
Annual report 2004
VARMA
SECURES PENSIONS

Securing Pensions

Varma Mutual Pension Insurance Company is the largest earnings-related pension insurer and investor in Finland. The company is responsible for the statutory earnings-related pension cover of more than 700 000 people. Premiums written totalled € 2.6 billion in the year 2004 and pension payments stood at € 2.6 billion. The value of the company's investment assets stood at more than € 21 billion at the end of 2004.

Annual Report 2004

Emmi Smolsky photographed by Katri Uus-Mäkelä.

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Year 2004 in brief

A successful year

The year 2004 was financially and operationally favourable for Varma. Premiums written increased by around 7% to € 2.6 billion. Growth was mainly due to an increase in the number of insured and a rise in the value of customer payrolls. The average TEL contribution remained unchanged.

More than 38 000 pension decisions were made during the year bringing the total number of pensioners up to 286 000. The value of pensions paid rose by a total of around 4%.

Varma posted a good overall result for the second year in a row, mainly due to strong returns on investments, where investment income stood at 8.0%. The result for the year 2004 was € 878 million.

Varma's Annual General Meeting will be held on 22 March 2005 at 10 a.m., at the company's headquarters on Annankatu 18, Helsinki.

The Annual Report is published in Finnish, Swedish and English. All of Varma's publications can be ordered at www.varma.fi. Up-to-date information about the company is also available there.

Varma will publish its interim report for January–June in August.

Income statement at fair values (parent company)

	2004	2003
Premiums written, € mill.	2 615	2 455
Claims paid [1]	–2 277	–2 182
Change in technical provisions [2]	–1 946	–747
Net investment income [1]	1 596	1 473
Total operating expenses	–78	–75
Other expenses	–11	–11
Taxes	–20	–3
Profit at fair value before change in bonus reserve, unallocated insurance reserve and equalisation provision	878	910

1) excl. operating expenses
2) excl. bonus reserve, unallocated insurance reserve and equalisation provision

Key figures

	2004	2003
Premiums written,	2 615	2 455
Pension payments, € mill.	2 579	2 475
Technical provisions, € mill.	20 029	18 812
Solvency margin, € mill.	3 986	3 193
Solvency margin /technical provisions, % [1]	22.8	19.4
Solvency margin/ solvency limit	2.4	2.1
Investment portfolio, € mill.	21 234	19 459
Investment income, € mill.	1 566	1 461
Yield on invested capital, %	8.0	8.1
Transfer to client bonuses, € million	51	35
% TEL payroll	0.43	0.32
Policyholders 31 Dec.	62 000	61 000
Insured 31 Dec.	443 000	429 000
Pensioners 31 Dec.	286 000	284 000
Parent company personnel 31 Dec.	660	623

1) Ratio calculated as a percentage of technical provisions used in calculating the solvency limit.

The year was the best ever in terms of operational efficiency – operating expenses accounted for only 75% of the administrative costs included in insurance premiums, saving € 23 million in all.

A total of € 51 million, or 0.43% of payroll, was transferred to client bonuses.

In order to improve the quality of the information provided by the Annual Accounts, Varma will present the profit and loss account and balance sheet of its parent company at fair values for the first time (see pp. 34–35 of the appendix).

Preparations for the pension reform

The effects of the pension reform that entered into force at the beginning of 2005 were visible in the daily work of Varma employees throughout 2004.

The conversion of information systems to meet the needs of the new legislation proceeded as planned and on schedule. The largest training programme in the history of the company was implemented towards the end of the year.

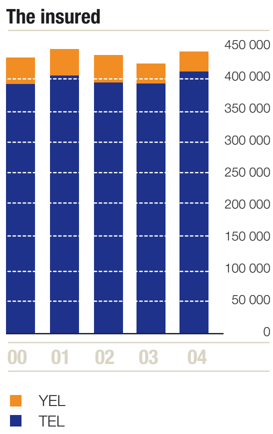
Varma distributed an unparalleled amount of information about earnings-related pension provision through e.g. client meetings, publications and via the Internet. Varma Advisory Services arranged 280 tailored pension guidance and training events, 74% more than the year before, and they attracted more than 8 500 people.

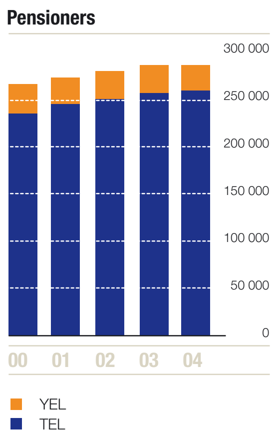
Transparency of share ownership policy increased

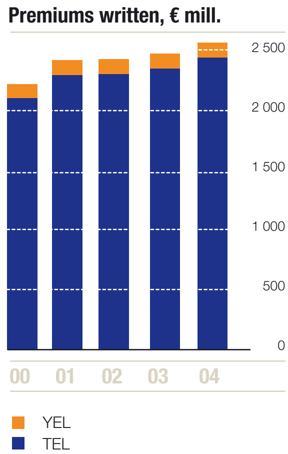
Varma is Finland's biggest investor with investment assets of more than € 21 billion, and bears a great responsibility as a significant and long-term owner in many companies.

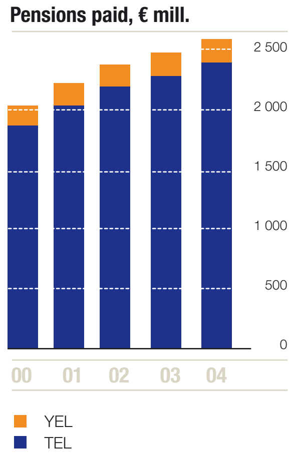
In August, Varma published its policy on share ownership to increase operational transparency.

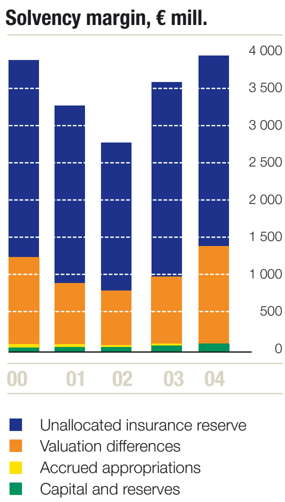
Varma share ownership policy targets the profitable long-term investment of pension assets. The high-quality governance of domestic and international companies and transparency of operations are important criteria in Varma's investment decisions.

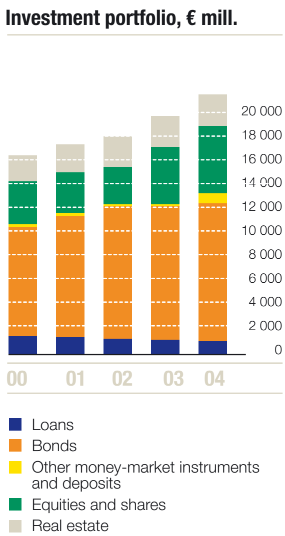










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, käynnit kuukausi
vuosi 2004
We handle pensions correctly and on time, and promote well-being at work
Our operations are based on employment in Finland and developing the earnings-related pension scheme
Varma secures pensions
We invest pension assets profitably and securely
We take care of our customers' earnings-related pension provision efficiently and competitively
VARMA
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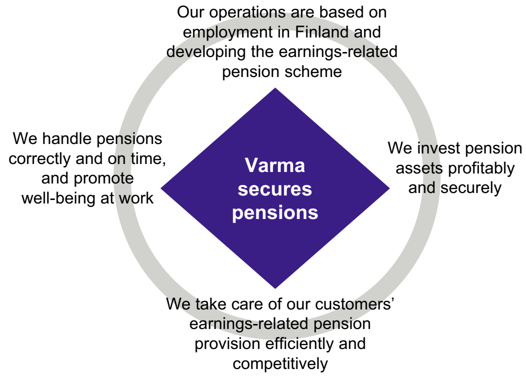
Varma consolidated its strategy

Varma continues to improve its operational transparency and in doing so reports more clearly on the company's success in accomplishing its mission. Varma's personnel is responsible for ensuring the company's ongoing development, that customer relations are properly handled, and obligations towards the insured employees of client companies met.

Varma refined its strategy in 2004. Challenging goals that aim to keep the company at the top were added to the revamped strategy, as Varma focused on consolidating its plans and reorganising the management system.

Varma's goal is to be the most financially efficient pension company and offer the best customer service, fulfilling its responsibilities and obligations in the implementation of the earnings-related pension scheme.

Varma's mission



Good governance and transparency

The key factors of Varma's strategy are efficiency, a pioneering approach and the best service provision in the industry.

Success requires financially sustainable operations and the efficient delivery of high-class customer service. In order to reach its long-term goals, Varma must ensure the competitiveness of its investment operations and continuously improve cost-efficiency.

The work to develop operating models in line with the new strategy and reach for the goals set began in autumn 2004.

A systematic analysis of efficiency and the development of the company's service concepts are just two of the projects launched in 2004. Comparison with best practice develops competitive operations and services. Operational goals are tied to strategy and performance measurement is more systematic and easier to understand than before.

Other projects were started to develop organisational operations and the quality of management, as well as to introduce new operating models.

Personnel

The new strategy was communicated to personnel in divisional and departmental meetings, development discussions, through the company's intranet and personnel magazine, with supervisors playing a key role.

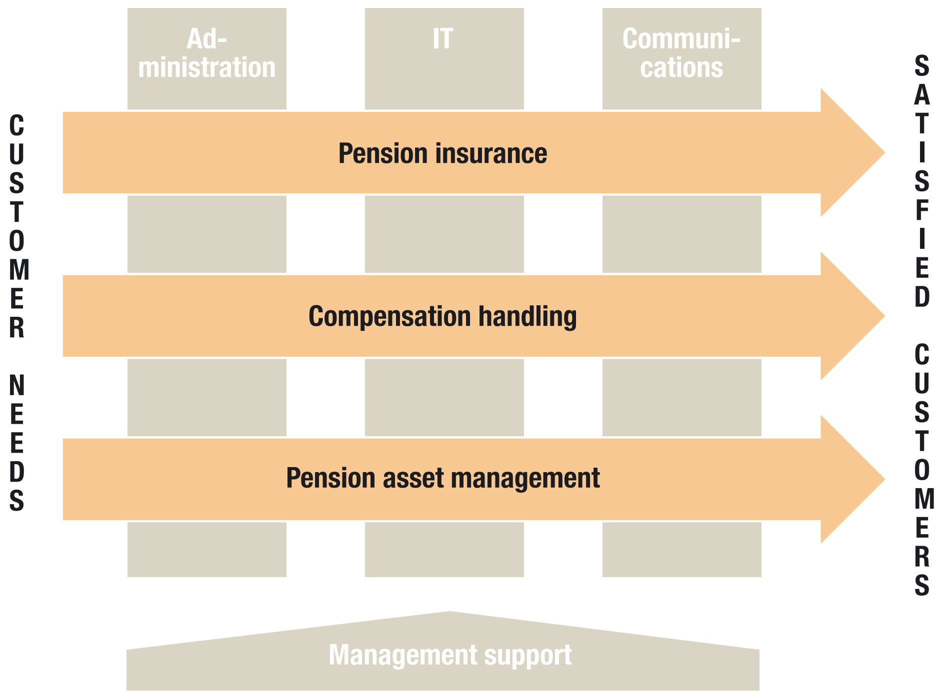
Varma has identified its targets for development and set about the task in 2004.

The company's long-term success is based on a clear brand identity: values and goals that work. The practical work of implementing the strategy is guided by common values – achievement, co-operation and development – which will be updated.

New ways of working and first class services are the challenge

The key areas to be addressed in reaching the goals set are customer relations management, processes and internal efficiency, the development of the earnings-related pension scheme, and personnel and financial performance. Varma must develop in such a way that customer relations and obligations towards client companies' employees are attended to and that services are competitive.

Varma's core functions



Varma's goal is to

- succeed in all customer segments,
- offer competitive services and cost-efficiency,
- support the development of the earnings-related pension scheme maintaining trust in pension provision and the continuity, independence and decentralised nature of the system,
- continuously update its operations in a customer-oriented manner, and
- realize a good investment result in the context of the employment pension industry, while keeping risks under control.

Management and organisation to be developed

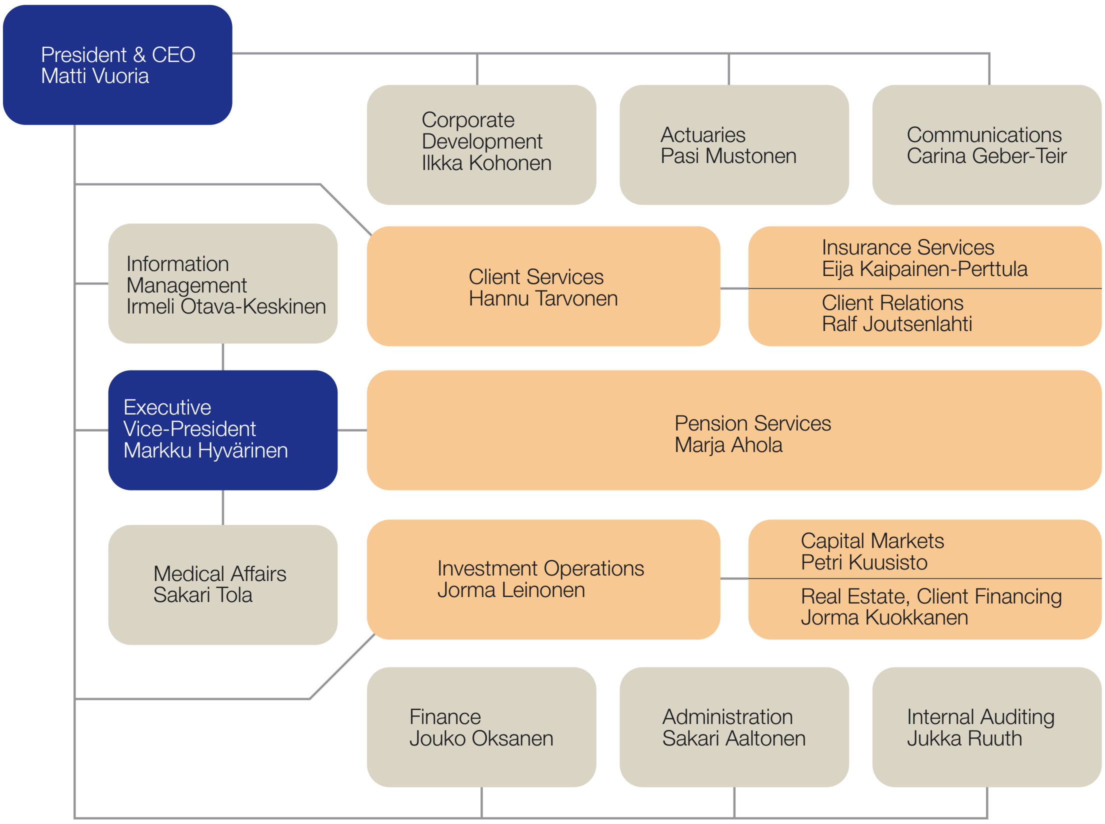
Varma's Board of Directors decided in June 2004 to rearrange the way top management functions by reducing the size of the Executive Group and establishing an Extended Executive Group alongside it.

The mission of the Executive Group is to steer and develop Varma's operations to reach the strategic goals approved by the Board. The members of the Executive Group are responsible for the outcome of projects directed at enhancing operations.

The tasks of the Extended Executive Group include following up on the strategy and operational development, as well as distributing information.

Varma's operational Executive Group comprises the Managing Director and 6 other members. The Extended Executive Group is made up of the Executive Group and 11 other members.

Varma organisation



Ways of working will be enhanced

Varma's organisational reforms continued in the autumn with more effective administration and the advancement of personnel development.

Specific management responsibilities and their division were examined and clarified. Administrative bodies were focused, and expert and supervisory tasks separated. A team-based operating model was introduced throughout the organisation.

Teams now form a consistent foundation for Varma's operations and the number of departments has been reduced from 35 to 23.

Close co-operation between departments and teams encourages the transfer of best practices from team to team, improving efficiency, co-operation and services.

We believe that Varma's new operating model enables the company to perform better in its core functions: pension insurance, compensation, and the investment of pension assets.

A successful year

Varma implemented a number of important development projects during 2004. The results of the company's extensive strategy process were structured into concrete operational goals and measures.

Varma's management system was revamped and the organisation structure improved. We have formalised clear financial and customer service goals and during the current year can determine individual targets for every member of staff.

We are building fiscal efficiency and customer services, always bearing in mind our responsibility and obligations in respect of the implementation of the earnings-related pension scheme. Varma works in support of the scheme to maintain the trust of policyholders and the insured in pension provision, preserving the continuity, independence and decentralised nature of the system.

Earnings-related pension and the economy

The world economy continued to grow with particular vigour in Asia and the United States in 2004. The European economy grew by just under 2% and Finnish gross domestic product at an estimated 3%. Where the size of the workforce continued to shrink in Finnish industry, more jobs in other sectors improved employment. The development of the Finnish economy is critically tied to international shifts and the global economy is beset by significant areas of uncertainty.

Sustainable development of the earnings-related pension scheme requires the growth of our national economy and nurturing its competitiveness. An efficient and functioning employment pension system is one element of policyholders' ability to compete. Varma therefore needs to raise efficiency, securing investments and returns.

Ownership in Finland

Finnish ownership and the role of the pension companies as major investors is the subject of lively debate and a number of studies.

Varma is increasing the transparency of its operations and to that end published its policy on share ownership in August, addressing good governance in listed companies.

We also participate in studies concerning the development of the solvency framework of earnings-related pension companies. The goal is to map opportunities for growing the share of equities in pension investor portfolios. Other means and instruments by which to increase inward investment in Finland are also being studied.

The role of earnings-related pension companies as Finnish investors and owners is significant. At the same time, the way in which the prerequisites of Finnish ownership and equity investments develop in general is crucial. Company and capital tax reform has weakened opportunities for life and non-life insurers to invest in Finnish quoted shares.

A year of development

The year 2004 was financially and operationally favourable for Varma. Our preparation for the national pension reform that came into effect at the beginning of 2005 proceeded as planned.

In order to improve the transparency of our financial performance and annual accounts we present the income statement and balance sheet of Varma's parent company at fair values in the notes to the accounts.

Varma's investment income stood at 8% for the year and solvency strengthened significantly. We reached most of our performance goals while of course there is always room for improvement. Pension Services and Insurance Services performed well. Our distribution channels multiplied as we began co-operation with Nordea, a leading financial services group. Nordea makes an excellent addition to our traditional co-operation with If and Sampo.

With thanks

I took up the post of Managing Director at Varma from the beginning of June and I wish to thank my predecessor Paavo Pitkänen for his generous support in the transition. I also wish to thank Varma's customers, partners and personnel for their valuable co-operation in 2004.

Matti Vuoria
President and CEO

A credible pension system adds stability to the national economy

Everyone working in Finland is covered by statutory earnings-related pension provision and an earnings-related pension is part of statutory social security.

The purpose of the earnings-related scheme is to guarantee that when someone retires on a pension they can largely keep up the standard of living they had while working. The amount of pension is determined on the basis of earned income, and there is no upper limit on earnings-related pension in Finland.

The law requires the employer to take out pension insurance for its employees. Self-employed persons also fall within the obligatory system and organise their own contributions. The content of pension provision is prescribed by the law.

A decentralised system

The Finnish private sector pension insurance system is decentralised, as pension provision is handled by private earnings-related pension companies, pension foundations and pension funds.

The process of implementing pension provision involves:

- Registering earnings and employment
- Collecting pension contributions
- Granting and paying pensions
- Investing pension assets
- Offering statutory rehabilitation services and those for promoting well-being at work
- Making other services available that are valuable to customers

Decentralisation allows the company to target the most efficient implementation, highest return on investment and best services possible.

Joint and several responsibility

Employers and employees are together responsible for the costs of the earnings-related pension scheme. The majority of the TEL contribution is financed by employers. Since 1993 a share of the contribution has been collected from the employee's wage.

The generation at work finances the largest share of the pensions being paid out.

The Finnish earnings-related pension scheme is unique in the international arena.

The amount of 25–30% of pensions paid out is financed by previously funded assets and their yield. Asset funding makes it possible to balance the pension payments for different generations.

Investment income curbs the rise of pension contributions

The funds accrued from pension contributions are a national asset transferred from generation to generation, and their investment requires a long-term perspective.

The emphasis in investing pension assets is placed on the best possible return and on security. Strong investment income can be used to curb a rise in pension contributions.

The investment operations of pension companies are overseen by the Insurance Supervision Authority.

How and why the earnings-related pension scheme develops

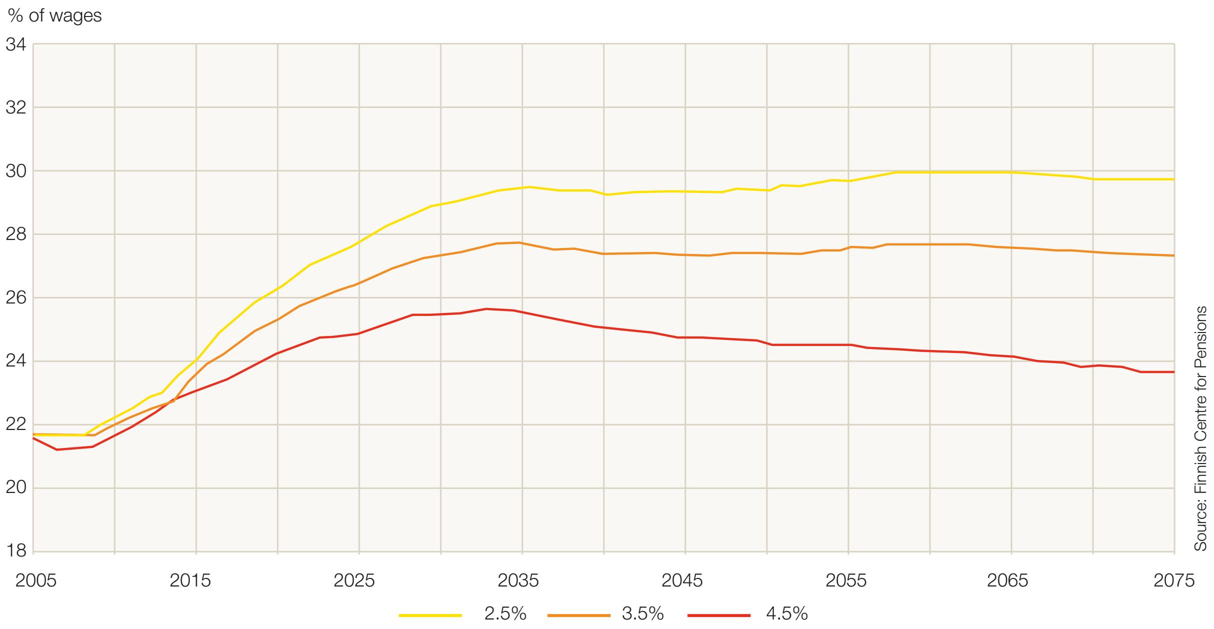
Employers, employees and the State (the so-called tripartite system) all participate in the development of the earnings-related pension scheme. In recent years, a working group containing members of labour market organisations as well as experts in the scheme has also been involved in negotiations.

The Finnish Ministry of Social Affairs and Health prepares and co-ordinates the relevant legislation that comes before Parliament.

Measuring the competitiveness of Finnish labour

There are many goals for the development of the statutory earnings-related pension scheme, such as guaranteeing the sufficiency of pension assets and preparing for the effect of a rapidly ageing Finnish population. At the same time, it is necessary to encourage the safeguarding of well-being at work.

Real returns on pension funds affect the development of pension contributions

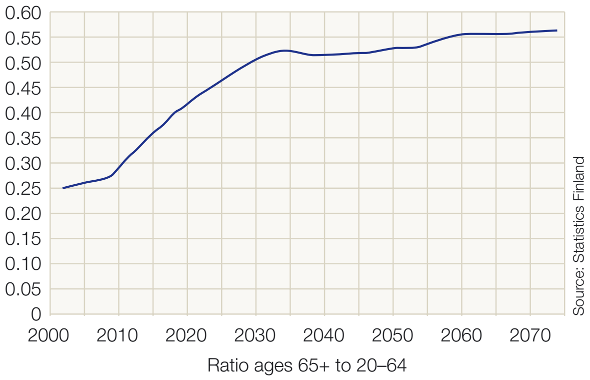


The 2005 pension reform also takes into account the need to secure Finnish competitiveness. Pension contributions constitute a significant proportion of salary and affect the price of labour. At this point, earnings-related pension contributions take an average of 22% of payroll.

Strong investment income can be used to curb the pressure to raise the pension contribution as the population ages.

Positive progress regarding the regulation governing pension institution investment operations creates better prerequisites for long-term investment operations and promotes economic growth in Finland.

Finland is greying



As Finland's largest earnings-related pension company Varma maintains a dialogue with society. It is also Varma's job to maintain and develop an efficient earnings-related pension scheme and help keep Finland competitive.

The goals of the 2005 pension reform are to encourage pension provision and a moderate increase in pension expenditure. It is Varma's belief that the reforms will improve the transparency and efficiency of the pension system, and boost people's faith in their future.

Varma's investment decisions carry a lot of weight as Finland's largest private investor. Varma share ownership policy targets the profitable long-term investment of pension assets. The principles of share ownership policy take in Varma's will to act in promoting employment in Finland.

SEINÄJOKI
JYVÄSKYLÄ
TAMPERE
NOKIA
Päijänne
VALKEAKOSKI
HÄMEENLINNA
RIIHIMÄKI
HYVINKÄÄ
JÄRVENPÄÄ
KERAVA
VANTAA
VANDA
PORVOO
BORGÅ
SALO
LOHJA
LOJO
ESPOO
ESBO
HELSINKI
HELSINGFORS
FINSKA VIKEN

Our goal is to provide ever better services

Varma is the largest earnings-related pension company in Finland and its goal is to be an efficient and competitive pension insurer.

Six pension companies, eight pension funds and 34 pension foundations offer statutory earnings-related pension cover in the private sector. The field of competition will expand significantly at the beginning of 2007, when a single private-sector Employment Pension Act TyEL enters into force. Competition in the market for earnings-related pension provision in occupations covered by the Temporary Employees' Pensions Act (LEL) and the Pensions Act for Performing Artists and Certain Groups of Employees (TaEL) will open up.

Competition has already increased as a result of an amendment to the law concerning portfolio transfers between pension foundations and funds, which entered into force in 2003. The amendment harmonises the principles related to the movement of assets and liabilities when pension portfolios are transferred.

Premium income grew faster than the industry average

Customer relations are usually long-lasting in the pension industry. The extent of an earnings-related pension company's premium income depends above all on payroll development in its client companies. Pension insurers acquire new business from newly-founded companies and in the form of transfers from other pension insurers.

Varma's TEL premium income for 2004 stood at € 2.6 billion, around 7% higher than the previous year. YEL premium income increased by 3% to over € 120 million.

The number of TEL insurance policies increased during the year by around 300 to 25 600, and the number of YEL customers rose by around 300 to 36 300.

Measured by premium income, Varma's market share for 2004 is estimated to rise by 1 percentage point to around 38%.

Leif Åkerfelt, Christian Sandström and Kirsti From photographed by Tarja Jurmu. © Genimap Oy, Lupa L6078/05.

Varma responds to tightening competition by sharpening its service supply.

Varma provides a variety of services

Varma offers the most comprehensive network of contact staff in the earnings-related pension industry, whose job it is to handle customers' pension needs. The company headquarters is located in Helsinki city-centre, but its network of account managers covers the whole country. Varma pension insurance is also sold by If and Nordea.

Varma offers its customers the following pension insurance services:

- **Basic services** involve e.g. customer relationship handling, insurance and pension services, including vocational rehabilitation support.
- **Additional services** cover e.g. insurance premium estimates and calculations, training and guidance related to well-being at work and to social security while working abroad.
- **Customer-specific** services include e.g. specially tailored basic and additional services, specific service teams with specialised knowledge of a customer's line of business.

New business livelier than expected

Varma's premium income stemming from new earnings-related pension insurance business increased to € 72 million in 2004. Successful tenders for insurance work involving the ownership and business restructuring of large corporations made a contribution towards the growth in sales. Varma's new small business clients also rose in number at a rate above the industry average.

Success in the small business field was supported by new co-operation in distribution with Nordea.

Success in major account transfers

Measured by premium income, portfolio transfers in Finland's earnings-related pension business amount to around € 170–180 million a year.

There were two sides to Varma's performance in the pension account transfer market in 2004. A good result for major accounts was somewhat offset by lost small business clients, which meant Varma fell short of its target for a positive portfolio transfer result.

Client bonuses grew

A pension company can distribute TEL client bonuses annually. The bonuses that reduce clients' insurance premiums incurred are paid to policyholders from the pension company's solvency margin. Solvency margin accrues when investment income exceeds the yield requirement and operating expenses are lower than the expense loading included in the insurance premium. The part that exceeds the upper limit of the equalisation provision is also returned to policyholders.

Varma offers competitive client bonuses and transferred a sum of € 51 million (2.6% of the employers' contribution) for client bonuses in its annual accounts for 2004, compared with a figure of € 35 million in 2003.

The significant growth of client bonuses in 2004 is based on strong returns from investment operations.

Tracking customer satisfaction

Varma regularly follows up on customer satisfaction and public image in different customer segments by way of the many surveys it conducts.

In a corporate image survey directed at decision-makers in working life and carried out by Taloustutkimus Oy in 2004, Varma came top in areas considered important by clients i.e. quality of services and personnel know-how.

Company restructuring creates a challenge

Changes in the corporate and ownership structures of client companies continued to be a challenge in 2004. A decision must be made by companies involved in such situations as to where they place their statutory earnings-related pension insurance business, and Varma has demonstrated a capacity for success on these occasions.

Varma's competitiveness and service models are strong in major accounts in particular, and in the special circumstances related to portfolio transfers of pension foundations.

Partners serving SMEs

Small and medium-sized customers appreciate smooth progress and trouble-free overall service in their insurance handling. They generally prefer to deal with pension issues in tandem with other insurance and banking matters.

Varma makes services available to these customers locally through the networks of If P&C and Nordea Plc.

Flexible payment options for the self-employed

At the beginning of 2005, self-employed persons were granted the right to flexible YEL payments on certain conditions. Pension provision can be strengthened by paying extra contributions at financially favourable times, and during more difficult times contributions can be temporarily reduced.

Self-employed persons were given the opportunity to familiarise themselves with the pension reform coming into effect in 2005 at local events in Finland attended by 500 people covered by YEL policies.

The e-folder has established its position

Varma's online e-folder service offers client companies the opportunity to handle employment and annual in-

How are client bonuses calculated?

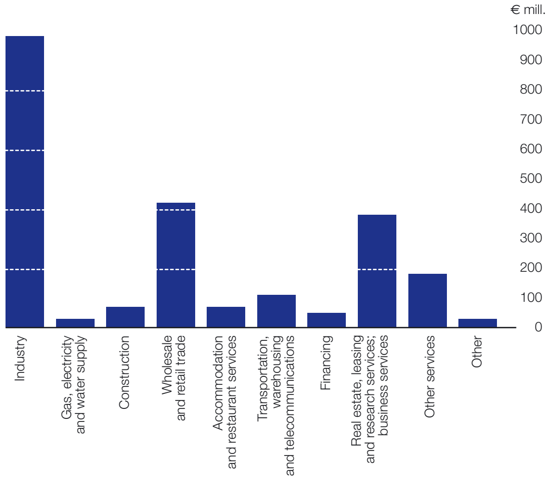
The client bonuses of an earnngs-related pension company are granted to customers as employer-specific reductions in contributions. The amount of these bonuses depends mainly on the result of investment operations, as well as on cost-efficiency in operating expenses.

The amount that a company can transfer to client bonuses is ultimately determined on the basis of the solvency position stated in the annual accounts. Half is distributed to clients in proportion to the contributions paid in the financial year and half in proportion to a fund accrued by the end of the previous year. The bonus calculated in this manner will reduce the contribution for the following year.

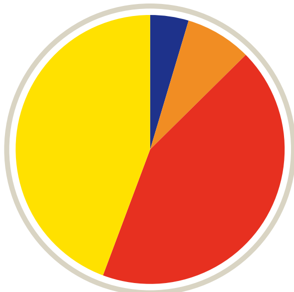
surance notifications along with other Internet-enabled facilities.

The primary goal for 2004 was that at least 70% of customers' employment and annual notifications should be made electronically. This goal was met. The proportion of incoming e-transactions via the e-folder rose from 23% in the previous year to 29%.

Premiums written by line of business 2004



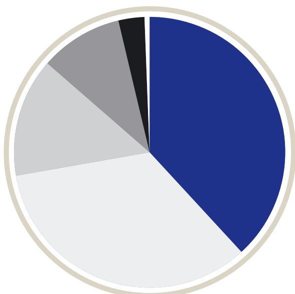
Premiums written by client segment 2004, € mill.



	%
Entrepreneurs	5
Small businesses	8
SMEs	43
Major corporations	44

Total premium income € 2.6 billion

Market share in 2004



Varma	38
Ilmarinen	34
Pension-Tapiola	14
Pension-Fennia	10
Veritas	3
Pensions-Alandia	1

Source: The Finnish Pension Alliance TELA

TEL and YEL insurance, total € 2.6 billion

Varma has over 700 000 customers from over 60 000 employers

429 000	self-employed persons and employees
284 000	pensioners

200	large corporations
2 500	medium-sized companies
23 000	small businesses
36 000	self-employed persons

New operating models with brokers

The role of insurance brokers in insuring employment pensions has grown significantly, so that some 20% of Varma's premium income accumulates from insurances mediated by brokers.

Varma's online service for brokers – Brokernet – smooths co-operation between the broker, the customer and Varma. It works as an interface between the broker and Varma, and provides expert support in handling pension issues for the broker's customers insured by Varma.

An amendment to the law governing insurance intermediaries and their co-operation with the customer and the insurance company is currently passing through the Parliament. If implemented it would clarify the broker's independent role as the customer's representative and would also require Varma to develop new models for co-operation with brokers.

New service packages introduced

Companies' service requirements and expectations vary significantly by customer segment. The different needs stem from e.g. a company's size, line of business, degree of internationalisation, and the age structure of its personnel. Tightening competition sets increasing expectations for the development of the employment pension company's services.

Varma's goal is to improve its services in all customer segments and the company continuously tracks and develops customer services in particular.

Varma is branding its services to assist in raising quality and cost-effectiveness.

Pension provision for working overseas calls for real expertise

When a Finnish employer assigns employees in its service to work abroad, the arrangement of pension provision and social security requires special expertise. The obligation to insure and the structure of social security vary a great deal from country to country, so a solution for pension provision needs to be tailored case by case.

Varma International Services assists customers in matters related to pension provision and social security for working overseas.

Well-being at work with Evita

Evita well-being at work services provide Varma's client companies with consultation and practical tools for supporting the development of well-being at work.

In 2004, Evita co-operated with around 400 companies. Varma arranged 17 training events in different parts of Finland, offering up-to-date information about well-being at work, as well as training for the introduction of Evita self-evaluation and Evita mentoring.

A longer life in work

Support for coping at work is a significant aspect of the Finnish pension reform and overlaps with many of Varma's operations. Varma's corporate and individual customers in turn benefit in many ways from the insurer's extensive activities in support of coping at work.

Varma's advisory, rehabilitation and Evita well-being at work services arranged a pilot project together with client companies in 2004, which set out to list the companies' needs and wishes related to coping at work.

The experience gained from the pilot shaped Varma's central theme for 2005: 'A longer life in work'. This was introduced at the TEL days in the autumn which gathered an audience of 1 800 in six different towns.

TyEL will bring the employment pension acts together

The new Employment Pension Act TyEL will enter into force in 2007 and combine the present TEL, LEL and TaEL pension acts.

A common earnings system for the earnings-related pension industry is under preparation to tie in with the TyEL system and will involve nearly all private and public pension insurers. The project is being implemented by Arek Oy, a limited company jointly owned by the pension companies. The most significant part of the preparation work concerns services to small businesses and customers that pay wages for temporary assignments. Varma's information systems will be integrated into the new system.

Varma introduced a new TEL insurance premium and collection system in summer 2004 with features such as online invoicing.

Contribution classes for the calculation of disability pension

The deductible method used for insuring disability pensions for large-scale employers will be replaced by a contribution class arrangement as of 1 January 2006.

The employer's contribution level will be determined according to how the company's disability expenditure has developed in the previous years, and the contribution will no longer be adjusted afterwards on the basis of individual disability cases. The employer is therefore encouraged to take a longer-term perspective on caring for the well-being of its staff in the future as well.

As a result of the reform, a listed company that draws up consolidated financial statements in accordance with IFRS will not incur pension liability in accordance with the IAS 19 standard on 31 December 2005, should TEL basic insurance be provided by an earnings-related pension insurance company.

The Consultative Committee of Self-employed Persons and Employers is a joint consultative body that brings Varma together with employers and entrepreneurs, and whose objective is to further co-operation and communication between Varma and its policyholders. The members of the Consultative Committee are appointed by Varma's Board of Directors.

The Consultative Committee of Self-employed Persons and Employers at 31 December 2004:

Chairman: Erkki Solja, Managing Director, Kiilto Oy

Vice Chairman: Tom Hakalax, Chairman, PKC Group Oyj

Harri Broman, Managing Director, Broman Group Oy

Markku Haavisto, Managing Director, Connex Finland Oy

Kim Hanslin

Jukka Hyryläinen, Managing Director, Katko Oy Konerauta

Antero Ikäheimo, Chairman of the Board, Lappset Group Oy

Martti Jalonen, Managing Director, Auto Jalonen Oy

Pekka Kauranen, Administrative Director, Finnish National Opera

Mika Kiljunen, Managing Director, KohdematkatKaleva Oy

Jari Kokkonen, President, University Pharmacy

Timo U. Korhonen, Managing Director, NCC Rakennus Oy

Martti Lappalainen, Managing Director, Suur-Savon Sähkö Oy

Matti Lappalainen, Managing Director, Vaasan & Vaasan Oy

Antti Lemmetyinen, Director, the Deaconess Institute in Helsinki

Timo Miettinen, Chairman of the Board, M-Capital Oy

Kalervo Nieminen, Managing Director, Nostokonepalvelu Oy

Jari Ollila, Chairman of the Board, Purso Oy

Jukka Ottela, Managing Director, Esan Kirjapaino Oy

Ahti Paananen, Managing Director, Viitapuu Oy

Simo Parhankangas, Managing Director, Kyrel Oy

Antti Reenpää, Managing Director, Kustannusosakeyhtiö Otava

Tuomo Räsänen, Managing Director, Carel Capital Oy; Chairman of the Board, Markantalo Oy

Mauri Saarelainen, President, Honkarakenne Oyj

Seppo Saarelainen, Managing Director, Betonimestarit Oy

Teuvo Salminen, Deputy to the President and CEO, Jaakko Pöyry Group Oyj

Risto Salo, CEO, Hollming Ltd

Ralf Sandström, Managing Director, Restel Oy

Juha Silvanto, Managing Director, Steveco Oy

Saara Sinivuori, Managing Director, Aleksin Ravintolat Oy

Heikki Takamäki, Owner, Heikki Takamäki Oy/Rauta-Otra Nekala

Jorma Takanen, Managing Director, Scanfil Oyj

Reino Uusitalo, Managing Director, Pyroll Oy

Kaija Ward, Chairman of the Board, Eurokangas Oy

Jorma Wiitakorpi, Managing Director, Patria Oyj

Juha Vine, Chairman of the Board, Groveswing Oy, Solepex Oy

Antti Värtelä

Heikki Väänänen, Chairman of the Board, Karelia Yhtymä Oyj

Pertti Yliniemi, Chairman of the Board, Olostunturi Oy

A favourable year for investments

Varma's investment operations experienced their second favourable year in a row in 2004. The company's investment portfolio of 21.2 billion yielded a return of 8%.

Varma's investment portfolio is efficiently and broadly diversified for better investment risk management. The portfolio is divided into four categories: equities, fixed income investments, real estate, and alternative investments. Within these different categories, assets are diversified by line of business, size of company, and geographically.

Varma's investment operations are efficiently organised. Investment charges last year amounted to 0.05% of invested assets. Cost-efficiency is a major competition factor in investment operations in the long term.

Varma Investment Operations and its staff of 68 managed the majority (94%) of investment assets. External asset managers are mainly called in for investments in equities, capital trusts and hedge funds outside Europe; they also come into play in new overseas real estate investments.

Investment income at 8%

Varma's investment income for 2004 stood at € 1 566 million, or 8%; real income, excluding inflation, was 7.7%. This can be considered to be a good result. Equities accounted for € 734 million of the investment income, fixed income investments for € 600 million, real estate for € 130 million, and alternative investments for € 123 million.

Investment income clearly exceeded the required rate of return calculated on the technical provisions of pensions, or the calculated interest rate, which stood at 4.5% for the first half of the year and at 5% for the latter half. Consequently, Varma's solvency strengthened to 23% of technical reserves (2003: 19%).

The calculated interest rate is important to the annual result of earnings-related pension insurance companies, because a rate of return below that level decreases solvency and the risk-bearing capacity of investment operations.

Investment allocation

The market value of Varma's investments stood at € 21.2 billion at the end of 2004, compared with € 19.5 billion at the end of 2003. The value of the investment portfolio was increased in particular by a rise in the value of investment objects.

Tero Pesonen (left), Mikko Koivusalo, Risto Autio and Sami Tahvanainen photographed by Päivi Kalapuro.

Responsible long-term investor

- Varma's mission is to accumulate the assets received as pension premiums in order to pay present and future pensions. The invested assets are used exclusively to secure pensions.
- Varma is the largest investor in Finland. The market value of the company's investments stood at € 21.2 billion at the end of 2004. The large portfolio makes for efficient investment assets administration.
- Varma encourages those companies whose shares it owns to develop good governance. Varma's principles of ownership policy aim to increase the value of its assets in the long term.
- Varma's principles of social responsibility applied to investment operations lead the way to responsible investment. Social responsibility is also a tool in seeking higher returns.

The largest part of the portfolio consisted of fixed income investments (61%) while equities accounted for 23% and real estate 12%. The share of alternative investments was 4%. The division of investments applied in asset management is based on classification according to the real risk and deviates slightly from that used in the official Annual Accounts.

There was little change in the distribution of investment assets during the year. Varma handles its portfolio actively within each asset category, just as derivatives are actively employed in the risk management of investment assets as a whole.

The investment operations of pension companies are regulated by the investment norms set by the supervising authority. In practice, the norms lead to a distribution highly focused on fixed income investments.

Equities portfolio

Prices developed favourably in the equities market. Share prices rose in most industrial countries, although with considerable variation during the year. Company results revealed a mainly positive development, especially early in the year. No new companies were listed on the stock exchange in Finland.

The total return on the equities portfolio was 18%, which can be considered good given market conditions. Varma's largest single investment (in Sampo) yielded an exceptionally high return of 45%.

Some 40% of Varma's equities investments are listed on the Helsinki Exchanges. The biggest change in the portfolio was the 8% increase of the Sampo holding to 15.6%.

Fixed income portfolio

Fixed income investments are mainly vested in bonds issued by governments and companies. Corporate bonds account for one third of Varma's fixed income investments.

Short interest rates remained unchanged in Europe and rose in the USA during 2004. Interest rates of long bonds (over 10 years) in Europe, especially towards the end of the year. Contrary to prior expectations, interest rates fell, as the rate of economic growth increased and anticipations of inflation accelerated. The supply of corporate loans was diluted by the low level of investments, which kept the gap between interest rates on corporate and government bonds very narrow.

A total return on fixed income investments of 4.9% fell clearly short of what investments in long bonds would have yielded, so in order to manage the total risk Varma bought currency futures to protect itself throughout the year from fixed income investment risks. After interest rates began to fall, Varma took protective measures that significantly decreased the result. The return on corporate bonds equalled the average level of returns.

Varma has also made investments outside the euro currency area. The principle is that investments are hedged against exchange rate fluctuations unless there is specific justification for an open currency position. Due to hedging, exchange rate fluctuations did not have a significant effect on returns.

As an asset category, customer loans are included in Varma's fixed income investments. Varma offers its customers primarily TEL premium loans and investment loans. Demand was low, and their share decreased. As in previous years, loans were granted when security was available.

The return on customer loans in 2004 stood at 4.7%.

Real estate portfolio

Prices remained high in the real estate market. While there was still a surplus of business premises, the amount of vacant space did show a moderate decrease. The market for the construction of new business and office space was slow, but that for residential building was lively.

The market value of Varma's real estate investments stood at around € 2.5 billion. The premises used by Varma were valued at around € 74 million.

Net returns in accordance with the KTI index (Institute for Real Estate Economics) stood at around 7.5% and the total return at around 5.5%. The total return was reduced by approximately € 48 million in value adjustments made mainly on office space and business premises.

Varma is a major shareholder in VVO-yhtymä Oyj, Sato-Yhtymä Oyj and YH-Yhtymä Oy which specialise in the building and administration of rented housing.

Alternative investments

Alternative investments comprise investments in capital trusts, hedge funds, unquoted equities, and fixed income investments. Investments in foreign real estate funds are also included in this asset category due to their high leverage.

The total return on alternative investments was good at 14%, and selling the If holding had a significant effect on the result. A number of realisations were also made in capital trusts, yielding a high return of 12%.

An additional focus on analysing Finnish companies in accordance with Varma's principles of ownership policy led to new investments in small and medium-sized Finnish companies.

Varma analysed social responsibility in its equities portfolio

The 2002 survey of social responsibility values in Varma's equities portfolio was updated in summer 2004.

According to the survey, 46% of the companies in Varma's equities portfolio met the criteria of one of the corporate responsibility indexes determined by Varma.

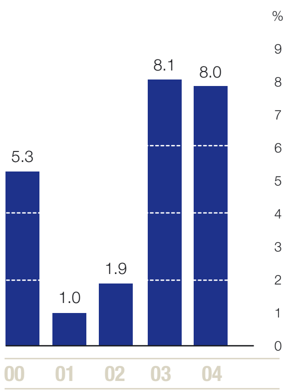
Some other acceptable form of report on their social responsibility was forthcoming from 35% of the foreign companies not meeting criteria in the indexes. Only 21% of the foreign companies had no social responsibility policy, it was being developed, or the company did not respond to the inquiry.

How active an attitude was adopted towards social responsibility varied significantly by line of business, which was partly explained by differences in company sizes.

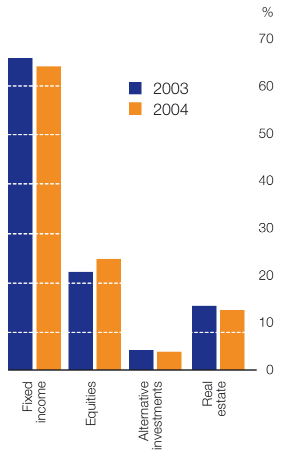
Varma studies the social responsibility of companies as part of the decision-making process concerning new investments. The social responsibility of investment objects is also evaluated during ownership and when divestment is considered.

In practice, social responsibility is taken into account through active selection and share ownership policy.

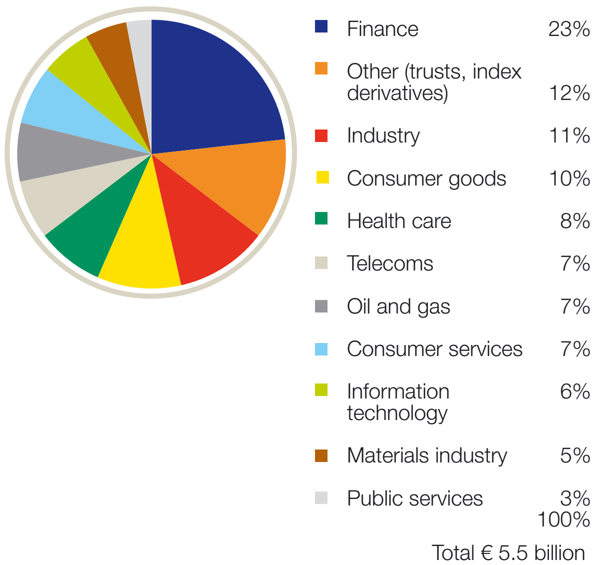
Investment income



Investment portfolio



Equities portfolio by line of business 2004



Ten largest equity and equity fund investments 2004

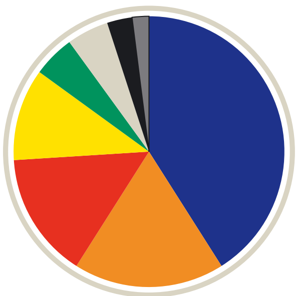
	Holding € mill.	%, of equities portfolio
Sampo plc	878.5	18.3
Stora Enso plc	104.6	2.2
Mandatum Emerging Asia Fund (Growth)	98.0	2.0
Total	96.2	2.0
Vodafone Group Plc	96.2	2.0
Nokia plc	93.0	1.9
BP Amoco Plc	84.3	1.8
ABN Amro Global Emerging Markets Equity Fund	76.7	1.6
YIT-Yhtymä Corporation	71.7	1.5
Nordea Bank AB	65.0	1.4
TOTAL	1 673.7	34.9

Fixed income portfolio by credit rating 2004

	%
AAA	49
AA	15
A	20
BBB	14
BB	1
CCC, CC	0
Not available	1

Total € 2.6 billion

Real estate portfolio 2004



	%
Business premises	41
Residential	18
Office space	15
Industrial facilities	11
Warehouse space	5
Power plants	5
Other premises	3
Other	2

Total € 2.6 billion

Glossary

Calculated interest rate
The required rate of return on investments covering an earnings-related pension insurance company's technical provisions. The calculated interest rate is confirmed at the request of the pension companies by the Finnish Ministry of Social Affairs and Health.

Corporate governance
A company's administration and management systems; organising business operations in such a way that the benefits of different interest groups are taken into account.

Currency position
The foreign exchange position consisting of individual items of receivables or debts denominated in foreign currency.

Derivative
An investment instrument where value is based on that of another, underlying security, index, currency, commodity or entitlement.

Hedge fund
An investment fund that aims at a positive yield under all market conditions.

KTI total return
The sum of the annual net return percentage and value adjustment percentage of real estate calculated according to the portfolio index of the Institute for Real Estate Economics (KTI).

Leverage
Leverage aims to grow returns on capital and reserves by increasing the share of liabilities.

Policy on share ownership
The manner and means by which an investor aims to affect the administration and management, as well as transparency of operations, of companies whose shares it owns (see corporate governance).

TEL premium loan
Part of the TEL insurance premiums paid by the customer is placed into a loan fund from which the customer may borrow.

Value-at-Risk
The figure indicates the value of investment loss risk at a selected probability in a specific period of time.

Investment policy

Varma is a long-term investor. The goal of the company's investment operations is to secure the payment of the pensions at its responsibility. Therefore Varma targets as high a return on investments as possible without endangering the company's operations. Hence the management of investment risks is emphasised in Varma's investment operations. Varma makes sure that assets are managed professionally using competent and sufficient resources.

Varma published its policy on share ownership

As Finland's largest private investor, Varma is a major owner in many Finnish and foreign companies.

Varma share ownership policy targets the profitable long-term investment of pension assets. High-quality administration and operational transparency in Finnish and foreign companies are important selection criteria when investment decision are made.

Varma's Board of Directors approved the principles of share ownership policy as an element of the company's investment policy in August. In publishing the principles Varma showed its willingness to increase the transparency of its own operations and aim at active engagement and dialogue.

Varma was the first Finnish investor to publish a report on its voting practice in shareholders' meetings.

A total of 185 annual general meetings of listed companies included in Varma's portfolio were held in spring 2004, and Varma voted in 158 companies' AGMs. Where items of the Annual General Meetings that were not in accordance with Varma's views, the company voted as per the principles of its ownership policy.

Varma is involved – in a number of organisations – with the development of international co-operation regarding share ownership policy. In Finland, the company has arranged a discussion forum for Board members of listed companies about good governance practice.

Varma is an active owner

The principles of Varma's ownership policy can be summed up in five different goals within which Varma assesses the corporate governance system of each company. The assessment also takes into account a company's ownership structure and other circumstances:

Key principles of Varma's ownership policy:

Value added for pension assets
The companies owned by Varma have to produce added financial value in the long term.

Active engagement
Varma aims to influence in Annual General Meetings the operations of the companies whose shares it owns.

Good governance
Varma demands expertise and independence from the Board of Directors of a company that it holds.

Incentive systems for corporate management and key personnel
Varma supports systems for incentivising company management and other key personnel, in order to increase the value of the company. However, the incentive system should be reasonable.

Promotion of work done in Finland
Varma wishes to promote Finnish employment by making decisions and directing resources in a way that supports work in Finland.

Levels of ownership policy in Varma


My Documents
My Pictures
My Music
www.varma.fi

Services for different circumstances

Varma issued more than 38 000 pension decisions in 2004. Around 21% of the pension applicants had also worked for the State or a municipality at some point.

Pension applications handling accelerated

Varma speeded up its pension applications handling for the third year in a row in 2004. Some 77% of all pensions were paid in the very first month of the right to receive a pension. Applications for some types of pension can be submitted only after the right to a particular pension has begun, so Varma needs to request further information in connection with most pension applications.

A total of 93% of the old-age pension applications were paid on schedule.

A large proportion of pension applications come to Varma through the Social Insurance Institute (Kela). In 2004, Varma embarked on co-operation with four Kela offices in the electronic transmission of pension applications. The expansion of the operating model will further accelerate applications handling.

A total of 19 000 new pension decisions were made in 2004. The number declined by 11% from the year before, mainly because the number of decisions regarding part-time pensions was halved and unemployment pension decisions reduced by a fifth. The number of old-age pensions grew by 20% from the previous year.

At the beginning of 2004, State and municipal pension institutes joined the final employer system otherwise known in Finland as Vilma. The reform marks an improvement in services for pension applicants: the earnings-related pension decision is issued and the pension paid by the final insurer. The reform also required the pension industry to develop new information systems and provide training.

An unparalleled volume of pension information

Varma distributed an unparalleled amount of information about employment pension provision in 2004. The pension reform coming into effect in 2005 has greatly increased the demand for such information.

The reform concerns everybody in gainful employment in Finland and all companies operating in the country. Varma has helped by supplying the facts through publications such as customer magazines.

Päivi Jokinen and Pirkko Ovaska photographed by Malla Juutilainen.

Varma customers received more information than ever about pension provision.

Pension provision reformed

The goal of the pension reform is to encourage Finns to remain in working life for longer. This would reduce the pressure to raise earnings-related pension contributions due to the ageing population.

This is how pension provision changed:

- Pension is earned from work done between the ages of 16 to 68.
- Pension accrues from annual income at a percentage determined by age.
- The pension contributions of employees and the self-employed depend on age.
- Pension also accrues from certain unsalaried periods.
- Earnings are adjusted by the wage coefficient, pensions by the pension index.

Pension benefits:

- Old-age pension is flexible. People can retire at their own discretion between the ages of 63–68.
- It is possible to retire on an early old-age pension at 62, but the pension is reduced permanently.
- From the age of 58, less work combined with a part-time pension becomes an option.
- Vocational rehabilitation supports those at risk of losing their capacity to work.
- Disability pension provides security if one can no longer work because of illness.
- Those born in 1943 or earlier have the right to retire on an early disability pension.
- Survivors' pension secures the livelihood of the widow(er) and children.
- Unemployment pension can be granted to long-term unemployed persons born in the 1940s.

Varma Advisory Services arranged 280 different guidance and training events in 2004, 74% more than the already busy year before, and they attracted over 8 500 people. Some of the events were tailored to the needs of individual client companies.

The majority of the non-training events offered guidance about the pension reform and especially on how it affects personal pension provision. Some of these events focused on unemployment pensions.

Learn about your own pension provision

Varma continued its targeted communication to those approaching retirement age.

The YEL insured born between 1940–1945 received pension calculations in June.

Information about the pension reform and an estimate of their old-age pension was mailed to the TEL insured born in 1943–1945. They all received a comparison of the amount of pension they would receive at the ages of 63, 65 and 68 (depending on when one retires), so they could see for themselves how staying longer in work affects their pension.

A total of 39 000 employees received a personal estimate of disability and old-age pension provision at the ages of 63 and 65. These age class calculations were sent to those aged 30, 35, 40, 45, 50 or 55.

Over 15 000 employees with a bonus insurance received their personal pension calculation in June.

In December, Varma launched the Elvis online game that tells players about the pension reform through three different characters.

Rehabilitation became a statutory benefit

Vocational rehabilitation arranged by the earnings-related pension insurance company, became a statutory pension benefit at the beginning of 2004. This innovation is part of the pension reform and supports employees in remaining in working life longer than is currently the case. Vocational rehabilitation was previously discretionary.

An employee or self-employed person who is at risk of being unable to work and on a disability pension in the near future is entitled to vocational rehabilitation, providing the risk can in fact be decreased that way.

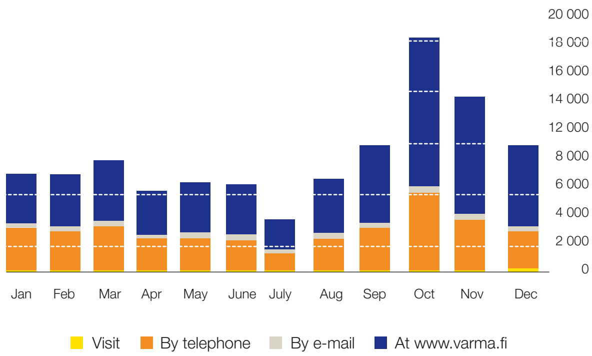
The applicant has the right to appeal against a rehabilitation decision, in terms of whether they enter rehabilitation but not in terms of content.

Pension decisions* granted

	2004	2003	Change, %
Rehabilitation allowance	504	423	19
Part-time pension	850	1 815	–53
Survivors' pension	3 202	3 384	–5
Disability pension	6 436	7 433	–13
Unemployment pension	2 653	3 278	–19
Old-age pension	3 978	3 293	21
Early old-age pension	975	1 011	–4
Individual disability pension	411	680	–40
Total	19 009	21 317	–11

* first decisions

Customer inquiries about pension benefits 2004



The number of rehabilitation applications is on the rise

The number of rehabilitation applications submitted to Varma rose by around 18% in 2004. Just under 80% of the applications were approved.

Vocational rehabilitation might vary from a few months of work trials to vocational training lasting several years. The earlier the person applies for rehabilitation and the better the co-operation with the employer, the easier it is to find a suitable form of rehabilitation and the more likely it is to succeed.

Varma prepared for the rehabilitation reform by offering training, increasing resources, developing processes, and more.

Varma has been actively involved in developing the KuntoutuNET online service. It is an extranet for the member organisations of the rehabilitation services network and makes for more efficient ordering of examination services concerning vocational rehabilitation, as well as creating a smoother flow of information.

At the end of 2004, almost 100 of Varma's client companies had an assigned rehabilitation planner with specific knowledge of the needs and characteristics of the company. Varma has also arranged training about vocational rehabilitation and co-operation, for companies' personnel administration and occupational healthcare experts.

Consultant physician's assessment

A consultant physician participates in the preparation of disability pension and rehabilitation application decisions in Varma together with, for instance, lawyers and pension adjudicators. Difficult cases are handled together in meetings, but the final decision is made by the appropriate person in authority.

The consultant physician assesses the statement by the patient's own doctor along with other medical information. In order to be able to comment on the applicant's remaining capacity to work, the physician is required to have a thorough knowledge of current treatment practices.

The consultant physician also participates in the evaluation of rehabilitation applications, estimating whether

Earnings-related pension every month for 286 000 pensioners

Varma paid out pensions to 286 000 pensioners at the end of 2004, totalling € 2.6 billion or € 216 million per month.

TEL and YEL pensions are paid on the first banking day of each month. If the first day of the month is a Saturday, Sunday or holiday, the law dictates that the payment date cannot be moved to the preceding month.

Varma sends a letter to pensioners once a year stating the amount of the pension and withholding tax, and the pension payment dates for the following year.

At www.varma.fi pensioners can check, for instance, on which day pension is paid, how it is taxed, and how much gainful employment can be taken on while on pension. It is also possible to request an employment pension card that entitles the pensioner to discounts, for instance, on public transport.

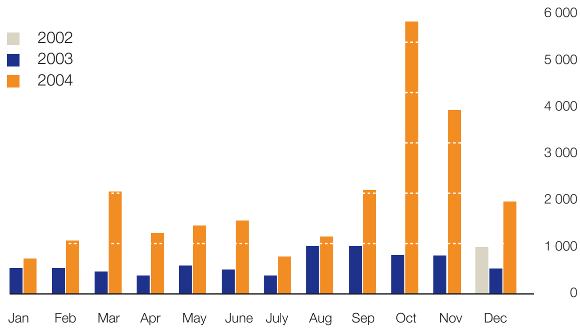
Check your pension provision online

Pension Estimate (Eläkearvio) is Varma's online service where employees can check their own pension provision. An old-age pension estimate can be calculated in accordance with the new legislation. Those insured with Varma can also request estimates of other types of pension. Any additional pensions do not, however, show up in the pension calculation.

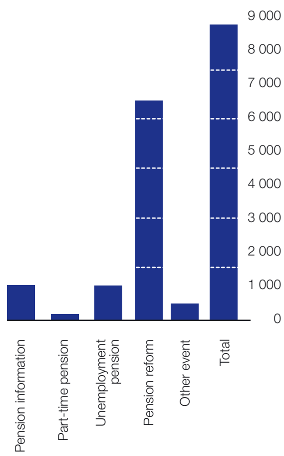
Access requires online banking codes or an electronic identity card.

Pension Estimate made a total of 25 000 pension calculations in 2004. Furthermore, Varma sent out over 27 000 pension calculations that were requested using the system.

Visitors to Pension Estimate online service



No. of people who participated in pension advice events 2004



the applicant is at risk of being unable to work and finally drawing disability pension, or whether the risk can be decreased through vocational rehabilitation.

Varma's consultant physicians represent a broad range of medical expertise, including specialists in psychiatry, internal diseases, occupational healthcare and physiotherapy. Furthermore, many have acquired competence in e.g. rehabilitation or insurance medicine.

Varma's consultant physicians usually work full-time as doctors.

In co-operation with the Consultative Committees

The Consultative Committee for Pension Affairs is a co-operation body between Varma and labour market organisations. Its function is to make recommendations to the company regarding disability pensions and individual early retirement pensions. The members of the Consultative Committee are appointed by the Board of Directors.

The Consultative Committee of the Insured is a consultative body that acts as an intermediary between Varma and the insured (TEL). Its objective is to further co-operation and communication between the company and employees insured by the company. The members are appointed by the Board of Directors, based on the proposals of major central employee organisations.

The Consultative Committee for Pension Affairs at 31 December 2004:

Chairman: Markku Hyvärinen, Executive Vice-President, Varma
Vice Chairman: Sakari Tola, Senior Physician, Varma
Lasse Laatunen, Director, Confederation of Finnish Industries EK
Sinikka Näätsaari, Programme Manager, Central Organization of Finnish Trade Unions
Jorma Skippari, Negotiating Manager, Finnish Confederation of Salaried Employees
Anja Uljas, Head of R&D, Finnish Association of Graduates in Economics and Business Administration
Petri Vanhala, Secretary General, Finnish Paperworkers' Union
Riitta Wärn, Senior Advisor, Confederation of Finnish Industries EK
Marja Ahola, Director, Pension Services, Varma
Kari Ahtiainen, Adjudication Manager, Varma
Marja Korpilahti, Head of Department, Varma

The Consultative Committee of the Insured at 31 December 2004:

Representatives of the Finnish Confederation of Salaried Employees

Vice Chairwoman Pirkko Kalttonen, Stora Enso Oyj
Jorma Ikävalko, NCC Finland Oy
Matti Kangas, TietoEnator Corporation
Pauli Karhu, Wärtsilä Corporation
Kimmo Koskivaara, TS-Yhtymä Oy
Jukka Nyberg, UPM-Kymmene Corporation
Tarja Nyman, Fazer Leipomot Oy, Oululainen
Kaija Roukala-Hyvärinen, Nordea Bank Finland Plc
Seppo Räikkönen, Imatra Steel Oy Ab
Marika Siren, If P&C Insurance

Representatives of the Confederation of Unions for Academic Professionals in Finland

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

Representatives of the Central Organization of Finnish Trade Unions

Chairman Seppo Räsänen, Savon Sanomat Oy
Ellen Helo, Tradeka Group Oy
Arja Launamo, Cloetta Fazer Suklaa Oy
Hannu Paronen, Vierumäen Teollisuus Oy
Eero Pennanen, Assa Abloy Oy
Antero Raanoja, Stora Enso Oyj
Erkki Ruotsalainen, Imatra Steel Oy Ab
Jouni Suomalainen, Sokotel Oy
Simo Virolainen, Honkarakenne Oyj
Kari Virtanen, Koiviston Auto Oy
Timo Virtanen, Metsä Tissue Corporation
Kari Ylikauppila, Fortum Corporation

A new profession through vocational rehabilitation

Ville, 35, got into a vicious circle of time off sick after working as a bus driver for 12 years. His back ailments had continued for years and they got worse despite medication and physiotherapy.

The examinations confirmed that Ville had a significant back problem. The occupational healthcare service inquired of Varma whether Ville was entitled to vocational rehabilitation. After talking with the employer's occupational healthcare nurse, Ville sent a rehabilitation application and Medical Certificate B to Varma.

Varma's rehabilitation planner requested a report on Ville's tasks at work from his employer and asked whether the company could possibly offer him another job. The employer replied that someone with knowledge of industry practices was needed in personnel administration. Ville had acted as the deputy shop steward for a long time and was therefore familiar with, for instance, the basics of employment legislation.

Ville, his employer and Varma's rehabilitation planner drew up a rehabilitation plan together, according to which Ville would learn about the job, first on a three-month job trial, and would then take a two-month basic IT course.

Varma's consultant physician stated on the basis of Ville's documentation that there was a likely risk of disability, were he to continue his present job. The risk could be reduced through the right kind of vocational rehabilitation.

The rehabilitation planner approved Ville's rehabilitation application. During Ville's job trial and IT course, Varma paid a rehabilitation allowance equal to his calculated disability pension and increased by 33%. Varma also paid the costs of the IT course.

Ville is now responsible for familiarising bus drivers with their job, and also helps in recruiting and training. His back has not healed completely, but it allows him to work at his current job.

Liisa retired on a well-earned old-age pension

Liisa started work before the age of 20 and turned 65 in May, when she was due to retire.

As early as March, Varma had sent Liisa a preliminary calculation concerning her old-age pension, along with an old-age pension application form. The letter advised her to apply in time for there to be no delay in payment.

Although Liisa was healthy for her age and in good shape, she had decided she would retire at the age her pension was due. She had discussed the matter well in advance with her supervisor and they had agreed in writing at what point her work would end.

Liisa filled out her pension application and sent it to Varma. About two months later she received the pension decision, stating the monthly amount and that the first payment would be made directly into her bank account on the first banking day of June.

Liisa is now enjoying her well-earned pension and retirement. Every now and then she helps her friend out at a flower shop during the busy season. Liisa receives a small wage that did not affect her pension in 2004, but from the beginning of 2005 this income will accrue pension by a small additional amount.

From 2005, Varma will no longer automatically send out a pre-filled old-age pension application form, because the age threshold for an old-age pension is now flexible. Everyone can now retire on a well-earned pension at any time between the ages of 63 and 68.


SISÄINEN POSTI

Responsible operations secure well-being

Varma's corporate responsibility leans strongly on social and economic responsibilities.

Social responsibility

For Varma, social responsibility means sustainable and well implemented earnings-related pension provision, serving our customers successfully.

Varma's social policy objective implies the company knowing its related responsibilities, playing its part in the active development of statutory earnings-related pension provision and being a reliable actor in the pension scheme.

Varma aims to assume its responsibility for the well-being of the insured employees. When, for example, a client company notices that an employee is under threat of having to retire on a disability pension, vocational rehabilitation services are made available. This is part of Varma's co-operation with its client companies.

Taking care of personnel is also part of long-term responsibility.

Economic responsibility

Varma's economic responsibility includes attending to the competitiveness of the earnings-related pension scheme and the company's profitability in a sustainable manner.

The economic responsibility of Varma is above all related to nurturing pension assets – the company must produce strong returns in the long term on the pension assets entrusted to its care.

Varma's investment decisions carry a lot of weight as Finland's largest investor. Varma's share ownership policy aims at the long-term investment of pension assets and producing added value. The principles of share ownership policy also take in Varma's will to act in promoting employment in Finland.

Environmental responsibility

Varma bears environmental responsibility mainly in its role as a real estate investor. As an insurance company, Varma's own operations or premises have no significant environmental impact.

Raija Rasi photographed by Anne Arminen.

Corporate Responsibility Report to be published in April

Varma published its first corporate responsibility report in 2004. The report aimed to increase the openness of the company's operations. The Corporate Responsibility Report for 2004 will be published at www.varma.fi in April 2005 (in Finnish only).

Varma is a founding member of the Finnish Business & Society association formed in 2002. Its purpose is to promote corporate responsibility including economically, socially and ecologically responsible operations, through a network consisting of companies, the public sector, consumers and citizens.

Varma's corporate responsibility in 2004

Varma Investment Operations examined Varma's share portfolio in terms of corporate responsibility. According to the survey, 46% of the companies in the portfolio met the criteria of one of the corporate responsibility indexes determined by Varma. These companies accounted for 63% of the value of Varma's equities portfolio.

Pension Services tested an operating model in which 40 people whose disability pension application had been rejected by Varma were given a chance to discuss their future options with a social worker and a doctor.

Advisory, Rehabilitation and Evita well-being at work Services arranged a 'A longer life in work' trial together with Varma's client companies, which set out to survey companies' needs and wishes in relation to coping at work.

Pension reform day by day

The effects of the pension reform that entered into force at the beginning of 2005 were visible in the daily work of Varma employees throughout 2004. One of the tasks was to deal with the transfer of the details of the coming amendments into the company's key information systems.

Varma employees also deepened their expertise in specific matters related to the pension reform during the year. They increased their knowledge of the details of the legislation through learning at work and in various training events. The largest training programme in the history of the company was implemented towards the end of the year.

The information systems work related to the pension reform took 66 man-years in Varma.

The immense task was completed on time and the introduction of the new system on the last days of the year went smoothly.

Reaching goals together

As a result of the strategy programme, Varma will no longer draw up a separate personnel strategy. It has instead been incorporated into the overall company strategy, in which personnel and their ability to learn and grow are essential elements.

From the personnel perspective, Varma's strategy emphasises three focal areas: the systematic development of know-how and management, and updating ways of working and processes.

Versatile development of know-how

The development of personnel know-how is based on specifically determined key areas of expertise, and the progress of both individuals and teams is followed systematically. The target is expert staff supporting the company in reaching its goals. Knowledgeable supervisory performance is crucial to those goals and in securing the well-being of Varma's working community.

Varma made ready a new supervisory programme last year for introduction in early 2005. The principal objectives are to improve preparation for management, shape common management practices, and adopt a common language and a team-oriented way of working.

Varma has set its strategic goals high. Reaching them requires the support and commitment of the entire personnel.

A healthy organisation sets an example

The extension of careers and coping at work are societal challenges that Varma is rising to meet. The company has a strong role in society as a promoter of well-being at work as a whole. This mission is best supported when Varma can set an example.

Coping at work and extending employment are affected by e.g. the quality of supervisory work, opportunities for maintaining and developing professional skills, personnel satisfaction and a good working atmosphere.

Varma is encouraging people to stay at work by developing supervisory work, offering internal and external training, and investing in the well-being of the company's working community.

The well-being of Varma's employee community is continuously tracked using an internal corporate image survey, which creates a broad picture of the personnel's perspective on organisational strengths and weaknesses, the flow of information, and job satisfaction. An internal corporate image survey was conducted in early 2005.

State of health is one of the key factors affecting coping at work. Varma occupational health services guarantee professional care for all employees, including the offer of specialist services where necessary. Nevertheless, the emphasis lies on preventive measures so that people do not become sick in the first place.

Health surveys taking in the entire company recommenced in autumn 2004. A three-year project is focusing on promoting the health and operational capacity of personnel, as well as the prevention of work-related illnesses.

The extension of working life is a key goal of the pension reform and one that appears to be working well at Varma. A total of 84% of Varma employees entitled to retire in 2004 decided to continue to work until their planned retirement age.

Varma personnel figures 31 December 2004

- Personnel numbered 646 on average in the year 2004 (2003: 617)
- 77% were women and 23% men (2003: 77%, 23%)
- The average age was 45 years 4 months (2003: 44 years 10 months)
- The average period of service was 12 years 10 months (2003: 12 years 9 months)
- At the end of the year, there were 837 people in permanent or fixed-term employment in Varma Group (2003: 851).

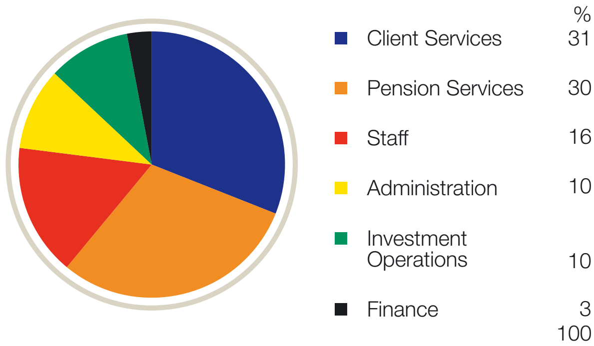
Pilke supports the well-being at work of Varma employees

The Pilke programme to support well-being at work for Varma employees has been compiled together with the personnel themselves.

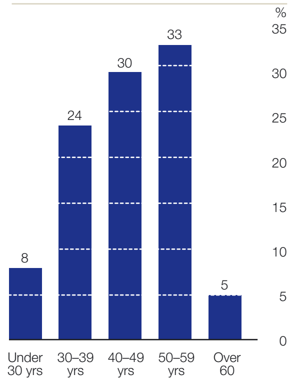
The goals include increasing community spirit, improving dialogue and developing supervisors' skills. Goal realisation is continuously evolved through e.g. internal corporate image surveys, personnel reports, and overtime and sick leave statistics.

Almost all departments have their own departmental Pilke Person whose task is to advance the flow of information and community spirit. Together these representatives form a network that is offered e.g. training related to the well-being of work communities.

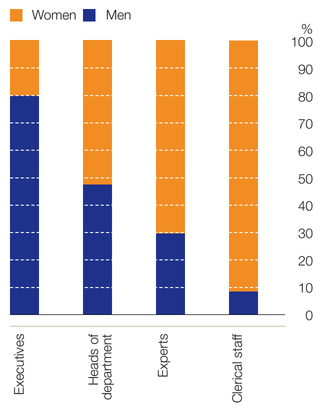
Personnel by function 2004



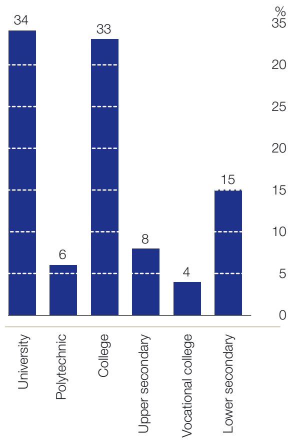
Age structure 2004



Employee groups by gender 2004



Level of education 2004



Corporate Governance

The arrangement of Varma's governance is primarily based on the stipulations of the Finnish Act on Employment Pension Insurance Companies, and in part on the Insurance Companies Act and Companies Act.

The point of departure for Varma's corporate governance is the company's core task – securing pensions. The company aims to improve the transparency of its administration.

The statutory earnings-related pension scheme was created by an agreement of the government and labour market organisations, and the tripartite model still plays a key role in the development of the system. Labour market organisations also participate in the administration of earnings-related pension companies.

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

Corporate governance is an owner value for Varma. Key objectives include advancing trust in the earnings-related pension scheme and ensuring the transparency of operations.

Annual General Meeting

Varma is a mutual company whose owners are:

- policyholders (TEL and YEL),
- the insured (employees within the scope of each valid TEL basic insurance are joint owners per insurance), and
- owners of the guarantee capital which is included in the company's capital and reserves (Sampo Group).

The absolute power of decision in Varma is vested in the shareholders in the Annual General Meeting held each year by the end of May at a date determined by the Board of Directors.

The policyholders, guarantee capital owners and elected representatives of the insured hold the voting rights in the Annual General Meeting.

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

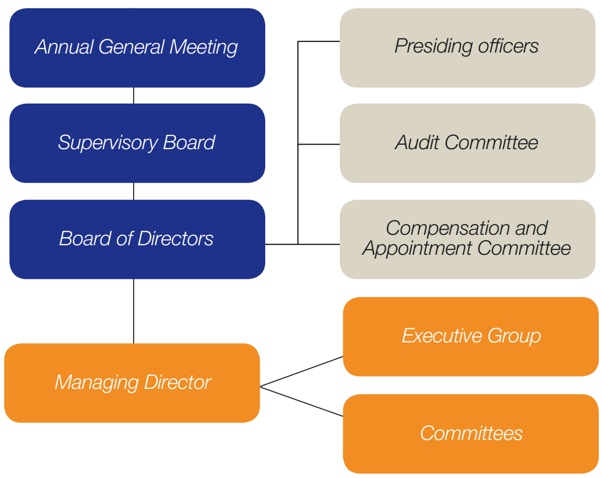
- policyholders around 78%
- the insured around 19.5%
- guarantee capital owners around 2.5%

The insured can participate in the Annual General Meeting and exercise their voting right through a representative elected among them per insurance. More detailed rules are included in the Articles of Association.

The guarantee capital is owned by Sampo and its subsidiary Sampo Life Insurance Company.

In 2004, the Annual General Meeting was held on 22 April.

Varma administration



Jyrki Juusela (left), Erkki Kangasniemi and Lasse Laatunen photographed by Katariina Ruohomäki.

Supervisory Board

According to the Finnish Act on Employment Pension Insurance Companies, Varma has a Supervisory Board that supervises the company's administration by the Board of Directors and Managing Director.

In an earnings-related pension insurance company, the Supervisory Board has largely the same role as the Annual General Meeting in limited liability companies.

The tasks of the Supervisory Board include, for example:

- to confirm remuneration to the Board members,
- to elect the members and deputy members of the Board of Directors and the Chairman and Deputy Chairmen among them,
- to confirm the principles of the company's investment plan annually, and
- to decide on and advise the Board of Directors in all important matters concerning the operation of the company.

Electing the members

The 28 members of the Supervisory Board are elected by the Annual General Meeting for a period of three years. A maximum of 10 members resigns each year. Seven members are elected from among the candidates put forward by major employer organisations; correspondingly, seven members are representatives of major employee organisations. Half of the members can be freely elected by the Supervisory Board.

The Supervisory Board elects a Chairman and one or more Deputy Chairmen among themselves. The Supervisory Board has two Deputy Chairmen.

Remunerations

Remunerations to the Supervisory Board are decided by the Annual General Meeting.

In 2004, an annual remuneration of € 4 000 was paid to the Chairman of the Supervisory Board, € 3 000 to the Deputy Chairmen and € 2 000 to the members. The meeting fee was € 300 per meeting.

Convening

The Supervisory Board convened three times in 2004. Average attendance was 68%.

The Supervisory Board constitutes a quorum when more than half of the members are present.

Board of Directors

The job of the Board of Directors is to manage the company with professional know-how and according to healthy business principles.

The Board of Directors shall take care of the company's administration and operational organisation in an appropriate manner; providing the Managing Director with the necessary instructions, creating an organisation such as is required by the company for its operation, and the arrangement, securing and supervision of that.

The Board of Directors is responsible for all the tasks directed to it by legislation or by the Articles of Association, as well as those tasks not directed to other operational elements by legislation or by the Articles of Association.

According to its operating procedures, the tasks of the Board of Directors include for example to:

- appoint the Managing Director and Deputy Managing Director, as well as to decide on their terms of employment and remuneration systems,
- evaluate the performance of the Managing Director and Deputy Managing Director,
- decide on strategic goals and the company's overall strategy,
- decide on personnel reward systems,
- approve the Annual Accounts,
- determine the guidelines for internal control and risk management, and
- determine the investment plan and supervise investment operations.

In autumn 2004, the Board of Directors conducted a self-evaluation of its work.

Electing the members

Varma Board of Directors comprises 12 members and three deputy members.

Members of the Board of Directors of an earnings-related pension insurance company must be people of good reputation and with sufficient knowledge of the business. There must also be a sufficient understanding of investment operations within the Board of Directors. Board members must be under 67 years of age at the beginning of their term.

Board members and deputy members, the Chairman and at least one Deputy Chairman are elected by the Supervisory Board. The Board of Directors currently has two Deputy Chairmen.

Members of the Board are elected for a period of three calendar years, so that the term of four members expires each year. Three Board members and one deputy member are elected from among the candidates put forward by major employer organisations; correspondingly, three members and one deputy member are representatives of major employee organisations. Half of the members and one deputy member can be freely elected.

There are no members of the Executive Group on the Varma Board of Directors. Of the Board members, Jyrki Juusela and Björn Wahlroos are members of the Board of Directors of Sampo plc, the owner of Varma's guarantee capital.

Remunerations

Remunerations to the Board of Directors are decided by the Supervisory Board.

In 2004, an annual fee of € 15 000 was paid to the Chairman, € 9 800 to the Deputy Chairmen, € 8 700 to the members and € 4 800 to the deputy members. The meeting fee was € 400 per meeting to the Chairman, € 375 to the Deputy Chairmen, and € 275 to members and deputy members. Meeting fees for the members of the Committees of the Board of Directors were the same as those made to the Board members.

Convening

The Board of Directors convened 10 times in 2004. Average attendance was 93%.

Committees of the Board of Directors

The presiding officers and the Managing Director convene when necessary to prepare matters to be presented to the Board of Directors. The presiding officers are the Chairman and Deputy Chairmen of the Board of Directors.

Audit Committee supervises, for example, the company's financial and other reporting, and the state of internal control. The company's Supervisory Auditor is invited to a Committee meeting at least once a year. The director responsible for internal audit acts as the secretary of the Committee. The Committee convened twice in 2004.

Compensation and Appointment Committee prepares both the company's incentive systems and the general principles of reward for management for the Board of Directors. The committee convened three times in 2004.

Both committees report to the Board of Directors.

The Chairmen of the Board of Directors constituted both the Audit Committee and the Compensation and Appointment Committee until the end of 2004. In its meeting held on 26 January 2005, the Board of Directors elected Jyrki Juusela, Mikko Mäenpää, Birgitta Kantola and Markku Pohjola as members of the Audit Committee; and Jyrki Juusela, Mikko Mäenpää and Ole Johansson as members of the Compensation and Appointment Committee.

Managing Director and other management

The Managing Director takes care of the company's current administration as advised by the Board of Directors and is responsible for the daily management of the company.

The Managing Director and deputy to the Managing Director are appointed by the Board of Directors.

The Managing Director's period of notice is 6 months, in addition to which he is entitled to a remuneration amounting to six months salary.

Matti Vuoria has been the Managing Director of Varma from 1 June 2004. He follows Paavo Pitkänen who was Managing Director until 31 May 2004. The Deputy Managing Director is Markku Hyvärinen, Executive Vice-President.

The Managing Director is supported in leading the company by the Executive Group and the Extended Executive Group. In addition to the Managing Director, the Executive Group comprises 6 members. The Extended Executive Group comprises 18 members. (see pp. 48–49).

The mission of the Executive Group is to steer and develop Varma's operations to reach the strategic goals approved by the Board of Directors. The Extended Executive Group tracks the development of the company's strategy and operations, and distributes information.

Remunerations and pension arrangements

The remunerations and fringe benefits of Managing Director Matti Vuoria totalled € 356 000 in 2004. He is set to retire at the age of 62 and his pension will amount to 60% of the calculated pension salary. The remunerations and fringe benefits of Executive Vice-President Markku Hyvärinen totalled € 267 000, and his retirement age is 60 years.

The Board of Directors decides on the salaries and benefits of the Managing Director, Deputy Managing Director, and executives appointed by the Board of Directors.

The total remuneration to the management consists of salary plus fringe benefits, and a payment by results incentive set annually. The maximum amount of payment by result corresponds to 2–6 months salary. The bases of remuneration are decided on by the Board of Directors.

The retirement age of the Executive Group members, excluding the Managing Director and the personnel representative, is 60 years. Five members of the Extended Executive Group have a retirement age of 60 or 62 years, and others have a flexible retirement age in accordance with the Employees' Pensions Act.

Varma has a payment by results system based on annual performance, which supports reaching goals. The system has two components: the performance component is based on the company's result, and the goal reward on personal performance. Every Varma employee in permanent or fixed-term employment is included in the payment by results system.

Investment Operations and Client Services each have a separate payment by results system, and in addition Investment Operations has a 3-year incentive system.

The terms for reward are proposed by the Managing Director and confirmed by the Board of Directors annually.

Committees

The Managing Director is also supported by the Investment Committee and Risk Management Committee.

Investment Committee prepares investment proposals for the Board of Directors and makes decisions on matters in which it has the power of decision (granted in the annually confirmed investment plan) and that have not been delegated to a lower level in the organisation. In addition, the Committee tracks investment risks.

The Investment Committee comprises the Managing Director and the executives responsible for investment operations.

Risk Management Committee tracks risk management. It draws up further instructions on risk management if required and guides the organisation of risk management.

The Risk Management Committee consists of the Managing Director, Executive Vice-President, and the executives responsible for Actuaries, Client Services, Administration, Finance, and Investment Operations.

Internal control

Internal control is used to ensure that, for example, goals and objectives are reached, operations are efficient, there is sufficient management of risks related to operations, management information is reliable, and that legislation and the decisions of administrative bodies are complied with.

Risk management

Risk management is an element of internal control. It aims to ensure that the realisation of investment, information, interruption, personal or other risks, will not cause significant financial loss, endanger the continuity of operations, or cause a loss of faith in the company.

Varma's greatest company-level risks are related to investment operations and information systems.

More detailed information about risk management can be found on pages 30–33 of the Annual Accounts.

Legal compliance activities ensure that legislation, authorities' stipulations, the decisions of administrative bodies, and internal instructions are all complied with. Each manager is responsible for arranging appropriate risk management in their area of responsibility.

Investment risks

The risk management of Varma investment operations includes determining acceptable risk level within the limits confirmed by the Board of Directors, the measurement and analysis of risks, and reporting. Risk management also includes continuous adaptation of the investment portfolio in order to maintain the correct risk and return ratio.

The goal of investment operations is to achieve as strong a return on investments as possible within the limits permitted by the company's risk-bearing capacity. The security, diversification and liquidity goals set for investments, and the principles for arranging foreign exchange traffic, are determined in Varma's investment plan that is confirmed by the Board of Directors.

The total investment risk is adjusted to Varma's risk-bearing capacity in such a way that the company's solvency position is not endangered. The maximum risk level is determined so that the company's risk-bearing capacity is not endangered.

The supervision of investment risks includes their measurement, and drawing up scenario and sensitivity analyses related to the result and solvency. It also includes the supervision of compliance with the use of authorisations and risk limits determined for different types of investment by the Board of Directors.

Finance and Actuaries are responsible for the supervision and reporting of investment risks.

Risks related to insurance

Risks related to insurance are linked to the sufficiency of insurance premiums collected and that of technical provisions, in proportion to pensions in the company's responsibility. A clearing reserve is used in preparing for any fluctuation of the underwriting result. Insurance technique analyses are used as tools in risk management.

Internal audit

Internal auditing assesses internal control and advances its development.

Varma internal auditing operates in accordance with industry standards and the instructions approved by the Board of Directors. The content of auditing is determined annually in an auditing plan that is approved by the Board of Directors.

Insider administration

Varma has instructions regarding insider trading in investment operations. These are confirmed by the Board of Directors and are based on the recommendations of the Federation of Finnish Insurance Companies. The purpose of the instructions is to promote the public reliability of the company's investment operations and the personnel's knowledge of insider regulations, so that they would not be unintentionally violated. The instructions are applied to the company's investment operations and the employees' personal trading in securities.

According to the instructions, insiders are considered the company's Managing Director, Deputy Managing Director, members of the Executive Group, and employees who may have access to insider information, for instance, as a result of their job.

Varma supervises compliance with the instructions for insider trading by investigating the trading of the company as well as insiders four times a year.

External audit

Varma's auditors are Mauri Palvi, Authorised Public Accountant, and Jaakko Nyman, Authorised Public Accountant, and the deputy auditor is KPMG Oy Ab and Paula Pasanen, Authorised Public Accountant.

The Supervisory Auditor is Mauri Palvi, and the Deputy Supervisory Auditor is Jaakko Nyman.

In 2004, auditors' remunerations amounted to € 198 561.40. In addition, the auditing company was paid € 68 534.42 in consultation fees.

Communication and disclosure

HEX Oyj, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers published a Corporate Governance Recommendation for Listed Companies in December 2003. Varma follows the recommendation to the extent possible for a statutory earnings-related pension company.

Varma's press releases and up-to-date information about the company can be found at www.varma.fi.

Supervisory Board

31 December 2004

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

Deputy Chairman
Jukka Härmälä, born 1946
CEO, Stora Enso Oyj
Term expires 2007

Deputy Chairman
Pekka Paasikivi, born 1944
Chairman, Oras Ltd
Term expires 2007

Riku Aalto, born 1965
Director of Finance, Finnish Metalworkers' Union
Term expires 2005

Berndt Brunow, born 1950
President, Oy Karl Fazer Ab
Term expires 2007

Erkki Etola, born 1945
Managing Director, Oy Etola Ab and Oy Etra Ab
Term expires 2005

Stig Gustavson, born 1945
President and CEO, KCI Konecranes International Plc
Term expires 2007

Markku von Hertzen, born 1948
Managing Director, Finnish Association of Graduates in Economics and Business Administration
Term expires 2007

Matti Huutola, born 1959
Deputy Chairman of the Board, Central Organization of Finnish Trade Unions
Term expires 2006

Erkki Isokangas, born 1946
Managing Director, Saarioinen Oy
Term expires 2006

Jouko M. Jaakkola, born 1944
President & CEO, M-real Corporation
Term ended 31 December 2004

Ole Johansson, born 1951
President & CEO, Wärtsilä Corporation
Term ended 31 December 2004

Seppo Koskinen, born 1946
Chief shop steward, Paroc Oy Ab
Term expires 2006

Tapio Kuula, born 1957
President, Power and Heat Sector, Fortum Corporation
Term expires 2006

Matti Kyytsönen, born 1949
Managing Director, ISS Palvelut Oy
Term expires 2005

Lauri Lyly, born 1953
Chairman, Finnish Electrical Workers' Union
Term expires 2007

Antti Norrlin, born 1963
Group President, Koiviston Auto Corporation
Term expires 2007

Hannu Penttilä, born 1953
Managing Director, Stockmann plc
Term expires 2005

Antti Piippo, born 1947
Principal Shareholder,
Chairman, Elcoteq Network Corporation
Term expires 2007

Matti Pulkki, born 1947
President, Sokotel Oy
Term expires 2006

Juha Rantanen, born 1952
President & CEO, Outokumpu Oyj (as of 1 Jan. 2005)
Term expires 2005

Antti Remes, born 1947
Managing Director, Tradeka Group Ltd
Term expires 2006

Antti Rinne, born 1962
President, Federation of Special Service and Clerical Employees ERTO
Term expires 2006

Helena Rissanen, born 1949
2nd Chairman, the Finnish Union of Salaried Employees in Industry
Term expires 2005

Mika Seitovirta, born 1962
Managing Director, Oy Hartwall Ab
Term expires 2007

Jorma Takanen, born 1946
President & CEO, Scanfil Oyj
Term expires 2006

Sakari Tamminen, born 1953
President & CEO, Rautaruukki Corporation
Term expires 2007

Kari Toikka, born 1950
Executive Vice President and CFO, UPM-Kymmene Corporation
Term expires 2005

Memberships that expired in 2004

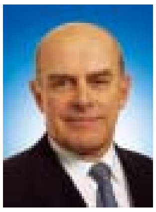
Pekka Ahmavaara, born 1944
Term ended 18 March 2004

Jan-Henrik Kulp, born 1943
Term ended 14 April 2004

Pentti Nieminen, born 1941
Term ended 22 April 2004

Hannu Roine, born 1942
Term ended 23 March 2004

Board of Directors

31 December 2004

Chairman
Georg Ehrnrooth, born 1940
Member as of 1998
Term ended 31 December 2004
Member of the Boards of Sampo plc, Oy Karl Fazer Ab, Sandvik AB and Nokia Corporation; Chairman of the Board of Assa Abloy AB, Vice Chairman of the Board of Rautaruukki Corporation

Deputy Chairman
(until 31 December 2004)
Jyrki Juusela, born 1943
Member as of 2004
Term expires 2007
Vice Chairman of the Board of Sampo plc, member of the Board of Inmet Mining Corporation

Deputy Chairman
Mikko Mäenpää, born 1954
President,
Finnish Confederation of Salaried Employees STTK
Member as of 2000
Term expires 2006
Member of the Representatives of the Finnish Centre for Pensions, member of the Boards of Nordic Trade Unions and the European Trade Union Confederation ETUC

Jouko Ahonen, born 1954
Chairman,
Finnish Paperworkers' Union
Member as of 2003
Term expires 2005
Member of the Representatives of the Finnish Centre for Pensions, member of the Board of the Central Organization of Finnish Trade Unions

Markku Jokinen, born 1949
Managing Director, Sievin Jalkine Oy, Sievi Marketing Oy and Sievi Tools Oy
Member as of 1998
Term expires 2007
Member of the Board and the Small and Medium Enterprise Council of the Confederation of Finnish Industries EK

Erkki Kangasniemi, born 1945
President, The Trade Union of Education in Finland, OAJ
Member as of 1998
Term expires 2007
1st Vice-President of the Confederation of Unions for Academic Professionals, Vice Chairman of the Supervisory Board of Kaleva Mutual Insurance Company, member of the Supervisory Board of Okopankki Oyj

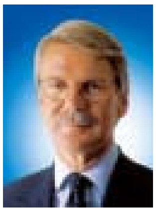
Birgitta Kantola, born 1948
Member as of 2004
Term expires 2006
Member of the Boards of Nordea Bank AB, Fortum Plc, Vasakronan AB and Akademiska Hus AB

Lasse Laatunen, born 1950
Director, the Confederation of Finnish Industries EK
Member as of 1998
Term expires 2006
Member of the Boards of the Finnish Centre for Pensions and the Federation of Accident Insurance Institutions, Vice-Chairman of the Social Insurance Institution










Arto Ojala, born 1944
Director, the Confederation of Finnish Industries EK
Member as of 1999
Term expires 2005
Member of the Economic Council

Markku Pohjola, born 1948
Deputy Group CEO, Nordea Bank AB
Member as of 2004
Term expires 2006
Member of the Board of OMX AB

Kari O. Sohlberg, born 1940
Member as of 1998
Term expires 2005
Chairman of the Board of Perlos Corporation and member of the Board of Oy G. W. Sohlberg Ab

Björn Wahlroos, born 1952
President & CEO, Sampo plc
Member as of 2001
Term expires 2005
Member of the Board of Sampo plc

Deputy members

Mikko Ketonen, born 1945
Chairman, TS-Yhtymä Oy
Member as of 1998
Term expires 2007
Member of the Central Chamber of Commerce of Finland

Sinikka Näätsaari, born 1961
Programme Manager, Central Organization of Finnish Trade Unions
Member as of 2003
Term expires 2007
Member of the Board of the Finnish Centre for Pensions

Timo Poranen, born 1943
President, Finnish Forest Industries Federation
Member as of 1998
Term expires 2007
Member of the Board of KCI Konecranes Plc

As of 1 January 2005, Chairman of the Board is **Jyrki Juusela** and Deputy Chairmen **Ole Johansson**, President & CEO, Wärtsilä Corporation and **Mikko Mäenpää**, President of the Finnish Confederation of Salaried Employees STTK.

As of 1 February 2005, Secretary of the Board of Directors is **Timo Kaisanlahti**, Head of Legal Affairs.

Management

Executive Group at 31 December 2004

Matti Vuoria
Born 1951, President & CEO
Work experience includes:
Full-time Chairman of the Board of Directors, Fortum Corporation 1998–2003
Secretary General, Ministry of Trade and Industry 1992–1998
Vice Chairman of the Board of Danisco A/S, member of the Boards of Nokian Tyres plc and Sampo plc, Chairman of the Board of Winwind Oy, member of the Boards of the Finnish Pension Alliance TELA and the Federation of Finnish Insurance Companies

Member of the Executive Group since 2004

Markku Hyvärinen
Born 1948, Executive Vice-President
Work experience includes:
Managing Director, Pension Sampo 1996–1998
Member of the Boards of If P&C Insurance Holding Ltd and Finnair Plc, Vice Chairman of the Board of Kaleva Mutual Insurance Company

Member of the Executive Group since 1998

Jorma Leinonen
Born 1946, Senior Vice-President (Investment Operations)
Work experience includes:
Senior Vice-President, Investments, Sampo plc 2001–2002
Executive Vice-President, Sampo Life 1999–2001
Member of the Boards of Sampo Life Insurance Company and 3C Asset Management Oy

Member of the Executive Group since 2002

Pasi Mustonen
Born 1964, Chief Actuary
Work experience includes:
Senior Actuary, Varma 2001–2003
Actuary, Pension Sampo 1996–1998
Member of the Representatives of the Finnish Centre for Pensions, member of the Board of the Actuarial Society of Finland

Member of the Executive Group since 2004

Jouko Oksanen
Born 1951, Chief Financial Officer
Work experience includes:
Senior Vice-President, Pension Varma 1990–1998
Member of the Boards of Tamfelt Corporation and Ahlström Capital Oy, Vice Chairman of the Board of Arek Oy

Member of the Executive Group since 1998

Hannu Tarvonen
Born 1952, Senior Vice-President (Client Services)
Work experience includes:
Senior Vice-President, Varma 1998–
Senior Vice-President, Marketing, Pension Sampo 1996–1998
Member of the Supervisory Board of YH-Yhtymä Oy, member of the Board of Kaleva Mutual Insurance Company

Member of the Executive Group since 1998

Marjaana Vuorinen, Personnel representative
Born 1963, Service Manager
Work experience includes:
Rehabilitation Planner, Varma 1998–2000

Employee representative since 2004

Secretary: Ilkka Kohonen

Extended Executive Group

The Extended Executive Group comprises the Executive Group and the following persons:

Sakari Aaltonen
Born 1952, Director, Administration

Marja Ahola
Born 1944, Director, Pension Services

Carina Geber-Teir
Born 1972, Director, Communications

Merja Haikonen, Personnel representative
Born 1950, lawyer

Ralf Joutsenlahti
Born 1953, Director, Client Relations

Eija Kaipainen-Perttula
Born 1958, Director, Insurance Services

Ilkka Kohonen
Born1945, Director, Corporate Development

Jorma Kuokkanen
Born 1953, Director, Investments
(Real Estate and Client Financing)

Petri Kuusisto
Born 1964, Director, Investments
(Capital Markets)

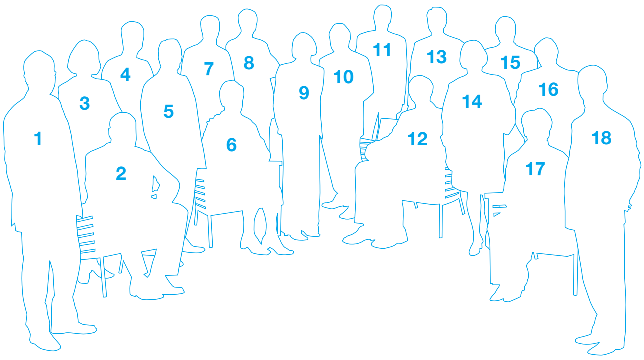
Irmeli Otava-Keskinen
Born 1950, Director, Information Management

Sakari Tola, Medical Affairs
Born 1946, Professor, Senior Physician

Consultant Physicians

Mari Antti-Poika, born 1946
Per-Henrik Groop, born 1956
Juhani Juntunen, born 1943
Matti Klockars, born 1940
Heikki Nikkilä, born 1955
Pekka Palin, born 1950
Ritva-Liisa Peltomäki, born 1953
Henrik Riska, born 1945

The Managing Director is supported in leading Varma by the Executive Group and the Extended Executive Group. In addition to the Managing Director, the Executive Group comprises 6 members. The Extended Executive Group comprises 18 members.



1. Markku Hyvärinen
2. Matti Vuoria
3. Irmeli Otava-Keskinen
4. Eija Kaipainen-Perttula
5. Ralf Joutsenlahti
6. Marjaana Vuorinen
7. Ilkka Kohonen
8. Jouko Oksanen
9. Carina Geber-Teir
10. Sakari Aaltonen
11. Pasi Mustonen
12. Jorma Leinonen
13. Jorma Kuokkanen
14. Merja Haikonen
15. Sakari Tola
16. Hannu Tarvonen
17. Marja Ahola
18. Petri Kuusisto

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www.varma.fi

Annual Accounts 2004

VARMA

SECURES PENSIONS

Varma Annual Accounts 2004

Annual Accounts

The Annual Accounts for 2004 and Notes are available at the Parent Company headquarters at Annankatu 18, Helsinki, Finland.

Board of Directors' Report 2004

- Premium income increased by 7% to € 2.6 billion. The number of insured employees and entrepreneurs rose by 13 700 to almost 443 000. Varma's market share was estimated to have increased by 1 percentage point to around 38% of the earnings-related pension market.
- Pensions totalling € 2.6 billion – up 4% on the year before – paid to nearly 286 000 people.
- Return on investment stood at 8.0% (2003: 8.1%), the market value of investments at more than € 21.2 billion (€ 19.5 billion).
- Total result of € 878 million (€ 910 million) due to strong investment income.
- Solvency stood at € 3 986 million (€ 3 193 million), or 22.8% (19.4%).
- Preparations related to the pension reform were implemented on schedule and according to plan.

Trends in the economic operating environment

The world economy grew by almost 5% in 2004. Growth was particularly rapid in Asia and the US, and the US budget deficit continued to expand. Extensive investment heated the Chinese economy and was also reflected in e.g. global demand for raw materials. Economic growth in the expanded EU25 area outstripped that of the previous year, at almost 2%. The further weakening of the dollar and high oil prices increased risks in the world economy. In terms of global politics, the operating environment was still uncertain.

Finnish gross domestic product was estimated to grow by just over 3% in 2004. Industrial production, exports and infrastructure-driven investments recovered. The consumer price index remained almost unchanged, taxation lightened, and property income increased, as a result of which the real income of households increased significantly, thus strengthening consumers' purchasing power and rate of saving. The number of people employed in the industrial sector continued to fall, but the situation was somewhat improved by the growth of employment in other sectors. The strengthening of the euro combined with rising oil prices slowed economic growth. As interest rates stayed low, trading in real estate and residential property continued to be lively.

Interest rates stayed low and reached historically low levels towards the end of the year, contrary to an expected rise. Price development in the equities markets was mainly positive in the industrial countries, although there were quite substantial fluctuations during the year. In Finland, the approaching tax reform saw companies passing on record dividends. International investors continued to be active in the real estate market.

Earnings-related pension scheme

According to the Finnish government programme, 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. The report of the working group of the Prime Minister's Office focusing on globalisation handles e.g. the challenges of economic growth. The supply of labour will decrease, low investments will weaken capital stock, and without rationalisation measures the increase of jobs in the service sector will hamper productivity. The goal of extending working life is also supported by the labour market organisations and earnings-related pension insurance industry.

Parliament passed the pension reform that entered into force at the beginning of 2005. The new law means e.g. that the amount of earnings-related pension is affected by all income from an employee's work history; pension starts to accrue at the age of 18, rises at 53, and accrual accelerates further from 63–68. People can retire on old-age pension at their own discretion between the ages of 62 and 68. The integration of benefits will be primarily abolished from new earnings-related pensions. As of 2010, pension provision will be adapted to longer life expectancy. The amount of pension will continue at least on a par with that under the present regulations until 2012. Further reform is planned for a single employment pension act for the private sector to enter into force at the beginning of 2007.

The rehabilitation reform linked to the earnings-related pension reform entered into force at the beginning of 2004, when vocational rehabilitation became a statutory earnings-related pension benefit. The number of rehabilitation applications increased by almost 30% from the previous year. Rehabilitation plays a major role in reducing the number of disability pensions.

From the start of 2004, individuals whose work history comprises state or municipal employment as well as in the private sector can submit their pension application to a single institution that will also pay the pension.

The Ministry of Social Affairs and Health appointed Matti Louekoski, Deputy Governor of the Bank of Finland, to study the need to reform the law on earnings-related pension insurance companies. He will have to investigate what impacts the overall reform of the Companies Act and the consequent amendments to the Insurance Companies Act will have on legislation concerning earnings-related pension insurance companies.

The Ministry of Social Affairs and Health confirmed the change in calculation bases, which means the deductible method used for insuring disability pensions for large-scale employers will be replaced by a contribution class arrangement. As of 2006, the employer's TEL contribution level will be determined beforehand, and the contribution will no longer be adjusted historically on the basis of individual disability cases. Disability pensions are treated as defined contribution pension arrangements, and a listed company will not have to draw up calculations in accordance with the IAS 19 standard for an insurance policy provided by an earnings-related pension insurance company.

The Finnish earnings-related pension scheme was excluded from the scope of application of the EU's life insurance directive when Finland joined the EU. This exception would remain in the EU's new constitution should it come into effect. The extant directive also notes that the Finnish earnings-related pension scheme does not fall within its scope. The exception can only be amended by an absolute majority decision of the EU Council.

According to a bill passing through the Finnish Parliament, an insurance broker would only be able to accept a fee from the principal in order to improve customer protection and prevent a commitment that might prove damaging. The fee would therefore no longer be paid by e.g. a pension insurance company.

Financial review

The official profit and loss account and balance sheet of an earnings-related pension insurance company do not reveal the company's financial result or financial state. The net result in the profit and loss account of the parent company at € 7 million (€ 5 million) is determined by the calculation bases confirmed by the Ministry of Social Affairs and Health. The Notes to the Accounts can provide a picture of the parent company's financial situation.

In order to improve the transparency of the Annual Accounts, the Notes present Varma's parent company's income statement and balance sheet at fair values, at the same time grouping the essential items. The total result at fair values developed well for the second year in a row to stand at € 878 million (€ 910 million). The Key Figures section in the Notes to the Accounts shows the distribution of the total result by comparing returns on investment at fair values to the yield requirement on technical provisions ("investment surplus"), operating expenses to the administrative costs included in insurance premiums ("loading profit"), and claims expenditure to corresponding premium income ("insurance business surplus").

The company's investment income at fair values stood at € 1 566 million (€ 1 461 million), or 8.0% (8.1%). The yield on investments was € 803 million (€ 820 million) in excess of the required rate of return on technical provisions, which is based on the calculated interest rate confirmed by the Ministry of Social Affairs and Health. Varma's yield on investment for 2000–2004 averaged 5.0%, which corresponds to a real income of 3.3%. Securing long-term real income is important for long-term pension liabilities.

Varma's efficient organisation kept operating expenses below the administrative cost included in the insurance premiums, and loading profit stood at € 23 million (€ 19 million), a record result for Varma. Claims expenditure was lower than the corresponding premium income, and the insurance business surplus was estimated at € 53 million (€ 70 million).

The equalisation reserve for covering insurance business risks increased by € 47 million (€ 63 million) to € 907 million (€ 860 million).

Varma's positive financial development meant solvency increased by € 793 million (€ 784 million). Solvency is indicated by the solvency margin that stood at € 3 986 million (€ 3 193 million) at the end of 2004, with 22.8% (19.4%) 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 2.39 times (2.11 times) the solvency limit. The margin comprises capital and reserves, accrued appropriations, the unallocated insurance reserve, and valuation differences.

The company's improved result made it possible to transfer € 51 million (€ 35 million) to the bonus reserve for client bonuses. The transfer amounted to approximately 0.43% (0.32%) of Varma's payroll. In 2002, all earnings-related pension insurance companies had to pay an additional supplement into their bonus reserve, as the calculation bases changed. It was required that this supplement be deducted from the maximum amounts of bonuses by 2012. At the end of 2003, pension insurance companies were carrying a remainder of approximately € 35 million in bonus liabilities. Varma amortised all of its remaining liabilities in 2004, without which client bonuses would have amounted to approximately € 57 million.

Insurance business

The calculated interest rate stood at 4.5% until 30 June 2004, at 5% for the second half of the year and at 4.75% from the beginning of 2005. The average payment level of the employees' pension insurance was 21.4% (21.4%) of payroll. The employees' contribution to that was 4.6 percentage points (4.6) and the payment under the Self-Employed Persons' Pensions Act YEL was 21.4% (21.4%) of earned income.

Varma is Finland's biggest private sector pension insurer. The total TEL payroll of those insured in the company for the year 2004 stood at around € 11.8 billion (€ 11.0 billion). The company's premiums written stood at € 2 615 million (€ 2 455 million), of which the basic insurance under the Employees' Pensions Act TEL accounted for € 2 482 million (€ 2 321 million), and insurance under the Self-Employed Persons' Pensions Act YEL for € 119 million (€ 116 million). The total payroll of the insured is estimated to grow by around 7% on the previous year. Varma was responsible for insuring the pension provision of around 442 700 (429 000) persons at year-end 2004, which was almost 14 000 more than a year before. Varma strengthened its position as the insurer of large corporations, but lost market share

	31 Dec. 2004	31 Dec. 2003	Change
No. of insured			
TEL [1]	**406 440**	393 044	13 396
YEL	**36 280**	35 952	328
Total	**442 720**	428 996	13 724
[1] TEL additional pension insurnce	**15 310**	18 992	–3 682
No. of insurance policies			
TEL	**25 590**	25 297	293
No. of pensioners [2]			
Old age pension	**156 027**	151 100	4 927
Survivors' pension	**48 911**	48 566	345
Disability pension	**43 893**	44 293	–400
Unemployment pension	**14 062**	15 612	–1 550
Early old age pension	**12 932**	12 274	658
Early disability pension	**2 878**	3 945	–1 067
Part time pension	**6 886**	7 959	–1 073
Total	**285 589**	283 749	1 840
[2] Those receiving YEL pension	**28 155**	28 225	–70
[2] Those receiving TEL/YEL additional pension	**34 979**	34 275	704

in SMEs. Measured by premium income, Varma's market share (37% of the business of earnings-related pension insurance companies) is estimated to increase by one percentage point. In addition to its own customer services, Varma serves policyholders through the distribution networks of If P&C Insurance Ltd, Sampo and Nordea Group.

The total value of pensions paid in 2004 was € 2 296 million (€ 2 200 million). Some 19 210 (21 697) new pension decisions were made during the year, 11% less than in the previous year. The number of continuation decisions was 5 132 (5 470), that of advance decisions 2 379 (2 615), and other decisions numbered 11 752 (10 880). The number of applications is expected to rise again as a result of the 2005 pension reform. The number of part-time pension decisions was halved to 850 (1 831). First decisions on disability pensions decreased by 13%, while rejections stood at 23.1% (23.6%). Rehabilitation decisions numbered 1 040 (16% more than in the previous year) of which 74% were acceptances with 26% rejected.

Handling time on pension decisions shortened yet further from the previous year's already significant improvement. The number of open applications lies at the lowest level in the history of the company. Some 77.4% (74.6%) of first decisions were made within a month of the commencement of entitlement, exceeding the goal set for Pension Services. At the year-end, Varma was paying pensions under the Employees' Pensions' Act TEL and the Self-Employed Persons' Pensions Act YEL to around 285 600 persons (283 700).

The use of Varma's online services is continuously increasing. Employers sent 823 000 (787 000) notifications to Varma and as many as 71.5% (64.3%) of these were submitted electronically, exceeding the goal set for Insurance Services. Through the Eläkearvio (pension estimate) online service, insured employees can check their personal work history and earnings details that affect their pension. It is also possible for customers to compare how retirement age affects the amount of their pension. Identification is required in order to use the service. A number of new features were added during the year. Data for around 25 000 (6 200) pension estimates were submitted online. Varma mailed an age class calculation to 39 000 (38 000) TEL insured employees aged 30, 35, 40, 45, 50 and 55.

Vocational rehabilitation became a statutory benefit at the beginning of 2004. The purpose of vocational rehabilitation supported by earnings-related pension insurers is to keep the employee or self-employed person in working life despite sickness. Varma's rehabilitation unit commenced a project that aims to encourage companies to predict problems threatening working capacity, soon enough to tackle them actively. This calls for commonly agreed operating models that also involve co-operation with occupational health care services. Varma published a guide on the prevention of disability at workplaces, with which companies can build their own operating models. The necessary bases for a successful model include the commitment of all parties, an atmosphere of trust at the workplace, and a culture of open communication and discussion.

The introduction of far-reaching changes in Varma's information systems due to the pension reform at the turn of the year 2004–2005 went as planned.

Technical provisions

Technical provisions grew by 6.5% (8.5%) to € 20 029 million (€ 18 812 million) during the year. A bonus reserve of € 51 million (€ 36 million) and an unallocated insurance reserve of € 2 483 million (€ 2 311 million) are included in technical provisions. The equalisation provision stood at € 907 million (€ 860 million). Totals of € 10.6 million in pension liabilities and € 1.3 million of the solvency margin respectively were transferred to one joint pension foundation. Pension liabilities amounting to € 13.1 million were transferred from one pension foundation to Varma.

Investment operations

All figures are presented at fair values. Varma investments stood at € 21 233 million (€ 19 459 million) at the year-end. Investment income stood at € 1 566 million (€ 1 461 million), or 8.0% (8.1%), which corresponds to as high as 7.7% real income.

The growth of the world economy was positively reflected in the financial performance of companies, and interest rates on bonds which rose after sinking to record lows. Company and industry-specific as well as geographical differences in returns were significant.

The loan portfolio continued to contract and amounted to € 1 090 million (€ 1 222 million), or 5% (6%) of investment assets. Loans with guarantee constituted 81% (83%) of the total. A total of € 134 million (€ 215 million) of new loans was taken out during the year. The loan portfolio yielded a return of € 56 million (€ 56 million), or 4.8% (4.4%). The average remaining loan period before maturity was 9.2 years (10.5 years).

Bonds accounted for € 11 241 million (€ 10 891 million), or 53% (56%) of investment assets. Public corporation bonds amounted to € 6 134 million (€ 5 909 million), financing bonds to € 2 565 million (€ 2 629 million) and corporate bonds to € 2 311 million (€ 2 288 million). The fixed-income portfolio achieved an average risk-weighted 'A' credit rating as at the end of the previous year. The average term of the fixed-income portfolio was 3.5 years (3.4 years) at the end of 2004. Interest forward contracts were used for hedging interest rate and currency risks, and their duration was shortened; this however reduced the yield of fixed-income investments, since interest rates fell. The return on fixed-income investments stood at € 535 million (€ 652 million), or 5.0% (6.1%). In comparison, the return on the Salomon Euro Government index stood at 7.6% and that of the Merrill Lynch Euro Corporate index at 15.9%.

Other money-market instruments totalled € 838 million (€ 143 million) at the year-end, resulting in a return of € 12 million (€ 9 million), or 2.6% (3.4%).

Equities and shares owned by Varma stood at € 5 477 million (€ 4 683 million) at the year-end, or 26% (24%) of investment assets. Investments in equities were increased during the year, and net investments in equities totalled € 438 million (€ 1 176 million). International stock exchange indexes rose in 2004: the annual change in the Dow Jones Stoxx 600 yield index was +12.2% (+17%), the HEX All-Share Index +7.6% (+9%) and HEX Portfolio Index +21.4% (+23%). The return on Varma's equities portfolio exceeded the returns in accordance with the comparison indexes. Investments in Finnish listed shares stood at € 1 834 million (€ 1 297 million). A total of € 321 million (€ 269 million) was invested in capital trusts. In addition, Varma has undertaken to subscribe to capital trust shares for € 338 million (€ 391 million). The return on investments in equities and capital trusts stood at € 855 million (€ 627 million), or 17.9% (19.3%). Varma's holding in Sampo plc increased to stand at 15.6% (7.6%), or € 879 million (€ 345 million) at the year-end. The yield from the increased price and high dividend of Sampo shares was 45% in the financial year. The shares of If P&C Insurance Holding Ltd acquired in 2002 (10%) were sold to Sampo for € 270 million, and thus Varma's sales gain from the ownership period amounted to € 85 million.

Varma's real estate portfolio stood at € 2 587 million (€ 2 520 million) at the year-end, or 12% (13%) of investment assets. Varma invested € 180 million (€ 63 million) in real estate during the year, selling € 64 million (€ 24 million). Varma also acquired shares of large companies investing in the construction-to-rent business for residential apartments by buying 12% of the shares of Sato-Yhtymä Oyj and 10% of the shares of VVO-Yhtymä Oyj. Varma invested € 15 million in foreign real estate trusts. In addition, the company has undertaken to subscribe to real estate trust shares to the value of € 54 million.

At year-end 2004, the total real estate area owned by Varma Group amounted to over two million square metres. The under-utilisation rate of office space was 3.7% (5.1%). The real estate portfolio was divided according to invested capital as follows: office space and business premises 59% (57%), residential apartments 18% (16%), industrial and warehouse facilities 16% (13%), hydropower plants 5% (7%), and other premises 2% (5%). The largest real estate investments were Hämeentie 135 in Helsinki (€ 122 million) and Tampereen Kiinteistö Invest Oy in the Finlayson area of Tampere (€ 117 million). The return on real estate investments was € 128 million (€ 132 million), or 5.1% (5.4%). Value adjustments on real estate amounted to € 48 million (€ 40 million). Varma is the third largest real estate investor in Finland. Real estate provides a steady yield in the long term in changing circumstances that is competitive with other forms of investment.

The Insurance Supervision Authority considered it necessary to conduct a survey of real estate transactions between all earnings-related pension insurance companies and their clients during the period 31 December 1998 – 30 September 2003, because the transactions were publicly claimed to be overpriced. According to the survey, the real estate items have provided returns that have strengthened the solvency of pension insurance companies. Neither is there any sign that the real estate acquired from policyholders would provide a lower yield than that purchased from other parties. The Insurance Supervision Authority had no grounds for complaint regarding transactions enacted by Varma.

The high rate of employment enjoyed in Finland also strengthens the future of earnings-related pension provision. The Board of Directors approved Varma's principles of share ownership policy as part of the company's investment policy. Varma wishes to advance solutions that support Finnish employment and the prerequisites for entrepreneurship. The company's share ownership policy emphasises the long-term investment of pension assets and the production of added financial value. High-quality governance and transparency are important selection criteria in Varma's investment decisions. Other principles include e.g. active engagement through the Annual General Meeting and incentive systems for corporate management and other key personnel. During spring 2004, Varma exercised its voting right in the Annual General Meetings of all the Finnish companies whose shares it owns and in 80% of the foreign companies.

Operating expenses

Personnel and information management account for more than 80% of Varma's operating expenses. Total operating expenses rose by 4% (6%) on the previous year to € 78 million (€ 75 million). Of the administrative costs included in the premium, Varma allocated only 75% (77%) to operating expenses funded from these costs. This percentage is an indicator of cost-efficiency, the highest rate ever achieved by Varma and competitive in the pension insurance industry, which will benefit Varma's customers in terms of larger client bonuses. Operating expenses related to investment operations amounted to € 10 million (€ 10 million) and are covered by the return on investments.

As a shareholder of Arek Oy, a company jointly owned by pension insurance institutions, Varma has participated in a substantial information systems project regarding earnings, which is to be introduced in 2007 in specific connection with the combining of the employment pension acts. Details of all earnings that affect the amount of an earnings-related pension will be recorded in a new database. After the Acts have been combined, pension insurance companies will also be permitted to provide cover for short-term employment contracts.

Varma Group personnel, excluding temporary employment relationships, totalled 837 (817) at the year-end, of which 660 (623) worked in the parent company.

Varma has a payment by results system for the entire personnel, which encompasses a company-specific and a personal component. The company-specific element was affected by the result of investment operations, client acquisitions, operating expenses and the efficiency of pension and insurance handling. There is in addition for specified employees in Client Services and Investment Operations a separate system to reward goals met.

Associated undertakings and significant participating interests

At the year-end, Varma Consolidated Accounts comprised a total of 229 (231) subsidiaries and 69 (69) significant participating interests, mainly real estate firms.

During the year, subsidiaries Vasa-Sijoituskiinteistöt Oy and El-Sam Asunnot Oy were merged into the parent company. The share capital of significant participating interest Octel Oy was sold to TietoEnator Corporation. The share of ownership in Ovenia Oy fell from 37.5% to 28.8%.

Company administration

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

The Annual General Meeting on 22 April 2004 re-elected the following Supervisory Board members: Markku von Hertzen, Lauri Lyly, Jukka Härmälä, Berndt Brunow, Stig Gustavson, Antti Norrlin, Pekka Paasikivi and Antti Piippo. Sakari Tamminen was elected to replace Jyrki Juusela, Matti Huutola to replace Pekka Ahmavaara, Jorma Takanen to replace Hannu Roine, and Kari Toikka to replace Jan-Henrik Kulp. In addition, Mika Seitovirta was elected as a new member of the Supervisory Board. The Supervisory Board elected Matti Honkala as 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 Oy Ab and Paula Pasanen, Authorised Public Accountant, as deputy auditors. Auditing fees paid by Varma in 2004 amounted to € 199 000 (€ 253 000) and fees paid to auditing companies for consulting (e.g. information management and taxation) amounted to € 68 000 (€ 185 000), a total of € 267 000 (€ 438 000).

On 13 December 2004, the Supervisory Board re-elected the Board of Directors' members Markku Jokinen, Jyrki Juusela and Erkki Kangasniemi, whose terms were due to expire, and deputy members Mikko Ketonen, Sinikka Näätsaari and Timo Poranen, whose terms were also due to expire. Ole Johansson was elected to replace long-time Chairman of the Board Georg Ehrnrooth. As of the beginning of 2005, Jyrki Juusela was elected Chairman of the Board of Directors, and Ole Johansson and Mikko Mäenpää were elected Deputy Chairmen.

Managing Director Paavo Pitkänen retired in summer 2004. Matti Vuoria took up the post of Managing Director on 1 June 2004. He was initially Executive Vice-President from the beginning of 2004.

A recommendation concerning the corporate governance systems of listed companies entered into force on 1 July 2004. Despite the fact that Varma is not listed, the company follows the recommendation in its Annual Report to the extent possible for a statutory earnings-related pension company.

Varma Board of Directors convened 10 times in 2004. Average attendance was 93%. The Board of Directors' Audit Committee convened twice and the Compensation Committee three times during the year. All ordinary and deputy members of the Board of Directors participated in a self-evaluation of the Board's work.

During the year, the Board of Directors handled e.g. Varma's strategy, investment plan and the arrangement of internal control, and also dealt with basic policy regarding development and management. The goal of the organisational changes that were implemented is to enhance Varma's ways of working in different areas as well as improve the management of customer relationships and personnel planning. Reorganisation has helped to construct larger administrative entities, separate expert and supervisory tasks, and move supervisory responsibilities closer to unit staff. In addition, the Board of Directors initiated projects related to the result card and company efficiency.

Varma's first Corporate Responsibility Report was published with the goal of increasing the openness of the company's operations. For Varma, social responsibility means sustainable and well implemented earnings-related pension provision, serving our customers successfully. Varma's economic responsibility includes attending to the competitiveness of the earnings-related pension scheme and the company's profitability in a sustainable manner. Varma pursues just and fair pension decisions and invests the assets entrusted to its care in the best possible manner for earnings-related pension provision, in order to be able to secure pensions in even difficult economic times.

Outlook

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 and further measures will be needed to support them. The financial incentives behind the earnings-related pension reform are significant, but not in themselves sufficient to guarantee a rise in retirement age. Coping at work for elderly employees should also be supported more than is now the case, by developing management culture, working atmosphere and the capacity to work.

The Finnish pension system has worked well by international comparison. Pension liabilities stretch over a very long period, due to which the challenges set by the world economy for the Finnish national economy and its competitiveness essentially affect the long-term sustainability of our pension system. The yield and security of investment operations concerning pension assets also need to be examined in the long term. An ageing population and the retirement of the baby boom generation will reduce the available workforce, and our national economic development will become a key issue. Varma expects the number of pension applications to increase significantly in the coming years as the baby boom effect begins to peak. The pension reform and the planned combination of the employment pension acts require extensive changes in insurers' information systems and ways of working. Although Varma already offers competitive cost-efficiency in the pension insurance industry, the rationalisation of operations and customer service will continue in a variety of ways.

The returns from capital markets critically affect the amount of earnings-related pension assets entrusted to Varma's care and the development of the company's solvency. There are signs of a slowing in the rate global economic growth. Economic and political risks cast a shadow over the development of the world economy. After two good years, uncertainties are creeping into equities markets. There is a risk of a rise in interest rates, which may make it difficult to achieve sufficient returns on pension assets. Development of the solvency regulations governing earnings-related pension insurance companies to support direct equities investments and investments in capital trusts is being investigated. Active investment operations, alongside the timely and accurate selection and deployment of investment instruments, target the highest possible returns in the prevalent market conditions.

Associated undertakings as at 31 December 2004

The following are included as new companies in Varma's consolidated annual accounts

Kiinteistö Oy Kempeleen Kurikkatie 12
Kiinteistö Oy Lohjan Sampotalo
Kiinteistö Oy Tietotalo
Kiinteistö Oy Lahden Jussilankatu 6
Kiinteistö Oy Oulun Tyrnäväntie 6
Kiinteistö Oy Helsingin Lemuntie 7
Kiinteistö Oy Haunistenniitty
Vaasa Tekno Park Oy

In addition, the Group comprises the following 183 companies

Asunto Oy Kotkan Alahovintie 11
Asunto Oy Lahden Massinpoiju
Asunto Oy Lappeenrannan Ihalaisenvuori
Asunto Oy Rovaniemen Välirakka
Asunto Oy Espoon Rautiaisentie 21
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 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 Kokkovuori
Asunto Oy Korkeavuorenkatu 2 A
Asunto Oy Kotkan Alahovinniitty
Asunto Oy Kuokkalan Tahkonkartano
Asunto Oy Lahden Kulmakatu 12
Asunto Oy Lahden Lahdenkatu 39
Asunto Oy Lahden Massinhovi
Asunto Oy Lahden Ritaripiha
Asunto Oy Linnantie 3
Asunto Oy Lintukallionrinne 1
Asunto Oy Matinkylän Poutapilvi
Asunto Oy Merihauki
Asunto Oy Neilikkatie
Asunto Oy Niittymaanpuisto
Asunto Oy Oulun Keulanhaka
Asunto Oy Oulun Lehmuskuja
Asunto Oy Paatsamatie 3
Asunto Oy Paratiisintie
Asunto Oy Porin Purjeentie 7
Asunto Oy Raikukuja II
Asunto Oy Saarnilaakso
Asunto Oy Siltavoudintie 1
Asunto Oy Taivalpolku
Asunto Oy Tampereen Jankansampo
Asunto Oy Tampereen Kultaköynnös
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 Kaivoslähde
Asunto Oy Vantaan Käräjäkuja 1
Asunto Oy Vantaan Lummepiha
Asunto Oy Vantaan Vernissakatu 5
Asunto Oy Väinämöisenkatu 7
Draco Oy
Esy Oy
Hakunilan Kiinteistöt Oy
Hauhon Teollisuushallit Oy
Helsingin Kiinteistösijoitus Oy
Kiikun Liiketalo Oy
Kiinteistö Oy Ahertajantie 3
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 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 Helsingin Valimotie 9–11
Kiinteistö Oy Hiiritornit
Kiinteistö Oy Hotelli Torni
Kiinteistö Oy Hyvinkään Riihimäenkatu 79
Kiinteistö Oy Hämeentie 135
Kiinteistö Oy Itäinen Rantakatu 60
Kiinteistö Oy Itälahdenkatu 15–17
Kiinteistö Oy John Stenbergin ranta 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 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 Vaasan Monopol
Kiinteistö Oy Vaasan Sampotalo
Kiinteistö Oy Vantaan Linkokuja
Kiinteistö Oy Vantaan Martintalo
Kiinteistö Oy Vantaan Sarkatie 1
Kiinteistö Oy Varmantalo
Kiinteistö Oy Viittakari
Kiinteistö Oy Vuorenvarma
Kiinteistö Oy Vääksyntie 4
Kiinteistöosakeyhtiö Varma
Osakevarma Oy
Oy Ässäkeskus Ab
Pitäjänmäen Kiinteistöt Oy
Satakunnan 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

The 33 subsidiaries of the wholly-owned Vasa-Sijoituskiinteistöt Oy were merged into Varma on 29 October 2004:

Fastighets Ab Baggen Kiinteistö Oy
Kaijonharjun Liikekeskus Oy
Kiinteistö Osakeyhtiö Juvakeskus
Kiinteistö Oy Loimaanportti
Kiinteistö Oy Atomitalo
Kiinteistö Oy Äänekosken Ostoskeskus
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
Kiuruveden Linja-autoaseman Kiinteistö Oy
Lepinpellonkatu Oy
Syväsenvaaran Liikekiinteistö Oy

The 5 subsidiaries of the wholly-owned El-Sam Asunnot Oy were merged into Varma on 29 October 2004:

Asunto Oy Kaarenpaatsama
Asunto Oy Kartanonpesä
Asunto Oy Minkkikuja 3
Asunto Oy Näkinkuja 4
Asunto Oy Porin Harmaakarhu

The Group comprises the following 68 significant participating interests:

Asunto Oy Akaankievari
Asunto Oy Harjavallankatu 6
Asunto Oy Helsingin Eino Leinon katu 7
Asunto Oy Helsingin Haapaniemenkatu 11
Asunto Oy Kuusiniementie 12
Asunto Oy Nupukivenpuisto
Asunto Oy Näsilinnankatu 21
Haagan III Liikekeskus
Haapajärven Linja-autoaseman Liikekeskus
Hakopolun Liikekeskus Oy
Hervannan Liikekeskus Oy
Kala-Matin Pysäköintitalo Oy
Kamreerintien Pysäköintitalo Oy
Kemin Asemakatu 4
Kiinteistö Oy Liikejalava
Kiinteistö Oy Alavuden Rantakeskus
Kiinteistö Oy Eerikinkatu 24
Kiinteistö Oy Elocinkulma 1
Kiinteistö Oy Enon Liikekeskus
Kiinteistö Oy Erjonkulma
Kiinteistö Oy Friitalan Liiketalo
Kiinteistö Oy Joutsan Liiketalo
Kiinteistö Oy Karkkilan Sähkökiinteistö
Kiinteistö Oy Kellarpellon Liikekeskus
Kiinteistö Oy Kevätkummun Palvelukeskus
Kiinteistö Oy Kivenlahdentori
Kiinteistö Oy Klaavuntie 8–10
Kiinteistö Oy Kontiolahden Liikekeskus
Kiinteistö Oy Kuopion Saarijärven Liiketalo
Kiinteistö Oy Liikemaneesi
Kiinteistö Oy Nivalan Liikekeskus
Kiinteistö Oy Paakonkari
Kiinteistö Oy Porin Hyvän Tuulentie 2
Kiinteistö Oy Puijonlaakson Palvelukeskus
Kiinteistö Oy Putaan Liikekeskus
Kiinteistö Oy Rajamäen Rahakulma
Kiinteistö Oy Rinnekartano
Kiinteistö Oy Runoilijankulma
Kiinteistö Oy Salpausseläntie
Kiinteistö Oy Sammontori
Kiinteistö Oy Selloparkki
Kiinteistö Oy Suolahden Ostoskeskus
Kiinteistö Oy Suursuon Ostoskeskus
Kiinteistö Oy Turun Autopiha
Kiinteistö Oy Vantaan Valimotie 11
Kiinteistö Oy Vuosaaren Liikekeskus
Kiinteistö Oy Ylämyllyn Mylläri
Kiinteistö Oy Zeppelinin Markkinapaikka
Kiinteistö Oy Ämmäntori
Koivulan Liikekeskus Oy
Kortepohjan Liikekeskus Oy
Kulosaaren Ostoskeskus Oy
Lansantien Liikekiinteistö Oy
Martinparkki Oy
Mäntän Pysäköinti Oy
Näkin Pihapuistikko II Oy
Oulun Lehmusparkki Oy
Ovenia Oy
Poha-Pysäköinti Oy
Porin Talo Oy
P-Turku Oy
Punkalaitumen Liikekeskus Oy
Ruohoparkki Oy
Sibylla Oy
Silta Oy
Spektri Business Oy
Spektri-Park Oy
Turun Pitkämäenkatu 14
Vaasan Toripysäköinti Oy

The following exited the Group during the year under review:

Asunto Oy Keravan Salpasilakka
Antinkatu 32 Osakeyhtiö
Asunto Oy Tampereen Lintulampi
ATP-Kiinteistöt Oy
El-Sam Asunnot Oy
Kiinteistö Oy Airamilan Kone
Kiinteistö Oy Radiomiehenkatu 2
Kiinteistö Oy Vaasanhalli
Vasa-Sijoituskiinteistöt Oy

Profit and Loss Account

	PARENT COMPANY		GROUP	
1 Jan.–31 Dec., € million	**2004**	2003	**2004**	2003
Technical account				
Premiums written	**2 614.8**	2 454.7	**2 614.8**	2 454.7
Investment income	**1 824.8**	1 752.9	**1 814.9**	1 761.7
Other technical underwriting income	**1.6**		**1.6**	
Claims incurred				
Claims paid	**–2 295.9**	–2 199.7	**–2 295.9**	–2 199.7
Change in claims reserve	**–452.1**	–395.6	**–452.1**	–395.6
Portfolio transfer	**–2.2**		**–2.2**	
Liability transfer	**3.6**		**3.6**	
	–2 746.6	–2 595.3	**–2 746.6**	–2 595.3
Change in premium reserve				
Total change	**–764.6**	–1 075.9	**–764.6**	–1 075.9
Portfolio transfer	**–9.7**		**–9.7**	
Liability transfer	**9.5**		**9.5**	
	–764.8	–1 075.9	**–764.8**	–1 075.9
Statutory charges	**–12.6**	–9.1	**–12.6**	–9.1
Net operating expenses	**–49.7**	–47.8	**–49.7**	–47.8
Investment charges	**–843.0**	–469.5	**–833.4**	–488.5
Other technical underwriting expenses		–2.2		–2.2
Technical underwriting result	**24.5**	7.9	**24.2**	–2.3
Non-technical underwriting result				
Share of participating interests' profit after tax			**1.2**	1.5
Direct taxes on ordinary activities				
Taxes for the financial year	**–19.3**	–2.9	**–20.2**	–3.2
Profit/loss on ordinary activities	**5.2**	5.0	**5.3**	–4.0
Appropriations				
Change in depreciation difference	**2.6**	0.5		
Income taxes				
Taxes for the financial year	**–0.7**	–0.2		
Minority interest in the result for the financial year			**0.5**	0.4
Profit/loss for the financial year	**7.1**	5.4	**5.7**	–3.6

Balance Sheet

31 Dec., € million	PARENT COMPANY 2004	PARENT COMPANY 2003	GROUP 2004	GROUP 2003
Assets				
Intangible assets				
Other expenses with long-term effects	**0.6**	0.7	**0.6**	0.7
Investments				
Investments in land and buildings				
Land and buildings	**1 598.1**	1 413.7	**2 194.9**	2 154.4
Loans to associated undertakings	**626.4**	820.9		0.2
	2 224.5	2 234.7	**2 194.9**	2 154.7
Investments in associated undertakings				
Shares and participations in associated undertakings	**4.4**	4.4	**2.3**	2.1
Loans to associated undertakings	**0.7**	0.8	**0.7**	0.8
Shares and participations in significant participating interests	**1.4**	3.3	**3.0**	4.7
	6.4	8.4	**5.9**	7.6
Other financial investments				
Equities and shares	**4 959.1**	4 272.5	**4 975.5**	4 348.5
Money-market instruments	**11 213.5**	10 616.6	**11 213.5**	10 616.6
Loans guaranteed by mortgages	**182.6**	185.5	**182.6**	185.5
Other loans	**890.3**	1 021.7	**890.3**	1 021.8
Deposits	**46.2**	13.4	**46.2**	13.4
	17 291.8	16 109.6	**17 308.1**	16 185.7
	19 522.7	18 352.7	**19 509.0**	18 348.0
Uncovered liabilities				
Direct insurance operations				
Policyholders	**77.6**	60.6	**77.6**	60.6
Other debtors				
Receivables, portfolio transfer	**18.4**	38.1	**18.4**	38.1
Other debtors	**202.9**	192.3	**204.6**	193.9
	298.9	290.9	**300.6**	292.5
Other assets				
Tangible assets				
Furniture and fixtures	**4.5**	5.1	**4.5**	5.1
Other tangible assets	**0.5**	0.5	**0.5**	0.5
	5.0	5.6	**5.0**	5.6
Liquid assets	**69.1**	71.5	**69.9**	77.9
	74.1	77.1	**75.0**	83.6
Pre-payment and accrued income				
Accrued interest and rent	**276.8**	266.6	**277.2**	289.5
Other pre-payments and accrued income	**53.6**	8.0	**54.1**	10.1
	330.3	274.6	**331.3**	299.6
TOTAL ASSETS	**20 226.7**	18 995.9	**20 216.5**	19 024.4

31 Dec., € million	PARENT COMPANY **2004**	2003	GROUP **2004**	2003

Liabilities

Capital and reserves				
Guarantee capital	**11.9**	11.9	**11.9**	11.9
Other reserves	**40.3**	35.5	**40.3**	35.5
Profit brought forward	**0.1**	0.1	**–29.9**	2.1
Profit/loss for the financial year	**7.1**	5.4	**5.7**	–3.6
	59.3	52.9	**28.1**	45.9
Accrued appropriations				
Depreciation difference	**0.5**	2.9		
Minority interest			**30.4**	30.4
Technical provisions				
Premium reserve	**13 652.8**	12 888.2	**13 652.8**	12 888.2
Claims reserve	**6 375.7**	5 923.6	**6 375.7**	5 923.6
	20 028.5	18 811.9	**20 028.5**	18 811.9
Creditors				
Direct insurance operations	**9.3**	8.1	**9.3**	8.1
Other creditors	**116.1**	110.7	**105.5**	114.0
	125.4	118.8	**114.8**	122.1
Accruals and deferred income	**12.9**	9.4	**14.7**	14.1
TOTAL LIABILITIES	**20 226.7**	18 995.9	**20 216.5**	19 024.4

Statement of Source and Appliation of Funds

1 Jan.–31 Dec., € million	PARENT COMPANY 2004	2003	GROUP 2004	2003
Operational cash-flow				
Gain / loss on ordinary activities	**24.5**	7.9	**24.2**	–2.3
Adjustment items				
Changes in technical provisions	**1 216.7**	1 471.5	**1 216.7**	1 471.5
Unrealised losses and gains on investments	**41.7**	–74.5	**28.3**	–74.8
Depreciation	**14.8**	13.2	**70.2**	68.6
Change in short-term debts	**–60.9**	–399.5	**–61.3**	–397.7
Cash-flow before change in working capital	**1 236.7**	1 018.7	**1 278.1**	1 065.2
Change in working capital:				
Increase (–)/decrease (+) in short-term receivables	**–63.8**	27.5	**–39.8**	10.6
Increase (–)/decrease (+) in short-term debts	**10.1**	35.6	**–6.8**	46.1
Operational cash-flow before taxes	**1 183.1**	1 081.8	**1 231.5**	1 121.8
Direct taxes	**–20.0**	–3.0	**–20.2**	–3.2
Total operational cash-flow	**1 163.0**	1 078.8	**1 211.4**	1 118.7
Investment cash-flow				
Net investments and gains on disposals	**–1 163.5**	–1 042.8	**–1 217.5**	–1 097.6
Investments and gains on intangible, tangible and other assets	**–1.3**	–1.6	**–1.3**	–1.6
Total investment cash-flow	**–1 164.8**	–1 044.3	**–1 218.7**	–1 099.2
Financing cash-flow				
Interest paid on guarantee capital and other profit distribution	**–0.7**	–0.8	**–0.7**	–0.8
Total financing cash-flow	**–0.7**	–0.8	**–0.7**	–0.8
Change in liquid assets	**–2.4**	33.6	**–8.0**	18.7
Liquid assets, 1 Jan.	**71.5**	37.8	**77.9**	59.3
Liquid assets, 31 Dec.	**69.1**	71.5	**69.9**	77.9

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.

Consolidated Accounts

Those companies in which the Group holds more than 50% 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 227 (2003: 191) real estate companies as subsidiaries. The wholly-owned subsidiaries Vasa-Sijoituskiinteistöt Oy and El-Sam Asunnot Oy were merged into the parent company during the financial year. The merger has only a little effect on the result. 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.

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% of votes are included in the Consolidated Accounts using the equity method. The shares of Octel Oy were sold during the financial year. 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 2004. 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 buildings transferred from Vasa-Sijoituskiinteistöt Oy and some other buildings.

Profit for the year, and capital and reserves

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

Taxes

Tax complying with the tax calculation of the tax form is entered as **tax for the financial year** on an accrual basis. The avoir fiscal tax credit related to dividends received is entered under investment income. 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. Unused avoir fiscal tax credit amounted to € 171 million at year-end 2004, which must be used within the next 10 years according to the transition provision of the tax reform that entered into force at the beginning of 2005.

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 operations for 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	PARENT COMPANY 2004	2003	GROUP 2004	2003
Personnel expenses				
Wages. salaries and bonuses	**29.1**	26.1	**29.5**	26.7
Pension expenses	**5.2**	4.9	**5.3**	5.0
Other social expenses	**3.5**	3.7	**3.5**	3.8
Total	**37.8**	34.6	**38.3**	35.5
Senior management salaries and bonuses				
Managing Director and his deputy	**0.7**	0.6	**0.7**	0.6
Board of Directors	**0.2**	0.2	**0.2**	0.2
Supervisory Board	**0.1**	0.1	**0.1**	0.1
Average number of personnel during the financial year	**646**	617	**841**	808

The salary and fringe benefits of Managing Director Matti Vuoria totalled € 356 000. His retirement age is 62 years and his pension will be 60% of the calculated pensionable salary.
The salary and fringe benefits of Markku Hyvärinen, Deputy to the Managing Director, totalled € 267 000. His retirement age is 60 years and his pension is 60% 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 2004	Book value 2004	Fair value 2004	Remaining acquisition cost 2003	Book value 2003	Fair value 2003
Investments in land and buildings						
Land and buildings	**604.1**	**622.2**	**723.3**	483.1	501.1	573.2
Shares in associated undertakings	**895.3**	**902.1**	**1 126.4**	836.2	842.9	1 006.8
Other real estate shares	**73.9**	**73.9**	**77.1**	46.4	46.4	48.4
Shares in real estate investment companies				23.3	23.3	79.2
Loans to associated undertakings	**579.3**	**579.3**	**579.3**	779.3	779.3	779.3
Debtors. real estate companies	**47.1**	**47.1**	**47.1**	41.7	41.7	41.7
Investments in associated undertakings						
Shares and participations	**4.4**	**4.4**	**4.4**	4.4	4.4	4.4
Loans	**0.7**	**0.7**	**0.7**	0.8	0.8	0.8
Investments in significant participating interests						
Shares and participations	**1.4**	**1.4**	**1.4**	3.3	3.3	3.3
Other financial investments						
Equities and shares	**4 959.1**	**4 959.1**	**5 643.4**	4 272.5	4 272.5	4 675.8
Money-market instruments	**11 213.5**	**11 213.5**	**11 661.5**	10 616.6	10 616.6	10 777.0
Loans guaranteed by mortgages	**182.6**	**182.6**	**182.6**	185.5	185.5	185.5
Other loans	**890.3**	**890.3**	**891.9**	1 021.7	1 021.7	1 022.6
Deposits	**46.2**	**46.2**	**46.2**	13.4	13.4	13.4
	19 497.9	**19 522.7**	**20 985.2**	18 327.9	18 352.7	19 211.2
The remaining acquisition cost of money-market instruments includes:						
– the difference between the nominal value and acquisition cost, released or charged to interest income	**–47.7**			–30.3		
– income from index-bound loans	**10.3**			8.2		
	–37.4			–22.1		
Book value includes						
Other revaluations		**24.7**			24.7	
Valuation difference (difference between fair value and book value)			**1 462.5**			858.6

Investments at fair value and valuation differences, Group

31 Dec., € million	**Remaining acquisition cost 2004**	**Book value 2004**	**Fair value 2004**	Remaining acquisition cost 2003	Book value 2003	Fair value 2003
Investments in land and buildings						
Land and buildings	**2 103.0**	**2 121.1**	**2 486.8**	2 090.0	2 108.0	2 466.1
Other real estate shares	**73.9**	**73.9**	**107.3**	46.4	46.4	48.4
Debtors. real estate companies				0.2	0.2	0.2
Investments in associated undertakings						
Shares and participations	**2.3**	**2.3**	**2.3**	2.1	2.1	2.1
Loans	**0.7**	**0.7**	**0.7**	0.8	0.8	0.8
Investments in significant participating interests						
Shares and participations	**3.0**	**3.0**	**3.0**	4.7	4.7	4.7
Other financial investments						
Equities and shares	**4 975.5**	**4 975.5**	**5 659.7**	4 348.5	4 348.5	4 728.9
Money-market instruments	**11 213.5**	**11 213.5**	**11 661.5**	10 616.6	10 616.6	10 777.0
Loans guaranteed by mortgages	**182.6**	**182.6**	**182.6**	185.5	185.5	185.5
Other loans	**890.3**	**890.3**	**891.9**	1 021.8	1 021.8	1 021.8
Deposits	**46.2**	**46.2**	**46.2**	13.4	13.4	13.4
	19 491.0	**19 509.0**	**21 042.0**	18 330.0	18 348.0	19 248.9
The remaining acquisition cost of money-market instruments includes:						
– the difference between the nominal value and acquisition cost, released or charged to interest income	**–47.7**			–30.3		
– income from index-bound loans	**10.3**			8.2		
	–37.4			–22.1		
Book value includes						
Other revaluations		**18.0**			18.0	
Valuation difference (difference between fair value and book value)			**1 533.0**			900.9

Notes to the Balance Sheet

Investments in associated undertakings and significant participating interests, Parent Company

31 Dec. 2004, € million

Shares and participations in associated undertakings	
Acquisition cost, 1 Jan.	**4.4**
Increase	
Decrease	
Acquisition cost, 31 Dec.	**4.4**
Loans to associated undertakings	
Acquisition cost, 1 Jan.	**0.8**
Increase	
Decrease	**-0.1**
Acquisition cost, 31 Dec.	**0.7**
Shares and participations in significant participating interests	
Acquisition cost, 1 Jan.	**3.3**
Increase	
Decrease	**–1.9**
Acquisition cost, 31 Dec.	**1.4**

Shares and participations in associated undertakings

31 Dec. 2004	**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. 2004	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
Ovenia Oy	Helsinki	28.8%	28.8%	**0.1**
Silta Oy	Helsinki	39.1%	39.1%	**1.3**
				1.4

Investments in associated undertakings and significant participating interests, Group

31 Dec. 2004, € million

Shares and participations in associated undertakings	
Acquisition cost, 1 Jan.	**2.1**
Increase	**0.2**
Decrease	
Acquisition cost, 31 Dec.	**2.3**
Loans to associated undertakings	
Acquisition cost, 1 Jan.	**0.8**
Increase	
Decrease	**–0.1**
Acquisition cost, 31 Dec.	**0.7**
Shares and participations in significant participating interests	
Acquisition cost, 1 Jan.	**4.7**
Increase	
Decrease	**–1.8**
Acquisition cost, 31 Dec.	**3.0**

Shares and participations in associated undertakings

31 Dec. 2004	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
Esy Oy	Helsinki	70.0%	70.0%	**2.3**
				2.3

Shares and participations in significant participating interests

31 Dec. 2004	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
Ovenia Oy	Helsinki	28.8%	28.8%	**0.2**
Silta Oy	Helsinki	39.1%	39.1%	**2.7**
				3.0

Notes to the Balance Sheet

Parent Company's other investments, equities and shares

31 Dec. 2004, € million	PARENT COMPANY Land and buildings, real estate shares	 Loans to associated undertakings	GROUP Land and buildings, real estate shares	 Loans to associated undertakings
Acquisition cost, 1 Jan.	**1 584.6**	**820.9**	**2 640.0**	**0.2**
Increase	**319.0**	**26.2**	**342.6**	**0.0**
Decrease	**–103.2**	**–220.8**	**–228.0**	**–0.2**
Acquisition cost, 31 Dec.	**1 800.5**	**626.4**	**2 754.6**	**0.0**
Accrued depreciation 1 Jan.	**–80.5**		**–408.8**	
Accrued depreciation from items sold	**12.4**		**10.3**	
Depreciation for the financial year	**–12.7**		**–68.2**	
Accrued depreciation 31 Dec.	**–80.9**		**–466.7**	
Value adjustments, 1 Jan.	**–115.1**		**–101.5**	
Value adjustments on items sold	**0.9**		**0.9**	
Value adjustments for the financial year	**–32.0**		**–12.8**	
Value readjustments	**0.0**		**–4.3**	
Value adjustments 31 Dec.	**–146.2**		**–117.7**	
Revaluations, 1 Jan.	**24.7**		**24.7**	
Decrease	**0.0**		**0.0**	
Revaluations, 31 Dec.	**24.7**		**24.7**	
Book value, 31 Dec.	**1 598.1**	**626.4**	**2 194.9**	**0.0**

Land and buildings and real estate shares in own use

31 Dec. 2004, € million	PARENT COMPANY	GROUP
Remaining acquisition cost	**82.0**	**80.7**
Book value	**66.5**	**77.1**
Fair value	**74.4**	**74.4**

Parent Company's other investments, equities and shares

31 Dec. 2004	Shares %	Book value € million	Fair value € million
LISTED EQUITIES			
Finland			
Alma Media Corporation	5.27%	24.2	37.9
Amer Group Plc A	2.45%	14.9	22.5
Aspo Plc	5.86%	2.2	7.7
Aspocomp Group Oyj	5.01%	4.9	4.9
Beltton-Yhtiöt Oyj	6.92%	2.6	2.6
Efore Plc	2.61%	3.3	3.3
Elisa Communications Corporation	1.69%	28.5	28.5
Exel Oyj	4.65%	1.8	5.9
Finnlines Plc	1.19%	6.1	6.1
Fiskars Corporation	4.26%	26.1	26.1
Fortum Corporation	0.32%	14.2	38.1
Huhtamäki Oyj	1.36%	11.3	16.7
Inion Oy	1.44%	1.9	2.5
Jaakko Pöyry Group Oyj	3.53%	6.5	10.9
KCI Konecranes International Abp	5.02%	19.3	23.4
Kemira GrowHow Oyj	1.69%	5.1	5.4
Kemira Oyj	2.08%	20.0	26.3
Kesko Corporation B	1.22%	14.3	20.5
Kone Corporation B	0.18%	4.9	6.6
Lassila & Tikanoja Plc	4.97%	15.5	24.9
Lemminkäinen Corporation	2.59%	3.9	6.9
Marimekko Corporation	2.48%	0.6	2.9
Metso Corporation	1.33%	21.1	21.1
M-real Oyj	1.08%	16.6	16.6
Nokia Corporation	0.17%	93.0	93.0
Nokian Renkaat Ltd	3.26%	19.2	39.6
Nordic Aluminium Oyj	5.42%	2.1	2.4
Orion Corporation	1.70%	26.0	27.7
Outokumpu Oyj A	0.30%	6.0	7.2
Perlos Corporation	1.51%	9.4	9.4
Ponsse Oyj	3.43%	2.5	6.9
Ramirent Plc	0.72%	1.2	1.9
Raute Plc	5.24%	1.5	1.5
Sampo Plc	15.34%	690.0	878.5
SanomaWSOY Corporation B	0.29%	5.4	7.8
Scanfil Plc	0.96%	2.7	2.7
Stockmann Plc A	0.73%	8.2	8.2
Stora Enso Oyj	1.09%	91.1	104.6
Tamfelt Oyj Abp	5.94%	13.0	13.0
Technopolis Plc	2.14%	1.9	2.0
Tecnomen Corporation	0.71%	0.5	0.5
Teleste Corporation	4.18%	4.4	4.4
Tietoenator Corporation	1.73%	33.6	33.6
UPM-Kymmene Corporation	0.46%	32.7	39.3
Uponor Oyj	5.36%	27.3	55.2
Vaisala Oyj A	4.41%	14.0	14.0
Wärtsilä Corporation	2.79%	39.9	39.9
YIT-Yhtymä Corporation	6.37%	28.6	71.7
Netherlands			
Koninklijke BAM Groep N.V	2.93%	17.7	18.5
Koninklijke Numico NV	0.48%	21.2	21.2
Koninklijke Philips Eletronics N.V.	0.06%	16.0	16.1
Reed Elsevier NV	0.31%	22.7	22.7
TPG NV	0.17%	16.3	16.3
Unilever NV CVA	0.13%	36.1	36.1
Verenigde Nederlandse Uitgevers-bedrijven NV	0.27%	15.0	15.0
Belgium			
Dexia	0.02%	3.0	3.4
Electrabel SA	0.07%	9.0	12.7
InBew	0.12%	16.9	20.4
KBC Bankverzekeringsholding	0.03%	5.7	5.7
Brazil			
Petroleo Brasileiro S.A.	0.11%	10.7	13.4
Cayman Islands			
O2Micro International Ltd	1.14%	4.2	3.8
Spain			
Banco Bilbao Vizcaya Argentaria S.A.	0.01%	5.9	6.5
Banco Santander Central Hispano S.A.	0.00%	1.8	2.0
Cortefiel S.A.	0.94%	6.7	8.6
Iberdrola S.A.	0.06%	6.9	9.4
Sogecable S.A.	0.08%	3.1	3.2
Telefonica S.A.	0.07%	49.0	51.4
United Kingdom			
Allied Domecq Plc	0.26%	19.0	20.7
Astra Zeneca Plc	0.04%	18.0	17.6
Aviva Plc	0.05%	8.9	9.8
BG Group Plc	0.07%	9.8	11.8
BOC Group Plc	0.06%	3.7	4.0
BP Amoco Plc	0.05%	84.8	84.3
British Sky Broadcasting Plc	0.01%	1.9	2.1
Centrica Plc	0.05%	6.1	6.0
Compass Group plc	0.23%	19.4	17.4
Diageo plc	0.12%	38.1	37.4
EMI Group Plc	0.13%	3.2	3.8
Enterprise Inns Plc	0.38%	11.4	15.0
Glaxosmithkline Plc	0.04%	38.3	37.6
Hilton Group plc	0.14%	8.1	8.7
HSBC Holdings Plc	0.02%	23.8	24.9
Imperial Chemical Industries Plc	0.25%	10.6	10.3
International Power Plc	0.19%	5.7	6.2
iSOFT Group Plc	0.26%	3.0	2.9
Kesa Electricals Plc	0.26%	4.8	5.5
Kingfisher Plc	0.17%	19.6	17.2
Marks & Spencer Group Plc	0.10%	6.5	7.6
Misys Plc	0.27%	4.6	4.5
MMO2	0.06%	7.6	8.7
Pearson Plc	0.24%	19.9	17.4
Prudential Plc	0.11%	17.1	17.3
Reckitt Benckiser Plc	0.13%	15.0	20.1
Shell Transport & Trading Company Plc	0.04%	22.0	23.0
Smith & Nephew Plc	0.19%	13.0	13.8
Tesco plc	0.05%	13.9	16.2
The Sage Group Plc	0.16%	5.1	5.8
Vodafone Airtouch Plc	0.07%	102.3	96.2
Italy			
Eni S.p.A.	0.07%	41.9	48.9
Erg S.p.A.	0.16%	2.0	2.2
Saipem S.p.A.	0.23%	6.7	8.9
Snam Rete Gas S.p.A.	0.10%	6.5	8.6
Telecom Italia Mobile SpA	0.06%	27.2	27.5
Telecom Italia SpA	0.07%	16.3	21.5
Terna SpA	0.25%	8.7	10.6
Austria			
Bank Austria Creditanstalt	0.16%	10.8	15.3
China			
China Life Insurance Co. Ltd	0.27%	10.2	9.8
Greece			
Cosmote Mobile Telecommunica-tions S.A.	0.16%	7.2	7.7
Germanos S.A.	0.16%	1.3	1.4
Norway			
Norsk Hydro ASA	0.06%	6.2	8.7
Statoil ASA	0.02%	4.6	4.6
Storebrand ASA	0.27%	4.6	5.3
Telenor ASA	0.09%	8.2	10.0
Tomra Systems ASA	0.93%	6.9	6.7
Portugal			
Portugal Telecom SGPS S.A. Reg	0.13%	9.6	13.7

Notes to the Balance Sheet

31 Dec. 2004	Shares %	Book value € million	Fair value € million
France			
Accor SA	0.24%	16.0	16.1
Autoroutes du Sud de la France	0.24%	18.0	20.1
AXA SA	0.01%	3.4	3.6
Cap Gemini SA	0.38%	9.1	11.8
Carrefour SA	0.06%	15.1	15.1
Credit Agricole S.A.	0.01%	3.7	4.4
Danone Group	0.14%	25.1	26.1
Dassault Systemes S.A.	0.05%	2.0	2.1
Eiffage SA	0.43%	9.5	10.8
France Telecom SA	0.02%	10.7	12.2
Lafarge SA	0.08%	10.2	10.3
L'Oreal SA	0.04%	14.9	14.9
Pernod-Ricard SA	0.42%	24.4	33.5
Publicis Groupe	0.20%	9.5	9.5
Sanofi-Aventis SA	0.04%	22.4	31.4
Societe Television Francaise 1	0.32%	16.4	16.4
Suez Lyonnais Des Eaux SA	0.06%	11.8	11.8
Technip-Coflexip S.A.	0.38%	8.2	12.5
Total SA	0.09%	95.9	96.2
Vinci S.A.	0.06%	4.2	4.9
Vivendi Universal SA	0.01%	2.6	2.6
Sweden			
Atlas Copco AB A	0.08%	3.2	3.5
Billerud AB	0.28%	1.8	1.9
Boliden AB	0.30%	2.1	2.4
Capio AB	1.09%	5.1	7.6
Clas Ohlson AB B	0.23%	1.4	1.9
Cloetta Fazer AB B	2.57%	10.2	13.6
D. Carnegie & Co AB	0.22%	1.3	1.4
Electrolux AB	0.33%	15.0	16.6
Getinge AB B	0.17%	2.8	2.9
Intrum Justitia AB	0.63%	2.3	3.1
Modern Times Group MTG AB B	0.49%	3.5	5.0
Munters AB	0.20%	0.9	1.1
Nordea Bank AB (publ)	0.31%	39.0	65.0
Observer AB B	1.09%	2.6	3.0
Securitas AB B	0.34%	11.6	14.8
Svenska Cellulosa AB	0.25%	15.0	15.2
Telefonaktiebolaget LM Ericsson	0.01%	3.5	3.6
Germany			
Adidas-Salomon AG	0.04%	1.9	2.0
Bayerische Motoren Werke AG	0.04%	9.1	9.1
Beiersdorf AG	0.09%	6.5	6.5
Deutsche Telekom AG	0.04%	23.5	25.0
E.On AG	0.08%	28.7	36.8
Hochtief AG	1.63%	22.9	27.3
Hypo Real Estate Holding AG	0.12%	4.2	4.6
ProSiebenSat1 Media AG	0.50%	7.4	7.4
RWE AG	0.04%	7.3	8.1
Schering AG	0.08%	7.6	8.4
SGL Carbon AG	0.35%	1.9	1.9
Siemens AG	0.01%	3.2	3.4
Volkswagen AG	0.16%	16.7	16.7
Switzerland			
Adecco SA	0.28%	19.2	19.3
Ciba Specialty Chemicals AG	0.28%	11.4	11.2
Geberit AG	0.58%	13.1	13.0
Holcim Ltd.	0.05%	4.7	4.7
Nestle SA	0.05%	40.3	40.0
Novartis	0.04%	37.3	37.4
Roche Holding AG Genusscheine	0.07%	37.2	41.3
Swisscom AG	0.08%	13.7	14.5
Syngenta AG	0.31%	26.5	27.7
UBS AG	0.04%	25.9	30.2
Denmark			
Danisco A/S	0.87%	16.0	19.5

31 Dec. 2004	Shares %	Book value € million	Fair value € million
ISS A/S	1.07%	19.4	19.4
Novo Nordisk A/S B	0.12%	13.0	14.5
Novozymes B	0.26%	5.9	6.4
Vestas Wind Systems A/S	0.11%	1.7	1.7
Czech Republic			
CEZ AS	0.05%	2.0	3.0
Hungary			
MOL Magyar Olaj -es Gazipari Rt.	0.09%	4.2	5.2
OTP Bank Rt.	0.06%	2.9	3.6
Russia			
Lukoil-Spon (ADR)	0.02%	3.9	4.5
Mobile TeleSystems OJSC-ADR	0.02%	1.6	1.7
Sibneft (ADR)	0.04%	4.8	4.4
Unified Energy System	0.05%	4.7	4.2
United States			
American International Group Inc.	0.01%	10.3	9.6
AU Optronics Corp.	0.10%	5.5	5.3
Boston Scientific Corporation	0.04%	10.6	9.5
Caremark Rx Inc.	0.10%	9.8	13.7
Clear Channel Communications Inc.	0.05%	8.6	7.5
First Data Corporation	0.06%	15.8	15.6
Genentech Inc.	0.02%	9.2	10.0
Goldman Sachs Group. Inc.	0.02%	8.5	7.6
Medtronic Inc.	0.03%	14.8	13.7
Microsoft Corporation	0.01%	22.8	19.6
Omnivision Technologies. Inc.(OVTI)	0.88%	6.5	6.7
Pfizer Inc.	0.02%	35.0	26.0
Photon Dynamics Inc.	2.53%	8.6	7.6
SBC Communications Inc.	0.02%	10.3	9.5
Schlumberger Ltd	0.02%	4.9	4.9
Stryker Corporation	0.04%	5.3	5.7
Symantec Corporation	0.08%	9.6	9.6
The Coca-Cola Company	0.01%	9.4	8.6
Verizon Communications Inc.	0.01%	9.5	8.9
Other		0.4	0.6
		3 556.7	**4 118.6**
UNLISTED EQUITIES			
Finland			
Ahlstrom Oyj B	3.89%	19.6	25.0
Ahlström Capital Oy	6.51%	8.4	10.9
A-Katsastus Oy B	9.99%	0.8	4.7
Arek Oy	18.00%	1.3	1.3
Fingrid Oyj B	12.18%	13.6	13.6
Kaleva Mutual Insurance Company	30.00%	2.6	2.6
Metsä Tissue Oyj	9.86%	15.5	15.5
Setec Oy	9.83%	1.4	1.4
Tornator Timberland Oy	13.13%	10.5	10.5
Garantia Insurance Company	17.13%	7.1	7.1
Winwind Oy	9.92%	0.9	0.9
Sato-Yhtymä Oyj	11.86%	17.2	17.2
VVO-Yhtymä Oyj	9.91%	12.1	12.1
YH-Yhtymä Oyj	6.56%	0.9	0.9
United Kingdom			
Nordben Life and Pension (Ordinary)	0.11%	0.8	0.8
Nordben Life and Pension (Preference)	8.29%	0.7	0.7
Other		0.6	0.6
		114.0	**125.8**
FIXED INCOME FUNDS			
Sampo Yhteisökorko Tuotto		**140.0**	**140.6**
EQUITIES FUNDS			
ABN Amro Eastern Europe Equity		10.2	18.1
ABN Amro Global Emerging Markets Equity Fund		70.1	76.7

31 Dec. 2004	Book value € million	Fair value € million
ABN Amro Latin America Equity Fund	13.7	20.5
APS China A Share Fund	20.3	18.8
Blakeney Investors Fund	12.6	12.5
Blakeney Investors Fund 2	2.9	2.9
CAF Thailand Institutional Fund	14.6	13.2
Carnegie Biotechnology	8.7	8.7
Carnegie Global Healthcare	29.5	33.0
CDC Hong Kong Renaissance class C	8.0	8.2
East Capital Balkan Fund	5.0	5.7
East Capital Bering Fund	4.1	5.2
East Capital Eastern European Fund	3.3	5.6
East Capital Russian Fund	13.7	16.4
eQ Sirius A Erikoissijoitusrahasto	10.0	12.0
FIM Russia osakerahasto kasvu	15.4	21.8
Hermes European Focus Fund I	20.0	30.4
HSBC GIF Indian Equity I Cap	10.8	17.2
Mandatum Emerging Asia Kasvu	90.7	98.0
Mandatum US Small Cap Value Kasvu	40.7	50.1
Trigon Central and Eastern European Fund B	10.0	10.9
Trigon Second Wave Fund	10.0	11.2
UBS Small Cap Growth (Lux)	44.5	49.2
	468.9	**546.4**
CAPITAL TRUSTS		
Abingworth Bioventures III B L.P.	7.5	5.4
Access Capital Fund LP II A	3.6	3.6
Access Capital Fund LP II B	3.1	3.1
Access Capital Fund LP II C	9.9	9.9
Access Capital LP	3.1	3.1
Alpha Private Equity Fund 4 CI LP	15.0	15.0
Behrman Capital III L.P.	19.9	16.0
Bio Fund Ventures I Ky	1.0	1.0
Bio Fund Ventures II Jatkosijoitusrahasto Ky	1.0	1.9
Bio Fund Ventures II Ky	2.4	2.4
Blackstone Capital Partners IV LP	18.5	21.5
CapMan Equity VII B	2.3	2.3
Celanese AG (Blackstone Chemical Coinvest-Pants Cayman LP)	1.6	1.4
EQT Finland B.V.	2.4	2.4
EQT II B.V.	6.5	6.4
EQT III UK No. 1	35.5	38.3
Eqvitec Technology Fund II Ky	3.9	3.9
Fenno Rahasto Ky	6.0	6.8
Finnmezzanine Rahasto I	0.8	0.8
Finnventure rahasto III	0.8	0.8
Finnventure rahasto V Ky	4.5	6.5
Forenvia Venture I Ky	0.5	0.5
Garantia PK-lainarahasto II	0.1	0.1
Gilde Buy-Out Fund II SV-capital	8.0	8.6
Green Equity Investors IV LP	3.0	2.7
Helmet SME Ventures II G Ky	0.7	0.7
Industri Kapital 1994 LP I–IV	2.4	8.1
Industri Kapital 1997 LP I.IV	24.2	26.2
Industri Kapital 2000 LP I–IV	24.1	25.8
Industri Kapital 2003 LP I	0.3	0.3
Industrial Devel. & Inv. Equity KB	0.3	1.0
Kelso GB VII. L.P.	0.5	0.5
MB Equity Fund II	5.6	10.3
MB Equity Fund III	3.5	5.1
MB Mezzanine Fund II	2.0	2.0
Merlin Biosciences Fund LP	2.8	2.8
Nokia Venture Partners II LP	9.2	7.3
Nordic Mezzanine Fund II Limited Partners	1.1	1.5
Nordic Mezzanine Limited	0.9	1.4
Permira Europe II LP2 (Schroder Ventures)	9.1	9.1

31 Dec. 2004	Book value € million	Fair value € million
Permira Europe III LP2	8.8	8.8
Platinum Equity Capital Partners. L.P.	4.0	3.7
Power Fund I Ky	0.7	0.7
Promotion Capital I Ky	0.5	0.5
Sponsor Fund I Ky	1.5	2.8
Sponsor Fund II Ky	4.6	4.6
Telecomia Venture I Ky	0.1	.1
Vanguard Health Systems Inc (Blackstone Health Comm Partners A LP)	2.4	2.2
Warburg Pincus Private Equity VIII. L.P.	39.9	33.4
WD Power Investment	1.4	1.4
	311.3	**324.7**
HEDGE FUNDS		
AQR Absolute Return Offshore Fund Ltd	24.5	22.2
Blackstone Berkeley Square Fund Ltd	49.2	50.9
Blackstone Distressed Opport. Offshore Fund Ltd B	12.8	13.0
Blackstone Fifth Avenue Offshore Fund Ltd Class A	47.2	41.7
Blackstone Global Park Avenue Fund Ltd	33.6	31.9
DKR Quantitative Fund Ltd	9.1	8.6
er Umbrella Fund Ltd Class 1 er Multi-Core	10.0	10.4
Ferox Fund Ltd Class C EUR	8.1	8.1
Fir Tree International Value Fund Ltd	14.3	14.6
Glenview Capital Partners (Cayman) Ltd Class A Series 12	8.2	8.5
OZ Oveaseas Fund Ltd	12.1	11.9
Pendragon (Excalibur) Fund Ltd	4.2	4.1
Raphael II Ltd	11.7	10.8
Scout Capital Fund Ltd	8.3	8.5
UBS Global Equity Arbitrage Ltd Class A Ser. 1	8.6	7.7
Vega Global Fund Ltd (Instit. Euro Shares Class)	10.0	10.2
York Investment Limited Class A/1	20.4	21.3
	292.3	**284.5**
REAL ESTATE FUNDS		
Blackacre Institutional Partners. L.P.	11.7	10.6
Five Mile Capital Partners LLC	4.3	4.1
	16.0	**14.7**
OTHER SHARES		
DB Asia Tech Basket 07.09.05	50.4	51.9
Dow Jones STOXX 600 Healthcare ex Etfs	9.5	9.5
	59.9	**61.4**
Parent Company Total	**4 959.1**	**5 616.6**
Group shareholdings deviate from the Parent Company as follows:		
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	3.2	3.2
Other	2.6	2.6
Group Total	**4 975.5**	**5 633.0**

Notes to the Balance Sheet

Changes in tangible and intangible assets, Parent Company

31 Dec. 2004, € million	Other expenses with long-term effects	Equipment	Other tangible assets	Total
Acquisition cost, 1 Jan.	**3.0**	**10.6**	**0.5**	**14.1**
Completely depreciated in the previous year	**–1.0**	**–1.3**		**–2.3**
Increase	**0.4**	**1.1**	**0.0**	**1.5**
Decrease		**-0.3**		**-0.3**
Acquisition cost, 31 Dec.	**2.4**	**10.1**	**0.5**	**13.0**
Accrued depreciation, 1 Jan.	**2.3**	**5.5**		**7.8**
Completely depreciated in the previous year	**–1.0**	**–1.3**		**–2.3**
Depreciations for the financial year	**0.5**	**1.4**		**1.9**
Accrued depreciation, 31 Dec.	**1.8**	**5.6**		**7.4**
Book value 31 Dec.	**0.6**	**4.5**	**0.5**	**5.7**

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

	PARENT COMPANY		GROUP	
31 Dec., € million	**2004**	2003	**2004**	2003

Loan receivables itemised by guarantee

Bank guarantee	**369.3**	464.3	**369.3**	464.3
Guarantee insurance	**426.7**	473.7	**426.7**	473.7
Other guarantees	**94.3**	83.6	**94.3**	83.8
	890.3	1 021.7	**890.3**	1 021.8

Total pension loan receivables

Loans to associated undertakings	**0.7**	0.8	**0.7**	0.8
Other loans guaranteed by mortgages	**138.9**	158.0	**138.9**	158.0
Other loan receivables	**674.7**	880.4	**674.7**	880.4
	814.3	1 039.2	**814.3**	1 039.2

Receivables, portfolio transfers

Joint liability receivables	**4.6**	3.1	**4.6**	3.1
Receivables from special receivership's estate	**13.7**	35.0	**13.7**	35.0
Total	**18.4**	38.1	**18.4**	38.1

Loans to associated undertakings

Other loans	**1.2**	1.1	**1.2**	1.1

31 Dec., € million	PARENT COMPANY 2004	PARENT COMPANY 2003	GROUP 2004	GROUP 2003

Technical provisions

Premium reserve				
Future pensions	**11 119.3**	10 542.0	**11 119.3**	10 542.0
Unallocated insurance reserve	**2 482.6**	2 310.6	**2 482.6**	2 310.6
Bonus reserve	**51.0**	35.6	**51.0**	35.6
Total premium reserve	**13 652.8**	12 888.2	**13 652.8**	12 888.2
Claims reserve				
Current pensions	**5 468.8**	5 063.3	**5 468.8**	5 063.3
Equalisation amount	**906.9**	860.3	**906.9**	860.3
Total claims reserve	**6 375.7**	5 923.6	**6 375.7**	5 923.6
Total technical provisions	**20 028.5**	18 811.9	**20 028.5**	18 811.9

Additional benefits of statutory pension insurance

Bonus reserve, 1 Jan.	**35.6**	30.1
Client bonuses paid during financial year	**–35.7**	–29.5
Transfer to bonus reserve	**51.0**	35.0
Bonus reserve, 31 Dec.	**51.0**	35.6

Solvency margin

Capital and reserves	**59.3**	52.9
Interest on guarantee capital proposed for distribution	**–0.7**	–0.6
Accrued appropriations	**0.5**	2.9
Valuation difference between fair values on assets and book values of Balance Sheet items	**1 462.5**	858.6
Unallocated insurance reserve	**2 482.6**	2 310.6
Intangible assets	**–0.6**	–0.7
Other items	**–17.3**	–30.3
	3 986.3	3 193.4
Minimum solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	**1 112.3**	1 008.4

Notes to the Balance Sheet

Capital and reserves

31 Dec. 2004, € million	PARENT COMPANY			GROUP		
Guarantee capital			11.9			11.9
Other reserves, 1 Jan.	35.5			35.5		
Profit for the financial year 2003	4.8	40.3		4.8	40.3	
Other profit brought forward	5.5			–1.5		
Other change				–22.9		
Security reserve	–4.8			–4.8		
Distributed interest on guarantee capital	–0.6			–0.6		
The Board of Directors' expense account	0.0			0.0		
Profit/loss for financial year	7.1	7.2	47.4	5.7	–24.1	16.1
			59.3			28.1

Guarantee capital

31 Dec. 2004, € 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	0.7
Share of policyholders	46.7
	59.3

Distributable funds

	PARENT COMPANY		GROUP	
Profit/loss for financial year		7.1		5.7
Other capital and reserves				
Other reserves	40.3		40.3	
Profit brought forward	0.1	40.3	–29.9	10.4
Accrued appropriations				–13.3
Total distributable funds		47.4		2.9

Other Notes to the Annual Accounts

Parent Company's liabilities

31 Dec., € million			2004	2003
Derivative contracts				
Interest rate derivatives				
Open				
Forward and futures contracts		Underlying instrument. nominal value	1 587.3	4 000.0
		Fair value	–11.8	–49.7
Options contracts				
	Exercised	Underlying instrument	15.0	10 015.0
		Fair value	0.0	–0.4

Other Notes to the Annual Accounts

31 Dec., € million				**2004**	2003
Currency derivatives					
Open					
	Currency futures contracts		Underlying instrument	**1 384.6**	1 273.7
			Fair value	**31.6**	37.2
	Options contracts				
		Exercised	Underlying instrument	**988.9**	49.7
			Fair value	**19.5**	0.1
		Taken out	Underlying instrument	**1 977.8**	99.3
			Fair value	**–6.1**	–0.1
Share derivatives					
Open					
	Forward and futures contracts		Underlying instrument	**49.3**	148.6
			Fair value	**–0.5**	3.1
	Options contracts				
		Exercised	Underlying instrument, value of warrants	**41.5**	25.5
			Fair value of warrants Underlying value	**0.2**	–0.9
		Taken out	Underlying instrument	**108.3**	51.9
			Fair value	**–0.2**	0.5

Derivative contracts have been valued at fair value.
All currency futures contracts and approximately two-thirds of the interest rate futures sold are considered hedging.

Investment commitments		
Commitments to subscribe to shares in capital trusts	**392.2**	391.4
Guarantees given on own behalf		
Pledged book assets		0.2
Value-added tax deductions		
Deduction from new buildings and renovation of real estates in 2000–2004/1999–2003	**7.5**	9.4
Total amount associated with collective registration for value-added taxation		
Associated undertakings	**4.6**	4.6
Significant participating interests		0.3
Other	**1.0**	–0.8
	5.6	4.1

Loaned securities

Shares		
Number	**54 546 955**	18 483 591
Remaining acquisition cost	**416.3**	188.8
Fair value	**463.0**	193.8
Bonds		
Nominal value	**1 291.9**	1 428.3
Remaining acquisition cost	**1 315.3**	1 448.1
Fair value	**1 419.8**	1 516.5

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

Risk management as an element of internal control

The Board of Directors updated the principles for organising internal control. 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.

Organising risk management

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 Board of Directors' Audit Committee supervises financial and other reporting and 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.

The Risk Management Committee was replaced by the Risk Supervision Committee during the year. The Committee comprises the Managing Director, Deputy Managing Director, and Senior Vice-Presidents responsible for finances, administration, client relations, actuaries, and investment operations. The tasks of the Committee include risk supervision in its entirety (e.g. principles followed in risk management, setting of authorities and monitoring of risk limits, result and risk calculation independent of the responsible function, supervision of the functioning of risk management processes including operational risks, investment and insurance risks, group/company-level risks, publicity and information risks, compliance with laws, authorities' stipulations and decisions of administrative bodies).

The appropriate manager takes responsibility for their 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.

The function that prepares and implements investment decisions (Investment Operations) and the supervisory and reporting function (Financial Administration and Actuaries) have been separated. The supervisory function measures investment risks, draws up scenario and sensitivity analyses related to the result and solvency based on those risks, as well as supervising compliance with the risk limits and authorisations determined for the investment allocation and different types of investment by the Board of Directors. The company's result and solvency position are calculated weekly, and more frequently if necessary. The risk supervisory function monitors e.g. diversification of the investment portfolio, market risk, credit risk, liquidity risk, and model risk related to risk measurement, taking into account issues related to both financing theory and the nature and regulations pertaining to the statutory earnings-related pension scheme. Risk management develops applications that are related to e.g. the integration of assets and liabilities, stochastic models, and the development of solvency regulations.

In addition to internal reporting, the Board of Directors receives monthly reports about e.g. investment risks, the use of decision-making authorisations, and solvency scenarios. A broader review of risk management, risk supervision and the legal compliance function is presented to the Board of Directors and its Audit Committee at least twice a year.

Goals and general risk management principles

Risk management covers the essential areas in the proper proportion to the risks inherent in operations. Risks related to the company's operations are identified, assessed, limited and supervised taking a long perspective. Risk management ensures that the realisation of investments, information, interruption, personal or other risks will not cause essential loss, endanger the continuity of operations or the trust in the company. Varma applies efficient and reliable operating processes.

Administrative costs are borne in proportion to the related risk. Varma follows appropriate methods in its organisation, with co-operation parties and in customer acquisition. In order to manage the risks, the company emphasises the careful preparation of decisions, use of experts, risk insurance, job responsibilities and approval routines, the decentralisation of functions and tasks, physical control, data protection and security, personnel training, efficient planning process, the existence of different backup arrangements, and limiting access to confidential information only to those who need it.

As tasks, power of decision and responsibility are divided, no one person is able deal with a single matter throughout the handling chain, but potentially dangerous combinations have nevertheless been separated. Independent supervision and approval mechanisms are directed at actions. Personnel must not participate in the preparation of or decision-making about a matter concerning their family or friends. Business transactions are handled on time, correctly and with the appropriate approvals.

The drawing up and documentation of routines related to ensuring the continuity of the company's operations and securing the assets and information managed by the company, and possible testing of backup plans, is done by each department; and if required, together with other departments. The company arranges its operations in such a way that a loss of contribution by key employees will not paralyse its operations.

Significant risks

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 changes 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 information management and personnel risks, risks related to the handling of confidential information, efficiency of operations and failure to comply with regulations, publicity risks, and risks related to damage to the company premises and outsourcing.

Risks related to insurance operations, technical provisions and covering them

The statutory earnings-related pension scheme is a partially funded system. Of the pensions paid annually, around a quarter are previously funded and the rest is the pooled component that is covered with the annually collected insurance contribution (pooled component of the contribution). The funded parts of the pension are the responsibility of individual pension institutions, and the pooled components are the joint responsibility of all the pension institutions. Basic pensions under the Self-employed Persons' Pensions Act YEL are financed in full by the insurance contributions collected annually in accordance with the pay-as-you-go system and the State's share. Earnings-related pension provision is paid according to a defined benefit pension scheme, and is therefore not based directly on the return on funded pension assets, and earnings-related pension benefits are secured for the insured and pensioners by a statutory joint and several liability for bankruptcy that concerns all earnings-related pension insurance institutions. The costs of pension provision are borne by employers and employees together. The Ministry of Social Affairs and Health annually confirms the common calculation bases concerning the technical provisions for earnings-related pension insurance companies, at the request of the companies. According to the Employees' pensions Act TEL, the calculation bases must be dimensioned securely, and if the bases for technical provision prove to be insufficient for all pension insurance institutions, a clearing system can be used to supplement the technical provisions.

The risks of Varma's insurance business are linked to the sufficiency of the insurance contributions collected and the technical provisions accumulated from them in relation to the pension that is the responsibility of the company. Because common calculation bases can be changed annually, and the clearing system acts as the buffer for all insurance risks concerning earnings-related pension insurance institutions, the risk for an individual pension institution is its deviation from the average of the pension system. The fluctuation of the annual result of insurance business is prepared for by the clearing reserve that has a lower and upper limit determined as per risk theory. As for the pooled component of the contribution, the clearing reserve acts as the buffer for the earnings-related pension scheme.

The risk management of insurance business applies insurance technique analyses. Insurance risks are analysed using e.g. risk assumption analysis (mortality, disability intensity), business result analysis (insurance technique, distribution of responsibility), and, for example, in compiling statistics for contribution losses and disability expenditure. In drawing up the annual accounts, the estimate of the payroll of the insured may, in particular, deviate from the final sum. This is reflected in the company's premium income and the amount of technical provisions, but has no essential effect on the company's result.

A summary of the estimated amount of insurance business that is the company's own and joint responsibility at the time of closing the accounts is as follows:

€ billion	Own responsibility	Joint responsibility	Total
Premiums written	0.7	1.9	2.6
Claims paid	0.5	1.8	2.3
Technical provisions	19.0	1.0	20.0

The risks included in the assets covering technical provisions i.e. primarily investment risks, are prepared for by the solvency margin whose amount is followed in relation to the technical provisions and the limits calculated on the basis of investment allocation. The development of the investment risk is tracked using e.g. different calculation models, a margin calculation system, maximum risk level measurement, solvency scenarios and VaR analyses. Operations handle security, yield, liquidity and the diversification of the assets. Assets covering technical provisions on 31 December 2004 amounted to 107% of the technical provisions, and were divided into different items in accordance with the regulations in force.

Operational risks

Operational risks entail a danger of loss, a threat to the continuity of operations, or a decrease in trust in the company caused by either the company's internal processes or unanticipated external events.

The company operates in such a way that there are no defects in the supervision systems that would allow unintentional or intentional faults or misuse concerning e.g. insurance or claims handling, reporting, monetary transactions, register details, data processing, distribution of work, operations of co-operation parties, or documentation.

Operational risks were mapped, for the fourth year in a row, by department and in co-operation with the risk supervision unit. The greatest risks and their development that emerged in the risk surveys were grouped on the basis of the guidelines presented in the company's strategy. Calculated risk figures were estimated for operational risks for the first time in 2004. In so doing, the company aims to quantify the risk of direct or indirect losses that would be caused by insufficient or weak internal processes, personnel and systems, or external factors. The calculation is intended for the development of internal risk management and there are no authorities' stipulations nor link to solvency calculation related thereto.

The company has published internal guidelines related to risk management, such as privacy protection instructions, instructions on insider trading, ethical operating principles, crisis instructions, instructions for legal compliance, protection guidelines, ethical principles of investment operations, and corporate responsibility reporting. The company has the obligation to be prepared to maintain necessary operations for financing markets and the insurance business in even exceptional circumstances.

Investment risks

Market risk is the fluctuation of the value of investment objects. The greatest market risk is that of equities. Other market risks are interest rate risk, foreign currency risk, and the value change risk of real estate objects. Interest rate risk can be realised as a price risk, and early repayment of capital as a reinvestment risk. Inflation risk is the lowering of the real value or yield of assets. Credit risk is a danger of loss caused by the inability of the counterparty to honour its commitment. Liquidity risk is the realisation of cash flow at a different amount than expected. A risk is also constituted by investments that cannot be converted to cash at all or can only be converted with a major loss. Model risk is the risks related to risk measurement. In measurement it is necessary to make assumptions and simplifications concerning calculation methods and calculation materials that may deviate from reality.

The investment plan confirmed by the Board of Directors determines e.g. the general security goals set for investments, the diversification and liquidity goals of investments, and the principles for arranging foreign currency business. The Board of Directors assesses the risks inherent in the company's investments at least once a year in terms of change of value, expected yield, security, and foreign currency business, and the company's risk-bearing capacity regarding investments in the short and long term, including an assessment of the development of the solvency position.

The risk management of investments involves determining the acceptable risk level within the limits confirmed by the Board of Directors, as well as the continuous measurement of risks using the selected methods, comparison with the acceptable level, and reporting. Risk management also involves continuous adaptation of the investment portfolio in order to maintain a correct risk and yield ration. Furthermore, Varma takes into account the corporate responsibility principles of investment allocation, and the share ownership principles in which e.g. high-quality governance and the operational transparency of domestic and foreign companies are important selection criteria in making investment decisions.

The market risk of investments, mainly equities, constitutes the biggest risk directed at the result and solvency. The VaR (Value-at-Risk) figure that measures the total risk of Varma's investments stood at € 315 million (€ 426 million) at year-end 2004. The figure indicates the greatest possible fall in the market value of the company's investment portfolio in ordinary market conditions over a period of one month at a probability of 97.5%.

The total risk of investments is integrated into the company's risk-bearing capacity in such a way that the company's solvency position is not endangered. The maximum risk level is dimensioned so that after a 30% fall in share prices, the solvency margin is at least CVaR calculated for one month at 97.5% probability higher than the minimum amount of the solvency margin (=2/3 of the solvency limit), and in any case always at least at the solvency limit.

The different maximum limits of investments are presented as separate risk limits in the investment plan. The diversification of the investment portfolio is based on allocation that takes into account the yield correlations of asset classes. Investment risks are eliminated e.g. by decentralising investments by asset class and item, by analysing the investment portfolio and items, by avoiding risk concentrations, through securing guarantee policy, through careful valuation practice, by integrating assets and responsibilities, by using derivatives, with a sufficient and on-time supervision and follow-up system, and by minimising counter-party risks. Furthermore, Varma tracks e.g. the duration, classification and liquidity of investments. As for real estate objects, Varma pays special attention to e.g. technical and location risks. Derivatives (e.g. interest, equity and currency derivatives) are considered equal with underlying instruments, so derivatives are always tracked in tandem with the investments on which they are based.

Sensitivity analysis of the investment portfolio

	Value 31 Dec. 2004	Effect		
		Share prices –30%	Interest rates +1 percentage point	Real estate values –10%
Solvency margin	€ 3 986 mill.	€ 2 442 mill.	€ 3 606 mill.	€ 3 695 mill.
% of technical provisions	22.8%	14.0%	20.6%	21.1%
proportioned to the solvency limit	2.4 times	1.8 times	2.1 times	2.2 times
Return on investment, %	8.0%	0.1%	6.1%	6.5%

Varma aims to maximise the yield expectation at the selected total risk level, when investments will be as profitable as possible to the extent allowed by the company's risk-bearing capacity. The nature of the technical provisions is taken into account in planning the time span and conversion into cash of the investments. In earnings-related pension insurance operations, the assets are funded in the company for a very long period, and will be used for paying pensions in due course. The target allocation of investments, variation limits and yield expectations of allocation are determined in the investment plan that is based on the information available at the time it is drawn up. If the market situation changes, the target allocation and yield expectations will be adjusted to match the new situation.

The table below describes how the yield and solvency figures of the annual accounts would change, were share prices and the value of real estate to fall and interest rates rise.

Internal audit

Internal audit operates in accordance with the principles determined in the professional standards of internal audit. It comprises independent and objective assessment, securing and consulting activities, whose purpose is to support the organisation in reaching its goals by producing assessments and development proposals concerning the state of risk management and other internal controls. The organisational position, task areas, responsibility and authority of internal audit have been determined in the instructions approved by the Board of Directors. The audit objects are determined in the audit plan drawn up annually that is approved by the Board of Directors after the handling of the Executive Group and the Audit Committee. The audit observations are reported to the company management, the Audit Committee and the Board of Directors. Internal audit is organised under the Managing Director.

Income Statement and Balance Sheet at fair values

The Annual Accounts of an earnings-related pension insurance company are regulated by the Finnish Act on Employment Pension Insurance Companies, the Insurance Companies Act, Accounting Act and Companies Act, the statute of the Ministry of Social Affairs and Health concerning the annual accounts and consolidated annual accounts of insurance companies, as well as the calculation bases confirmed by the Ministry of Social Affairs and Health, and the stipulations of the Insurance Supervision Authority.

The statutory earnings-related pension scheme is a partially funded system. This means, for example, that the technical provisions showing in the balance sheet of an earnings-related pension insurance company are around a quarter of the capital value of the pensions accumulated by the closing of the accounts. Furthermore, statutory pension insurance has a guarantee scheme, according to which the earnings-related pension scheme is jointly responsible for securing the benefits of the insured, should a pension institute becomes insolvent.

The official profit and loss account and balance sheet of an earnings-related pension insurance company do not reveal the company's financial result or financial state. The Notes to the Annual Accounts can provide an idea of the parent company's financial situation. The net result in the profit and loss account of the parent company at € 7 million (€ 5 million) is determined according to the calculation bases confirmed in advance by the Ministry of Social Affairs and Health. The key figures presented in the Notes to the Annual Accounts are calculated on the basis of the parent company, and not, as in an international accounting system, according to the consolidated financial statements.

The technical provisions also include the unallocated insurance reserve of significant amount that acts as a result buffer and increases the solvency, the bonus reserve, and the equalisation reserve in accordance with the Insurance Companies Act for years where a large number of damages are sustained. The main components of the solvency margin that measures the solvency are capital, the unallocated insurance reserve, depreciation difference, and valuation differences of investments.

The operating expenses of the company are spread under a number of entries in the official profit and loss account and key figures. The effect of fair values on the company's investments and their results are presented in the Notes to the Annual Accounts. An earnings-related pension insurance company need not calculate embedded tax debt at least for as long as the calculation bases set by the Ministry of Social Affairs and Health that confirm the net result are in force. Due to the calculation bases an earnings-related pension insurance company has not been able to utilise in full e.g. tax credits related to dividends. For Varma, this sum amounted to around € 171 million at year-end 2004. In an earnings-related pension insurance company, the significance of the consolidated annual accounts has mainly been in limiting the interest paid on the guarantee capital.

In the Notes to the Annual Accounts, returns on investment at fair values is compared to the yield requirement on technical provisions, operating expenses (excluding costs transferred to claims expenditure and expenses of investment operations) to the administrative costs included in insurance premiums, and claims expenditure (at Varma about a quarter of the total) to the corresponding premium income. The combined result from investment operations, loading profit and insurance business calculated as above, or the total result corresponds approximately to the profit in the income statement at fair values.

In order to improve the transparency of the annual account information, Varma's parent company's income statement and balance sheet at fair values are presented here, at the same time grouping the essential items. The IFRS standards do not concern earnings-related pension insurance companies. If technical provisions are handled according to the current regulations (the section of the insurance contract standard concerning technical provisions is being drawn up), the income statement and balance sheet below would be in outline in accordance with the IFRS standards; however, in such a way that they have not been calculated for the Group.

The accounting and annual account regulations of the amended Insurance Companies Act allow the valuation of financing instruments and real estate investments at fair values as of 1 January 2005, which is an almost identical alternative to that offered by the IFRS standards. This issue is not, however, topical until the related amendments of the tax legislation have been specified.

Varma's result for 2004 stood at € 878 million (€ 910 million), the balance sheet total was € 21 689 million (€ 19 855), and solvency margin € 3 986 million (€ 3 226 million).

Income statement at fair values (parent company), € million

	2004	2003	2002
Premiums written	**2 615**	2 455	2 406
Claims paid [1)]	**–2 277**	-2 182	-2 092
Change in technical provisions [2)]	**–946**	-747	-933
Net investment income [1)]	**1 596**	1 473	347
Total operating expenses	**–78**	-75	-71
Other expenses	**–11**	-11	-17
Taxes	**–20**	-3	-3
Profit at fair value before change in bonus reserve, unallocated insurance reserve and equalisation provision	**878**	910	-363

1) excl. operating expenses

2) excl. bonus reserve, unallocated insurance reserve and equalisation provision

Balance sheet at fair values (parent company), € million

	2004	2003	2002
Assets			
Investments	**21 233**	19 459	17 782
Uncovered liabilities	**451**	390	374
Fixtures	**5**	6	6
	21 689	19 855	18 162
Liabilities			
Capital and reserves	**59**	53	48
Depreciation difference	**0**	3	4
Valuation differences	**1 462**	859	678
Unallocated insurance reserve	**2 483**	2 311	1 684
Items included in solvency margin	**4 005**	3 226	2 414
Bonus reserve	**51**	36	30
Equalisation provision	**907**	860	798
Technical provisions [1)]	**16 588**	15 605	14 828
Technical provisions excluding bonus reserve and unallocated insurance reserve	**17 495**	16 465	15 626
Other creditors	**138**	128	92
	21 689	19 855	18 162

1) excl. bonus reserve, unallocated insurance reserve
and equalisation provision

Other Notes to the Annual Accounts

Key Figures and Analyses

Summary

	2004	2003	2002	2001	2000
Premiums written, € million	**2 614.8**	2 454.7	2 406.0	2 404.2	2 206.9
Pension payments, € million 1)	**2 579.4**	2 474.9	2 356.2	2 192.4	2 022.7
Net investment income at fair values, € million	**1 565.7**	1 460.8	339.6	173.1	817.6
Yield on invested capital, %	**8.0**	8.1	1.9	1.0	5.3
Turnover, € million	**4 447.5**	4 218.7	3 796.5	3 741.2	3 890.4
Total operating costs, € million	**78.3**	74.9	70.8	68.6	65.1
of turnover, %	**1.8**	1.8	1.9	1.8	1.7
Total operating costs excluding costs for working capacity maintenance and costs of investment operations, € million	**66.4**	64.2	59.0	58.6	56.2
of TEL and YEL payroll, %	**0.5**	0.6	0.5	0.5	0.5
Total result, € million	**877.9**	909.8	–363.4	–502.8	258.8
Technical provisions, € million	**20 028.5**	18 811.9	17 340.3	16 686.2	15 325.1
Solvency margin, € million	**3 986.3**	3 193.4	2 409.2	2 844.0	3 389.7
of technical provisions, % 2)	**22.8**	19.4	15.5	19.5	25.9
in relation to solvency limit	**2.4**	2.1	2.1	2.4	2.9
Equalisation reserve, € million	**906.9**	860.3	797.6	760.9	719.8
Pension assets, € million 3)	**21 491.0**	19 670.6	18 014.7	17 445.4	16 548.3
Transfer to client bonuses of TEL payroll, %	**0.4**	0.3	0.2	0.4	0.7
TEL payroll, € million	**11 784.2**	11 045.7	10 852.3	10 695.9	9 933.9
YEL payroll, € million	**597.7**	579.0	566.5	546.9	514.0
TEL policyholders	**25 600**	25 300	25 900	26 000	26 000
TEL insured persons	**406 400**	393 000	398 500	401 500	394 000
YEL policyholders	**36 300**	36 000	36 300	36 300	36 300
Pensioners	**285 600**	284 000	279 000	272 000	263 000

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	**2004**	2003	2002	2001	2000
Sources of profit					
Insurance business surplus	**52.7**	70.2	38.2	47.4	70.0
Investment surplus at fair values	**802.6**	820.4	–418.0	–566.2	179.1
+ Net investment income at fair values [1]	**1 575.9**	1 460.0	337.5	188.0	831.0
– Required return on technical reserves	**–773.3**	–639.6	–755.6	–754.2	–651.9
Loading profit	**22.5**	19.1	16.4	16.0	9.8
Total result	**877.8**	909.8	–363.4	–502.8	258.8
Distribution of profit					
To increase solvency	**826.8**	874.8	–398.3	–544.9	189.9
Equalisation reserve	**46.5**	62.7	36.7	41.0	70.0
Solvency margin	**780.3**	812.1	–435.0	–585.9	119.9
Change in unallocated insurance reserve	**171.9**	626.8	–355.1	–115.1	347.3
Change in valuation difference	**603.9**	180.4	–84.8	–464.0	–235.1
Change in accrued appropriations	**–2.6**	–0.5	–0.5	–12.2	–14.0
Profit for the financial year	**7.1**	5.4	5.5	5.4	21.7
Transfer to client bonuses	**51.0**	35.0	26.0	42.0	69.0
Transfer to bonus reserve [2]	**0.0**	0.0	8.9	0.0	0.0
Total result	**877.8**	909.8	–363.4	–502.8	258.8

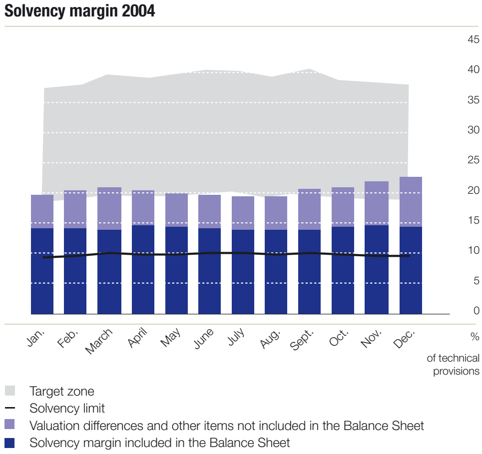
1) Other interest items included
2) On 31 Dec. 2004, the supplementary transfer of bonus reserve had been completely amortised.

Solvency

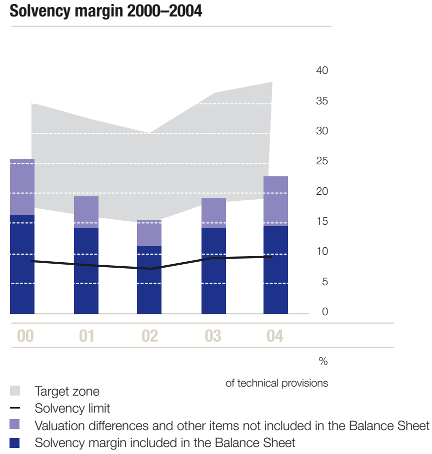
Solvency margin and its limits
(in relation to technical provisions used in calculating the solvency limit)

	2004	2003	2002	2001	**2000**
Solvency limit	**9.5**	9.2	7.5	8.0	8.8
Lower limit of the target zone	**19.1**	18.4	14.9	16.1	17.6
Upper limit of the target zone	**38.1**	36.8	29.8	32.1	35.2
Solvency margin	**22.8**	19.4	15.5	19.5	25.9
– Solvency margin included in the Balance Sheet	**14.5**	14.4	11.1	14.3	16.6
– Valuation differences and other items not included in the Balance Sheet	**8.3**	5.0	4.4	5.2	9.4

Solvency margin 2004



Solvency margin 2000–2004



Other Notes to the Annual Accounts

Investment allocation at fair values

	2004		2003		2002		2001		2000	
	€ million	**%**	€ million	%	€ million	%	€ million	%	€ million	%
Loans [1]	**1 089.5**	**5.1**	1 222.1	6.3	1 266.3	7.1	1 417.6	8.3	1 468.8	9.0
Bonds [2]	**11 240.9**	**52.9**	10891.0	56.0	10826.4	60.8	9 888.4	57.7	8 947.8	55.0
Other money-market instruments and deposits	**838.3**	**3.9**	142.5	0.7	178.9	1.0	255.9	1.5	216.1	1.3
Equities and shares [3]	**5 476.5**	**25.8**	4683.2	24.1	3028.5	17.0	3 283.8	19.1	3 482.1	21.4
Real estate	**2 587.2**	**12.2**	2520.1	13.0	2519.9	14.1	2 305.1	13.4	2 152.7	13.2
Total investments	**21 232.6**	**100.0**	19 459.0	100.0	17 820.1	100.0	17 150.8	100.0	16 267.5	100.0

1) Accrued interest included
2) Includes € 141 million of investments in fixed-income funds
3) Includes € 15 million of investments in real estate capital funds

Investment yield specification and surplus

€ million	**2004**	2003	2002	2001	2000
Direct income	**948.0**	795.0	795.3	805.1	723.8
Loans	**55.6**	56.0	63.1	65.2	70.7
Bonds	**476.7**	505.3	514.6	488.8	428.3
Other money-market instruments and deposits	**10.3**	6.0	15.2	13.8	18.8
Equities and shares	**294.3**	119.9	93.7	115.3	99.0
Real estate	**132.0**	123.1	116.2	112.8	102.3
Unallocated costs and operating expenses from investment activities	**–20.8**	–15.2	–7.4	9.1	4.7
Changes in book value in bookkeeping [2]	**13.7**	485.4	–373.0	–153.1	342.4
Equities and shares	**254.2**	252.3	–467.1	–180.1	348.7
Bonds	**–203.4**	253.8	109.2	30.2	1.8
Real estate	**–37.1**	–20.7	–15.0	–3.2	–8.2
Net investment income in bookkeeping	**961.8**	1 280.4	422.3	652.0	1 066.2
Change in valuation differences	**603.9**	180.4	–84.8	–464.0	–235.1
Equities and shares	**306.9**	255.1	–346.9	–444.2	–372.9
Bonds	**263.9**	–103.5	216.6	–48.8	101.6
Real estate	**33.5**	29.6	47.6	29.1	35.8
Other investments	**–0.3**	–0.8	–2.1	0.0	0.3
Net investment income at fair values	**1 565.7**	1 460.8	337.5	188.0	831.1
Other interest items [1]	**10.2**	–0.8			
Required return on technical provisions	**773.3**	639.6	755.6	754.2	651.9
Investment surplus, book value	**198.7**	640.0	–333.2	–102.2	414.3
Investment surplus, fair value	**802.6**	820.4	–418.0	–566.2	179.2

1) Includes e.g. such items in the Profit and Loss Account not entered in investment income
2) Sales gains and losses and other changes in book value

Net investment income at fair values

	Net investment income at fair values [1] € million 2004	Invested capital [2] € million 2004	Yield on invested capital % 2004	Yield on invested capital % 2003	Yield on invested capital % 2002	Yield on invested capital % 2001	Tuotto sitoutuneelle pääomalle % 2000
Loans	**55.6**	**1 153.5**	**4.8**	4.4	4.7	4.8	4.8
Bonds	**535.0**	**10 644.6**	**5.0**	6.1	8.7	5.0	6.5
Other money-market instruments and deposits	**12.2**	**473.9**	**2.6**	3.4	3.4	3.9	3.8
Equities and shares	**855.4**	**4 772.7**	**17.9**	19.3	–19.7	–14.0	2.4
Real estate	**128.4**	**2 505.5**	**5.1** [3]	5.4	6.5	6.4	6.4
Other investments	**1 586.5**	**19 550.2**	**8.1**	8.2	2.0	1.0	5.4
Unallocated costs, expenses and operating expences from investment activities	**–20.8**						
Net investment income at fair values	**1 565.7**	**19 550.2**	**8.0**	8.1	1.9	1.0	5.3

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 Economies) 5.3%.
Yield in accordance with KTI Index for investment real estate objects (excluding objects in own use) 5.5%

Loading profit

€ million	2004	2003	2002	2001	2000
Administrative costs of premium	**88.2**	82.4	74.6	73.9	65.3
Operating expenses by function [1]	**–66.4**	–64.2	–59.0	–58.6	–56.2
Other income and expenses	**0.7**	0.9	0.8	0.7	0.7
Loading profit	**22.5**	19.1	16.4	16.0	9.8
Administrative costs/ Administrative costs of premium, %	**75**	77	78	79	85

1) Excluding costs for working capacity maintenance and 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:	€ 7 058 995.23
to be transferred to the security reserve (optional reserve)	€ 6 300 000.00
to be paid as interest on guarantee capital	€ 686 872.58
to be transferred to the Board of Directors' expense account	€ 40 000.00
to be carried over on the Profit and Loss Account	€ 32 122.65

Helsinki, 18 February 2005

Jyrki Juusela

Ole Johansson	Mikko Mäenpää	Jouko Ahonen
Markku Jokinen	Erkki Kangasniemi	Birgitta Kantola
Lasse Laatunen	Arto Ojala	Markku Pohjola
Kari O. Sohlberg	Björn Wahlroos	Matti Vuoria 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 2004. 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 15 February 2005 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, 28 February 2005

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 2004, 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, 8 March 2005

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.

Calculated interest rate
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 2004, the rate stood at 4.5% for the first half of the year and at 5.0% for the rest of the year. As of the beginning of 2005, the calculated interest rate is 4.75%.

Client bonus
Rebate payable to TEL policyholders out of the bonus reserve.

Equalisation reserve
The amount of the claims reserve accumulated from the insurance premium result and used to equalise any fluctuations in the insurance premium result, or e.g. for such years when the number of new pensions granted is above average.

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

Insurance premium result
The 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
Investment surplus can be calculated by deducting the required rate of return on technical provisions from net investment return and change in valuation differences.

Loading profit
Expense loading shows how much of the expense loading was not used for the company's operating expenses. The ratio of operating expenses to the expense loading reflects the company's efficiency. 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
See Calculated interest rate.

Solvency margin
Net insurance company assets are used to prepare for fluctuations in investment values. Solvency margin is 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. The solvency limit is calculated on the basis of the structure of the company's investment portfolio and the amount of technical provisions in such a way that it covers the fluctuation in the value of investments at a sufficiently high probability. 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
An estimate of the company's future pension expenditure for the part that is funded, entered in the Annual Accounts. Technical provisions comprise the premium and claims reserves. The premium reserve concerns the liabilities caused to the company by future contingencies for the part that pension has accumulated by the end of the financial year. The claims reserve is the capital value of the funded components of future pensions in respect of contingencies that have already occurred.

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 is used in preparing for 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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