be able to insure all kinds of work.

As of 2005, the amount of earnings-related pension will be affected by all income from a work history regardless 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. An employee or entrepreneur will have flexibility in planning retirement on old age pension between the ages of 62 and 68. The integration of benefits will be abolished from new earnings-related pensions as of 2005, excluding pensions for road and industrial injuries. As of 2010, a life-expectancy coefficient will start to operate; its purpose is to adapt pension provision to longer life expectancy. On certain conditions, the amount of a new pension will continue at least on a par with that under the present regulations until 2012.

According to the report of the employment working party appointed by the Prime Minister, the financing of future expenses requires a rising rate of employment and a substantial, on average four year, extension in the length of working life. The visible effects of the pension system reforms will be staggered over quite a long period of time and further measures will be needed to support them. Coping at work for elderly employees should also be supported more than is now the case, by developing management culture, working atmosphere and working ability.

In October 2003, pension insurance companies commenced the payment of compensations amounting to € 5–50 per month to those pensioners whose earnings-related pension was reduced before the year 1996, due to the integration of the national pension, and for whom the basic level of national pension was later gradually decreased. Varma made 9 378 decisions regarding this issue.

According to a legislative amendment that came into effect at the beginning of July, an employer can transfer its TEL insurance from a pension insurance company to a pension foundation or fund. In addition to the pension liability and its coverage, the transfer includes an amount of the solvency margin that is confirmed by the Ministry of Social Affairs and Health for two years at a time. At the moment it is 12.4 per cent of the amount of pension liability.

The Ministry of Social Affairs and Health confirmed a change in the calculation bases, according to which a policyholder moving from one pension company to another will receive a client bonus for three years from the first pension company, based on the funded share left in that company. The changes were applied for the first time in pension institution transfers made on 31 December 2003.

The calculated interest rate stood at 4.25 per cent until 30 June 2003, at 4 per cent for the rest of the year and at 4.5 per cent from the beginning of 2004.

From this year pension institutions are obliged to arrange vocational rehabilitation for an employee, if an appropriately diagnosed illness, impairment or injury threatens to cause disability. The aim is to identify earlier than at present those entitled to vocational rehabilitation.

Also from the start of 2004, individuals whose work history comprises state or municipal employment as well as private sector employment can submit their application for pension to a single institution, which will also pay the pension. Private sector earnings-related pensions have been paid from a single source since 1962.

Financial review

When assessing the financial performance or position of an earnings-related pension insurance company, the following comparisons must be made: returns on investments at fair values to the yield requirement on technical provisions; operating expenses to administrative costs included in insurance premiums; and claims expenditure to corresponding premium income. These key figures are presented in more detail in the notes to the Annual Accounts.

Varma's positive financial development meant solvency increased by € 784 million. Solvency is indicated by the solvency margin that stood at € 3 193 million (2002: € 2 409 million) at the end of 2003, with 19.4 per cent (15.5 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 2.10 times (2.07 times) the solvency limit. The solvency margin comprises capital and reserves, accrued appropriations, the unallocated insurance reserve, and valuation differences.

Net investment income at fair values stood at € 1 460 million (€ 338 million), or 8.1 per cent (1.9 per cent). This exceeded the requirement for technical provisions by € 820 million (€ –418 million). The yield requirement on technical provisions is mainly based on the confirmed calculated interest rate. Varma investment income in 1999–2003 was on average 5.3 per cent, corresponding to real income of 3.4 per cent. Pension liabilities have by nature a long-term reach, so it is important to secure long-term real income.

Varma's efficient running kept operating expenses below the administrative costs included in insurance premiums, and the loading profit stood at € 19 million (€ 16 million). Claims expenditure was lower than the corresponding premium income, and the insurance premium surplus was estimated at € 70 million (€ 38 million).

The company's total result (i.e. the result of investments, loading profit and insurance premium surplus) stood at € 910 million (€ –363 million). The book result of the Profit and Loss Account, amounting to € 5 million, is determined by calculation bases confirmed by the Ministry of Social Affairs and Health.

The clearing reserve for covering insurance business risks increased by € 63 million to € 860 million (€ 798 million).

The company's improved result made it possible to transfer the maximum amount allowed by the calculation bases, € 35 million (€ 26 million), to the bonus reserve for client bonuses. The transfer amounted to approximately 0.32 per cent (0.24 per cent) of Varma's payroll.

Insurance business

The average payment level of the employees' pension insurance was 21.4 per cent (21.1 per cent) of payroll. The employees' contribution to that was 4.6 percentage points (4.4) and the payment under the Self-Employed Persons' Pensions Act YEL was 21.4 per cent (21.1 per cent) of confirmed earnings.

Varma is Finland's biggest private sector pension insurer. The total TEL payroll of those insured in the company for the year 2003 stood at around € 11 billion. The company's market share of the earnings-related pension insurance business estimated on the basis of the payroll in 2003 was around 38 per cent. The company's premiums written stood at € 2 455 million (€ 2 406 million), of which the basic insurance under the Employees' Pensions Act TEL accounted for € 2 321 million (€ 2 275 million), and insurance under the Self-Employed Persons' Pensions Act YEL for € 116 million (€ 111 million). The total payroll of the insured is estimated to grow by around two per cent on the previous year. Varma was responsible for insuring the pension provision of around 429 000 persons at year-end 2003, which was 4 500 less than a year before. The decrease was affected by staff reductions among industrial clients.

Varma achieved exceptional success in transfer business between pension companies in 2003. The result was the best in the history of the company and that of the entire earnings-related pension business in Finland. The number of employees insured by Varma under TEL consequently increased by around 15 000 at the beginning of 2004, corresponding to more than € 90 million in premium income. In addition to its own customer contacts, Varma serves policyholders through the networks of If P&C Insurance Ltd and Sampo and, as of the beginning of 2004, Nordea Group.

The total value of pensions paid in 2003 was € 2 475 million (€ 2 356 million). Some 21 300 (22 700) new pension applications were handled during the year. The number of pension decisions made was 2 per cent lower than in the previous year. The number of first time decisions decreased by 6 per cent, while those regarding continuation increased by 9 per cent. The number of part-time pension decisions was nearly halved to 1 800. First time decisions on disability pensions increased by 5 per cent, while rejections stood at 23.6 per cent. Rehabilitation decisions numbered 1 539 (1 168). Decision handling time on all types of pension improved compared with the previous year. The number of open applications lies at its lowest level in the history of the company. Some 74.6 per cent (73.0 per cent) of first decisions were made within a month of the commencement of entitlement, exceeding the goal set for compensation operations. At the year-end, Var-

	31 Dec. 2003	31 Dec. 2002	Change
No. of insured			
TEL *)	**393 044**	397 533	–4 489
YEL	**35 952**	36 132	–180
Total	**428 996**	433 665	–4 669
*) TEL additional pension insurance	**18 992**	20 300	–1 308
No. of insurances			
TEL	**25 297**	26 627	–1 330
No. of pensioners *)			
Old age pension	**151 100**	146 069	5 031
Survivors' pension	**48 566**	48 024	542
Disability pension	**44 293**	43 883	410
Unemployment pension	**15 612**	16 365	–753
Early old age pension	**12 274**	11 548	726
Early disability pension	**3 945**	4 898	–953
Part time pension	**7 959**	7 796	163
Total	**283 749**	278 583	5 166
*) Those receiving YEL pension	**28 225**	28 060	165
*) Those receiving TEL/YEL additional pension	**34 275**	33 381	894

ma was paying pensions under the Employees' Pensions' Act TEL and the Self-Employed Persons' Pensions Act YEL to around 284 000 persons (279 000).

An increasing number of Varma customers use the company's online services. Employers sent 787 000 notifications to Varma and 506 000, or 64.3 per cent (54.0 per cent) of these were submitted electronically, exceeding the goal set for insurance operations. Through the Eläkearvio (pension estimate) online service, insured employees can check their personal record of gainful employment, containing work history and earnings details that affect their pension. It is also possible for customers to formulate an estimate of their old age pension, in accordance with the pension legislation coming into effect on 1 January 2005, as well as compare how retirement age affects the amount of pension. Data for around 6 200 pension estimates were submitted online. Varma mailed an age class calculation to 38 000 TEL insured employees aged 30, 35, 40, 45, 50, 55 and 60.

Representatives of client companies were interviewed in order to discover what kind of problems occur in retaining at work employees with an illness, in supporting a return to work, how to proceed in these situations and in what way it is then possible to utilise the means of vocational rehabilitation.

Varma also conducted a survey about what would make today's young people continue in work longer than is now generally the case. According to the results, the willingness is there, if work and leisure are balanced from the beginning of life in work. Coping at work is supported by flexible working, a good atmosphere, an encouraging supervisor and fair reward.

Technical provisions

Technical provisions grew by 8.5 per cent to € 18 812 million (€ 17 340 million) during the year. A bonus reserve of € 36 million (€ 30 million) and an unallocated insurance reserve of € 2 311 million (€ 1 684 million) are included in technical provisions. The equalisation reserve stood at € 860 million (€ 798 million).

Investment operations

Varma is a long-term investor. Returns on pension assets must perform well in both the short and long term. Varma acts transparently in its investment operations and follows good practice matched with high ethical principles.

All figures for investment activities are presented at fair values. Varma investments stood at € 19 459 million (€ 17 820 million) at the year-end. Investment income stood at € 1 460 million (€ 338 million), or 8.1 per cent (1.9 per cent).

The loan portfolio amounted to € 1 198 million (€ 1 266 million), or 6 per cent (7 per cent) of investment assets. Loans with guarantee constituted 83 per cent (81 per cent) of the total. A total of € 215 million (€ 278 million) of new loans was drawn during the year. The loan portfolio yielded a return of € 56 million (€ 63 million), or 4.4 per cent (4.7 per cent). The average remaining loan period before maturity was 10.5 years.

Bonds accounted for € 10 891 million (€ 10 826 million), or 56 per cent (61 per cent) of investment assets. Public corporation bonds amounted to € 5 919 million (€ 6 497 million), financing bonds to € 2 629 million (€ 1 668 million) and corporate bonds to € 2 292 million (€ 2 473 million). The average risk-weighted credit rating of the bond portfolio was A (A). The average term of the bond portfolio was 3.4 years (5.1 years) at the end of 2003. Derivative instruments were used for hedging against interest rate and currency risks, which improved the return on bond investments that stood at € 652 million (€ 840 million), or 6.1 per cent (8.7 per cent). In comparison, the return on the Salomon Euro Government index stood at 4.0 per cent and that of the Merrill Lynch Euro Corporate index at 6.5 per cent. The return on Varma's bond portfolio exceeded the corresponding returns achieved by Finnish investment trusts.

Other money-market instruments totalled € 143 million (€ 179 million) at the year-end, resulting in a return of € 9 million (€ 15 million), or 3.4 per cent (3.4 per cent).

Equities and shares owned by Varma stood at €4 683 million (€ 3 029 million) at the year-end, or 24 per cent (17 per cent) of investment assets. Investments in equities were increased during the year, and net investments in equities totalled € 1 173 million. International stock exchange indexes rose in 2003 after falling for three years in a row: the annual change in the Dow Jones Stoxx 600 yield index was +17 per cent (–31 per cent), the HEX All-Share Index +9 per cent (–33 per cent) and HEX Portfolio Index +23 per cent (–14 per cent). The return on Varma's equities portfolio exceeded the corresponding returns achieved by Finnish investment trusts. Investments in Finnish listed shares stood at € 1 297 million (€ 1 208 million). A total of € 269 million (€ 195 million) was invested in capital trusts. In addition, Varma has undertaken to subscribe to capital trust shares for € 391 million (€ 301 million). The return on investments in equities and capital trusts stood at € 627 million (€ –720 million), or 19.3 per cent (19.7 per cent). The largest equities investments were in Sampo plc at € 345 million and If P&C Insurance Holding Ltd at € 210 million. After an agreement struck on 11 February 2004, Sampo plc owns 89.94 per cent of If P&C Insurance Holding Ltd with whose subsidiary Varma has a long-term distribution agreement. Varma's holding remains unchanged at 10.06 per cent.

Varma's real estate portfolio stood at € 2 520 million (€ 2 520 million) at the year-end, or 13 per cent (14 per cent) of investment assets. Varma invested € 63 million (€ 234 million) in real estate during the year, selling € 24 million (€ 19 million). At year-end 2003, the total real estate area owned by Varma Group amounted to around 2.1 million square metres. The under-utilisation rate of office space was 5.1 per cent as at the beginning of the year. The real estate portfolio was divided according to invested capital as follows: office space and business premises 57 per cent (59 per cent), residential apartments 18 per cent (17 per cent), industrial facilities 13 per cent (13 per cent), hydropower plants 7 per cent (7 per cent), and other premises 5 per cent (4 per cent).

The return on real estate investments was € 132 million (€ 149 million), or 5.4 per cent (6.5 per cent). The return on the whole portfolio fell short of that of the previous year, mainly due to an adjustment of € 22 million in the fair value of Varma's head office real estate. Varma is the third largest real estate investor in Finland. Real estate constitutes a long-term form of investment for a pension insurance company, providing a steady yield in changing circumstances that is competitive with other forms of investment.

Operating expenses

Total operating expenses rose by 6 per cent (3 per cent) on the previous year to € 75 million (€ 71 million). Costs resulting from the management of the insurance and pension portfolios are measured by the administrative costs included in the insurance premium. Of the administrative costs included in the premium, Varma allocated only 77 per cent (78 per cent) to operating expenses funded from these costs. Varma is a cost-efficient operator in the pension insurance business due to continuous and purposeful development. Operating expenses related to investment operations amounted to € 10 million (€ 10 million) and are covered by the return on investments. Personnel and information management account for more than 80 per cent of Varma operating expenses.

Varma executed a broad strategy project during the year, identifying future challenges and how to tackle them, and working to develop and enhance operations. At the same time, the company's divisional strategies were updated. The new social policy strategy deals with e.g. EU integration, pension reforms in other countries, Finnish labour, as well as health care and rehabilitation.

The cost-efficiency of Varma's information management is promoted by an 18 per cent share in Arek Oy, founded by actors in the pension insurance business towards the end of 2003. Its role is to implement a substantial information systems project regarding earnings and linked to the Finnish pension reform. The resulting system will be introduced in 2007. Details of all earnings that affect the amount of an earnings-related pension will be recorded in a new database, so the insurance company that makes the pension decision can calculate the pension from the nominee's entire work history stored there. There will be no need to register the pertinent details more than once.

Varma operations were brought together in one location during the year, releasing sizable premises formerly used by the company itself.

Varma Group personnel, excluding temporary employment relationships, totalled 817 (796) at the year-end, of which 623 (609) worked in the parent company. The number of personnel in pension and insurance operations increased. According to a survey examining working atmosphere, the overall job satisfaction of Varma personnel is still rated at the highest of levels found in Finland.

Varma 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, operating expenses and the efficiency of pension and insurance handling. In 2003, the entire staff received on average two weeks' salary due to the payment by results system. In addition to that, there is a separate system to reward goals met, for specified employees in Client Services and Investment Operations. A total of € 336 000 was paid from the investment operations bonus system. There are no other payment by results systems in the company.

The Board of Directors allocated € 86 000 of assets confirmed in its expense account by the Annual General Meeting to non-profit and charitable purposes, such as medical research.

Associated undertakings and significant participating interests

At the year-end, Varma Consolidated Accounts comprise, sub-groups included, a total of 229 (264) subsidiaries and 66 (69) significant participating interests, mainly real estate firms.

Company administration

By decision of the Extraordinary General Meeting held on 24 September 2003, the name of the company is Varma Mutual Pension Insurance Company as of 31 December 2003 (formerly Varma-Sampo Mutual Pension Insurance Company). The change of name emphasises the company's independent role as an efficient and competitive pension insurer, as well as clarifying Varma's relation to Sampo.

Decisions at the Annual General Meeting are made by policyholders with around 78 per cent of the votes, the insured holding some 19.5 per cent, and the guarantee capital owner, Sampo Group, with around 2.5 per cent of he votes.

The Annual General Meeting on 10 April 2003 re-elected the following Supervisory Board members whose terms were due to expire: Pekka Ahmavaara, Seppo Koskinen, Tapio Kuula, Erkki Isokangas, Jouko M. Jaakkola, Antti Remes and Hannu Roine, and Ole Johansson was elected to replace Christoffer Taxell who resigned, for the term ending in 2006. Hans-Olof Danielsson resigned and Berndt Brunow was elected to replace him for the term ending in 2004. Matti Pulkki and Antti Rinne were elected as new members of the Supervisory Board. The Supervisory Board elected Matti Honkala Chairman, and Jukka Härmälä and Pekka Paasikivi as Deputy Chairmen.

Mauri Palvi, Authorised Public Accountant, and Jaakko Nyman, Authorised Public Accountant, were elected as auditors, and KPMG Wideri Oy Ab and Paula Pasanen, Authorised Public Accountant, as deputy auditors. Auditing fees paid by Varma and its real estate subsidiaries in 2003 amounted to € 253 000 and fees paid to the auditing company for consultation (e.g. information management and taxation) amounted to € 185 000, a total of € 483 000.

On 8 December 2003, the Supervisory Board re-elected the Board of Directors' members Lasse Laatunen and Mikko Mäenpää whose terms were due to expire. Birgitta Kantola and Markku Pohjola were elected to replace, respectively, Paavo Pitkänen and Markku Hyvärinen whose terms expired. Mikko Kivimäki and Jarmo Lähteenmäki resigned, and Jyrki Juusela and Jouko Ahonen respectively were elected to replace them. There are now no members of the Executive Group sitting on Varma's Board of Directors, as of the beginning of 2004, which reflects the international trend in corporate governance principles.

Managing Director Paavo Pitkänen will retire on pension in summer 2004. On 16 June 2003, Varma Board of Directors appointed Matti Vuoria as the new Managing Director as of 1 June 2004. He started at Varma as Executive Vice-President at the beginning of 2004.

Varma Board of Directors confirmed its operating procedures in 2003. The Board is to e.g. appoint the Managing Director and Deputy Managing Director, decide on company strategies, draw up the investment plan, and arrange internal control. Varma Board of Directors has determined the content of internal control, how internal control is organised, assessed whether internal control is appropriately arranged, confirmed common guidelines for the whole Group's internal control and approved the risk management plan. Risk management is handled in more detail in the notes to the Annual Accounts. The Board also set up an Auditing Committee that supervises e.g. the company's financial reporting, and a Compensation Committee that plans management remuneration bases and incentive systems.

Outlook

The effects of the pension reform will not show in full for many years. Incentives for coping at work include e.g. a higher rate of accrual on pensions for older people. The reformed system will be able to respond effectively to the challenges set by the ageing population, but the essential structure should be developed further.

The international competitiveness of Finnish labour creates a platform for the bearing capacity of the pension system. Retaining the level of well-being in the years to come requires healthy economic development in which exports play a highly significant role in gross domestic product. A sufficient level of real returns in pension funds is also crucial. The earnings-related pension scheme has been continuously developed to correspond to the changing circumstances and solvency has further strengthened. The Finnish parliament has demanded that the continuation of the agreement concerning the special position of TEL must be secured in the new EU constitution.

The retirement of the baby boom generation creates a social challenge. Varma expects the number of pension applications to increase significantly in the coming years. The company has responded by increasing pensions handling staff and developing ways of working. The rehabilitation reform that entered into force at the beginning of 2004 obliges pension institutions to arrange vocational rehabilitation on certain conditions. Varma's preparation for and implementation of the pension reform, including major computer system changes, require a great contribution from staff in terms of development work. Preparation for the combining of the Employees' Pensions Act, Temporary Employees' Pensions Act, and the Pensions Act for Performing Artists and Certain Other Employee Groups is also on the agenda.

Successful investment operations in the capital markets have a crucial effect on Varma's financial performance and solvency. Signs of recovery in the world economy are emerging, although uncertainty factors related to economic growth and the global political situation remain. Stock markets are again difficult after a significant rise in 2003. If interest rates stay low in the longer time, getting a high real return on pension assets will be a hard task. By actively steering investment operations and making judicious and well-timed use of investment instruments, Varma aims to secure the investment result required while seeking new growth and income opportunities.

Associated undertakings as at 31 December 2003

The Group comprises the following 193 companies
Antinkatu 32 Osakeyhtiö
Asunto Oy Espoon Emännäntie 1
Asunto Oy Espoon Emännäntie 2
Asunto Oy Espoon Emännäntie 3
Asunto Oy Espoon Keijumäki
Asunto Oy Espoon Kilonlemmikki
Asunto Oy Espoon Kiskottajankuja 4
Asunto Oy Espoon Kyyhkysmäki 14
Asunto Oy Espoon Lintuvaarant. 37–39
Asunto Oy Espoon Pyölinpuisto
Asunto Oy Espoon Rautiaisentie 21
Asunto Oy Haukikoto
Asunto Oy Heinolan Lammaskallionkatu 5
Asunto Oy Helsingin Kaustisenpolku 1
Asunto Oy Helsingin Kimmontie 3
Asunto Oy Helsingin Kivihaanrinne
Asunto Oy Helsingin Klaneettitie
Asunto Oy Helsingin Näyttelijäntie 22
Asunto Oy Helsingin Päijänteentie 4–6
Asunto Oy Helsingin Roihuvuorentie 20
Asunto Oy Helsingin Roihuvuorentie 30
Asunto Oy Helsingin Viulutie 1
Asunto Oy Jyväskylän Kiramo 4
Asunto Oy Katajaharjuntie 22
Asunto Oy Kaustisenpolku 5
Asunto Oy Keravan Salpasilakka
Asunto Oy Kokkovuori
Asunto Oy Korkeavuorenkatu 2 a
Asunto Oy Kotkan Alahovinniitty
Asunto Oy Kotkan Alahovintie 11
Asunto Oy Kuokkalan Tahkonkartano
Asunto Oy Lahden Kulmakatu 12
Asunto Oy Lahden Lahdenkatu 39
Asunto Oy Lahden Massinhovi
Asunto Oy Lahden Massinpoiju
Asunto Oy Lahden Ritaripiha
Asunto Oy Lappeenrannan Ihalaisenvuori
Asunto Oy Linnantie 3
Asunto Oy Lintukallionrinne 1
Asunto Oy Matinkylän Poutapilvi
Asunto Oy Merihauki
Asunto Oy Neilikkatie
Asunto Oy Niittymaanpuisto
Asunto Oy Oulun Lehmuskuja
Asunto Oy Paatsamatie 3
Asunto Oy Paratiisintie
Asunto Oy Oulun Keulanhaka
Asunto Oy Porin Purjeentie 7
Asunto Oy Raikukuja II
Asunto Oy Rovaniemen Välirakka
Asunto Oy Saarnilaakso
Asunto Oy Siltavoudintie 1
Asunto Oy Taivalpolku
Asunto Oy Tampereen Jankansampo
Asunto Oy Tampereen Kultaköynnös
Asunto Oy Tampereen Lintulampi
Asunto Oy Tampereen Näsijärvenkatu 3
Asunto Oy Tampereen Puuvillatehtaankatu 6
Asunto Oy Tampereen Satakunnankatu 22
Asunto Oy Tampereen Vihilahdenkontu
Asunto Oy Tervahovinkatu 12

Asunto Oy Tiilimäki 31
Asunto Oy Turun Itäinen Rantakatu 64
Asunto Oy Turun Itäinen Rantakatu 70
Asunto Oy Turun Laivurinkatu 2
Asunto Oy Vantaan Käräjäkuja 1
Asunto Oy Vantaan Kaivoslähde
Asunto Oy Vantaan Lummepiha
Asunto Oy Vantaan Vernissakatu 5
Asunto Oy Väinämöisenkatu 7
ATP-Kiinteistöt Oy
Draco Oy
El-Sam Asunnot Oy
Hakunilan Kiinteistöt Oy
Hauhon Teollisuushallit Oy
Helsingin Kiinteistösijoitus Oy
Kiikun Liiketalo Oy
Kiinteistöisakeyhtiö Varma
Kiinteistö Oy Ahertajantie 3
Kiinteistö Oy Airamilan Kone
Kiinteistö Oy Arabian Parkki
Kiinteistö Oy Arinatie 6
Kiinteistö Oy Aspius
Kiinteistö Oy Avia Prima
Kiinteistö Oy Elocinkulma 3
Kiinteistö Oy Espoon Kamreerintie 2
Kiinteistö Oy Espoon Kiltakallionrinne
Kiinteistö Oy Espoon Komentajan-Varma
Kiinteistö Oy Espoon Niittyhaka
Kiinteistö Oy Fredrikinkatu 42
Kiinteistö Oy Friisikeskus
Kiinteistö Oy Gigahermia
Kiinteistö Oy Helsingin Valimotie 9-11
Kiinteistö Oy Hiiritornit
Kiinteistö Oy Heinolan Lampikatu 16
Kiinteistö Oy Heinämäentie 2
Kiinteistö Oy Helsingin Itälahdenkatu 22
Kiinteistö Oy Helsingin Itämerenkatu 11-13
Kiinteistö Oy Helsingin Kaisaniemenkatu 5
Kiinteistö Oy Helsingin Lönnrotinkatu 18
Kiinteistö Oy Helsingin Putkitie 3
Kiinteistö Oy Helsingin Tapulikaupungintie 13
Kiinteistö Oy Helsingin Valimopolku 4
Kiinteistö Oy Helsingin Valimotie 16
Kiinteistö Oy Hotelli Torni
Kiinteistö Oy Hämeentie 135
Kiinteistö Oy Hyvinkään Riihimäenkatu 79
Kiinteistö Oy Itäinen Rantakatu 60
Kiinteistö Oy Itälahdenkatu 15-17
Kiinteistö Oy John Stenberginranta 2
Kiinteistö Oy Juhana Herttua 3
Kiinteistö Oy Jyväskylän maalaiskunnan kotikeskus
Kiinteistö Oy Jyväskylän Mattilanniemi
Kiinteistö Oy Kaarenhanka
Kiinteistö Oy Kaikukatu 7
Kiinteistö Oy Kalasääksentie 6
Kiinteistö Oy Karihaaran Liiketalo
Kiinteistö Oy Keskustahotelli
Kiinteistö Oy Koirasaarentie 1
Kiinteistö Oy Koivuhaanportti 10
Kiinteistö Oy Kolikoto
Kiinteistö Oy Kolmisopentie 3
Kiinteistö Oy Koroppa
Kiinteistö Oy Koskikastanja
Kiinteistö Oy Kotkan Suursaarenkatu 1
Kiinteistö Oy Kuparitie 2
Kiinteistö Oy Kuutosseppä
Kiinteistö Oy Lahden Kansankartano
Kiinteistö Oy Lahden Virastotalo
Kiinteistö Oy Lammin Työkeskus
Kiinteistö Oy Lappeenrannan Patria
Kiinteistö Oy Lassilanlinna
Kiinteistö Oy Lempäälän Tampereentie 14-18
Kiinteistö Oy Lönnrotinkatu 12
Kiinteistö Oy Menotie 1
Kiinteistö Oy Metsäpojankuja 1
Kiinteistö Oy Myyrkumpu
Kiinteistö Oy Mälikkäläntalo
Kiinteistö Oy Niittylänpolku 10
Kiinteistö Oy Nummelanharju 1
Kiinteistö Oy Nummelanvaara
Kiinteistö Oy Nummenvaara
Kiinteistö Oy Nurmijärven Liiketalo
Kiinteistö Oy Olarinluoma 9
Kiinteistö Oy Oulun Kallisensuora 5
Kiinteistö Oy Oulunkyläntori 1
Kiinteistö Oy Palokanvarma
Kiinteistö Oy Partolan Kauppajätti
Kiinteistö Oy Pharma City
Kiinteistö Oy Porel
Kiinteistö Oy Porin Eteläväylä 2
Kiinteistö Oy Radiomiehenkatu 2
Kiinteistö Oy Rajasampaanranta 2
Kiinteistö Oy Riihimäen Junttatie 2
Kiinteistö Oy Savonkatu 21
Kiinteistö Oy Scanaine
Kiinteistö Oy Seinäjoen Maakuntatalo
Kiinteistö Oy Sinihelmi
Kiinteistö Oy Spektrin Trio
Kiinteistö Oy Suometsänkaari 2
Kiinteistö Oy Tampereen Kalevanpaasi
Kiinteistö Oy Tarhaajantie 2
Kiinteistö Oy Teerivuorenkatu 28
Kiinteistö Oy Teerivuorenpuisto
Kiinteistö Oy Tekniikantie 4
Kiinteistö Oy Teräslautelanrinne
Kiinteistö Oy Tilkan Paletti
Kiinteistö Oy Turun Asemakeskus
Kiinteistö Oy Ulvilan Automaatiohalli
Kiinteistö Oy Vantaan Linkokuja
Kiinteistö Oy Vantaan Sarkatie 1
Kiinteistö Oy Vaasan Monopol
Kiinteistö Oy Vaasan Sampotalo
Kiinteistö Oy Vaasanhalli
Kiinteistö Oy Vantaan Martintalo
Kiinteistö Oy Varmantalo
Kiinteistö Oy Viittakari
Kiinteistö Oy Vuorenvarma
Kiinteistö Oy Vääksyntie 4
Esy Ab
Osakevarma Oy
Oy Ässäkeskus Ab
Pitäjänmäen Kiinteistöt Oy

Satakunnan Teollisuustalo Oy
Seinäjoen Teollisuustalo Oy
Talo-osakeyhtiö Kuopion Tulliportinkatu 25
Tampereen Kiinteistö Invest Oy
Teräsportti Oy
Upper Limit Oy
Vaasa Hitec Park Oy
Valuraudankuja Oy
Varissuon Toimistotalo Oy
Vasa-Sijoituskiinteistöt Oy

The 33 subsidiaries of the wholly-owned Vasa-Sijoituskiinteistöt Oy
Fastighets Ab Baggen Kiinteistö Oy
Kaijonharjun Liikekeskus Oy
Kiinteistö Osakeyhtiö Juvakeskus
Kiinteistö Oy Loimaanportti
Kiinteistö Oy Atomitalo
Kiinteistö Oy Eurajoen Portti
Kiinteistö Oy Iin Liikekeskus
Kiinteistö Oy Jämsän Torinkulma
Kiinteistö Oy Kahvimylly
Kiinteistö Oy Kaivolankulma
Kiinteistö Oy Kangasalan Vihervarpu
Kiinteistö Oy Kattilansillan Kauppakeskus
Kiinteistö Oy Kirkkonummen Kirkkotalli
Kiinteistö Oy Korpilahden Liiketalo
Kiinteistö Oy Kustaantori
Kiinteistö Oy Liikekulma
Kiinteistö Oy Lopen Linja-autoasema
Kiinteistö Oy Merraspuhos
Kiinteistö Oy Miekkoniemen Kauppakeskus
Kiinteistö Oy Mäkitori
Kiinteistö Oy Nastolan Muurarintie 2
Kiinteistö Oy Pappilanrinteen Liiketalo
Kiinteistö Oy Peitsarin Liikekeskus
Kiinteistö Oy Poronsarvi
Kiinteistö Oy Rastilan Liikekeskus
Kiinteistö Oy Sompasaaren Tukoeka
Kiinteistö Oy Säästöpudas
Kiinteistö Oy Taavetin Ostoskeskus
Kiinteistö Oy Valkealan Kauppakulma
Kiinteistö Oy Äänekosken Ostoskeskus
Kiuruveden Linja-autoaseman Kiinteistö Oy
Lepinpellonkatu Oy
Syväsenvaaran Liikekiinteistö Oy

The 5 subsidiaries of the wholly-owned El-Sam Asunnot Oy
Asunto Oy Kaarenpaatsama
Asunto Oy Kartanonpesä
Asunto Oy Minkkikuja 3
Asunto Oy Näkinkuja 4
Asunto Oy Porin Harmaakarhu

The subsidiaries of the wholly-owned Tampereen Kiinteistö Invest Oy, namely Kiinteistö Oy Finlaysonin Vanha Kutomo, Kiinteistö Oy Finlaysonin Vanha Pääkonttori, Kiinteistö Oy Pyynikin Trikootehdas and Kiinteistö Oy uusi Trikootehdas were merged into the Parent Company.

The following exited the Group during the year under review
Asunto Oy Joensuun Everstinkartano
Asunto Oy Kuusikytö
Asunto Oy Nurmijärven Myllärintie 4
Asunto Oy Perkkaankulma
Asunto Oy Vantaan Virsutie 5
Kiinteistö Oy Espoon Kulloonmäki 1
Kiinteistö Oy Espoon Kulloonmäki 2
Kiinteistö Oy Espoon Kulloonmäki 3
Kiinteistö Oy Espoon Kulloonmäki 4
Kiinteistö Oy Espoon Kulloonmäki 5
Kiinteistö Oy Espoon Kulloonmäki 7
Kiinteistö Oy Espoon Kulloonmäki 8
Kiinteistö Oy Espoon Kulloonmäki 9
Kiinteistö Oy Espoon Kulloonmäki 10
Kiinteistö Oy Espoon Kulloonmäki 11
Kiinteistö Oy Espoon Kulloonmäki 12
Kiinteistö Oy Espoon Kulloonmäki 13
Kiinteistö Oy Espoon Kulloonmäki 14
Kiinteistö Oy Espoon Kulloonmäki 15
Kiinteistö Oy Espoon Kulloonmäki 16
Kiinteistö Oy Espoon Kulloonmäki 17
Kiinteistö Oy Espoon Kulloonmäki 18
Kiinteistö Oy Jaukkurinkulma
Kiinteistö Oy Lahden Myllypohja
Kiinteistö Oy Mikkelin Graanintie 4
Kiinteistö Oy Pupurinne
Kiinteistö Oy Simpeleen Palvelukeskus
Kiinteistö Oy Tohmajärven Linjakas
Kiinteistö Oy Vantaan Koivupuistontie 34

Profit and Loss Account

1 Jan.–31 Dec., € million	PARENT COMPANY 2003	PARENT COMPANY 2002	GROUP 2003	GROUP 2002
Technical account				
Premiums written	**2 454.7**	2 406.0	**2 454.7**	2 406.0
Investment income	**1 752.9**	1 377.6	**1 761.7**	1 298.8
Claims incurred				
Claims paid	**–2 199.7**	–2 107.5	**–2 199.7**	–2 107.5
Change in claims reserve	**–395.6**	57.3	**–395.6**	57.3
Liability transfer	**0.0**	2.2	**0.0**	2.2
	–2 595.3	–2 047.9	**–2 595.3**	–2 047.9
Change in premium reserve				
Total change	**–1 075.9**	–711.4	**–1 075.9**	–711.4
Liability transfer	**0.0**	2.0	**0.0**	2.0
	–1 075.9	–709.4	**–1 075.9**	–709.4
Statutory charges	**–9.1**	–3.3	**–9.1**	–3.3
Net operating expenses	**–47.8**	–45.2	**–47.8**	–45.2
Investment charges	**–469.5**	–956.6	**–488.5**	–971.3
Other technical underwriting expenses	**–2.2**	–13.2	**–2.2**	–13.2
Technical underwriting result	**7.9**	8.0	**–2.3**	–85.5
Non-technical underwriting result				
Share of participating interests' profit after tax			**1.5**	1.1
Direct taxes on ordinary activities				
Taxes for the financial year	**–2.9**	–2.9	**–3.2**	–17.8
Profit/loss on ordinary activities	**5.0**	5.1	**–4.0**	–102.2
Appropriations				
Change in depreciation difference	**0.5**	0.5		
Income taxes				
Taxes for the financial year	**–0.2**	–0.1		
Minority interest in the result for the financial year			**0.4**	0.5
Profit/loss for the financial year	**5.4**	5.5	**–3.6**	–101.7

Balance Sheet

31 Dec., € million	PARENT COMPANY 2003	PARENT COMPANY 2002	GROUP 2003	GROUP 2002
Assets				
Intangible assets				
Other expenses with long-term effects	**0.7**	1.1	**0.7**	1.1
Investments				
Investments in land and buildings				
Land and buildings	**1 413.7**	1 412.0	**2 154.4**	2 185.2
Loans to associated undertakings	**820.9**	853.4	**0.2**	
	2 234.7	2 265.4	**2 154.7**	2 185.2
Investments in associated undertakings				
Shares and participations in associated undertakings	**4.4**	4.4	**2.1**	1.5
Loans to associated undertakings	**0.8**	0.9	**0.8**	0.9
Shares and participations in significant participating interests	**3.3**	3.3	**4.7**	3.8
	8.4	8.5	**7.6**	6.2
Other financial investments				
Equities and shares	**4 272.5**	2 877.5	**4 348.5**	2 956.0
Money-market instruments	**10 616.6**	10 317.7	**10 616.6**	10 317.7
Loans guaranteed by mortgages	**185.5**	205.2	**185.5**	205.2
Other loans	**1 021.7**	1 061.9	**1 021.8**	1 062.1
Deposits	**13.4**	111.1	**13.4**	111.0
	16 109.6	14 573.3	**16 185.7**	14 651.9
	18 352.7	16 847.1	**18 348.0**	16 843.4
Uncovered liabilities				
Direct insurance operations				
Policyholders	**60.6**	76.9	**60.6**	76.9
Other debtors				
Receivables, portfolio transfer	**38.1**	45.3	**38.1**	45.3
Other debtors	**192.3**	172.1	**193.9**	174.1
	290.9	294.3	**292.5**	296.3
Other assets				
Tangible assets				
Furniture and fixtures	**5.1**	5.2	**5.1**	5.2
Other tangible assets	**0.5**	0.5	**0.5**	0.5
	5.6	5.6	**5.6**	5.6
Liquid assets	**71.5**	37.8	**77.9**	59.3
	77.1	43.5	**83.6**	64.9
Pre-payment and accrued income				
Accrued interest and rent	**266.6**	278.1	**289.5**	284.3
Other pre-payments and accrued income	**8.0**	20.6	**10.1**	22.1
	274.6	298.7	**299.6**	306.4
TOTAL ASSETS	**18 995.9**	17 484.7	**19 024.4**	17 512.0

31 Dec., € million	PARENT COMPANY 2003	2002	GROUP 2003	2002
Liabilities				
Capital and reserves				
Guarantee capital	**11.9**	11.9	**11.9**	11.9
Other reserves	**35.5**	30.8	**35.5**	30.8
Profit brought forward	**0.1**	0.1	**2.1**	109.2
Profit/loss for the financial year	**5.4**	5.5	**–3.6**	–101.7
	52.9	48.3	**45.9**	50.3
Accrued appropriations				
Depreciation difference	**2.9**	3.5		
Minority interest			**30.4**	31.2
Technical provisions				
Premium reserve	**12 888.2**	11 812.3	**12 888.2**	11 812.3
Claims reserve	**5 923.6**	5 528.0	**5 923.6**	5 528.0
	18 811.9	17 340.3	**18 811.9**	17 340.3
Creditors				
Direct insurance operations	**8.1**	7.5	**8.1**	7.5
Other creditors	**110.7**	76.4	**114.0**	70.8
	118.8	83.8	**122.1**	78.3
Accruals and deferred income	**9.4**	8.7	**14.1**	11.9
TOTAL LIABILITIES	**18 995.9**	17 484.7	**19 024.4**	17 512.0

Statement of Source and Appliation of Funds

	PARENT COMPANY		GROUP	
1 Jan.–31 Dec., € million	**2003**	2002	**2003**	2002
Operational cash-flow				
Gain / loss on ordinary activities	**7.9**	8.0	**–2.3**	–85.5
Adjustment items				
Changes in technical provisions	**1 471.5**	654.1	**1 471.5**	654.1
Unrealised losses and gains on investments	**–74.5**	561.8	**–74.8**	561.3
Depreciation	**13.2**	13.3	**68.6**	68.7
Change in short-term debts	**–399.5**	–73.9	**–397.7**	–25.5
Cash-flow before change in working capital	**1 018.7**	1 163.3	**1 065.2**	1 173.0
Change in working capital				
Increase (–)/decrease (+) in short-term receivables	**27.5**	91.4	**10.6**	83.3
Increase (–)/decrease (+) in short-term debts	**35.6**	0.8	**46.1**	0.3
Operational cash-flow before taxes	**1 081.8**	1 255.4	**1 121.8**	1 256.5
Direct taxes	**–3.0**	–3.1	**–3.2**	–17.8
Total operational cash-flow	**1 078.8**	1 252.4	**1 118.7**	1 238.7
Investment cash-flow				
Net investments and gains on disposals	**–1 042.8**	–1 239.2	**–1 101.6**	–1 213.4
Investments and gains onintangible, tangible and other assets	**–1.6**	–0.5	**2.4**	1.7
Total investment cash-flow	**–1 044.3**	–1 239.6	**–1 099.2**	–1 211.7
Financing cash-flow				
Interest paid on guarantee capital andother profit distribution	**–0.8**	–0.9	**–0.8**	–0.9
Total financing cash-flow	**–0.8**	–0.9	**–0.8**	–0.9
Change in liquid assets	**33.6**	11.8	**18.7**	26.2
Liquid assets, 1 Jan.	**37.8**	26.0	**59.3**	33.1
Liquid assets, 31 Dec.	**71.5**	37.8	**77.9**	59.3

Notes to the Annual Accounts

Accounting Principles

The bookkeeping and annual accounts of an insurance company are regulated by the Finnish Act on Employment Pension Insurance Companies, Insurance Companies Act, Accounting Act, Companies Act, as well as the calculation bases confirmed by the Ministry of Social Affairs and Health and the regulations issued by the Insurance Supervision Authority. The performance analysis of Varma Mutual Pension Insurance Company with key figures is presented in Notes to the Annual Accounts.

Consolidated Accounts

Those companies in which the Group holds more than 50 per cent of the votes have been consolidated in the Consolidated Accounts as subsidiaries, with the exception of Esy Oy that has been consolidated using the equity method.

The parent company has 191 (2002: 218) real estate companies as subsidiaries, Vasa-Sijoituskiinteistöt Oy has 33 (35) real estate subsidiaries and El-Sam Asunnot Oy has five. The four subsidiaries of Tampereen Kiinteistö Invest Oy were merged into the parent company during the financial year. The companies comprised in Varma Mutual Pension Insurance Company'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 fair 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, at 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.

Investments in significant participating interests are presented in the Notes to the Balance Sheet.

Valuation and matching of investments and their fair values

Investments in land and buildings are entered at the lower of acquisition cost less depreciation, plus revaluation or fair value. The probable fair value of hydropower plants has been determined using repurchase option prices based on real-yield leaseback arrangements. The sellers of hydropower plants have a repurchase right at these prices once the lease period ends. The fair 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 fair value of investments in land and buildings is estimated annually. The fair values of Arava (state-subsidised) real estate are based on calculated assignment compensations. No real estate revaluations have been entered for the year 2003. 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 fair 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 fair values for listed securities. The fair 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 fair value is lower at the time of closing, at fair 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 collateral 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. When calculating fair values, the European Central Bank average rate quoted on 31 December is used.

The fair value, valuation difference and net income of investments are shown in the Notes to the Balance Sheet.

Net investment income at fair 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.

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 yrs
Industrial premises and warehouses	25–50 yrs
Hydropower plant buildings	70 yrs
Hydropower plant machinery and equipment	30 yrs
Technical equipment in buildings	10 yrs
Computer hardware	3 yrs
Computer software	5 yrs
Motor vehicles	5 yrs
Furniture and fixtures	10 yrs
Office machines	7 yrs
Other long-term expenses	5–10 yrs

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 t**ax for the financial year** on an accrual basis. The avoir fiscal tax credit related to dividends received is entered under investment income and presented in the investment income analysis in the Notes. Dividends and avoir fiscal 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 compensations and the maintenance of 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 pension coverage for the personnel is arranged through TEL insurance and supplementary pension insurance.

Notes on personnel and members of administrative bodies

1 Jan.–31 Dec., € million	**2003**	2002	**2003**	2002
Personnel expenses				
Wages, salaries and bonuses	**26.1**	24.3	**26.7**	24.5
Pension expenses	**4.9**	5.3	**5.0**	5.4
Other social expenses	**3.7**	3.1	**3.8**	3.2
	34.6	32.7	**35.5**	33.0
Senior management salaries, bonuses and pension commitments				
Managing Director and his deputy	**0.6**	0.6	**0.6**	0.6
Board of Directors	**0.2**	0.1	**0.2**	0.1
Supervisory Board	**0.1**	0.1	**0.1**	0.1
Average number of personnel during the financial year	**617**	615	**808**	800

The salary and fringe benefits of Managing Director Paavo Pitkänen totalled € 383 000. He will retire in accordance with the decision of the Board of Directors in summer 2004. His pension will be 60 per cent of the calculated pensionable salary. The retirement age of Markku Hyvärinen, deputy to the Managing Director, is 60 years and his pension is 60 per cent of the calculated pensionable salary.

Notes to the Balance Sheet

Investments at fair value and valuation differences, Parent Company

31 Dec., € million	**Remaining acquisition cost 2003**	**Book value 2003**	**Fair value 2003**	Remaining acquisition cost 2002	Book value 2002	Fair value 2002
Investments in land and buildings						
Land and buildings	**483.1**	**501.1**	**573.2**	489.2	507.2	584.4
Shares in associated undertakings	**836.2**	**842.9**	**1 006.8**	776.3	784.6	952.1
Other real estate shares	**46.4**	**46.4**	**48.4**	48.0	48.0	50.0
Shares in real estate investment companies	**23.3**	**23.3**	**79.2**	72.2	72.2	89.7
Loans to associated undertakings	**779.3**	**779.3**	**779.3**	814.6	814.6	814.6
Debtors, real estate companies	**41.7**	**41.7**	**41.7**	38.8	38.8	38.8
Investments in associated undertakings						
Shares and participations	**4.4**	**4.4**	**4.4**	4.4	4.4	4.4
Loans	**0.8**	**0.8**	**0.8**	0.9	0.9	0.9
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	**4 272.5**	**4 272.5**	**4 675.8**	2 877.5	2 877.5	3 021.3
Money-market instruments	**10 616.6**	**10 616.6**	**10 777.0**	10 317.7	10 317.7	10 587.5
Loans guaranteed by mortgages	**185.5**	**185.5**	**185.5**	205.2	205.2	205.2
Other loans	**1 021.7**	**1 021.7**	**1 022.6**	1 061.9	1 061.9	1 062.2
Deposits	**13.4**	**13.4**	**13.4**	111.1	111.1	111.1
	18 327.9	**18 352.7**	**19 211.2**	16 820.9	16 847.1	17 525.3
The remaining acquisition cost of money-market instruments includes:						
- the difference between the nominal value and acquisition cost, released or charged to interest income	**–30.3**			–11.4		
- income from index-bound loans	**8.2**			6.3		
	–22.1			–5.1		
Book value includes						
Other revaluations		**24.7**			26.3	
Valuation difference (difference between fair value and book value)			**858.6**			678.2

Investments at fair value and valuation differences, Group

31 Dec., € million	**Remaining acquisition cost 2003**	**Book value 2003**	**Fair value 2003**	Remaining acquisition cost 2002	Book value 2002	Fair value 2002
Investments in land and buildings						
Land and buildings	**2 090.0**	**2 108.0**	**2 466.1**	2 119.2	2 137.2	2 462.1
Other real estate shares	**46.4**	**46.4**	**48.4**	48.0	48.0	50.0
Debtors, real estate companies	**0.2**	**0.2**	**0.2**	0.0	0.0	0.0
Investments in associated undertakings						
Shares and participations	**2.1**	**2.1**	**2.1**	1.5	1.5	1.5
Loans	**0.8**	**0.8**	**0.8**	0.9	0.9	0.9
Investments in significant participating interests						
Equities and shares	**4.7**	**4.7**	**4.7**	3.8	3.8	3.8
Other financial investments						
Equities and shares	**4 348.5**	**4 348.5**	**4 728.9**	2 956.0	2 956.0	3 074.5
Money-market instruments	**10 616.6**	**10 616.6**	**10 777.0**	10 317.7	10 317.7	10 587.5
Loans guaranteed by mortgages	**185.5**	**185.5**	**185.5**	205.2	205.2	205.2
Other loans	**1 021.8**	**1 021.8**	**1 021.8**	1 062.1	1 062.1	1 062.3
Deposits	**13.4**	**13.4**	**13.4**	111.1	111.1	111.1
	18 330.0	**18 348.0**	**19 248.9**	16 825.3	16 843.4	17 558.8
The remaining acquisition cost of money-market instruments includes:						
- the difference between the nominal value and acquisition cost, released or charged to interest income	**–30.3**			–11.4		
- income from index-bound loans	**8.2**			6.3		
	–22.1			–5.1		
Book value includes						
Other revaluations		**18.0**			18.0	
Valuation difference (difference between fair value and book value)			**900.9**			715.5

Notes to the Balance Sheet

Investments in associated undertakings and significant participating interests, Parent Company

31 Dec. 2003, € million

Shares and participations in associated undertakings	
Acquisition cost, 1 Jan.	**4.4**
Increase	**0.0**
Decrease	**0.0**
Acquisition cost, 31 Dec.	**4.4**
Loans to associated undertakings	
Acquisition cost, 1 Jan.	**0.9**
Increase	**0.0**
Decrease	**–0.1**
Acquisition cost, 31 Dec.	**0.8**
Shares and participations in significant participating interests	
Acquisition cost, 1 Jan.	**3.3**
Increase	**0.0**
Decrease	**0.0**
Acquisition cost, 31 Dec.	**3.3**

Shares and participations in associated undertakings

31 Dec. 2003	**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. 2003	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
Ovenia 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

Investments in associated undertakings and significant participating interests, Group

31 Dec. 2003, € million

Shares and participations in associated undertakings	
Acquisition cost, 1 Jan.	**1.5**
Increase	**0.6**
Decrease	**0.0**
Acquisition cost, 31 Dec.	**2.1**
Loans to associated undertakings	
Acquisition cost, 1 Jan.	**0.9**
Increase	**0.0**
Decrease	**–0.1**
Acquisition cost, 31 Dec.	**0.8**
Shares and participations in significant participating interests	
Acquisition cost, 1 Jan.	**3.9**
Increase	**0.9**
Decrease	**0.0**
Acquisition cost, 31 Dec.	**4.7**

Shares and participations in associated undertakings

31 Dec. 2003	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
Esy Oy	Helsinki	70.0%	70.0%	**2.1**
				2.1

Shares and participations in significant participating interests

31 Dec. 2003	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
Ovenia Oy	Helsinki	37.5%	37.5%	**0.6**
Silta Oy	Helsinki	39.1%	39.1%	**1.9**
Octel Oy	Helsinki	50.0%	50.0%	**2.2**
				4.7

Notes to the Balance Sheet

Changes in investments in land and buildings

31 Dec. 2003, € million	PARENT COMPANY Land and buildings, real estate shares	PARENT COMPANY Loans to associated undertakings	GROUP Land and buildings, real estate shares	GROUP Loans to associated undertakings
Acquisition cost, 1 Jan.	**1 559.8**	**853.4**	**2 596.2**	**0.0**
Increase	**44.8**	**20.0**	**71.5**	**0.2**
Decrease	**–20.1**	**–52.4**	**–27.7**	**0.0**
Acquisition cost, 31 Dec.	**1 584.6**	**820.9**	**2 640.0**	**0.2**
Accrued depreciation 1 Jan.	**–70.1**		**–346.0**	
Accrued depreciation from items sold	**0.8**		**3.8**	
Depreciation for the financial year	**–11.2**		**–66.6**	
Accrued depreciation 31 Dec.	**–80.5**		**–408.8**	
Value adjustments, 1 Jan.	**–104.0**		**–91.3**	
Value adjustments on items sold	**2.2**		**2.2**	
Value adjustments for the financial year	**–13.3**		**–11.1**	
Value readjustments	**0.0**		**–1.4**	
Value adjustments 31 Dec.	**–115.1**		**–101.5**	
Revaluations, 1 Jan.	**26.3**		**26.3**	
Decrease	**–1.5**		**–1.5**	
Revaluations, 31 Dec.	**24.7**		**24.7**	
Book value, 31 Dec.	**1 413.7**	**820.9**	**2 154.4**	**0.2**

Land and buildings and real estate shares in own use

31 Dec. 2003, € million	PARENT COMPANY	GROUP
Remaining acquisition cost	**71.4**	**82.3**
Book value	**67.8**	**78.7**
Fair value	**73.5**	**73.5**

Parent Company's other investments, equities and shares

31 Dec. 2003	Shares %	Book value € million	Fair value € million
LISTED EQUITIES			
Finland			
Aldata Solution Oyj	2.28%	3.0	3.0
Alma Media Oyj	4.59%	19.2	20.4
Amer Group Plc	2.57%	15.8	21.5
Aspo Plc	6.33%	2.4	7.0
Aspocomp Group Oyj	5.29%	6.2	6.2
Beltton-Yhtiöt Oyj	7.11%	2.7	3.6
Benefon Oyj	8.31%	0.5	0.6
Elisa Communications Corporation	2.72%	39.8	39.8
Etteplan Oyj	2.45%	0.6	0.6
Exel Oyj	4.81%	1.8	3.1
Finnlines Plc	2.01%	11.5	11.5
Fiskars Corporation	4.26%	22.8	22.8
Fortum Corporation	0.49%	19.6	34.4
Hackman Oyj Abp	3.41%	2.5	6.1
Huhtamäki Oyj	2.34%	19.0	22.1
Jaakko Pöyry Group Oyj	3.90%	7.2	11.9
KCI Konecranes Abp	5.01%	19.2	19.8
Kemira Oyj	2.72%	25.7	30.7
Kesko Corporation B	1.45%	16.5	18.3
Kone Corporation B	0.38%	8.9	10.9
Lassila & Tikanoja Plc	4.45%	10.8	19.4
Lemminkäinen Corporation	2.59%	3.9	7.5
Marimekko Corporation	4.49%	1.2	3.3
Metso Corporation	1.62%	21.3	21.3
M-real Oyj A	1.23%	17.2	17.2
Nokia Corporation	0.13%	72.0	87.9
Nokian Tyres Ltd	2.37%	9.8	15.1
Nordic Aluminium Oyj	5.42%	2.1	2.2
Orion Corporation	1.70%	19.5	19.5
Outokumpu Oyj A	0.91%	17.6	17.6
Perlos Corporation	2.10%	7.1	7.1
Ponsse Oyj	3.43%	2.5	3.9
Rautaruukki Corporation	4.01%	32.5	32.5
Raute Plc	5.24%	1.6	1.6
Sampo Plc	7.61%	281.6	345.4
SanomaWSOY Corporation B	0.31%	5.5	8.3
Stockmann Plc A	0.74%	7.0	7.0
Stora Enso Oyj	1.05%	91.1	99.6
Tamfelt Oyj Abp	5.94%	14.9	16.6
Teleste Corporation	4.56%	4.3	4.3
Tietoenator Corporation	1.92%	34.4	34.4
UPM-Kymmene Corporation	0.99%	64.2	78.1
Uponor Oyj	5.36%	27.3	50.2
Vaisala Oyj A	4.41%	14.3	18.9
Wärtsilä Corporation	2.89%	26.2	26.2
YIT-Yhtymä Corporation	6.92%	27.9	56.8
Netherlands			
ABN-Amro Holdings NV	0.04%	10.1	10.5
Akzo Nobel N.V.	0.11%	9.3	9.3
ASM Lithography Holding N.V.	0.12%	5.9	7.9
DSM N.V.	1.17%	15.7	15.7
Ihc Caland NV	0.57%	7.8	7.8
Koninklijke KPN NV	0.08%	12.2	12.2
Koninklijke Numico NV	0.34%	12.5	12.5
Koninklijke Philips Eletronics N.V.	0.05%	13.0	16.0
Reed Elsevier NV	0.31%	24.2	24.2
Royal Dutch Petroleum Co NV	0.07%	62.2	62.2
TPG NV	0.30%	26.4	26.4

31 Dec. 2003	Shares %	Book value € million	Fair value € million
Unilever NV CVA	0.08%	24.4	24.4
Vendex KBB N.V.	0.65%	6.4	6.4
Verenigde Nederlandse Uitgeversbedrijven NV	0.26%	16.2	16.2
Belgium			
Electrabel SA	0.07%	9.0	9.6
Interbrew	0.13%	11.5	11.5
Brazil			
Petroleo Brasileiro S.A.	0.10%	9.7	10.1
Spain			
Cortefiel S.A.	0.94%	5.4	5.4
Endesa S.A.	0.03%	4.9	5.5
Iberdrola S.A.	0.09%	10.8	12.3
Telefonica S.A.	0.07%	39.3	39.3
United Kingdom			
Astra Zeneca Plc	0.03%	22.4	22.2
BG Group Plc	0.08%	10.7	11.0
BOC Group Plc	0.26%	17.8	15.7
BP Amoco Plc	0.04%	66.2	63.2
BT Group Plc	0.08%	17.1	17.4
Cadbury Schweppes Plc	0.12%	14.2	14.9
Centrica Plc	0.07%	8.1	9.0
Compass Group plc	0.18%	24.2	21.5
Diageo plc	0.07%	25.1	24.2
Excel Plc	0.26%	9.3	8.3
Glaxosmithkline Plc	0.02%	23.0	22.4
Hays plc	0.37%	12.7	11.1
HSBC Holdings Plc	0.02%	20.9	22.1
Imperial Chemical Industries Plc	0.34%	11.2	11.3
Invensys Plc	0.06%	0.6	0.6
Kesa Electricals Plc	0.26%	4.8	5.0
Kingfisher Plc	0.26%	26.9	23.6
Marks & Spencer Group Plc	0.10%	9.4	9.5
Pearson Plc	0.24%	19.7	17.2
Prudential Plc	0.13%	16.9	18.1
Reckitt Benckiser Plc	0.13%	15.0	16.2
Royal Bank of Scotland	0.04%	23.4	24.4
Sainsbury (J) plc	0.09%	8.4	7.6
SkyePharma plc	0.36%	2.7	2.4
Tesco plc	0.06%	18.2	17.0
Vodafone Airtouch Plc	0.08%	119.0	109.9
Italy			
Eni S.p.A.	0.04%	22.0	22.2
Saipem S.p.A.	0.50%	14.2	14.2
Snam Rete Gas S.p.A.	0.26%	16.3	16.8
Telecom Italia Mobile SpA	0.04%	12.9	12.9
Telecom Italia SpA	0.18%	16.3	16.8
Austria			
Andritz AG	1.43%	5.9	7.1
Norway			
Norsk Hydro ASA	0.14%	14.3	17.2
Telenor ASA	0.06%	4.8	5.2
Tomra Systems ASA	0.48%	4.6	4.1
Portugal			
Portugal Telecom SGPS S.A. Reg	0.12%	9.6	12.0
France			
Accor SA	0.19%	10.4	13.0
Aventis-Xetra SA	0.06%	22.8	26.0
Carrefour SA	0.07%	23.1	23.1
Casino Guichard Perrachon SA	0.13%	10.0	10.2

Notes to the Balance Sheet

31 Dec. 2003	Shares %	Book value € million	Fair value € million
Credit Agricole S.A.	0.05%	11.2	11.9
Danone Group	0.09%	15.1	15.2
France Telecom SA	0.06%	11.6	17.4
Lafarge SA	0.16%	15.1	15.9
L'Oreal SA	0.03%	13.1	13.1
Louis Vuitton Moët Hennessy SA	0.04%	11.4	12.0
Michelin (CGDE) B	0.30%	15.7	15.7
Pernod-Ricard SA	0.39%	21.5	23.5
PSA Peugeot Citroen	0.17%	16.3	16.3
Sanofi-Synthelabo SA	0.06%	23.3	24.2
Societe Television Francaise 1	0.18%	10.0	10.6
Suez Lyonnais Des Eaux SA	0.08%	13.2	13.2
Technip-Coflexip S.A.	0.51%	10.0	10.3
Total SA	0.06%	56.5	57.4
Vinci S.A.	0.30%	15.2	15.6
Sweden			
Assa Abloy Ab	0.25%	7.0	8.5
Axfood AB	0.09%	0.9	0.9
Billerud AB	0.24%	1.5	1.8
Capio AB	1.38%	6.3	6.8
Clas Ohlson Ab B	0.11%	0.5	0.7
Cloetta Fazer AB B	2.08%	9.3	9.3
D. Carnegie & Co AB	0.11%	0.6	0.6
Electrolux AB	0.30%	15.0	17.1
Hennes & Mauritz B	0.05%	7.3	7.7
Intrum Justitia AB	0.57%	2.0	2.0
Modern Times Group MTG AB B	0.15%	1.4	1.7
Munters AB	0.39%	1.7	1.9
Nordea AB FDR	0.30%	39.0	51.5
Observer AB B	1.12%	2.6	2.9
Svenska Cellulosa AB	0.25%	17.9	18.7
Germany			
BASF AG	0.04%	9.4	10.9
Deutsche Bank AG	0.05%	18.7	22.1
Deutsche Telekom AG	0.04%	20.2	21.8
E.On AG	0.06%	22.1	23.2
Infineon Technologies AG	0.14%	11.0	11.0
Siemens AG	0.07%	29.5	38.1
Singulus Technologies AG	1.25%	6.7	7.7
Switzerland			
Julius Baer Holding AG-B	0.29%	7.5	8.1
Nestle SA	0.04%	28.1	27.2
Novartis	0.02%	20.9	20.4
Roche Holding AG- Genusscheine	0.04%	22.5	24.7
Syngenta AG	0.20%	11.4	10.7
UBS AG	0.04%	25.0	26.2
Zurich Financial Services AG	0.11%	16.8	17.4
Denmark			
Danisco A/S	0.85%	15.3	15.3
East Asiatic Co Ltd (Ostasiatiske Kompagni A/S)	0.05%	0.3	0.3
ISS A/S	0.80%	13.7	13.7
Novo Nordisk A/S B	0.06%	7.1	7.1
TDC A/S	0.14%	8.0	8.6
Russia			
Gazprom (ADR)	0.01%	5.1	5.0
Lukoil-Spon (ADR)	0.06%	10.1	9.6
Sibneft (ADR)	0.02%	2.3	2.3
Unified Energy System	0.05%	4.5	4.4

31 Dec. 2003	Shares %	Book value € million	Fair value € million
Yukos (ADR)	0.06%	12.2	11.6
USA			
Alcoa Inc	0.02%	6.9	5.3
Amgen Inc.	0.01%	7.7	5.8
ATI Technologies Inc.	0.15%	4.8	4.2
AU Optronics Corp.	0.35%	6.0	5.3
Biogen Idec Inc.	0.05%	5.1	4.8
Broadcom Corporation	0.09%	5.0	5.4
Caremark Rx Inc.	0.08%	3.7	4.3
Cisco Systems, Inc.	0.01%	20.0	19.2
Clear Channel Communications Inc.	0.03%	6.6	7.1
Electronic Arts Inc.	0.07%	8.2	7.6
Eli Lilly & Company	0.01%	4.6	4.7
Express Scripts Inc.	0.13%	5.0	5.3
First Data Corporation	0.07%	15.8	16.3
Genentech Inc.	0.01%	3.4	3.7
Intel Corporation	0.01%	11.7	14.0
Macrovision Corporation	0.54%	4.6	4.7
Medical Staffing Network Holdings Inc.	0.54%	1.2	1.4
Medimmune Inc.	0.08%	4.4	4.0
Microsoft Corporation	0.01%	20.3	18.8
Mylan Laboratories Inc.	0.08%	3.6	4.2
NVIDIA Corp.	0.22%	5.8	6.4
PepsiCo Inc.	0.01%	3.9	3.6
Pfizer Inc.	0.02%	34.7	28.0
Schlumberger Ltd	0.06%	14.6	15.5
St. Jude Medical Inc.	0.07%	4.9	6.1
Stryker Corporation	0.03%	3.5	3.7
Symantec Corporation	0.13%	7.8	11.0
Teva Pharmaceutical Industries Ltd	0.05%	4.7	5.8
Wyeth Corporation	0.02%	11.3	8.4
Xerox Corp.	0.13%	9.8	10.9
Xilinx Inc.	0.06%	5.6	6.1
Other		0.1	0.1
		3 090.7	**3 371.4**

UNLISTED EQUITIES	Shares %	Book value € million	Fair value € million
Finland			
Ahlström Capital Oy	3.87%	4.7	6.2
Ahlstrom Corporation B	3.89%	19.6	28.1
A-Katsastus Oy B	9.99%	0.8	0.8
Fingrid Oyj B	12.48%	14.0	14.0
IT-Palvelukeskus ITPAL Oy	18.00%	1.3	1.3
Kaleva Mutual Insurance Company	30.00%	2.6	2.6
Otava-Kuvalehdet Oy L	14.73%	8.8	11.8
Proventia Group Oy	4.38%	0.5	0.5
Setec Oy	9.93%	1.4	1.4
Tornator Timberland Oy	13.13%	10.5	10.5
Garantia Insurance Company	17.13%	7.1	7.1
VVO-yhtymä Oyj A	5.92%	7.5	7.5
United Kingdom			
Nordben Life and Pension (Ordinary)	0.79%	0.8	0.8
Nordben Life and Pension (Preference)	9.21%	0.8	0.8
Sweden			
If Skadeförsäkring Holding AB A	7.99%	146.9	167.0
If Skadeförsäkring Holding AB B	2.07%	38.1	43.4
Other		0.5	0.5
		265.8	**304.2**

31 Dec. 2003	Book value € million	Fair value € million
FIXED INTEREST FUNDS		
Sampo Yhteisökorko Kasvu, *Finland*	**140.0**	**140.3**
EQUITY FUNDS		
Hermes European Focus Fund I, *UK*	20.0	24.9
HSBC GIF Indian Equity I Cap, *UK*	16.4	24.0
CDC Hong Kong Renaissance class C, *Luxembourg*	8.0	8.0
East Capital Baltic Fund, *Sweden*	7.1	8.3
East Capital Eastern European Fund, *Sweden*	3.3	3.9
East Capital Russian Fund, *Sweden*	8.2	10.3
ABN Amro Eastern Europe Equity, *Finland*	10.1	12.8
ABN Amro Global Emerging Markets Equity Fund, *Finland*	69.7	69.0
ABN Amro Latin America Equity Fund, *Finland*	13.6	15.7
Carnegie Global Healthcare, *Finland*	20.1	22.1
eQ Sirius A, *Finland*	10.0	10.9
FIM Russia, *Finland*	15.0	18.0
Mandatum Emerging Asia, *Finland*	89.6	95.4
Mandatum US Small Cap Value, *Finland*	40.1	44.9
UBS Small Cap Growth (Lux), *USA*	43.9	48.3
	375.2	**416.3**
CAPITAL TRUSTS		
EQT Finland B.V., *Netherlands*	2.3	2.3
EQT Scandinavia II B.V., *Netherlands*	9.2	11.4
Gilde Buy-Out Fund II SV-capital, *Netherlands*	7.9	7.9
Abingworth Bioventures III B L.P., *UK*	7.1	5.4
Alpha Private Equity Fund 4 Cl LP, *UK*	9.8	9.8
CapMan Equity VII B, *UK*	2.1	2.1
EQT Northern Europe UK No. 1, *UK*	31.9	31.9
Merlin Biosciences Fund LP, *UK*	3.2	3.2
Nordic Mezzanine Fund II Limited Partners, *UK*	0.4	0.4
Nordic Mezzanine Limited, *UK*	1.1	2.1
Permira Europe II LP2 (Schroder Ventures), *UK*	9.7	9.7
Access Capital Fund LP II A, *France*	1.8	1.8
Access Capital Fund LP II B, *France*	2.1	2.1
Access Capital Fund LP II C, *France*	5.9	5.9
Access Capital LP, *France*	2.9	2.9
Industri Kapital 1994 LP I–IV, *Sweden*	3.4	16.0
Industri Kapital 1997 LP I, IV, *Sweden*	24.6	29.0
Industri Kapital 2000 LP I–IV, *Sweden*	23.2	23.8
Industri Kapital 2003 LP I, *Sweden*	0.5	0.5
Industrial Devel. & Inv. Equity KB, *Sweden*	5.0	4.8
Bio Fund Ventures I Ky, *Finland*	0.9	0.9
Bio Fund Ventures II Ky, *Finland*	2.4	2.4
Eqvitec Technology Fund II Ky, *Finland*	2.3	2.3
Fenno Rahasto Ky, *Finland*	6.0	6.0
Finnmezzanine Rahasto I, *Finland*	1.2	1.2
Finnventure rahasto III, *Finland*	1.0	1.0
Finnventure rahasto V Ky, *Finland*	8.6	8.6
Forenvia Venture I Ky, *Finland*	0.5	0.6
Garantia PK-lainarahasto II, *Finland*	0.1	0.1
MB Equity Fund II, *Finland*	7.0	11.6
MB Equity Fund III, *Finland*	2.0	2.0
MB Mezzanine Fund II, *Finland*	3.6	3.6
Promotion Capital I Ky, *Finland*	0.6	0.6
Sponsor Fund I Ky, *Finland*	2.6	3.0

31 Dec. 2003	Book value € million	Fair value € million
Sponsor Fund II Ky, *Finland*	1.9	1.9
Telecomia Venture I Ky, *Finland*	0.2	0.2
WD Power Investment, *Finland*	1.6	1.6
Behrman Capital III L.P., *USA*	16.2	13.7
Blackstone Capital Partners IV LP, *USA*	9.4	8.7
Green Equity Investors IV LP, *USA*	0.5	0.4
Nokia Venture Partners II LP, *USA*	6.1	4.9
Warburg Pincus Private Equity VIII, L.P., *USA*	22.4	20.3
	251.4	**268.8**
HEDGE FUNDS		
er Umbrella Fund Ltd, *Bahamas*	10.0	10.4
Blackstone Berkeley Square Fund Ltd, *Cayman Islands*	30.0	30.7
Blackstone Distressed Opport. Offshore Fund Ltd (B), *Cayman Islands*	12.8	12.7
Blackstone Fifth Avenue Offshore Fund Ltd Class (A), *Cayman Islands*	30.7	26.8
Blackstone Global Park Avenue Fund Ltd, *Cayman Islands*	17.2	16.5
Blackstone Madison Avenue Offshore Fund Ltd Cl. (B), *Cayman Islands*	10.2	8.8
Blackstone Relative Value Offshore Fund (Fix Inc), *Cayman Islands*	4.6	4.0
UBS Global Equity Arbitrage Ltd, *Cayman Islands*	8.6	8.1
York Investment Limited, *Cayman Islands*	12.0	11.9
eQ Kvantti A Erikoissijoitusrahasto, *Finland*	5.0	5.1
PIMCO Global Relative Value Offshore Fund II Ltd, *USA*	8.4	7.8
	149.4	**142.9**
Parent Company Total	**4 272.5**	**4 643.9**

Group shareholdings deviate from the Parent Company as follows:

Sampo plc, goodwill	22.9	
Vasa-Sijoituskiinteistöt Oy	36.7	36.7
Kaleva Mutual Insurance Company, guarantee capital	3.3	3.3
Ruohoparkki Oy	3.5	3.5
Martinparkki Oy	2.4	2.4
Poha-pysäköinti Oy	1.4	1.4
Vaasan Toripysäköinti Oy	3.3	3.3
Other	2.5	2.5
Group total	**4 348.5**	**4 697.0**

Notes to the Balance Sheet

Changes in tangible and intangible assets, Parent Company

31 Dec. 2003, € million	Other expenses with long-term effects	Equipment	Other tangible assets	Total
Acquisition cost, 1 Jan.	**3.3**	**11.2**	**0.5**	**15.0**
Completely depreciated in the previous year	**–0.5**	**–2.0**		**–2.5**
Increase	**0.2**	**1.9**	**0.0**	**2.1**
Decrease		**–0.6**		**–0.6**
Acquisition cost, 31 Dec.	**3.0**	**10.6**	**0.5**	**14.1**
Accrued depreciation, 1 Jan.	**2.2**	**6.1**		**8.3**
Completely depreciated in the previous year	**–0.5**	**–2.0**		**–2.5**
Depreciations for the financial year	**0.6**	**1.4**		**2.0**
Accrued depreciation, 31 Dec.	**2.3**	**5.5**		**7.8**
Book value 31 Dec.	**0.7**	**5.1**	**0.5**	**6.3**

Group figures are the same as those of the Parent Company.

	PARENT COMPANY		GROUP	
31 Dec., € million	**2003**	2002	**2003**	2002

Loan receivables itemised by guarantee

Bank guarantee	**464.3**	471.8	**464.3**	471.8
Guarantee insurance	**473.7**	490.8	**473.7**	490.8
Other guarantees	**83.6**	99.3	**83.8**	98.3
	1 021.7	1 061.9	**1 021.8**	1 060.9

Total pension loan receivables

Loans to associated undertakings	**0.8**	0.9	**0.8**	0.9
Other loans guaranteed by mortgages	**158.0**	170.3	**158.0**	170.3
Other loan receivables	**880.4**	927.0	**880.4**	927.0
	1 039.2	1 098.2	**1 039.2**	1 098.2

Receivables, portfolio transfers

Joint liability receivables	**3.1**	5.2	**3.1**	5.2
Receivables from special receivership's estate	**35.0**	40.1	**35.0**	40.1
	38.1	45.3	**38.1**	45.3

31 Dec., € million	PARENT COMPANY 2003	2002	GROUP 2003	2002

Technical provisions

Premium reserve				
Future pensions	**10 542.0**	10 098.4	**10 542.0**	10 098.4
Unallocated insurance reserve	**2 310.6**	1 683.8	**2 310.6**	1 683.8
Bonus reserve	**35.6**	30.1	**35.6**	30.1
Total premium reserve	**12 888.2**	11 812.3	**12 888.2**	11 812.3
Claims reserve				
Current pensions	**5 063.3**	4 730.5	**5 063.3**	4 730.5
Equalisation amount	**860.3**	797.6	**860.3**	797.6
Total claims reserve	**5 923.6**	5 528.0	**5 923.6**	5 528.0
Total technical provisions	**18 811.9**	17 340.3	**18 811.9**	17 340.3

Additional benefits of statutory pension insurance

Bonus reserve, 1 Jan.	**30.1**	107.5	**30.1**	107.5
Client bonuses paid during financial year	**–29.5**	–112.3	**–29.5**	–112.3
Transfer to bonus reserve	**35.0**	26.0	**35.0**	26.0
Supplement to bonus reserve	**0.0**	8.9	**0.0**	8.9
Bonus reserve, 31 Dec.	**35.6**	30.1	**35.6**	30.1

Solvency margin

Capital and reserves	**52.9**	48.3
Interest on guarantee capital proposed for distribution	**–0.6**	–0.7
Accrued appropriations	**2.9**	3.5
Valuation difference between fair values on assets and book values of Balance Sheet items	**858.6**	678.2
Unallocated insurance reserve	**2 310.6**	1 683.8
Intangible assets	**–0.7**	–1.1
Other items	**–30.3**	–2.7
	3 193.4	2 409.2
Minimum solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	**1 008.4**	774.3

Notes to the Balance Sheet

Capital and reserves

31 Dec. 2003, € million	PARENT COMPANY			GROUP		
Guarantee capital			**11.9**			**11.9**
Other reserves, 1 Jan.	**30.8**			**30.8**		
Profit for the financial year 2002	**4.7**	**35.5**		**4.7**	**35.5**	
Other profit brought forward	**5.5**			**7.5**		
Security reserve	**–4.7**			**–4.7**		
Distributed interest on guarantee capital	**–0.7**			**–0.7**		
Profit/loss for financial year	**5.4**	**5.5**	**41.0**	**–3.6**	**–1.5**	**34.0**
			52.9			**45.9**

Guarantee capital

31 Dec. 2003, € million	PARENT COMPANY			GROUP		
	Number	Nominal value	Book value	Number	Nominal value	Book value
Sampo Life Insurance Company Limited	**14**	**2.4**	**2.4**	**14**	**2.4**	**2.4**
Sampo plc	**57**	**9.6**	**9.6**	**57**	**9.6**	**9.6**

Capital and reserves after proposed profit distribution

Holders of guarantee capital	
Guarantee capital	**11.9**
Proposed distribution to holders of guarantee capital	**0.6**
Policyholders	**40.4**
	52.9

Distributable funds

Profit/loss for financial year		**5.4**		**–3.6**
Other capital and reserves				
Other reserves	**35.5**		**35.5**	
Profit brought forward	**0.1**	**35.6**	**2.1**	**37.6**
Total distributable funds				**–17.0**
Total distributable funds		**41.0**		**17.0**

Other Notes to the Annual Accounts

Parent Company's liabilities

31 Dec., € million		**2003**	2002
Derivative contracts			
Interest rate derivatives			
Open			
Forward and futures contracts	Underlying instrument, nominal value	**4 000.0**	0.0
	Fair value	**–49.7**	0.0
Options contracts			
Exercised	Underlying instrument	**10 015.0**	0.0
	Fair value	**–0.4**	0.0

Other Notes to the Annual Accounts

31 Dec., € million					2003	2002
Currency derivatives						
	Open					
		Currency futures contracts		Underlying instrument	**1 273.7**	381.4
				Fair value	**37.2**	9.9
		Options contracts				
			Exercised	Underlying instrument	**49.7**	0.0
				Fair value	**0.1**	0.0
			Taken out	Underlying instrument	**99.3**	0.0
				Fair value	**–0.1**	0.0
Share derivatives						
	Open					
		Forward and futures contracts		Underlying instrument	**148.6**	21.9
				Fair value	**3.1**	0.3
		Options contracts				
			Exercised	Underlying instrument, value of warrants	**0.0**	0.2
				Fair value of warrants	**0.0**	0.0
				Underlying value	**25.5**	
				Fair value	**–0.9**	
			Taken out	Underlying instrument	**51.9**	1.1
				Fair value	**0.5**	0.0

Derivative contracts have been valued at fair value. Currency futures contracts and interest rate derivatives exercised are considered hedging.

Investment commitments		
Commitments to subscribe to shares in capital trusts	**391.4**	300.6
Guarantees given on own behalf		
Pledged book assets	**0.2**	0.2
Value-added tax deductions		
Deduction from new buildings and renovation of real estates in 1999–2003/1998–2002	**9.4**	10.5
Total amount associated with collective registration for value-added taxation		
Associated undertakings	**4.6**	6.4
Significant participating interests	**0.3**	0.1
Other	**–0.8**	0.8
	4.1	7.3

Loaned securities

Shares		
Number	**18 483 591**	13 012 116
Remaining acquisition cost	**188.8**	98.3
Fair value	**193.8**	122.8
Bonds		
Nominal value	**1 428.3**	1 028.0
Remaining acquisition cost	**1 448.1**	1 027.3
Fair value	**1 516.5**	1 035.6

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

Group figures are the same as for the Parent Company.

Other Notes to the Annual Accounts

Risk management

According to the decision of the Board of Directors, internal control is a process that aims to confirm matters such as:

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 management information
5) compliance with laws and regulations, and
6) compliance with the decisions of the Board and other bodies and internal rules.

Risk management is an element of internal control. The Board of Directors approves a risk management plan each year that covers all operations and assesses whether internal control is appropriately arranged in the company. The job of the Board of Directors' Audit Committee is, for example, to supervise financial and other reporting; to oversee the status of internal control e.g. by tracking the work in progress of internal and external auditing and by reviewing a variety of audit reports; to assess compliance with laws and regulations e.g. by following the reporting of the compliance function.

At Varma the appropriate manager takes responsibility for his or her area of responsibility. Each manager must arrange appropriate internal control and risk management, and ensure compliance with legislation and regulations. Each department is in turn responsible for seeing that verified strategies, plans, internal rules, and the decisions of the Board and other bodies are adhered to. Risk limits and the indicators used are defined separately in each function. A separate Risk Management Committee follows and guides the organisation of risk management in the different departments of the company. The Investment Committee in turn tracks investment risks. Legal compliance activities support compliance with the law, authorities' stipulations, decisions of the administrative bodies, and internal instructions.

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.

In addition to investment risks, the company's essential risks are mainly related to:

1) major, difficult-to-implement changes in the statutory earnings-related pension scheme and, consequently in the company's operations, resulting from rapid and significant alterations in the operating environment
2) basic operations, such as handling pension and insurance issues correctly and on time, where the risk is largely linked to information technology
3) reduction of clientele, distribution channel problems or quality of customer service
4) other issues, such as data processing, personnel, the handling of confidential information, inefficient operations, failure to comply with regulations, damage to the company premises, negative publicity, outsourcing. Other than investment risks were mapped for the third year in a row by department and in co-operation with the risk management unit.

The investment plan determines, for instance, the general security goals for investment operations, the allocation and liquidity targets for investments, and the principles of arranging foreign currency position. 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 position; 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 market risk, and equities in particular. The total risk of Varma investments is measured using the VaR (Value at Risk) model; the figure stood at around € 426 million (€ 440 million) at year-end 2003. 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 aggregate risk level. The Board of Directors has determined the maximum risk level for the investment portfolio that takes into account the solvency position and the development of the VaR figure. The maximum risk level has been determined in such a way that the solvency margin will remain at a secure level even after a major fall in share prices. Furthermore, investment risks are eliminated, for instance, by diversifying investments by type and target, by analysing the investment portfolio and targets, by avoiding risk concentrations, through securing collateral policy, through cautious valuation practice, by matching assets and liabilities, by using derivatives, through a sufficient and right-timed monitoring and follow-up system, and by minimising counter-party risks.

The preparatory, decision-making, and investment implementation function, and the function that supervises investment risks and draws up reports (Financial Administration, and in 2004 also Actuaries) have been separated from each other. The supervisory function measures investment risks, draws up scenario and sensitivity analyses relating to Varma's result and solvency on the basis of risks, and follows compliance with the risk limits and authority determined for investment allocation and different types of investment by the Board of Directors. Risk calculation is based on accounts at fair values and on utilisation of the database. The entire company result and solvency position is usually calculated weekly.

The risks supervision function tracks the diversification of the investment portfolio, which is based on allocation that takes the yield correlation of asset classes into account. In addition to the development of market volatility and correlations, it tracks e.g. the duration of investments, credit and industry ratings, interest rate and credit risks, liquidity and risk clusters. The follow-up of risk positions takes into account the effect of different interest, equity and currency derivatives on the investment portfolio. Risk management assesses e.g. market risk, credit risk, liquidity risk and model risk related to risk measurement, taking into account questions related to both portfolio theory and to the nature and regulation of the statutory earnings-related pension scheme. Risk management develops applications that match assets and liabilities, stochastic models and the development of solvency regulations.

The statutory earnings-related pension scheme is a partially funded system, and its costs are the joint and several liability of the employers and employees. Defined benefits do not depend directly on the yield of funded pension assets. Insurance business risks at Varma 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. When preparing the Annual Accounts, the payroll estimate of the insured in particular may deviate from the final payroll. This is reflected in the company's premium income and the amount of technical provisions, but does not have a significant effect on the company's result.

Internal auditing is there to assess the Group's internal control and promote its further development. The purpose of internal audit operations is to support the audited organisations in reaching their goals, by assessing their operations through the inspection of those control procedures that aim to ensure the functioning of the internal control process in the company. Internal auditing provides an estimate of the status of risk management, other internal control as well as management and administrative processes, and offers suggestions for their improvement. Compliance with individual actions is checked by random tests that create a picture of the functioning of the control procedures mapped or the magnitude of the risk caused by a lack of control. The auditing objects are determined in the annual auditing plan that is presented to the Executive Group and the Board of Directors for approval. Observations of assessment and confirmation tasks are reported to the management and an annual summary presented to the Board of Directors.

Other Notes to the Annual Accounts

Key figures and analyses

The calculation of the year 1999 figures differs slightly from that used as of year 2000. Otherwise the figures are comparable.

Summary

	2003	2002	2001	2000	1999
Premiums written, € million	**2 454.7**	2 406.0	2 404.2	2 206.9	2 075.4
Pension payments, € million [1]	**2 474.9**	2 356.2	2 192.4	2 022.7	1 915.7
Net investment income at fair values, € million	**1 460.8**	339.6	173.1	817.6	1 524.0
Yield on invested capital, %	**8.1**	1.9	1.0	5.3	11.7
Turnover, € million	**4 218.7**	3 796.5	3 741.2	3 890.4	3 136.4
Total operating costs, € million	**74.9**	70.8	68.6	65.1	57.2
of turnover, %	**1.8**	1.9	1.8	1.7	1.8
Total operating costs excluding costs for working capacity maintenance and costs of investment operations, € million	**64.2**	59.0	58.6	56.2	48.7
of TEL and YEL payroll, %	**0.6**	0.5	0.5	0.5	0.5
Total result, € million	**909.8**	–363.4	–502.8	258.8	1 070.7
Technical provisions, € million	**18 811.9**	17 340.3	16 686.2	15 325.1	13 928.0
Solvency margin, € million	**3 193.4**	2 409.2	2 844.0	3 389.7	3 262.1
of technical provisions, % [2]	**19.4**	15.5	19.5	25.9	27.3
in relation to solvency limit	**2.1**	2.1	2.4	2.9	3.1
Equalisation reserve, € million	**860.3**	797.6	760.9	719.8	644.5
Pension assets, € million [3]	**19 670.6**	18 014.7	17 445.4	16 548.3	15 387.8
Transfer to client bonuses of TEL payroll, %	**0.3**	0.2	0.4	0.7	0.5
TEL payroll, € million	**11 045.7**	10 852.3	10 695.9	9 933.9	9 352.6
YEL payroll, € million	**579.0**	566.5	546.9	514.0	505.0
TEL policyholders	**25 300**	25 900	26 000	26 000	26 000
TEL insured persons	**393 000**	398 500	401 500	394 000	383 000
YEL policyholders	**36 000**	36 300	36 300	36 300	36 000
Pensioners	**284 000**	279 000	272 000	263 000	257 000

1) Pensions paid to pensioners

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

3) Technical provisions + valuation differences

Performance analysis

31 Dec., € million	**2003**	2002	2001	2000	1999
Sources of profit					
Insurance business surplus	**70.2**	38.2	47.4	70.0	81.4
Investment surplus at fair values	**820.4**	–418.0	–566.2	179.1	976.0
+ Net investment income at fair values [1]	**1 460.0**	337.5	188.0	831.0	1 556.6
- Required return on technical reserves	**–639.6**	–755.6	–754.2	–651.9	–580.6
Loading profit	**19.1**	16.4	16.0	9.8	13.3
Total	**909.8**	–363.4	–502.8	258.8	1 070.7
Distribution of profit					
To increase solvency	**874.8**	–398.3	–544.9	189.9	1 020.2
Equalisation reserve	**62.7**	36.7	41.0	70.0	81.4
Solvency margin	**812.1**	–435.0	–585.9	119.9	938.8
Change in unallocated insurance reserve	**626.8**	–355.1	–115.1	347.3	247.7
Change in valuation difference	**180.4**	–84.8	–464.0	–235.1	702.7
Change in accrued appropriations	**–0.5**	–0.5	–12.2	–14.0	–15.1
Profit for the financial year	**5.4**	5.5	5.4	21.7	3.5
Transfer to client bonuses	**35.0**	26.0	42.0	69.0	50.5
Transfer to bonus reserve [2]	**0.0**	8.9	0.0	0.0	0.0
Total	**909.8**	–363.4	–502.8	258.8	1 070.7

[1] Other interest items included

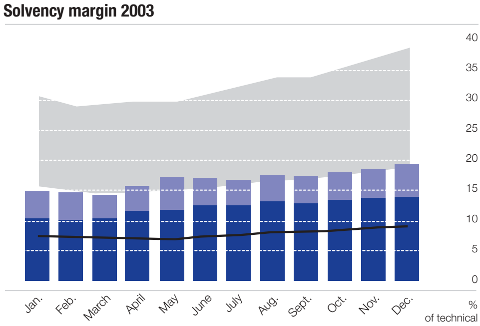
[2] On 31 December 2003, a total of € 6.3 million of the supplementary transfer to the bonus reserve had not been amortised

Solvency

Solvency margin and its limits
(in relation to technical provisions used in calculating the solvency limit)

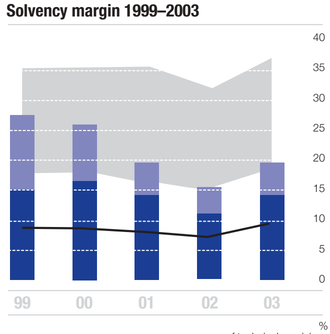
	2003	2002	2001	2000	1999
Solvency limit	**9.2**	7.5	8.0	8.8	8.8
Lower limit of the target zone	**18.4**	14.9	16.1	17.6	17.5
Upper limit of the target zone	**36.8**	29.8	32.1	35.2	35.0
Solvency margin	**19.4**	15.5	19.5	25.9	27.3
- Solvency margin included in the Balance Sheet	**14.4**	11.1	14.3	16.6	15.1
- Valuation differences and other items not included in the Balance Sheet	**5.0**	4.4	5.2	9.4	12.2

Solvency margin 2003



Target zone
Solvency limit
Valuation differences and other items not included in the Balance Sheet
Solvency margin included in the Balance Sheet

Solvency margin 1999–2003



Target zone
Solvency limit
Valuation differences and other items not included in the Balance Sheet
Solvency margin included in the Balance Sheet

Other Notes to the Annual Accounts

Investment allocation at fair values

	2003 € million	**%**	2002 € million	%	2001 € million	%	2000 € million	%	1999 € million	%
Loans [1]	**1 222.1**	**6.3**	1 266.3	7.1	1 417.6	8.3	1 468.8	9.0	1 624.1	10.8
Bonds	**10 891.0**	**56.0**	10 826.4	60.8	9 888.4	57.7	8 947.8	55.0	7 172.4	47.7
Other money-market instruments and deposits	**142.5**	**0.7**	178.9	1.0	255.9	1.5	216.1	1.3	997.4	6.6
Equities and shares	**4 683.2**	**24.1**	3 028.5	17.0	3 283.8	19.1	3 482.1	21.4	3 168.6	21.1
Real estate	**2 520.1**	**13.0**	2 519.9	14.1	2 305.1	13.4	2 152.7	13.2	2 062.9	13.7
Total investments	**19 459.0**	**100.0**	17 820.1	100.0	17 150.8	100.0	16 267.5	100.0	15 025.4	100.0

1) Accrued interest included

Investment yield specification and surplus

€ million	**2003**	2002	2001	2000	1999
Direct income	**795.0**	795.3	805.1	723.8	623.1
Loans	**56.0**	63.1	65.2	70.7	82.2
Bonds	**505.3**	514.6	488.8	428.3	319.9
Other money-market instruments and deposits	**6.0**	15.2	13.8	18.8	40.5
Equities and shares	**119.9**	93.7	115.3	99.0	62.1
Real estate	**123.1**	116.2	112.8	102.3	93.0
Unallocated costs and operating expenses from investment activities	**–15.2**	–7.4	9.1	4.7	25.4
Changes in book value in bookkeeping [2]	**485.4**	–373.0	–153.1	342.4	230.8
Equities and shares	**252.3**	–467.1	–180.1	348.7	287.3
Bonds	**253.8**	109.2	30.2	1.8	4.4
Real estate	**–20.7**	–15.0	–3.2	–8.2	–60.9
Net investment income in bookkeeping	**1 280.4**	422.3	652.0	1 066.2	853.9
Change in valuation differences	**180.4**	–84.8	–464.0	–235.1	702.7
Equities and shares	**255.1**	–346.9	–444.2	–372.9	1 117.8
Bonds	**–103.5**	216.6	–48.8	101.6	–433.6
Real estate	**29.6**	47.6	29.1	35.8	19.3
Other investments	**–0.8**	–2.1	0.0	0.3	–0.8
Net investment income at fair values	**1 460.8**	337.5	188.0	831.1	1 556.6
Other interest items [1]	**–0.8**				
Required return on technical provisions	**639.6**	755.6	754.2	651.9	580.6
Investment surplus, book value	**640.0**	–333.2	–102.2	414.3	273.3
Investment surplus, fair value	**820.4**	–418.0	–566.2	179.2	976.0

1) Sales gains and losses and other changes in book value

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

Net investment income at fair values

	Net investment income at fair values 1) € million 2003	Invested capital 2) € million 2003	Yield on invested capital % 2003	Yield on invested capital % 2002	Yield on invested capital % 2001	Yield on invested capital % 2000	Yield on invested capital % 1999
Loans	**56.0**	**1 261.3**	**4.4**	4.7	4.8	4.8	4.9
Bonds	**652.0**	**10 773.3**	**6.1**	8.7	5.0	6.5	–1.7
Other money-market instruments and deposits	**8.5**	**248.7**	**3.4**	3.4	3.9	3.8	3.1
Equities and shares	**627.2**	**3 252.9**	**19.3**	–19.7	–14.0	2.4	80.8
Real estate	**132.0**	**2 449.6**	**5.4** 3)	6.5	6.4	6.4	2.6
Other investments	**1 476.0**	**17 986.0**	**8.2**	2.0	1.0	5.4	11.8
Unallocated costs, expenses and operating expences from investment activities	**–15.2**						
Net investment income at fair values	**1 460.8**	**17 986.0**	**8.1**	1.9	1.0	5.3	11.7

1) Net investment income at fair values = Change in the fair 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 = fair value at the beginning of the financial year + time-weighted cash-flows on a daily / monthly basis

3) Yield in accordance with KTI Index (Institute for Real Estate Economics) 5.4% – yield in accordance with KTI Index for investment real estate objects (excluding objects in own use) 6.6%

Loading profit

€ million	2003	2002	2001	2000	1999
Administrative costs of premium	**82.4**	74.6	73.9	65.3	61.4
Operating expenses by function 1)	**–64.2**	–59.0	–58.6	–56.2	–48.6
Other income and expenses	**0.9**	0.8	0.7	0.7	0.5
Loading profit	**19.1**	16.4	16.0	9.8	13.3
Administrative costs / Administrative costs of premium , %	**77**	78	79	85	79

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

Distribution of Profit

The Board of Directors proposes that the profit for the year shown in the Balance Sheet be distributed as follows:	€ 5 419 949.73
to be transferred to the security reserve (optional reserve)	€ 4 754 334.28
to be paid as interest on guarantee capital	€ 611 871.13
to be transferred to the Board of Directors' expense account	€ 40 000.00
to be carried over on the Profit and Loss Account	€ 13 744.32

Helsinki, 12 February 2004

Georg Ehrnrooth

Jyrki Juusela	Mikko Mäenpää	Jouko Ahonen
Markku Jokinen	Erkki Kangasniemi	Birgitta Kantola
Lasse Laatunen	Arto Ojala	Markku Pohjola
Kari O. Sohlberg	Björn Wahlroos	Paavo Pitkänen Managing Director

Auditors' Report

To the owners of Varma Mutual Pension Insurance Company

We have audited the accounting records, Annual Accounts and administration of Varma Mutual Pension Insurance Company for the financial year from 1 January to 31 December 2003. 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 18 February 2004 has been issued on the supervisory audit carried out under the supervision of Mauri Palvi, Authorised Public Accountant.

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

In our opinion, the Annual Accounts have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of annual accounts in Finland. The Annual Accounts give a true and fair view, as defined in the Accounting Act, of both the Consolidated and Parent Company result of operations, as well as of the financial position. The Annual Accounts can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Director of the pension insurance company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on the disposal of profit is in compliance with the Finnish Insurance Companies Act.

Helsinki, 24 February 2004

Mauri Palvi	Jaakko Nyman
Authorised Public Accountant	Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board has received the Annual Accounts for Varma Mutual Pension Insurance Company for the financial year 2003, 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, 17 March 2004

For the Supervisory Board

Matti Honkala
Chairman of the Supervisory Board

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 ability.

Insurance premium result
The underwriting result of a pension insurance company 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 of a pension insurance company, excluding investment management expenses and those for the promotion of working ability. 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 receivership's estate.

Required rate of return on technical provisions
The required rate of return on investments constituting the technical provisions margin. This so-called calculated rate of interest is confirmed annually by the Finnish Ministry of Social Affairs and Health at the request of the pension insurance companies. In the year 2003 the rate stood at 4.25 percent until 30 June and at 4.00 percent as of 1 July.

Solvency margin
Net insurance company assets i.e. the excess of assets at fair value over liabilities. The solvency margin comprises capital and reserves, provisions, 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 fair and book value of assets included in the solvency margin of a pension insurance company. Changes in valuation differences are added to the company's income from investment operations.

Notes

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