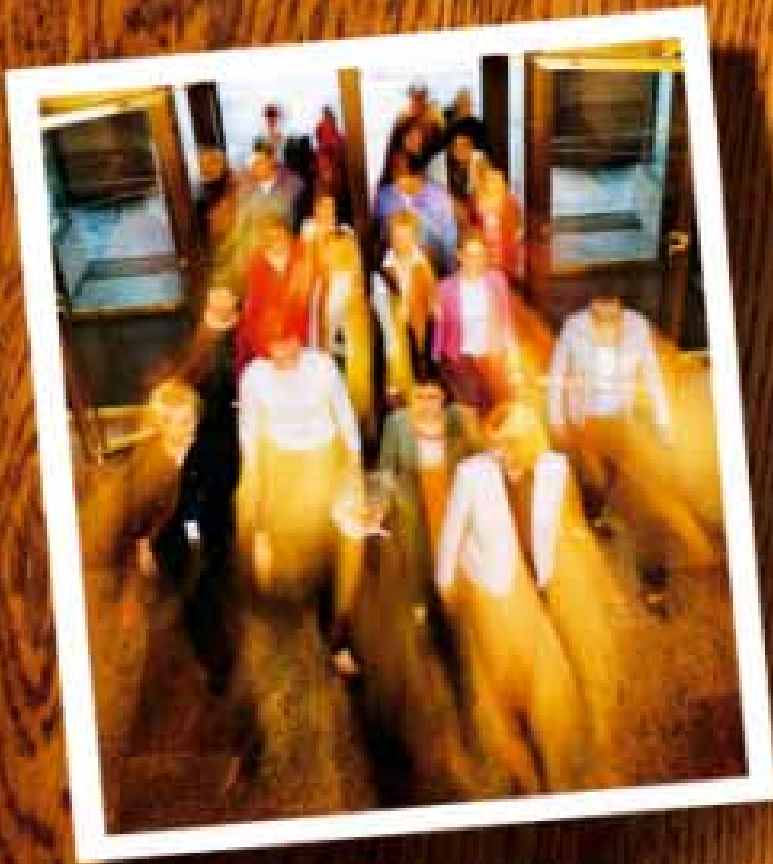


Annual Report 2005



VARMA
SECURES PENSIONS

Varma secures 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 750 000 people. Premiums written totalled €2.8 billion in the year 2005 and pension payments stood at €2.7 billion. The value of the company's investment assets stood at more than €24 billion at the end of 2005.

The most efficient pension company offering the best customer service

Varma's core task is to secure the pensions entrusted to its care.

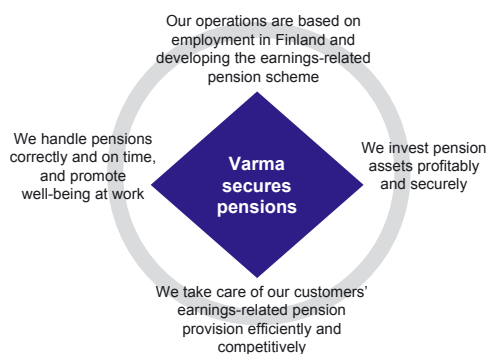
The key factors in Varma's strategy are efficiency, a pioneering approach and the best service in the industry.

Varma's goal is to become 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. Success in this task requires financially sustainable operations and the efficient delivery of high-quality customer service.

In order to achieve its long-term goals, Varma must ensure the competitiveness of its investment operations and continuously improve its cost-efficiency.

Varma's common values are achievement, co-operation and development.

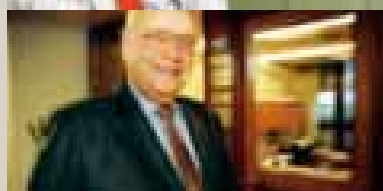
Varma's core functions



Annual Report 2005



p. 4



p. 8



p. 12



p. 14



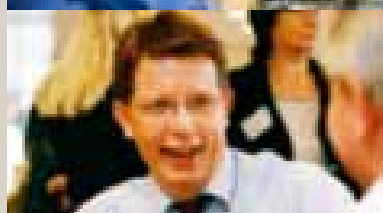
p. 16



p. 18



p. 20



p. 26

CEO's review	4
Year 2005 in brief	6
Financial performance and efficiency	8
Varma seeks to control pension expenditure	10
Towards ever better services	13
A longer life in work	16
Versatile services for varying circumstances	18
A successful year for investments	20
Personnel managed changes well	26
Corporate Governance	28
Risk management	33
Supervisory Board	35
Board of Directors	36
Management	40
Key terminology	44
Contact information	42

Annual General Meeting

Varma Mutual Pension Insurance Company's Annual General Meeting will be held on 22 March 2006 at 10 a.m., at the company's headquarters at Annankatu 18, Helsinki.

Annual Report and other publications

Varma's Annual Report is published in Finnish, Swedish and English.

The Corporate Responsibility Report is published in Finnish and Swedish.

All of Varma's publications can be ordered at www.varma.fi.

An excellent year for Varma



Varma enjoyed a successful year in 2005. Measures relating to the pension reform were implemented according to plan, even though there was a significant rise in the number of pension decisions handled by the company. Varma's overall result almost doubled compared with the previous year thanks to a strong investment result.

It should be emphasised that we owe our success in investment operations to sound risk management practices. Towards the end of the year we maintained a high level of

hedging, in particular against the equity risk relating to our investment portfolio. We were also highly successful in retaining customer relationships and in acquiring new customers.

We still have challenges to face in the areas of streamlining our operations and making them more efficient, while also developing our customer service. In 2005, we focused on developing supervisor competence, and this work will continue in 2006. We also carried out an efficiency analysis of our

operations during the year. On the basis of the analysis results, we took some new steps to improve our processes and the use of our resources.

Challenging operating environment

Economic growth in the euro area is still modest, and in Finland growth was negatively affected by a labour dispute in the paper industry. However, Finnish companies managed to keep their results at a fairly good

level, total employment improved, and the number of jobs picked up in the industrial sector. In order to maintain the high level of welfare in Finland, economic growth is absolutely essential, and it can only be achieved through the success of business enterprises.

Thanks to three years of positive development in the investment market, the solvency of the entire earnings-related pension scheme has strengthened considerably. It will thus be a challenging task to maintain the level of returns achieved during the current year.

Reform of the pension scheme

In 2005, Varma and the company's experts participated in work relating to the development and reform of the earnings-related pension scheme, and this work has brought excellent results since the end of the year. Wide consensus has been reached on how the risk-carrying capacity of pension institutions can

be strengthened, allowing pension investors to seek higher returns by increasing the share of equity investments in their portfolio. In the long term, this will reduce pressure to increase pension contributions.

The new Employees Pensions Act that will enter into force at the beginning of 2007 will harmonise employees' earnings-related pensions in the private sector and improve the transparency of the pension scheme particularly towards employees but also towards employers.

Finland as a marketplace

Company ownership and share ownership policy are currently the subject of lively discussion. This debate is welcome, since international competition in the investment market is becoming increasingly tough.

In Finland we need both international and domestic investors and owners. In recent years, stock exchanges have been losing much

of their market position to private equity investors operating outside them. The new Nordic stock exchange provides a challenging environment, especially for those Finnish companies with a lower market capitalisation.

It is very important that the government do its best to improve the opportunities of both Finnish institutions and private citizens to invest in the shares of Finnish listed companies.

Expression of thanks

I wish to thank all Varma's clients for the confidence you have shown in us in 2005. I would also like to thank Varma's personnel for their good performance and spirit of cooperation.

Matti Vuoria
President and CEO

Aiming to be the most efficient pension company

Even though Varma is already among the top earnings-related pension companies in terms of operating cost efficiency, the company launched an efficiency analysis project in 2005 to systematically chart the use of resources.

"The project brought in hundreds of ideas, some of which have already been put into practice or are currently being implemented," says **Jouko Oksanen**, Chief Financial Officer.

Oksanen points out that Varma has an obligation to operate efficiently, as the company manages the assets of present and future pensioners.

"We focus on streamlining our processes, developing competence and allocating our resources correctly, as our goal is to offer the best customer service in the industry."

Early in 2006, a balanced scorecard covering all Varma employees was introduced, with the aim of measuring the company's performance better and more accurately.

Client companies see the efficiency of Varma's operations mainly in their client bonuses, the amount of which is affected not only by the investment income but also by the operating expenses of the pension company. In 2005, Varma's expenses were some €24 million lower than the administrative costs included in the insurance contributions, and the company will refund to its clients €84 million in the form of client bonuses.

STORY: Marjo Kosonen

The year 2005 in brief

The year 2005 was marked by a number of natural catastrophes that happened in various parts of the world. At Varma the year started with the pension reform and ended with an excellent result for investment operations.

Smooth implementation of the pension reform

The introduction of a flexible retirement age increased the number of old-age pension applications as expected.

Varma received 3 400 old-age pension applications more than in the previous year. However, the actual number of people applying for retirement was rather low, since the number of potential applicants, i.e. insured aged over 63, was 6 900. A total of 2 800 people received a decision on their old-age pension.

Varma managed to clear the backlog of applications well, and

we were able to pay 85% of all old-age pensions when the pension right began. This was in spite of the fact that, due to the pension reform, we had to wait for information on earnings for the last year. The figure for 2004 was 93%.

Part-time pension estimate online

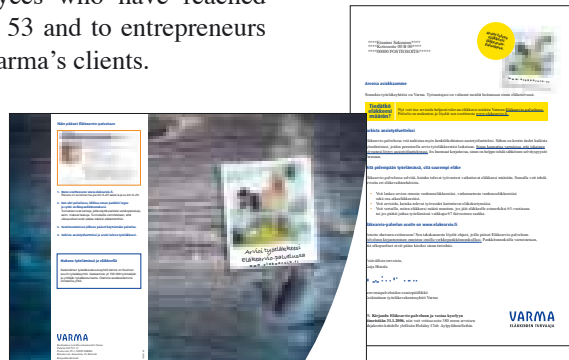
An option where employees can calculate their part-time pension estimate was added to Varma's Pension Estimate (Eläkearvio) online service. This option is available to all employees who have reached the age of 53 and to entrepreneurs who are Varma's clients.

The Pension Estimate service offers employees and entrepreneurs information about their pension provision online.

Varma did well in portfolio transfers

Varma strengthened its position further as the largest earnings-related pension insurer by account transfers made between the pension companies in 2005.

Measured by premium income, Varma's result in TEL insurance



A total of 34 000 people insured under TEL by Varma received a letter promoting Varma's Pension Estimate online service at the end of the year.

January: The reform of the pension provision system came into force. The goal of the pension reform is to encourage Finns to remain at work for longer.

Measures to deal with the aftermath of the Boxing Day tsunami in 2004 continued throughout the year 2005. The livelihood of the Finnish families affected by the disaster is secured by a survivors' pension included in the statutory pension provision.

April: Pope John Paul II died, and Pope Benedict XVI was elected his successor as the head of the Roman Catholic Church.

May: Paper mills stopped in Finland due to a labour dispute in the paper industry. A new collective bargaining agreement was concluded at the end of June.

policies amounted to more than €18 million. This is equal to a payroll of almost €90 million and will slightly increase Varma's market share, which stands at around 38%.

Risto Murto appointed CIO

In October, Varma's Board of Directors appointed Risto Murto Chief Investment Officer. Mr Murto, who joined Varma at the beginning of 2006, follows Jorma Leinonen who is retiring.



Varma receives recognition for quality

Excellence Finland awarded Varma the certificate "Recognized for Excellence in Europe" for the excellence of our operations. This was the first time the company participated in the contest.

Varma has applied the model developed by the European Foundation for Quality Management (EFQM) to assess its operations since 2001.

Positive result trend continues

Varma's investment income at fair value stood at 11.6%, and the company's solvency increased to 29.2% of technical provisions based on solvency requirements.

July: Islamic fundamentalist suicide bombers attacked three underground trains and one bus in London. More than 50 people died and 700 were injured.

August: Hurricane Katrina struck New Orleans in the USA. Several levees protecting the city failed, and 80% of the city was inundated with floodwater. As a result, the price of oil peaked, reaching record levels.

September: Matti Louekoski, Deputy Governor of the Bank of Finland, submitted his progress report on the need to amend the Act on Employment Pension Insurance Companies.

October: An earthquake struck in Pakistan. More than 70 000 people were killed and millions lost their homes. There were riots in Paris suburbs, and civil unrest spread across the country.

November: The media reported that pension contributions have been erroneously collected in excess. However, this "error" was attributable to the fact that Finns have been fitter for work than expected. For this reason it was agreed that a temporary 0.6% reduction be made on the TEL contribution for 2006.

December: The negotiation group of labour market organisations known as the Puro working group continued its work in 2005. The group has investigated how investment returns could be increased in earnings-related pension companies and on what terms they could increase their investments in Finnish companies.

Sampo's share price increased from €10.30 to €14.75 during the year. Varma reduced its holding in the company from 15.3% at the beginning of the year to 10.6% at year-end.

Financial performance and efficiency

Varma's result for 2005 was excellent, and the company's solvency was strong.

Varma's overall result came to €1 681 million (2004: €878 million) as a result of strong returns on investments. Investment income was 11.6% (8.0%), and the market

value of Varma's investments stood at €24.6 billion (€21.2 billion).

Varma's solvency increased to €5 599 million (€3 986 million), with 29.2% (22.8%) of technical provisions based on solvency requirements.

Operating cost efficiency remained at a good level, and loading profit stood at €24 million (€23 million).

Premium income increased by 6% to €2.8 billion, and the number

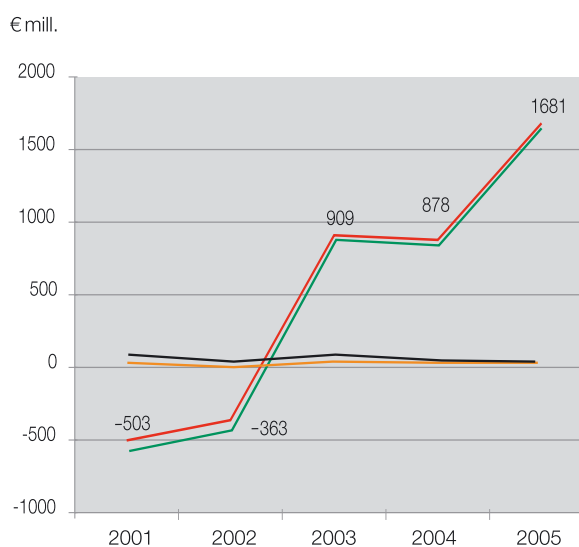
of insured employees and entrepreneurs rose by 2 600 to 445 300.

The value of pensions paid rose by €2.7 billion or 5% from the previous year. The number of pensioners totalled almost 293 000.

Thanks to the good results, €84 million (€51 million) was transferred to the bonus reserve for client bonuses. The transfer was equal to approximately 4.1% of the employers' TEL contribution.

Strong financial performance

— Insurance premium result
— Investment income
— Loading profit
— Total result



Key figures

	2005	2004
Premiums written, € mill.	2 764	2 615
Pension payments to pensioners, € mill.	2 703	2 579
Technical provisions, € mill.	21 824	20 029
Solvency margin, € mill.	5 599	3 986
Solvency margin / technical provisions, % ¹⁾	29.2	22.8
Solvency margin / solvency limit	2.4	2.4
Investment portfolio, € mill.	24 621	21 233
Investment income, € mill.	2 499	1 566
Yield on invested capital, %	11.6	8.0
Transfer to client bonuses	84	51
% of TEL payroll	0.7	0.4
TEL policies 31 Dec.	25 200	25 600
Insured 31 Dec.	409 000	406 000
YEL policies 31 Dec.	36 700	36 300
Pensioners 31 Dec.	293 000	286 000
Parent company personnel 31 Dec.	670	660

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

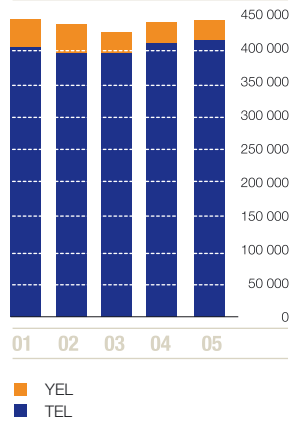
Income statement at fair value (parent company)

€ million	2005	2004
Premiums written	2 764	2 615
Claims paid	-2 401	-2 277
Change in technical provisions	-1 096	-946
Net investment income	2 514	1 596
Total operating expenses	-84	-78
Other expenses	-12	-11
Taxes	-3	-20
Total result *	1 681	878

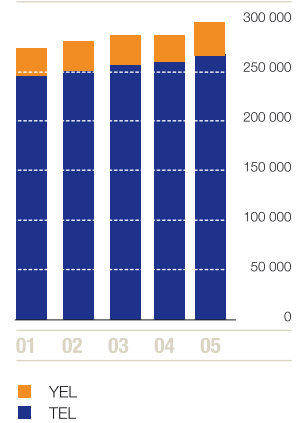
* Profit at fair value before change in bonus reserve, unallocated insurance reserve and equalisation provision, used mainly to strengthen solvency.



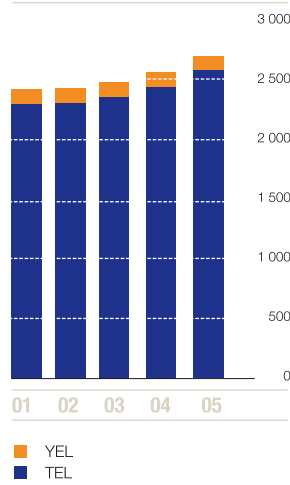
The insured



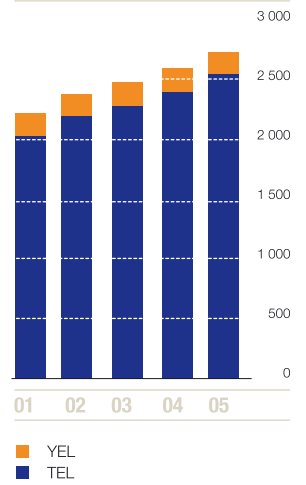
Pensioners



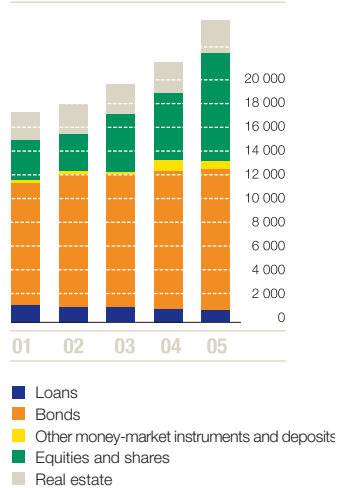
Premiums written, € mill.



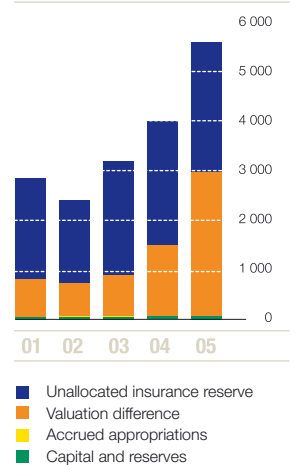
Pensions paid, € mill.



Investment portfolio, € mill.



Solvency margin, € mill.



Controlling pension expenditure

The efficiency of the earnings-related pension scheme will become an increasingly important factor, as the Finnish population ages. As Finland's largest pension company Varma is playing an active role in the development of the pension scheme.

At the beginning of 2005, a pension reform was introduced in the private sector to ensure sustainable financing of the earnings-related pension scheme. The goal is to persuade Finns to remain at work for longer by making the pension provision system more encouraging in this respect. As the population ages, pension contributions will inevitably increase, but the rise can be curbed by extending the duration of employment.

The investment operations of pension companies also play a key role in the control of future pension contributions: high investment income helps to curb the rise in contributions.

In 2005, labour market organisations examined whether the investment norms applying to pension companies could be developed so that the proportion of equities could be increased. At the same time they considered whether it would be possible to invest pension assets in a way that would promote investments in Finnish companies and support work in Finland. However, as an earnings-related pension insurance company Varma's main goal is to invest assets as profitably as pos-

sible while still controlling risks.

As Finland's largest earnings-related pension company Varma is playing an active role in the development of the pension scheme. The company has offered the labour market organisations its expertise for compiling the report on the investment of pension assets and for other major projects.

Competition boosts efficiency

The efficiency of the earnings-related pension scheme will become even more important as the age structure of the population changes. Efficiency is a relevant factor not only in the investment of pension assets, but also in controlling the costs of pension provision and maintaining the quality of services. Competition for customers between the pension insurers promotes efficiency and good service, both in the implementation of pension provision and in the investment of pension assets.

The operations of an earnings-related pension insurance company are financed by the administrative costs included in the insurance premiums.

The level of client bonuses deducted from clients' insurance contributions is determined on the basis of the solvency of the pension company. When pension contributions are determined, the average client bonuses paid in the earnings-related pension scheme also reduce the employee's contribution.

Efficiency a competitive asset

As a responsible pension insurer Varma aims to be as cost-effective as possible.

Varma emphasises that the efficiency of earnings-related pension insurance companies in terms of administrative costs should be reflected better and more clearly in client bonuses. Efficiency and the quality of services are important for both the policyholder and the insured.

By ensuring the cost-effectiveness of operations, high quality of services and sustainable financing of the pension scheme, it is possible to secure the continuity of pension provision in a responsible manner.

Earnings-related pension insurance simpler

The private sector employees' pension acts will be combined into one, the Employees Pensions Act, TyEL, on 1 January 2007. The reform does not concern self-employed persons, farmers or persons covered by the Seamen's Pensions Act.

When the new act comes into force, employers can provide all their private sector employees, including temporary employees, with pension security through Varma.

Dealing with only one pension company will save the client costs and speed up work processes.

Combining the pension acts will provide better opportunities to use electronic payment and notification services. In 2005, Varma made a strong investment in developing on-line services in order to offer clients more efficient processes.

Jyrki Juusela, Chairman of the Board: Efficiency improves the quality of services

Jyrki Juusela, Chairman of Varma's Board, divides the company's future challenges into two categories: internal and external. Among the internal challenges, the most important are to ensure efficiency in all operations and to develop customer service. Both topics have also been widely discussed by the Board of Directors.

Juusela says that all the internal challenges have one common denominator: quality. High-quality services are professional, friendly and fair. Efficiency is also an integral part of quality.

"Cost-efficiency does not necessarily mean that we try to pare down costs everywhere, but that we continuously develop our operations and do things in a new and better way."

This means that all operations must be assessed critically from the point of view of clients. Ultimately it is a question of refining processes and combining them to form a seamless system that functions smoothly.

According to Jyrki Juusela's experience, job satisfaction improves when efficiency increases. This is also reflected in customer service.

Investment operations crucial

In terms of Varma's internal efficiency, investment operations play a crucial role.

"Varma manages the funds of pensioners and those who pay pension contributions – an enormous amount of capital. These assets must be managed with great expertise so as to control the pressure to increase pension contributions," Jyrki Juusela states.

In meeting the external challenges Varma is actively engaged in the pension policy debate. The company has an obligation to utilise its expertise and express its own views on the matters discussed.

"Varma should aim to influence the core issues so that the earnings-related pension scheme develops in the right direction. It's important to keep pension contributions at the present level in the future, too."

One of the means towards achieving this goal is to maintain a high investment income. At the moment, the investment operations of earnings-related pension companies are regulated by the authorities, which in practice restricts the opportunities they have to invest in equities. This issue has been investigated by the Puro working group, a negotiation group of labour market organisations.

Story: Marjo Kosonen



"Cost-efficiency means that we continuously develop our operations and do things in a new and better way," says Jyrki Juusela.

Marita Järvinen from Varna's Insurance Services meets wages clerk Eila Lähteenmäki from the medical services company Mehiläinen Oy.



Towards ever better services

Varma is the largest earnings-related pension company in Finland. Its goal is to maintain its market position in all customer segments and to be the best and most efficient pension insurer in terms of services.

The year 2005 was marked by competition not only between the pension companies but also between the different methods of arranging earnings-related pension. In 2005, an exceptionally high number of account transfers were made from pension foundations to pension companies.

The competition field will change in 2007, when the joint private sector Employees Pensions Act TyEL enters into force. After that competition in the earnings-related pension industry will open up in occupations covered by the Temporary Employees' Pensions Act (LEL) and the Pensions Act for Performing Artists and Certain Groups of Employees (TaEL), including work where a private household is the employer.

Sharper focus on the customer

Varma's goal is to develop its services in all customer segments. In 2005, the company carried out substantial projects, providing the groundwork for more efficient customer relationship management and more customer-focused working practices.

Varma is productising its services to help achieve higher than ever quality and cost-effectiveness.

Premium income up

Varma's TEL premium income for 2005 stood at €2.8 billion, around 6% higher than the previous year's. YEL premium income increased by around 5% to €124 million.

Measured by premium income, Varma's market share is estimated to remain at the same level as the previous year's, that is at 38%.

Growth in new business

The number of new TEL and YEL insurance policies totalled 7 600 and grew by 8.8% from the previous year.

Measured by the number of insurance policies, Varma's share of new business was around 23%,

which meant that the company fell slightly short of its target, 24.5%. This result mainly reflects Varma's success among small companies starting up their operations.

Varma's premium income stemming from new business stood at €47.6 million, a result that clearly exceeds the target set for annual sales, €45 million.

Excellent year in account transfers

In 2005, Varma achieved an excellent result in account transfers between earnings-related pension companies. Measured by premium income, the net result in these transfers amounted to over €18 million.

In addition, Varma was successful in account transfers between the company and pension foundations. Measured by premium income, the net result in account transfers amounted to around €45 million.

Transfers between companies and pension foundations include transfers of previous pension liability and the assets securing it as well as transfers of solvency margin. A total of around €418 million of pension liabilities were transferred to Varma, as well as the assets secur-

Versatile services in earnings-related pension provision

Varma offers its customers the following pension insurance services:

- Basic services (e.g. insurance and pension services, vocational rehabilitation)
- Additional services (e.g. insurance contribution estimates and calculations, training and guidance related to well-being at work and to social security while working abroad)
- Customer-specific services (e.g. specially tailored basic and additional services, specific service teams with specialised knowledge of a customer's line of business)

Varma's headquarters are located in Helsinki city-centre, but the company's network of account managers covers the whole country. Varma insurance is also sold by If and Nordea.

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 committee are appointed by Varma's Board of Directors.

Members of the Consultative Committee, 31 December 2005

Harri Broman, Managing Director, Broman Group Oy
Henry Fagerström, Managing Director, Oy Schenker East Ab
Markku Haavisto, Managing Director, Connex Finland Oy
Jukka Hyryläinen, Managing Director, KATKO Oy
Antero Ikäheimo, Chairman of the Board, Lappset Group Oy
Kristiina Illi, Managing Director, Tiimari Oyj
Ari Jokelainen, Managing Director, Exel Oyj
Pekka Kauranen, Administrative Director, Finnish National Opera
Mika Kiljunen, Managing Director, Kaleva Travel 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
Timo Miettinen, Managing Director, EM Group Oy
Jari Ollila, Chairman of the Board, Purso Oy
Jukka Ottela, Managing Director, Esan Kirjapaino Oy
Antti Paananen, Managing Director, Viitapuu Oy
Simo Parhankangas, Managing Director, Kyrel Oy
Antti Reenpää, Managing Director, Kustannusosakeyhtiö Otava
Tuomo Räsänen, Managing Director, Carel Capital Oy
Tuomo Rönkkö, Managing Director, Eitel Networks Oy
Mauri Saarelainen, President, Honkarakenne Oyj
Risto Salo, CEO, Hollming Oy
Ralf Sandström, Managing Director, Restel Oy
Juha Silvano, Chairman of the Board, Sylva Group Oy
Saara Sinivuori, Managing Director, Aleksin Ravintolat Oy
Harri Suutari, hallituksen puheenjohtaja, PKC Group Oyj
Heikki Takamäki, Owner, Heikki Takamäki Oy/Rauta-Otra Nekala
Petteri Waldén
Kaija Ward, Chairman of the Board, Eurokangas Oy
Einari Vidgrén, Chairman of the Board, Ponsse Oyj
Jorma Wiitakorpi, Managing Director, Patria Oyj
Heikki Väänänen, Chairman of the Board, Karelia Yhtymä Oyj
Pertti Yliniemi, Chairman of the Board, Olostunturi Oy

ing them and some €49 million as so-called transferred solvency margin.

Client bonuses

Varma transferred a sum of €84 million for client bonuses in its financial statements for 2005, compared with a figure of €51 million in 2004. Varma's client bonuses have thus remained at a very competitive level.

Restructuring presents challenges

In coming years, Varma's main challenge is to succeed as an earnings-related pension insurer in an environment of company and group restructuring and changing ownership structures. Companies involved in restructuring often have to decide where they will place their statutory pension insurance business. Varma did well in these competitive situations in 2005.

In addition, sectoral arrangements present a challenge for pension companies.

TyEL keeps IT experts busy

Varma has prepared for the introduction of the new Employees Pensions Act TyEL by carrying out major projects relating to information systems. An earnings registration system is under construction, with all parties in the earnings-related pension scheme – in

both the private and the public sector – participating. The new system will function in accordance with the TyEL Act in 2007. The project is being implemented by Arek Oy, a limited company jointly owned by the pension companies.

Varma is preparing for the TyEL Act by developing electronic services that will offer clients the opportunity to handle all their insurance matters at Varma. The aim is to improve access to electronic services through the services provided by our partners If and Nordea.

Online services in frequent use

Varma's electronic services were developed further in 2005. Electronic invoicing of TEL contributions was introduced in summer 2005, and a new version of the online e-folder service (Kansio) was released, where clients can obtain various certificates directly, such as certificates and itemisations of payments and loans.

The goal for 2005 was to have at least 75% of customers' employment and annual notifications received electronically, and the target was achieved.

TEL seminars – earnings-related pension insurance update

The TEL seminars offer current information on earnings-related pension insurance to persons who are responsible for payroll and personnel matters at Varma's client companies. The theme for 2005 was "TyEL is on its way – are you ready for it?"

During the day, information was provided on subjects such as the new Employees Pensions Act to come into force at the beginning of 2007, TEL contributions and pension provision for working overseas. In addition, the programme included a lecture on Varma's investment operations.

The seminar was organised in six cities: Helsinki, Turku, Tampere, Lahti, Oulu and Kuopio, gathering an audience of 1 200.

Expectations met

Feedback was collected from the participants by distributing a questionnaire. Four out of five respondents considered that the event met their expectations or even exceeded them. They found that the most useful lectures included those on the TyEL Act and flexible pension

provision.

In Helsinki, the training event was also held in Swedish, offering the participants a unique opportunity to meet colleagues from other companies whom they had known for years. In their feedback the participants emphasise every year the importance of having training in their own mother tongue.

Tage Sundell was attending the event for the fifth time. As controller at Inkoo Shipping Oy Ab, he manages the company's pension affairs together with the wages clerk. The average age of the personnel is rather high, and pension matters are therefore relevant in the company.

"I'm also interested in pension issues for personal reasons, as I'm approaching retirement age myself, too."

Tage Sundell was very pleased with the TEL seminar for 2005.

"I found Susanna Teräskallio's presentation on earnings-related pension provision and annual insurance notifications particularly interesting," he says.

In addition, training was organised for self-employed persons

around Finland. Topics included the TyEL Act, rehabilitation and well-being at work services for self-employed persons as well as earned income under YEL.

Story: Gun Leppiniemi-Muurinen

Monitoring customer satisfaction carefully

Varma follows up customer satisfaction annually by carrying out various surveys.

In a survey made by Nero Partners in autumn 2005, Varma's client companies were interviewed. The survey showed that in the view of Varma's clients, the company has succeeded well in managing the customer relationship.

According to Varma's clients, the company's strengths are solvency, reliability, willingness to be of service and competence in pension insurance. They thought that the company could be more active in contacting them directly.

In a corporate image survey targeted at decision-makers in working life and carried out by Taloustutkimus Oy in autumn 2005, Varma came top in the area considered the most important by clients, i.e. quality of products and services. In addition, Varma was rated good in customer service, personnel and management competence, and financial position. By contrast, there is still room for improvement in marketing communications.



Tage Sundell found a lecture on earnings-related pension provision and annual insurance notifications particularly interesting at the TEL seminar.

A longer life in work – in everyone's interest

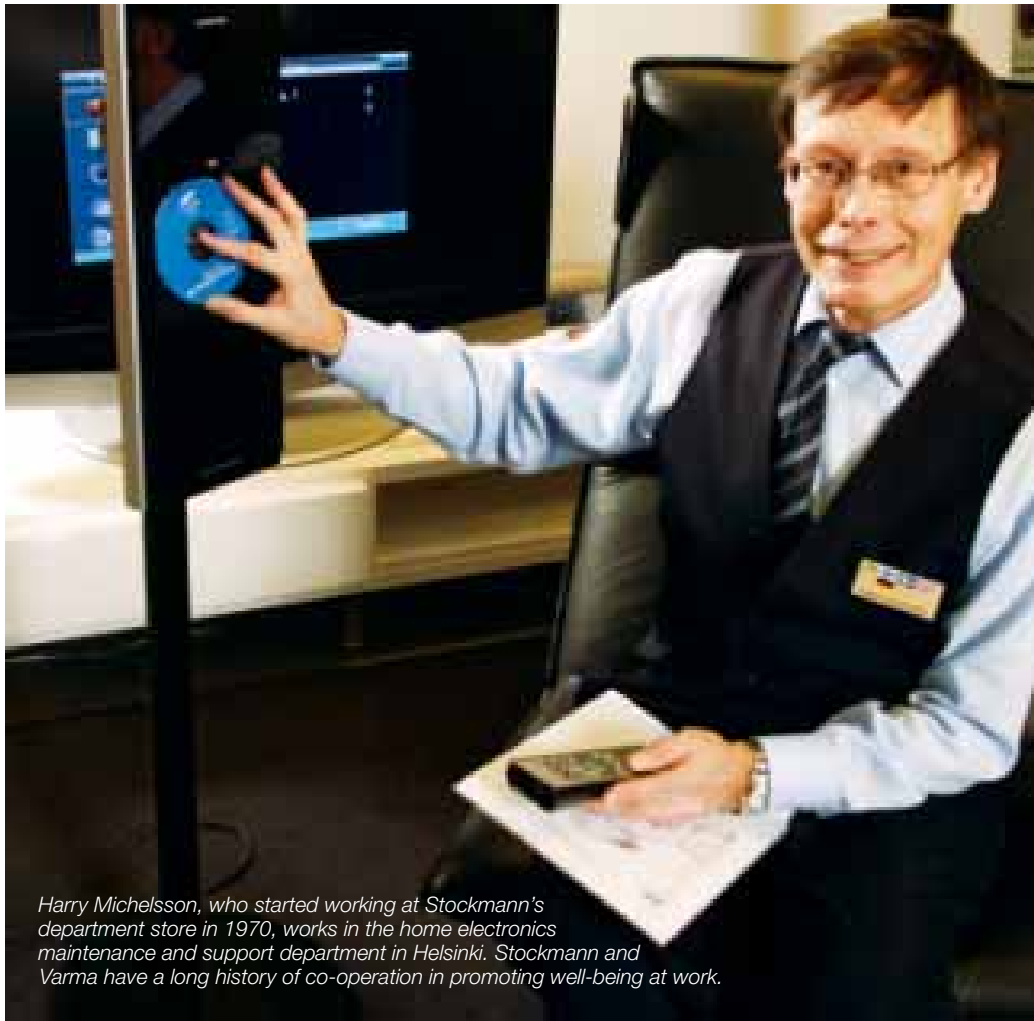
Varma's services in support of a longer working life provide concrete benefits for employers and employees alike.

When an employee stays at work longer, the employer retains a competent workforce and pays smaller pension contributions. For employees and self-employed people, staying longer at work means a better pension.

Varma started a new service package under the theme 'A longer life in work' in 2005. The core activities are based on meetings held in the client company. The purpose of the services is to enhance co-operation between company management, HR administration, representatives of occupational health care and personnel and Varma, on questions concerning coping at work and staying longer in working life.

Varma's services combine meeting customer needs and achieving the goals of the pension reform. A key objective of the reform is to see Finns staying at work for 2–3 years longer than at present.

Varma's services in support of staying longer at work are based on several years' experience of co-operation with client companies. The related services available for customers are Varma Advisory Services, Evita Well-being at Work Services and Rehabilitation Services. The Insurance Technique department, on the other hand, provides customer-specific cost calculations on disability pensions and their contribution categories.



Harry Michelsson, who started working at Stockmann's department store in 1970, works in the home electronics maintenance and support department in Helsinki. Stockmann and Varma have a long history of co-operation in promoting well-being at work.

A 'Longer life in work' meeting was organised with altogether 25 companies in 2005, and the feedback received was very positive. In particular, the presentation of Varma's extensive service offering and the competence of the services were features that received praise. In addition, five regional seminars were held on the same theme, with participants from a total of 150 companies.

Expertise to support clients' decisions

A company can build its own solutions around the comprehensive approach to well-being at work offered by Varma's Evita services. Varma provides its customers with a number of practical tools that can be applied to meet different needs.

Approximately a dozen training events on Evita products were organised in different parts of Finland in 2005. Varma's experts also

participated in some 350 direct customer meetings. Co-operation varied from small consultation sessions to long-term co-operation projects. The first sector-specific day event on well-being at work was held in the autumn. The experiences gained from this social and health care sector event were so rewarding that the company has decided to continue them.

The Evita Mirror work book intended for analysing one's own well-being has proved very popular, and many companies are using it as a tool in development discussions. Use of the Evita self-evaluation and Evita mentoring products also increased steadily.

More years at work through rehabilitation

The rehabilitation reform that came into force two years ago was successfully implemented. Vocational rehabilitation is now a statutory pension benefit, which can effectively help to combat the risk of employees becoming incapacitated.

The steady growth in the number of people in rehabilitation and the development of customer services require that Varma continuously improve its rehabilitation services and increase their efficiency.

In 2005 the rehabilitation team productised its services, compiled

”

A key objective of the pension reform is to see Finns staying at work 2–3 years longer than at present.

”

a guide for action, developed follow-up activities and assessed the quality of its operations. The 'Polku' ('Path') project analysed the handling process for rehabilitation applications and listed the

development challenges relating to it. Purchased rehabilitation services and the KuntoutuNET online service are now better integrated into Varma's vocational rehabilitation process.

Establishing methods for maintaining working capacity

Varma launched its own operating model for systematic maintenance of the working capacity of its personnel in 2005.

"We have already had good practices in the company for years, but they were not familiar to all the personnel and supervisors. The practices have now been defined jointly by a team that included representatives from the HR administration, personnel, supervisors and occupational health care," explains Consultant Physician **Mari Antti-Poika**.

The model is available on the company's intranet for all Varma personnel, and training on it has been provided for supervisors along with a briefing event for personnel.

Mari Antti-Poika says that the experiences obtained in using the company's own model have also been useful for Varma in providing customers with consulting services on these issues.

Varma encourages its client companies to draw up similar operating models. The company has provided training and consultation services, and published a guidebook and a work book on these issues. A work book on handling psychological problems at the workplace came out in autumn 2005.

The sooner the better

If an employee is in danger of becoming incapacitated, the employer should not wait too long before addressing the problem. This is made easier by having a uniform operating model that has been approved jointly and is followed systematically. In practice the problem is solved in co-operation between the company management, HR services, employees, supervisors, occupational safety, the shop steward system and occupational health care services.

"The aim is to recognise the risk of becoming incapacitated early on and to find the right solutions in co-operation with the employee, the employer and the health services."

The purpose of the operating models is to prevent unnecessarily prolonged incidences of sick leave. Vocational rehabilitation measures can also be used, if necessary.

Services for varying circumstances

The introduction of flexible retirement increased the popularity of old-age pensions, but there was no rush to retire on an old-age pension in 2005 as had been anticipated.

After the pension reform came into effect in 2005, a person may now choose to retire on an old-age pension at any time between the ages of 63 and 68.

The flexible retirement age increased the number of old-age pension applications as expected, but it did not cause a rush to retire. At the beginning of the year, Varma had 5 400 TEL and YEL insured who were born in 1941 or 1942. By the end of the year, these 63- and 64-year-old insured had retired in moderate numbers, only 1 800 or one third of them actually retiring.

A total of 22 000 new pension decisions were made in 2005. The number grew by 16% from the year before, mainly because the number of old-age pensions increased. The number of applications for part-

time pensions started to climb again after a decline in 2004.

Application handling time unchanged

Despite the growth in the number of pension applications, the application handling time remained at the same level as in 2004.

Some 77% of all pensions were paid in the month during which the right to receive a pension commenced. A total of 85% of all old-age pension applications were paid on schedule. One of the factors affecting handling time is the fact that earnings data are now needed for pension calculation right up to the date of retirement.

Varma paid out pensions to 293 000 pensioners at the end of 2005, totalling €2.7 billion or €225 million per month.

Interest in pension reform continues

Varma Advisory Services arranged 180 different guidance and training events for employees and entrepreneurs in 2005, and they attracted more than 5 700 people.

Most of the events were organ-



ised at the request of the client companies and tailored to their needs, but some of the events were regional, and employees of local client companies were invited to them.

The majority of the events offered information on the pension reform, while some focused on unemployment pensions.

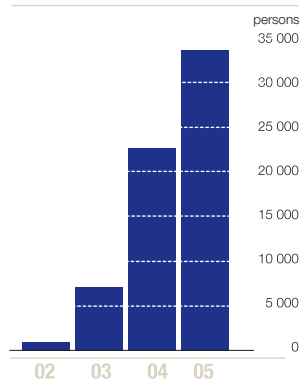
The pension experts of Varma Advisory Services provided advice for some 27 300 customers by phone during the year.

Pension estimates for different needs

In 2005, Varma's pension experts calculated some 30 000 pension estimates for the insured.

Varma continued its targeted information campaign, started in 2003, for those approaching retirement age. Information about the pension reform and an estimate of

Visitors to Pension Estimate online service



Pension decisions issued

	2005	2004	Change, %
First decisions, 31 Dec.			
Disability pension	6 574	6 673	-1.4
Survivors' pension	3 217	3 316	0.0
Old-age pension	7 362	3 986	84.7
Unemployment pension	2 681	2 664	0.6
Part-time pension	1 234	852	44.8
Early old-age pension	471	978	-51.8
Individual disability pension	135	411	-67.5
Rehabilitation allowance	605	506	19.6
Total	22 088	19 286	15.6



Kaisa Hämäläinen is shown cutting Nina Yrttimaa's hair at her salon on Annankatu in Helsinki. The owner of Salon Pacifique has taken out her YEL insurance with Varma.

their old-age pension at the ages of 63, 65 and 68 was mailed in November to TEL insured born in 1946–1947.

In June nearly 38 000 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 people aged 30, 35, 40, 45, 50 or 55.

YEL insured received pension calculations in December, including a comparison of the amount of their old-age pension at the ages of 63, 65 and 68.

Over 11 000 employees with a bonus insurance received a letter in December stating the amount of their additional pension. Those employees with a bonus insurance whose retirement age for the additional pension is 65 also received a pension calculation.

Online service gains popularity

At the end of the year, Varma carried out a direct mail marketing campaign on the Pension Estimate

(Eläkearvio) online service. A total of 34 000 of Varma's TEL insured aged 54–62 received a letter and a brochure describing the service.

The campaign increased the number of visits to Pension Estimate, which increased by 48% from the previous year. During the year, Varma's insured calculated a total of 37 500 pension estimates for themselves using the online service.

Pension Estimate is a useful tool in planning your future. At a glance, you can see how the amount of your old-age pension will change if you do not retire at 63, but remain in working life until the age of 65, for example.

”

Pension Estimate is Varma's online service, where you can calculate the amount of your old-age pension based on your work history. ”

In co-operation with the Consultative Committees

The Consultative Committee for Pension Affairs is a body established for co-operation 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 Dec. 2005

Chairman: **Markku Hyvärinen**, Executive Vice-President, Varma

Vice Chairman: **Sakari Tola**, Senior Physician, Varma

Lasse Laatonen, Director, Confederation of Finnish Industries EK

Sinikka Näätsaari, Programme Manager, Central Organisation of Finnish Trade Unions,

Mervi Flinkman, Social and Health Policy Officer, 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

Kari Ahtiainen, Adjudication Manager, Varma

Marja Ahola, Director, Pension Services, Varma

Marja Korpilahti, Head of Department, Varma

The Consultative Committee of the Insured at 31 December 2005

Representatives of the Finnish Confederation of Salaried Employees

Jorma Ikävalko, NCC Rakennus Oy

Pirkko Kalltonen, Stora Enso Oyj

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

Urpo Huuskonen, UPM-Kymmene Corporation

Kristiina Inberg-Rauhanen, Kesko Corporation

Kauko Koskinen, Jaakko Pöyry Group Oyj

Erika Salmela, ABB Industry Oy

Representatives of the Central Organisation of Finnish Trade Unions

Ellen Helo, Tradeka Group Oy

Arja Launamo, Cloetta Fazer Suklaa Oy

Hannu Paronen, Versowood Oy

Eero Pennanen, Abloy Oy

Antero Raanoja, Stora Enso Oyj

Erkki Ruotsalainen, Imatra Steel Oy Ab

Seppo Räsänen, Savon Mediat Oy

Jouni Suomalainen, Sokotel Oy

Simo Virolainen, Honkarakenne Oyj

Kari Virtanen, Koiviston Auto Oy

Timo Virtanen, Metsä Tissue Corporation

Kari Ylikaupila, Fortum Corporation

A successful year for investments

The year 2005 was excellent for Varma's investment operations. The company's investment portfolio rose to 24.6 billion and yielded a high return of 11.6%.

Varma's investment portfolio is divided into the following categories for management: equities, fixed income investments, real estate, and alternative investments. In addition, assets are diversified by line of business, size of company, and geographically.

Varma's investment operations are efficiently organised, with investment charges amounting last year to 0.05% of invested assets. In the long term cost-efficiency is a major competition factor in investment operations.

”

Varma's investment charges last year amounted to 0.05% of invested assets.

”

Varma Investment Operations and its staff of 73 managed the majority (90%) of the investment assets. Varma calls in external asset managers mainly for investments in equities, capital trusts and hedge funds outside Europe, but also for new overseas real estate fund investments.

Investment income at 11.6%

Varma's investment income for 2005 stood at €2 499 million, i.e. 11.6%; real income, excluding inflation, was almost 11%. This can be considered to be a very good result. As a result, Varma's solvency strengthened to 29.2%.

Equities accounted for €1 573 million of the investment income, fixed income investments for €541 million, real estate for €152 million, and alternative investments for €245 million.

Investment allocation

The market value of Varma's investments stood at €24.6 billion at the end of 2005 (2004: €21.2 billion). The value of the investment portfolio was boosted particularly by a rise in the value of equities investments.

Dictated by the investment norms regulating the investment operations of earnings-related pension insurance companies, Varma's investment allocation focuses highly on fixed investment assets. In 2005, the share of equities was increased and that of fixed income investments reduced, resulting in an increase in investment income.

Varma manages its investment portfolio actively within each asset category. Derivatives are employed in the risk management of investment assets, although mainly for hedging purposes.

Equities portfolio

Prices rose considerably in the equities market. Company results improved and balance sheets strengthened. A few new companies were

listed on the stock exchange in Finland.

The proportion of equities in the investment portfolio rose from 23% at the beginning of the year to almost 29% at year-end.

The total return on the equities portfolio was 31%, which can be considered good given the market conditions. Varma's largest single investment, in Sampo plc, yielded an exceptionally high return of 49%. Varma reduced its Sampo holding from 15.3% at the beginning of the year to 10.6% at year-end.

A responsible long-term investor

- Varma's mission is to accumulate and augment assets received as pension contributions in order to pay present and future pensions. The invested assets are used exclusively to secure pensions.
- Varma is the largest investor in Finland. At the end of 2005, the market value of the company's investments stood at €24.6 billion, the large portfolio making for efficient investment assets administration.
- Varma encourages those companies whose shares it owns to develop good governance practice. Varma's principles of ownership policy are aimed at increasing the value of its assets in the long term.
- Varma's principles of social responsibility as applied to investment operations define the objectives of responsible investment. Social responsibility also serves as a tool in seeking higher returns.

Trader Jussi Kärävä monitors developments in the equities market in Varma's dealing room. Portfolio Manager Mika Parviainen and Oili Auranen from Back Office are talking in the background.



In addition to the strong price trends in the Finnish and European capital markets, the return on the equities portfolio was augmented by investments in Japan and the emerging markets.

”
The breakdown of investments used by Varma in its asset management deviates from that used in the Financial Statements.

”

Some 34% of Varma’s equities investments are listed on the Helsinki Stock Exchange.

Fixed income portfolio

Varma’s fixed income investments mainly consist of investments in bonds issued by governments, while corporate bonds account for one third of the portfolio.

Short-term interest rates rose

during 2005, as the European and US central banks increased their interest rates. The gap between interest rates on corporate and government bonds remained narrow. An exceptional development was that long-term interest rates declined, while short-term rates increased. The interest rates on 2- and 10-year bonds were close at the end of 2005.

Fixed income investments accounted for 52% (2004: 61%) of Varma’s investments at the end of 2005. The return on the fixed income portfolio, 4.2%, equalled the average market level of returns. Varma hedged itself against interest rate risk at the beginning and the end of the year.

Varma has also made investments within different asset categories outside the euro currency area. During the year, currency risks were hedged, and thus exchange rate fluctuations did not have any impact on returns.

As an asset category, customer loans are included in fixed income investments. Demand for loans was low at the beginning of

2005, but the revision of the TEL calculated interest rate increased demand at year-end, and thus the proportion of customer loans decreased less than expected.

The return on customer loans in 2005 was 4.3%.

Real estate portfolio

The overall situation in the real estate market remained active, with foreign operators still very interested in the Finnish market. Tough competition together with the low interest rate led to a fall in the yield requirements. By contrast, uncertainty continues in the market for business premises, especially office space. There was a great deal of vacant office space, but the growth of the vacancy rate seemed to stop towards the end of the year.

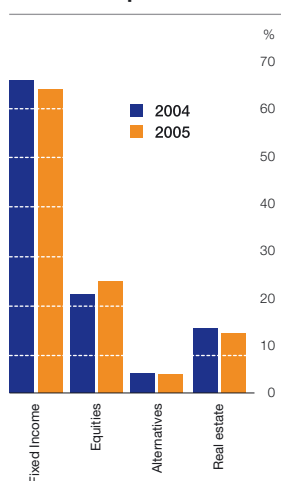
The market value of Varma’s real estate investments stood at around €2.6 billion, while the premises used by the company itself were valued at around €74 million.

In November 2005, Varma’s Board of Directors decided to construct new premises for the company in Salmisaari, Helsinki. The premises are to be completed in autumn 2008.

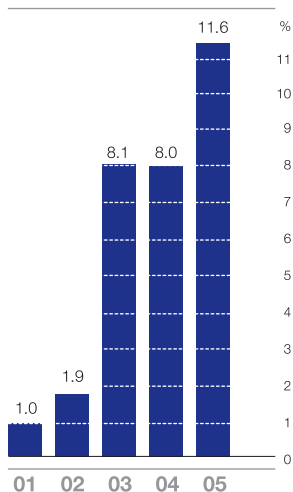
Net returns in accordance with the KTI index (Institute for Real Estate Economics) stood at around 7.6% and the total return at 6.6%. The total return was reduced by €34 million in value adjustments made in office space. The vacancy rate of office space was 5.2% at the end of 2005.

In 2005, Varma invested particularly in improving its real estate, with around one third of gross investments being put into major repairs.

Investment portfolio



Investment income



Alternative investments

The share of alternative investments in the investment portfolio increased from 3.7% in 2004 to 8% in 2005.

Alternative investments comprise investments in capital trusts, hedge funds, unlisted equities and bonds. Investments in foreign real estate funds are also included in this asset category on account of their high leverage and special nature.

The operating environment was very favourable for capital trusts, and a number of realisations were made.

The total return on alternative investments was 23%. The return was very good by international comparison. Investments in capital trusts yielded a return of around 37%, even 45% including co-investments made with the trusts, and

the return on investments in hedge funds was 13%.

In accordance with Varma's ownership policy, the company promotes work in Finland – provided that the company's selection criteria for investments are met.

Investment policy

Varma is a long-term investor.

The goal of the company's investment operations is to secure the payment of pensions. Therefore Varma targets as high a return on investments as possible without placing the company's operations at risk. This is why in Varma's investment operations emphasis is placed on a broad and versatile diversification of assets and cautious risk taking.

Investment regulations under review

In 2005, the Puro working group investigated whether it would be possible to increase the investment returns of earnings-related pension companies and their investments in Finnish companies. The work is linked to a report by Matti Louekoski on the need to amend the Act on Employment Pension Insurance Companies. Both projects were still underway at the end of 2005.

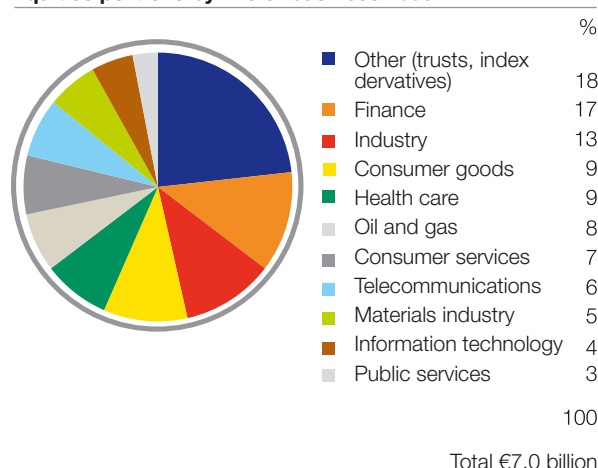
Varma manages pension assets efficiently

In 2005, Varma participated in an international survey on the cost performance of investment operations. The company's investment returns and asset management costs were compared with both a European peer group and a global peer group with a corresponding portfolio size.

Varma's investment operations were found to be very cost-effective. The company's asset management costs were only about half of the benchmark for pension funds in the same size category. Costs were lower, because the assets are mainly managed internally. Varma Investment Operations' costs were also lower than those of the peer group.

The survey was carried out by an independent Canadian company CEM (Cost Effectiveness Measurement Inc), which used information on Varma's investment returns from the years 2000–2004 and asset management costs from 2004.

Equities portfolio by line of business 2005



10 largest equity and equity fund investments

holding	holding, € mill.	% of Varma's portfolio
Sampo plc	894.4	12.8
Martin Currie GF-Japan Mid-Cap Fund	146.4	2.1
YIT-Yntymä Corporation	141.1	2.0
Stora Enso plc	138.7	2.0
Mandatum Emerging Asia Growth	131.9	1.9
Total SA	130.4	1.9
JPMorgan Fleming Japan Equity Fund A	118.3	1.7
BP Amoco Plc	115.0	1.6
Nokia plc	114.3	1.6
Vodafone Group Plc	106.0	1.5
TOTAL	2 036.5	29.1

Varma finances Moventas Oy's growth

In 2005, Varma participated in financing the growth of the engineering company Moventas Oy together with its long-time partner CapMan Oyj. Varma acted as a co-investor, when the capital trusts administered by CapMan Oyj acquired the company from Metso Corporation.

Moventas Oy manufactures power transmission systems mainly for the pulp and paper industry and supplies gears for wind power facilities. The company is located in Jyväskylä, central Finland, and employs some 900 people in Finland. In addition, the company has production facilities in Germany and Canada.

"Moventas was an attractive target for our investments, thanks in particular to the good growth prospects in the wind energy sector. At the same time, the investment allows us to promote work in Finland," says portfolio manager **Tero Pesonen**.

The target is an annual return on investments of more than 20%. A rise in the value of the investment is to be achieved mainly by improving the company's profitability and re-

ducing the loan burden arising from the purchase. In particular the profitability of wind power and maintenance operations is expected to improve significantly.

Moventas Oy, formerly Metso Drives Oy, was created when Valmet Power Transmission Oy, Parkano Gears Oy and the power transmission operations of Santasalo were merged.

The idea of investments in capital trusts is that the investor finances, for example, a significant change carried out in a traditional company or growth in an emerging company,

and exits later when the opportunity arises.

"In this case it is very likely that the company will be merged or sold to a larger competitor or perhaps to another capital trust. One option is to list the company on the stock exchange market," Tero Pesonen points out.

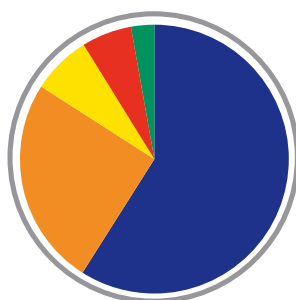
In 2005, Varma financed new investments in capital trusts to a total of €159 million. Realisations made in capital trusts yielded €165 million.

Story: Marjo Kosonen



"The investment in Moventas allowed us to promote work in Finland at the same time," says Tero Pesonen.

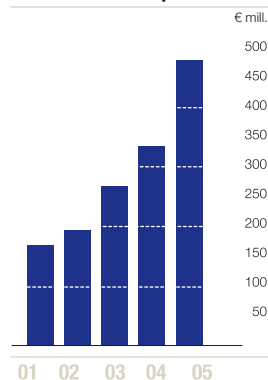
Alternative investments 2005



Investment Type	Percentage (%)
Capital trusts	59
Hedge funds	25.1
Unlisted bonds	2.8
Unlisted equities	6
Real estate funds	7.1

Total €2.0 billion

Investments in capital trusts



Principles of ownership policy

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

Varma's share ownership policy aims at long-term investment of pension assets and producing added value. When investment decisions are made, a high standard of administration and operational transparency in Finnish and foreign companies are important selection criteria.

A total of 248 annual general meetings of listed companies included in Varma's portfolio were held in spring 2005, and Varma voted in 185 company AGMs. Varma voted for the most part in accordance with the recommendations given by the company management.

Varma is involved, in a number of organisations, with the development of international co-operation regarding share ownership policy.

In winter 2004–2005, Varma organised a discussion forum on corporate governance for Board members of listed companies. Discussions at the seminars were lively.

Varma is an active owner

Varma assesses the corporate governance system of companies it invests in within a framework of five goals. The assessment also takes into account a company's ownership structure and other circumstances.

Principles of Varma's ownership policy:

Value added for pension assets

The companies owned by Varma must produce added financial value in the long term.

Active engagement

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

Good governance

Varma requires competence and independence of the Board of Directors of a company that it holds.

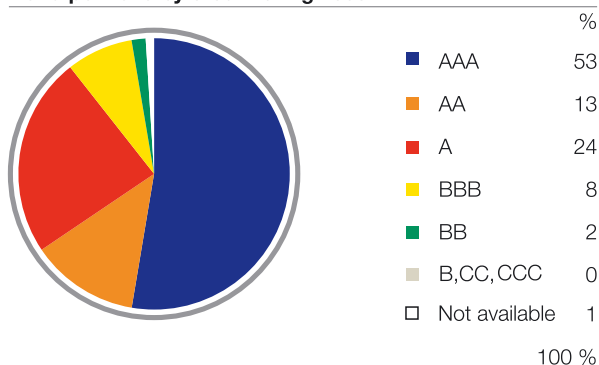
Incentive systems for corporate management and key personnel

Varma supports systems for rewarding company management and other key personnel, in order to increase the value of the company. However, the incentives should only be given for exceptionally good performance.

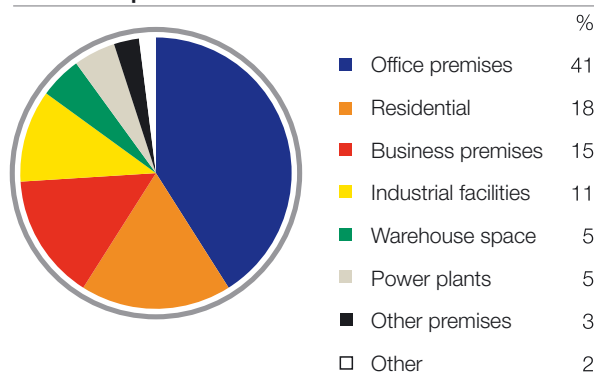
Promotion of work in Finland

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

Bond portfolio by credit rating 2005



Real estate portfolio 2005



Total €2.6 billion

Personnel managed changes well



The pension reform that came into force at the beginning of 2005 brought about changes in Varma personnel's work. At the same time the process of developing and increasing the efficiency of working practices continued to be a focus of attention.

The preparations for the pension legislation reform, already started a few years ago, were concluded on 1 January 2005. Thanks to careful preparatory work, the changes caused by the greatest reform in the history of earnings-related pension legislation were carried through successfully.

Preparation for the next major reform, the joint private sector Employees Pension Act TyEL, also continued throughout the year. The establishment of the related earnings system register also occupied Varma's experts.

Extensive projects aimed at developing operations were initiated in the latter half of 2004, and the work of systematically developing competence and management and improving working practices and processes was continued during 2005.

Goals reached through team work

Varma's supervisor training started in February, the principal objectives being to improve leadership skills, ensure more uniform leader-

ship practices and improve the team-based operating practices. All supervisors participated in the training.

The training progressed from issues common to all supervisory work at Varma, and moved on to the personal development of each supervisor. During the year, the supervisors spent an average of 6 person working days per participant on training.

Team training sessions were started on a larger scale in 2005 than before. A total of 21 teams participated in the training, compared with 6 in the previous year.

Training was also required and provided on the balanced score-card system, which was introduced in Varma and which all personnel learned to use during the year.

Competence – the key to success

Maintaining and developing personnel competence is a crucial part of Varma's strategy.

Early in the year 2005, core areas of competence were specified for Varma's personnel, and the development of competency maps based on these areas was continued. The competency maps enable personnel to concentrate on the areas of competence that require development.

Training provided for the entire personnel concentrated on customer focus and communication. Training in earnings-related pension is an ongoing activity carried out by a number of experts from various functions throughout the company.

*The Finnish norm for clerical employees is an average figure established by corresponding surveys carried out in more than 40 companies mainly employing administrative personnel.

Longer careers through well-being at work

Varma wants to encourage its own employees and those of its partners to stay on at work longer. The well-being of the work community plays a key role in the effort to reach this goal.

Varma considers that the basis for well-being at work are opportunities for maintaining and developing professional skills, competent supervisory work and a good working atmosphere.

The working atmosphere is consistently monitored using an internal corporate image survey.

Corporate Image Oy carried out a survey of Varma's internal corporate image in February 2005. The survey covered the entire personnel and was a continuation of the surveys carried out in previous years. As in previous years, the overall satisfaction index continued to be higher than the corresponding norm for clerical employees*. In Varma the overall satisfaction index (the index calculated on the basis of the 25 questions in the Euroclimate survey on a scale of 0–100) was 65.4 (compared with 64.7 in 2003). The corresponding norm for clerical employees was 60.1.

Varma personnel figures as of 31 December 2005

- Personnel numbered 671 on average in the year 2005 (2004: 646)
- 77% were women and 23% men (2004: 77%, 23%)
- The average age was 45 years 7 months (2004: 45 years 4 months)
- The average period of service was 13 years (2004: 12 years 10 months)
- At year end, 840 persons were in permanent or fixed-term employment in Varma Group (2004: 837).



Supervisor training participant Ismo Kukkonen wants to encourage and activate his employees.

Common leadership practices through training

The supervisor training started in Varma in 2004 concerns almost a hundred supervisors. One of them is **Ismo Kukkonen**, head of rental and maintenance operations. He leads the team of 12 real estate managers.

Ismo Kukkonen finds supervisor training useful, because it helps to create uniform supervisory practices in Varma.

“It is also good to have a mix of personal training and components that are common for all supervisors.”

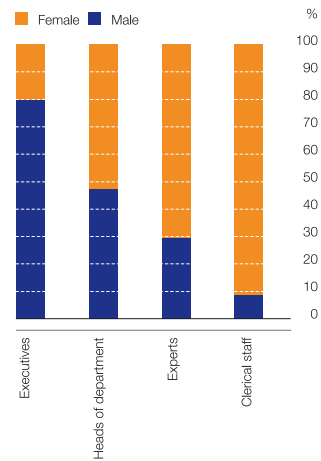
Thanks to the training and his own experience as a supervisor, Ismo Kukkonen has an idea of what good leadership is about. He wants to be a supportive supervisor who encourages employees to be active.

“Being a supervisor requires commitment and setting an example. Ensuring one’s own competence and having social skills – particularly the ability to give feedback and listen – are also important.”

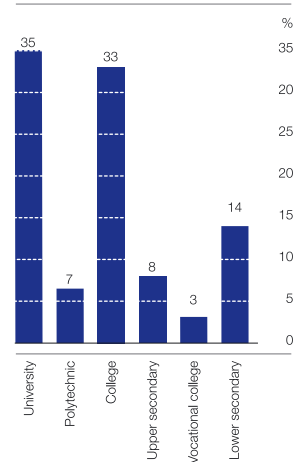
Ismo Kukkonen sees as the greatest benefit from supervisor training the fact that better leadership practices are reflected in the personnel’s job satisfaction and, therefore, also in customer satisfaction.

Story: Hanna Leskelä

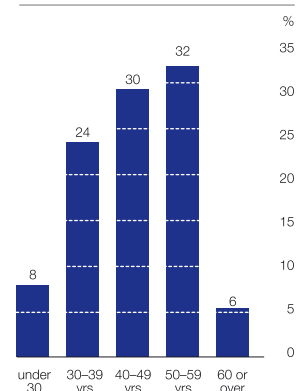
Employee groups by gender 2005



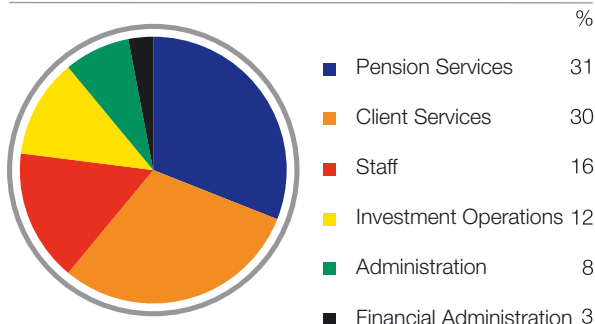
Level of education 2005



Age structure 2005



Personnel by function 2005



Corporate Governance

Corporate governance is an owner value for Varma. A key objective is to ensure the transparency of the company's operations and administration in an efficient way, which in turn will contribute to strengthening public confidence in the earnings-related pension scheme.

Varma's governance is based on the Finnish Act on Employment Pension Insurance Companies and the regulations of the Insurance Companies Act and the Companies Act specifically mentioned therein. Varma also complies with the Corporate Governance Recommendation for Listed Companies, published in

December 2003 by HEX Plc, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers, to the extent possible for a mutual earnings-related pension insurance company.

The point of departure for Varma's corporate governance is the company's core task: that of securing pensions. The statutory earnings-related pension scheme was created by an agreement concluded between 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 central executive organs are the Annual General Meeting, the Supervisory Board, the Board of Directors and the Managing Director.

Annual General Meeting

Varma's customers are policyholders and the personnel employed by them who are covered by the insurance. Varma is a mutual company. This means that the policyholders and the insured have a right based on a client relationship to participate in decision making in the Annual General Meeting; there is no client relationship without the right to participate.

The votes of the policyholders and the insured are determined according to the insurance contributions paid to Varma. Therefore, Varma's owners and those holding the voting rights are:

- policyholders (TEL and YEL), approximately 78% of the votes
- the insured (employees within the scope of each valid TEL basic insurance are joint owners per insurance), approximately 20% of the votes, and
- owners of the guarantee capital which is included in the company's capital and reserves (Sampo plc and its subsidiary Sampo Life Insurance Company), approximately 2% of the votes.

In the Annual General Meeting, each insurance policy entitles the holder to one vote for each insurance contribution of €2 000 paid during the previous calendar year, always, however, to a minimum of two votes. The votes of TEL basic insurance policyholders (employer) and insured (employees) are divided in proportion to the average shares of the contribution paid by the policyholder and the insured. The insured can participate in the Annual General Meeting and exercise their voting right through a representative elected from among



Almost all of Varma's 670 employees work in the same block in the centre of Helsinki on Annankatu 18 and Bulevardi 7.

them per insurance.

Each share of the guarantee capital entitles the holder to 420 votes.

The tasks of the Annual General Meeting include confirming the Financial Statements, resolving on such courses of action as the profit or loss for the financial year gives occasion for and resolving on the selection of members of the Supervisory Board. The Annual General Meeting is held every year by the end of May at a date determined by the Board of Directors.

In 2005, the Annual General Meeting was held on 22 March. The Meeting decided, among other things, to confirm the Financial Statements for 2004. The decisions were unanimous. The CEO provided a review of Varma's activities in 2004.

Supervisory Board

As prescribed in the Finnish Act on Employment Pension Insurance Companies, Varma has a Supervisory Board that is responsible for supervising the company's administration by the Board of Directors and Managing Director. The other tasks of the Supervisory Board include, for example:

- electing the members of the Board of Directors and confirming their remuneration
- confirming the principles of the investment plan annually, and
- deciding on and advising 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 resign each year.

Seven members are elected from among the candidates put forward by major employer organisations (the Confederation of Finnish Industries EK); correspondingly, seven members are representatives of major employee organisations (the Confederation of Unions for Academic Professionals in Finland, the Central Organisation of Finnish Trade Unions SAK and the Finnish Confederation of Salaried Employees STTK). The remaining 14 members can be freely elected by the Supervisory Board.

Convening

The Supervisory Board convened three times in 2005. Average attendance was 59.9%.

The Supervisory Board constitutes a quorum when more than half of the members are present. The resolutions are passed by a simple majority of votes. If votes are cast equally, the Chairman shall have the casting vote, except in the election of Chairman, in which case the matter will be decided by drawing lots.

The Supervisory Board elects a Chairman and one or more Deputy Chairmen from among themselves. On 24 May 2005, the Supervisory Board elected Pekka Paasikivi, Chairman of the Board of Directors of Oras Ltd., as Chairman. Jukka Härmälä, CEO, Stora Enso Oyj, and Sakari Tamminen, President and CEO, Rautaruukki Corporation, were elected Deputy Chairmen.

Remunerations

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

In 2005, 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.

Board of Directors

The job of the Board of Directors is to manage Varma with professional know-how and according to sound business principles. The Board of Directors shall take care of Varma'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 Varma for its operation, and the arrangement, securing and supervision of the organisation.

The Board of Directors is responsible for all the tasks specified for it by legislation or by the Articles of Association, as well as those tasks not specified for other executive organs by legislation or by the Articles of Association. The Board of Directors is responsible for measures which, in view of the size and nature of Varma's operations, are considered exceptional and far-reaching. The Board of Directors shall convene a minimum of eight times a year.

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

- appointing the Managing Director and Deputy Managing Director, as well as deciding on their terms of employment and remuneration systems

- evaluating the performance of the Managing Director and Deputy Managing Director
- deciding on strategic goals and the company's overall strategy
- approving the plan of action and the budget
- deciding on personnel reward systems
- determining the guidelines for internal control and risk management, and
- determining the investment plan and supervising investment operations.

The Board of Directors continuously supervises the various sectors of Varma's business operations and their development. To execute this duty, all significant areas of business and risks concerning these are reported separately to the Board of Directors every month, even outside the meetings of the Board of Directors. The monthly report is delivered to the members at the beginning of the following month.

Self-evaluation

Varma's Board of Directors utilises self-evaluation in the development of its operations. The activities assessed are the efficiency of the Board's work, the composition of the Board, the preparation of the issues discussed, the openness of discussion and the members' ability to make independent decisions.

In autumn 2005, the Board of Directors conducted a second self-evaluation of its work.

Election of members

Varma Board of Directors comprises 12 members and three deputy members. Board members, deputy members, the Chairman and the Deputy Chairmen are elected by the Super-

visory Board. Members of the Board are elected for a period of three calendar years, so that the terms of four members expire each year.

Members of the Board of Directors of an earnings-related pension insurance company must be people of good reputation, 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.

Varma complies with the recommendations concerning the independence of Board members included in the Corporate Governance Recommendation where applicable: taking into consideration the fact that Varma is a mutual company and the representation of the labour market organisations in the management required by legislation on an earnings-related pension insurance company.

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. The rest, that is, half of the members and one deputy member, can be freely elected.

Of the Board members, Ole Johansson, Lasse Laatonen and Arto Ojala were elected on the proposal of the Confederation of Finnish Industries EK, Erkki Kangasniemi on the proposal of the Confederation of Unions for Academic Professionals, Jouko Ahonen on the proposal of the Central Organisation of Finnish Trade Unions and Mikko Mäenpää on the proposal of the Confederation of Salaried Employees.

In the election of members who can be elected freely, attention has been given to the fact that Varma is a mutual company: being a client always entails being a shareholder. Therefore, of the Board members that can be elected freely, Markku Jokinen (Sievin Jalkine Oy), Birgitta Kantola (Fortum Plc, Nordea Bank AB, Stora Enso Oyj), Markku Pohjola (Nordea Bank AB) and Kari O. Sohlberg (Perlos Corporation, Oy G.W. Sohlberg Ab) are also members of the management of Varma's important client companies. Jyrki Juusela and Björn Wahlroos are on the Board of Directors of Sampo plc., the owner of Varma's guarantee capital.

The deputy members of the Board are: Mikko Ketonen (elected freely, TS-Yhtymä Oy), Sinikka Näätsaari (elected on the proposal of the trade union confederations) and Timo Poranen (elected on the proposal of the Confederation of Finnish Industries). Secretary of the Board of Directors is Timo Kaisanlahti, Head of Legal Affairs.

There are no members of the Executive Group on the Varma Board of Directors. Neither have any of the other members had an employment relationship with or held a position in Varma in 2005 or during the two years prior to that; nor do any of them receive compensation from Varma for services rendered or other advice not connected with the duties of the board, as referred to in Recommendation 18 of the Corporate Governance Recommendation for Listed Companies.

Remunerations

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

In 2005, an annual fee of €20 000 was paid to the Chairman, €15 000 to the Deputy Chairmen, €10 000 to the members and €6 000 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 paid to the Board members.

Convening

The Board of Directors convened 10 times in 2005. Average attendance was 93.3%, including deputy members. Each member attended a minimum of six meetings.

Committees

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.

The Audit Committee supervises, among other things, the company's financial and other reporting, and the status of internal control. The company's Supervisory Auditor is invited to a Committee meeting at least once a year. The director responsible for the internal audit acts as the secretary of the Committee.

The Committee convened twice in 2005. The main issues discussed were risk management at Varma, the election of the Auditors, and the Auditors' report and the report on the internal audit.

The proposals of the Audit Committee are submitted for decision to the Board of Directors.

The Compensation and Ap-

pointment Committee prepares both the company's incentive systems and the general principles of reward for the management for the Board of Directors. The proposals of the Committee are submitted for decision to the Board of Directors.

The Committee convened twice in 2005.

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 is in charge of Varma's current administration as advised by the Board of Directors and is responsible for the daily management of the company.

Varma's Managing Director is Matti Vuoria. The Deputy Managing Director is Markku Hyvärinen, Executive Vice-President. The Managing Director and deputy to the Managing Director are appointed by the Board of Directors.

The Managing Director is supported in his task of managing the company by the Executive Group, which comprises six members and the Managing Director.

The mission of the Executive Group is to steer and develop Varma's operations in order to reach the strategic goals approved by the Board of Directors.

Investment Committee

The Investment Committee deals with major investment issues that

are submitted for decision to the Managing Director. The 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 monitors investment risks.

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

Remunerations and pension arrangements

In 2005 the remunerations and fringe benefits received by Managing Director Matti Vuoria totalled €478 000. He is set to retire at the age of 62 and his pension will amount to 60% of the calculated pension salary. The Managing Director's period of notice is 6 months, in addition to which he is entitled to a compensation amounting to six months' salary. The remunerations and fringe benefits of Executive Vice-President Markku Hyvärinen totalled €286 000, 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 Board of Directors decides on the bases of remuneration.

The retirement age of the Executive Group members, excluding the

Managing Director and the personnel representative, is 60 years.

Annual remuneration system

Varma has a payment-by-results system based on annual performance, supporting the achievement of goals. The system has two components: the performance component based on the company's result, and the bonus for personal performance. Every Varma employee in a permanent or fixed-term position is included in the payment-by-results system. The terms for the bonus concerning personal goals are agreed jointly in a performance discussion with the supervisor.

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

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

Internal control

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

Internal audit

Internal auditing assesses internal control and promotes its development.

Varma's internal auditing operates in accordance with industry standards and the instructions approved by the Board of Directors. Internal auditing is independent from

Varma's business and other units. It reports to the Audit Committee of the Board of Directors. The content of auditing is decided annually in an auditing plan approved by the Board of Directors.

Insider administration

Varma complies with 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 recommendations of the Federation take into account the instructions concerning insider training issued by the Helsinki Stock Exchange and the Finnish Association of Securities Dealers, and the regulations of the Finnish Financial Supervision Authority.

The purpose of Varma's instructions is to promote the public reliability of the company's investment operations and the personnel's knowledge of insider regulations, to ensure that they are not unintentionally violated. The instructions are applied to Varma's investment operations and the employees' personal trading in securities.

According to the instructions, Varma's Managing Director, Deputy Managing Director, members of the Executive Group, and Varma employees who may have access to insider information, for instance, as a result of their job are considered as insiders. Thus the instructions concern all people employed by Varma's investment operations, among others.

Permanent insiders in Varma are bound by what is called a ban on short-term trading; this means that

the security may not be sold until three months have elapsed from its purchase. Because Varma is a long-term investor, the ban on short-term trading is longer than it is for securities dealers, who only apply a one-month ban as stated in their recommendation.

External audit

According to the Articles of Association, Varma has a minimum of two auditors and two deputy auditors, all of whom must be authorised public accountants or authorised public accountant firms.

The Annual General Meeting on 22 March 2005 elected Mauri Palvi, Authorised Public Accountant, and Jaakko Nyman, Authorised Public Accountant, as Varma's auditors, and KPMG Oy Ab and Paula Pasanen, Authorised Public Accountant, as deputy auditors.

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

In 2005, auditors' remunerations amounted to €215 000. In addition, the auditing company was paid €105 000 in consultation fees.

Communication and disclosure

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

Risk management

Risk management is an element of internal control. Internal control is a process that aims to ensure matters such as:

- 1) achievement of the goals and objectives set
- 2) economical and efficient use of resources
- 3) sufficient management of operations-related risks
- 4) reliability and correctness of financial and other management information
- 5) compliance with laws and regulations, and
- 6) compliance with the decisions of the Board and other bodies and with internal rules, regulations and practices.

Organising, responsibilities, supervising and reporting

Varma's Board of Directors annually approves a risk management plan that covers all operations and assesses whether internal control is appropriately provided for in the company. The Board of Directors' Audit Committee supervises financial and other reporting, and the status of internal control. The Executive Group steers and monitors risk management and supervision in the company.

Each manager is responsible for arranging appropriate risk management in their area of responsibility. 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.

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 and supervises investment risks, draws up scenario and sensitivity analyses relating to the result and solvency based on those risks, and furthermore supervises compliance with the risk limits and authorisations.

In addition to internal reporting, the Board of Directors receives, to the extent required by the operating procedures, reports on issues such as investment allocation, return on investment and investment risks, solvency position and result and goals monitoring, margin, derivative and foreign exchange positions, the use of decision-making authorities and risk limit monitoring.

General principles for risk management

Risks relating to the company's operations are identified, assessed, limited and supervised, taking a long perspective. Risk management ensures that the realisation of investment, information, interruption, personnel or other risks will not cause essential loss, endanger the continuity of operations or jeopardise trust in the company.

Significant risks

The greatest economic risks are related to investment operations. Other 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 technology 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 relating to insurance operations and technical provisions

The Finnish statutory earnings-related pension scheme is a partially funded pension system. Of the pensions paid annually, around a quarter are previously funded and the rest is the pooled component, which is covered by the annually collected insurance contribution (pooled component of the contribution). The funded parts of the pension are the responsibility of individual pension institutions, while the pooled components are the joint responsibility of all the pension institutions. The equalisation provision included in the technical provisions acts as a buffer for the insurance business and is the joint responsibility of all the pension institutions. The clearing system is built up so as to eliminate the effects caused by the varying development of the pension insurance institutions' active insurance portfolios. Thus the cost of the pooled components presents no risk for the individual pension institution.

Basic pensions under the Self-employed Persons' Pensions Act YEL are financed in full by the insurance contributions collected an-

nually in accordance with the pay-as-you-go system and the State's share, and thus these pensions do not present a risk for the individual pension institution, either.

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 statutory joint and several liability for bankruptcy that concerns all earnings-related pension insurance institutions. 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 pensions that are the company's responsibility. Because common calculation bases can be changed annually, and the clearing system acts as a buffer for all insurance risks concerning earnings-related pension insurance institutions, the risk for an individual pension institution consists in its deviation from the average of the pension system. To prepare for fluctuations in the annual results of insurance business there is an equalisation provision, which has a lower and upper limit determined according to risk theory.

Neither the age structure of the employees insured by Varma nor the employers' size or lines of business deviate significantly from the average for all earnings-related pension institutions in terms of the risk they present, and the company's equalisation provision is in fact slightly higher than the average.

Operational risks

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

Operational risks are mapped annually by department. The significance of the impacts caused by and the probability of realisation of identified risks are assessed risk by risk, taking into account any preliminary measures taken to limit them. The risks identified are compiled to form a risk map, where risks are classified according to the extent to which they, if realised, would present a threat to Varma's achievement of its success factors and the goals approved by the Board of Directors.

Investment risks

The investment plan confirmed by the Board of Directors determines, among other things, the general security goals set for investments, the diversification and liquidity goals of investments, and the principles for organising foreign currency business. The Board of Directors assesses the risks inherent in the company's investments at least once a year regarding 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 defining 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 adjustment of the investment portfolio in order to maintain a correct risk and yield ratio. Furthermore, Varma takes account of the corporate responsibility principles of investment allocation, and the share ownership principles.

The market risk of investments, mainly equities, constitutes the biggest risk relating to the result and solvency. The total risk relating to investments is adjusted to the company's risk-bearing capacity in such a way that the company's solvency position is not endangered.

The different maximum limits of investments are presented as separate risk limits in the investment plan. Investment risks are eliminated, for example 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, by applying a sufficient and on-time supervision and follow-up system, and by minimising counter-party risks. Furthermore, Varma monitors such factors as the duration, classification and liquidity of investments. In the case of real estate objects, Varma pays special attention to technical and location risks, among others.

Varma's risk management is explained in more detail in the Notes to the Financial Statements.

Supervisory Board

31 December 2005

Chairman

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

Deputy Chairman

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

Deputy Chairman

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

Riku Aalto

born 1965
Director of Finances, Finnish Metalworkers' Union
Term expires 2008

Martti Alakoski

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

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 2008

Stig Gustavson

born 1945
Chairman, KCI Konecranes International Plc
Term expires 2007

Matti Halmesmäki

born 1952
President and CEO, Kesko Corporation
Term expires 2008

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 Organisation of Finnish Trade Unions
Term expires 2006

Erkki Isokangas

born 1946
Managing Director, Saarioinen Oy
Term expires 2006

Seppo Koskinen

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

Tapio Kuula

born 1957
Senior Vice President, Fortum Corporation
Term expires 2006

Matti Kyytsönen

born 1949
Managing Director, ISS Palvelut Oy
Term expires 2008

Antti Norrlin

born 1963
Group President, Koiviston Auto Corporation
Term expires 2007

Hannu Penttilä

born 1953
CEO, Stockmann plc
Term expires 2008

Antti Piippo

born 1947
Principal Shareholder, Chairman, Elcoteq SE
Term expires 2007

Matti Pulkki

born 1947
President, Sokotel Oy
Term expires 2006

Juha Rantanen

born 1952
President & CEO, Outokumpu Oyj
Term expires 2008

Antti Remes

born 1947
Managing Director, Tradeka Group Ltd
Term expires 2006

Helena Rissanen

born 1949
Director, the Finnish Union of Salaried Employees in Industry
Term expires 2008

Mika Seitovirta

born 1962
Managing Director, Oy Hartwall Ab
Term expires 2007

Jorma Takanen

born 1946
Group CEO, Scanfil Oyj
Term expires 2006

Pekka Tefke

born 1950
Managing Director, Volvo Auto Oy Ab
Term expires 2006

Kari Toikka

born 1950
Executive Vice President and CFO, UPM-Kymmene Corporation
Term ended 1 February 2006

Memberships that expired in 2005

Jukka Alho

born 1952
Term ended 26 September 2005

Matti Honkala

born 1945
Term ended 22 March 2005

Lauri Lyly

born 1953
Term ended 22 March 2005

Antti Rinne

born 1962
Term ended 11 November 2005

Board of Directors



Jyrki Juusela



Ole Johansson



Mikko Mäenpää

31 December 2005

Chairman

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

Ole Johansson, born 1951

President & CEO, Wärtsilä Corporation

Member as of 2005

Term expires 2007

Vice Chairman of the Boards of Outokumpu Oyj and Technology Industries of Finland, member of the boards of the Confederation of Finnish Industries EK, the Finnish Central Chamber of Commerce and the Finnish Section of the International Chamber of Commerce (ICC)

Elected on the proposal of the Confederation of Finnish Industries EK

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 Economic Council, member of the Boards of Nordic Trade Unions and the European Trade Union Confederation ETUC

Elected on the proposal of the Finnish Confederation of Salaried Employees STTK



Jouko Ahonen



Markku Jokinen



Erkki Kangasniemi

Jouko Ahonen, born 1954

Chairman, Finnish Paperworkers' Union

Member as of 2003

Term expires 2008

Member of the Representatives of the Finnish Centre for Pensions, member of the Board of the Central Organisation of Finnish Trade Unions SAK

Elected on the proposal of the Central Organisation of Finnish Trade Unions SAK

Markku Jokinen, born 1949

Managing Director, Sievin Jalkine Oy, Sievi Marketing Oy, Sievi Tools Oy and JJJ Capital Oy.

Member as of 1998

Term expires 2007

*Member of the Board of Confederation of Finnish Industries EK and SMI delegation***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

Elected on the proposal of the Confederation of Unions for Academic Professionals AKAVA



Birgitta Kantola



Lasse Laatonen



Arto Ojala

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

Lasse Laatonen, 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, the Federation of Accident Insurance Institutions and the Social Insurance Institution
Elected on the proposal of the Confederation of Finnish Industries EK

Arto Ojala, born 1944
Director, the Confederation of Finnish Industries EK
Member as of 1999
Term expires 2008
Member of the Economic Council
Elected on the proposal of the Confederation of Finnish Industries EK

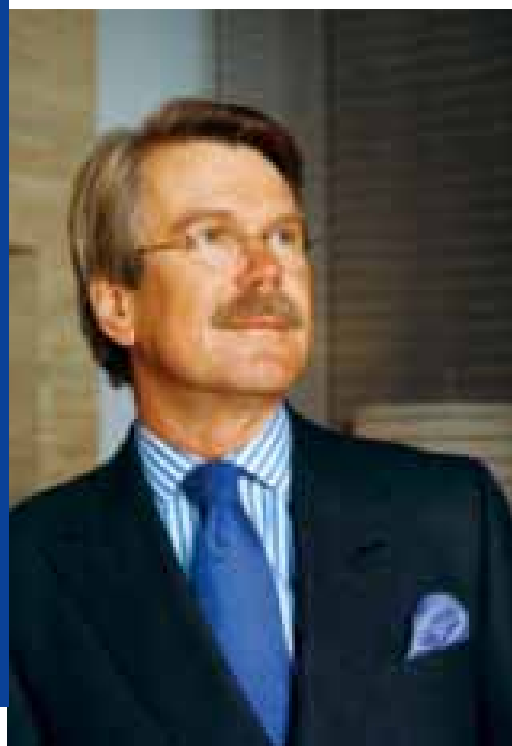
Markku Pohjola, born 1948
Deputy Group CEO, Nordea Bank AB
Member as of 2004
Term expires 2006
Member of the Board of OMX AB



Markku Pohjola



Kari O. Sohlberg



Björn Wahlroos

Kari O. Sohlberg, born 1940

Member as of 1998

Term expires 2008

*Chairman of the Board of Perlos Corporation and member of the Board of Oy G. W. Sohlberg Ab***Björn Wahlroos**, born 1952

President and Group CEO, Sampo plc

Member as of 2001

Term expires 2008

*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 Board of the Central Chamber of Commerce of Finland***Sinikka Näätsaari**, born 1961

Programme Manager, Central Organisation of Finnish Trade Unions

Resigned from the Board of Directors on 1 February 2006

Member of the Board of the Finnish Centre for Pensions

Elected on the proposal of the trade union confederations

Timo Poranen, born 1943

Member as of 1998

Term expires 2007

Member of the Board of KCI Konecranes Plc

Elected on the proposal of the Confederation of Finnish Industries EK

More detailed information about the work experience of and positions of trust held by the members of the Board of Directors can be found at www.varma.fi.

Executive Group

31 December 2005

Matti Vuoria

President & CEO

Born 1951

Work experience includes:

Full-time Chairman of the Board of Directors, Fortum Corporation 1998–2003

Secretary General, Ministry of Trade and Industry 1992–1998

Member of the Boards of Danisco A/S, Sampo plc and Stora Enso Plc, Garantia Insurance Company and Wartsila Corporation, Chairman of the Board of Winwind Oy, member of the Board of the Federation of Finnish Insurance Companies and Chairman of the Finnish Pension Alliance TELA.

Member of the Executive Group since 2004

Markku Hyvärinen

Executive Vice-President

Born 1948

Work experience includes:

Managing Director, Pension Sampo 1996–1998

General Secretary, Finnish Social Democratic Party 1991–1996

Member of the Boards of If P&C Insurance Holding Ltd and Finnair Plc, Vice Chairman of the Board of Kaleva Mutual Pension Insurance Company

Member of the Executive Group since 1998

Jorma Leinonen

Chief Investment Officer

Born 1946

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

Chief Actuary

Born 1964

Work experience includes:

Actuary, Varma 1998–2001

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

Chief Financial Officer

Born 1951

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

Senior Vice-President, Client Relations

Born 1952

Work experience includes:

Senior Vice-President, Marketing, Pension Sampo 1996–1998

Member of the Supervisory Board of YH-Yhtymä Oy, member of the Boards of Kaleva Mutual Life Insurance Company and Rahastopalvelu RP Oy

Member of the Executive Group since 1998

Marjaana Vuorinen

Personnel representative, Service Manager

Born 1963

Work experience includes:

Rehabilitation Planner, Varma 1998–2000

Employee representative since 2004

Secretary: Ilkka Kohonen

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

Executive Group and other executives



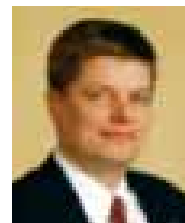
Matti Vuoria



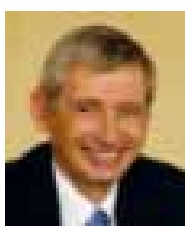
Markku Hyvärinen



Jorma Leinonen



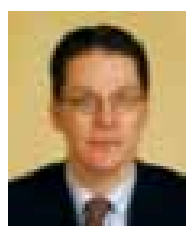
Pasi Mustonen



Jouko Oksanen



Hannu Tarvonen



*Risto Murto
(Chief Investment Officer
as of 1 Feb. 2006)*



*Sakari Aaltonen
Administration*



*Marja Ahola
Pension Services*



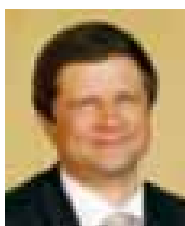
*Carina Geber-Teir
Communications*



*Ralf Joutsenlahti
Client Relations*



*Eija Kaipainen-Perттula
Insurance Services*



*Timo Kaisanlahti
Legal Affairs*



*Asko Kinnunen
Development of Client
Services*



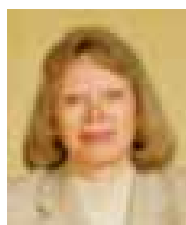
*Ilkka Kohonen
Corporate Development*



*Mikko Koivusalo
Capital Markets*



*Jorma Kuokkanen
Real Estate
& Client Financing*



*Irmeli Otava-Keskinen
Information Management*



*Sakari Tola
Senior Physician*



*Merja Haikonen
Personnel Representative*



*Marjaana Vuorinen
Personnel Representative*

Key terminology

Account transfer

A policyholder may transfer their earnings-related pension insurance from one company to another. The account must be terminated on the last day of March, June, September or December, and it is then transferred to the new company in three months. The contract may only be transferred again after it has been held by the new company for a minimum of one year.

Balanced scorecard

A measuring method developed by Robert Kaplan and David Norton (1992) that enables analysis of a company's performance in four areas: financial success, customers, organisation, and learning and growth.

Bonus reserve

Part of the premium reserve to which certain 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 interest credited on the technical provisions. The calculated interest rate is confirmed at the request of the pension companies by the Finnish Ministry of Social Affairs and Health. The calculated interest rate is determined biannually on the basis of the average solvency of all the earnings-related pension companies, and investment income is divided on the basis of this rate into actual technical provisions and solvency margin. The calculated interest rate stood at 4.75% until 30 June 2005, and at 5.5% from 1 July 2005.

Client bonus

Rebate payable to TEL policyholders out of the bonus reserve. Half of the amount transferred to client bonuses is divided in proportion to the technical

provisions accrued and the rest in proportion to the contributions paid in the financial year.

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.

Derivative

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

Duration

The weighted maturity of a bond, based on the present values for all cash flows. Duration makes it possible to measure the bond's interest rate risk in cases where the change of interest rate is fairly small.

Employees Pensions Act TyEL

The single private-sector earnings-related pension act to enter into force on 1 January 2007. The new act will replace the Employees' Pensions Act TEL, the Temporary Employees' Pensions Act LEL and the Pension Act for Performing Artists and Certain Groups of Employees TaEL.

Equalisation provision

The amount of the claims reserve accumulated from the risk business result and used to equalise any fluctuations in the insurance premium result, or for example for years when the number of new pensions granted is above average. The equalisation provision is divided into the following sub-sections: old-age, disability and unemployment pensions, and unpaid contributions.

Expense loading

A premium component covering the total operating expenses of a pension insurance company, excluding expenses for the maintenance of working capacity and investment charges.

Hedge fund

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

Insurance premium result

For old-age, disability and unemployment pension business and unpaid contributions, the difference between the insurance premium and claims expenditure. A positive insurance premium result adds to the equalisation provision and a negative result reduces the provision.

Investment allocation

Distribution of investments by asset class.

Investment result

The ratio of returns on investment at fair values to yield requirement on technical provisions.

Investment surplus

Investment surplus at fair values can be calculated by deducting the return credited on technical provisions based on the calculated interest rate from the net investment return and change in valuation differences.

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).

Legal compliance

Legal compliance activities ensure that legislation, authorities' stipulations, the decisions of administrative bodies, and internal instructions are all complied with.

Liquidity

The ability of the security market, for example, to handle large deals.

Loading profit

Loading profit shows the amount of the expense loading 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.

Market risk

The impact of the general price trend on the price of a single share.

Pension reform

The Finnish earnings-related pension scheme was reformed at the beginning of 2005. A person may now choose to retire on an old-age pension at any time between the ages of 63 and 68. The goal is to encourage Finns to remain at work for longer.

Policy on share ownership

The means by which an owner/investor aims to affect the administrative systems and transparency of operations of the companies that it invests in.

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.

Solvency margin

Net insurance company assets that are used as a measure to prepare for fluctuations in investment values. Solvency margin is the excess of assets at fair value over liabilities. It 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 minimum level and target zone of the solvency margin are determined on the basis of the solvency limit. 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.

Statutory charges

Charges used to cover the expenses of the Finnish Centre for Pensions, which is the central body for the earnings-related pension scheme.

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 Financial Statements. Technical provisions comprise the premium and claims reserves. The premium reserve concerns the liabilities incurred by the company for 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.

TEL premium loan

The policyholder is entitled to borrow part of the technical provisions (loan fund), provided that the requirements of the insurance terms are met. The interest on the loan is quoted daily for different periods.

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 as a measure to prepare for investment value fluctuations.

Valuation difference of investments

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.

Value-at-Risk

The figure indicates the value of investment loss risk at a selected probability and period of time.

Vocational rehabilitation

Individually tailored rehabilitation, financed by an earnings-related pension company, aimed at helping a sick employee to remain at or return to work.

Yield requirement on technical provisions

See Calculated interest rate.

Contact information

Varma Mutual Pension Insurance Company

PO Box 1
FI-00098 Varma
FINLAND

Switchboard +358 10 515 13
Telefax +358 10 514 4752
info@varma.fi
www.varma.fi

Visiting address and domicile:
Annankatu 18, Helsinki, Finland
Business ID 0533297-9

Personal e-mail addresses are of the format
firstname.lastname@varma.fi

Communications

+358 10 514 5033
info@varma.fi

International Services

+358 10 514 7002
international@varma.fi

Capital Market Investments

Back Office +358 10 514 6988
Equities +358 10 514 6956
Fixed Income +358 10 514 6987
Alternative Investments +358 10 514 6795



Report of
the Board of Directors
and
Financial Statements
2005

Varma Report of the Board of Directors and Financial Statements 2005

Report of the Board of Directors 2005	4
Profit and Loss Account	11
Balance Sheet.....	12
Statement of Source and Application of Funds	14
Notes to the Financial Statements	15
Accounting Principles.....	15
Associated Undertakings	18
Notes to the Balance Sheet.....	20
Balance Sheet and Income Statement at fair values	36
Risk Management.....	38
Key Figures and Analyses	42
Distribution of Profit.....	46
Auditors' Report	47
Statement by the Supervisory Board	47

Financial Statements

The Financial Statements and Consolidated Financial Statements for 2005 are available at the company headquarters at Annankatu 18, Helsinki, Finland.

Report of the Board of Directors 2005

- The total result amounted to €1 681 million (€878 million), thanks to a strong investment income.
- Return on investment stood at 11.6% (8.0%), and the market value of investments at €24.6 billion (€21.2 billion).
- Solvency was €5 599 million (€3 986 million), or 29.2% (22.8%).
- Operating cost efficiency remained at a good level, and loading profit stood at €24 million (€23 million).
- Premium income increased by 6% to €2.8 billion. The number of insured employees and self-employed persons grew by 2 600 to 445 300.
- Pensions totalling €2.7 billion – up 5% on the year before – were paid to nearly 293 000 people.
- Measures relating to the pension reform were implemented on schedule and according to plan.

Trends in the economic operating environment

Growth in the global economy was boosted by the developing economies of Asia, in particular China and India. Demand and world market prices for raw materials rose considerably. The price of oil remained at a record high level. Economic growth in the USA was dependent on private spending, and the US budget deficit continued to expand. Growth of total output in the euro area remained at a modest level, even though it was accelerated by the accession of the new EU Member States. The poor employment situation and stability problems in public economies continued in the euro area. Strong economic growth in Russia and its more balanced economy were reflected in the figures for the Baltic Sea Region. At times the international long-term interest rates reached historically low levels. Price trends in the equities market were very positive on the whole.

Estimated growth of the Finnish gross domestic product in 2005 was just under 2%, powered by domestic demand. The labour dispute in the paper industry led to slowed growth. The growth rate of investments by Finnish industry increased, and this is reflected positively in productivity trends in the national economy. Growth in investments is attributable particularly to large infrastructure projects. Total employment improved, and the number of jobs in the industrial sector also began to pick up. The results for Finnish companies remained at a very good level. As interest rates remained low, trading in real estate and residential property continued to be

brisk, and international investors were still active in the Finnish real estate market.

Earnings-related pension scheme

With the pension reform that came into force at the beginning of 2005, the amount of earnings-related pension will be affected by all income earned during an employee's work history; pension starts to accrue at the age of 18, rises from the age of 53, and accrual accelerates further at the age of 63–68. People can retire on an old-age pension between the ages of 62 and 68. The integration of benefits was as a rule abolished from new earnings-related pensions. As of 2010, pension provision will be adjusted to longer life expectancy. The amount of pension will continue at least on a par with that awarded under the former regulations until 2012.

A new Employees Pensions Act (TyEL) will enter into force at the beginning of 2007, replacing the present separate acts in the private sector. A government proposal on the reform is currently being heard in Parliament. After the new act has entered into force, employers can insure all their private sector employees in accordance with the act through a single earnings-related pension company. In connection with the combining of the acts, a substantial information systems project is currently being carried out by Arek Oy, a company jointly owned by the pension insurance institutions, to create a joint earnings register. The TyEL Act will include new provisions on advisory services to employees and employers. The primary advisor in matters relating to implementation is the pension institution where the employer has taken out the earnings-related pension insurance. For an employee, the primary advisor is the pension institution that has insured him or her most recently. In accordance with the reform, all employees aged 18–67 living in Finland will be sent as from 2008 an annual pension record, which shows all earnings entitling the person to a pension and other benefits as well as the amount of pension accrued. The pension record will make it easier for an employee to check that his or her employment relationships are properly insured.

Rapporteur Matti Louekoski, Deputy Governor of the Bank of Finland, appointed by the Ministry of Social Affairs and Health to study the need to amend the Act on Employment Pension Insurance Companies submitted his progress report. The report proposed some adjustments to the Act, in particular regarding the objectives of the earnings-related pension

scheme, the autonomy of the earnings-related pension insurance companies and their governing bodies, and co-operation and competition between the companies. The goal is to ensure effective operation of the decentralised system and its competitive neutrality at the level of legislation. In his future work, Rapporteur Louekoski is to also co-ordinate the reform concerning the regulation of technical provisions and solvency, which is under preparation, the development of investment operations in earnings-related pension insurance companies, improvement of the efficiency of insurance supervision, and also issues relating to the development of investment operations discussed by the negotiation group of labour market organisations.

The work on investments initiated by the labour market organisations aims to establish how the calculated interest rate and solvency framework could be developed so that it would be possible for pension institutions to gain better returns on investment by increasing investments in equities. According to a proposal published in January 2006, the ability of earnings-related pension insurers to carry investment risks would be strengthened by creating a new buffer that balances the investment risk due to fluctuating share values. This would make it possible to increase the proportion of equity investments in the total investments of earnings-related pension insurers from the present 25% to 35% within five years. As a result, the level of returns is expected to rise, and it will be possible to reduce the pressure to increase pension insurance contributions in the long term by 1–2 percentage points. Investments in Finnish business are being promoted by improving the conditions for earnings-related pension insurers to invest in equities. New means of increasing capital investments in Finland are to be sought together with the Government. The report also proposes that the client bonus mechanism be changed as regards the loading profit, encouraging earnings-related pension insurance companies to improve the efficiency of their operations.

According to a new Act on Insurance Mediation, an insurance broker may not be dependent on the insurer in such a way that it endangers the interests of the principal; the broker's fee is always to be paid by the policyholder who is the broker's client, taking into account transition provisions.

An amendment to legislation is currently being heard in Parliament, according to which the level of solvency margin transferred in situations where insurance portfolios are transferred and received in transfers between pension institutions will be re-defined. The level of solvency margin transferred would be set at the level of the double median of the

solvency limits applying to the pension institutions engaged in statutory earnings-related pension insurance business. The Ministry of Social Affairs and Health confirms by decree the level of solvency margin transferred twice a year, based on the proposal of the Insurance Supervision Authority. According to the present act and decree, the proportion of solvency margin transferred is 11.8%, and after the amendment it will be 20%.

As from 2006, the deductible method used for insuring disability pensions for large scale employers who have taken out an insurance in an earnings-related pension company will be replaced by a contribution class arrangement. The employer's TEL contribution level will be determined in advance, and the contribution will no longer be adjusted afterwards on the basis of individual disability cases. Disability pensions are treated as defined contribution pension arrangements, and it will not be necessary to make calculations in accordance with the IAS 19 standard for an insurance policy provided by an earnings-related pension insurance company.

Receivables from portfolio transfers arising from the bankruptcy of Pension Kansa in 1994, which at the beginning of 2005 stood at €18 million for Varma, were transferred during 2005 to the joint liability of the parties within the earnings-related pension scheme.

The calculated interest rate stood at 4.75% until 30 June 2005, at 5.5% for the second half of the year and at 6.0% from the beginning of 2006. The average payment level of TEL insurance was 21.6% (21.4%) of payroll, the employees' contribution being 4.6% (4.6%) of payroll for employees under the age of 53 and 5.8% for employees aged 53 and over. The payment under the Self-Employed Persons' Pensions Act YEL was 21.4% (21.4%) of confirmed earned income for those under the age of 53 and 22.6% for those aged 53 and over.

The proportion of the equalisation provision accounted for by disability pensions will be reduced by temporarily decreasing the contribution paid by small and medium-sized employers in 2006. The equalisation provision has grown, among other reasons because the amount of disability pensions paid has been lower than expected. In 2006, the disability pension component of the pension contribution will be reduced temporarily by 0.6 percentage points for employers who have no more than 50 employees. The reduction decreases gradually as the number of employees rises from 51 to 799, and no reduction is granted if the number of employees is 800 or more. The employee pension contribution will fall to 4.3% of payroll for those under the age of 53 and to 5.4% for those aged 53 and over. Pension insurance contributions paid by self-employed persons will also

be reduced: the payment for those under the age of 53 will be 20.8% of confirmed earned income and 21.9% for those aged 53 and over.

Financial review

Varma's result for 2005 was excellent, and the company's solvency was good. The Notes to the Financial Statements specify in more detail the composition of the result of an earnings-related pension insurance company and present Varma's Income Statement and Balance Sheet at fair values. The presentation complies in outline with the IFRS standards (which are not applied to earnings-related pension companies), if technical provisions are handled according to the current regulations. Varma's total result at fair values stood at €1 681 million (€878 million). The Notes to the Financial Statements show the components of the total result by comparing returns on investment at fair values to the interest credited on technical provisions ("investment surplus"), operating expenses to the administrative costs included in the insurance premiums ("loading profit"), and claims expenditure to corresponding premium income ("insurance business surplus").

The company's investment income at fair values stood at €2 499 million (€1 566 million), or 11.6% (8.0%). The yield on investment was €1 615 million (€803 million) in excess of the interest credited on technical provisions. Varma's yield on investment for 2001–2005 averaged 6.4%, which corresponds to a real income of 5.1%. Varma's efficient organisation kept operating expenses 25% lower than the administrative costs included in the insurance premiums, and loading profit stood at €24 million (€23 million). Claims expenditure was lower than the corresponding premium income, and the insurance business surplus was estimated at €43 million (€53 million).

Varma's positive financial development meant that solvency increased by €1 613 million (€793 million). The solvency margin stood at €5 599 million (€3 986 million) at the end of 2005, with 29.2% (22.8%) of technical provisions based on solvency requirements. The solvency margin at year-end was 2.44 times (2.39 times) the solvency limit. The solvency margin requirements depend on the degree of risk-bearing inherent in a company's investments. The margin comprises capital and reserves, accrued appropriations, the unallocated insurance reserve, and valuation differences of investments. The equalisation provision for covering insurance business risks increased by €40 million (€47 million) to €947 million (€907 million).

In view of the good results, €84 million (€51 million) was transferred to the bonus reserve for client

bonuses. The transfer amounted to approximately 0.68% (0.43%) of the total payroll of the insured.

Insurance business

Varma is Finland's largest private sector pension insurer. The total TEL payroll of those insured in the company for the year 2005 stood at around €12.3 billion (€11.8 billion). In 2005 the total payroll of the insured is estimated to grow by 3.5% on the previous year, a figure which is significantly affected by the lower than average payroll growth rate among Varma's industrial clients. The company's premiums written stood at €2 764 million (€2 615 million), of which sum the basic insurance under the Employees' Pensions Act TEL accounted for €2 626 million (€2 482 million), and insurance under the Self-Employed Persons' Pensions Act YEL for €124 million (€119 million). Varma was responsible for insuring the pension provision of around 445 300 (442 700) persons at year-end 2005, almost 2 600 more than a year before. Measured by premium income, Varma's market share is estimated to be around 39% of the earnings-related pension market. Varma continued to strengthen its position as an insurer of large corporations, but lost some of its market share in SMEs. Measured by premium income, Varma's result in portfolio transfers between earnings-related pension companies was positive, €18 million in TEL insurance, which made Varma number one in portfolio transfers. 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 implementation of the pension reform that entered into force at the beginning of 2005 and the introduction of substantial changes in Varma's information systems went as planned. The total value of pensions paid in 2005 was €2 401 million (€2 277 million). At the end of 2005, Varma was paying pensions under the Employees' Pensions Act TEL and the Self-Employed Persons' Pensions Act YEL to around 293 000 persons (285 600). Some 22 300 (19 210) new pension decisions were made during the year, 16% more than in the previous year. The number of continuation decisions was 4 800 (5 100), that of advance decisions 2 300 (2 400), and other decisions numbered 13 900 (11 700). The number of old-age pension decisions grew by 85%, and the number of decisions on part-time pensions grew by 45%. The number of decisions on early-old age pensions and individual early retirement pensions was less than half of that in 2004. The number of first decisions on disability pensions remained more or less unchanged, while rejections stood at 23.7% (23.1%). Due to the pension reform, a total of three age classes – those born in 1940, 1941 or 1942 – were entitled to apply for old-age pension in

	31 Dec. 2005	31 Dec. 2004	Change
No. of insured			
TEL ¹⁾	408 650	406 440	2 210
YEL	36 650	36 280	370
Total	445 300	442 720	2 580
TEL additional pension insurance ¹⁾	13 330	15 310	-1 980
No. of insurance policies			
TEL	25 170	25 590	-420
No. of pensioners ²⁾			
Old-age pension	163 965	156 027	7 938
Survivors' pension	49 545	48 911	634
Disability pension	44 430	43 893	537
Unemployment pension	13 109	14 062	-953
Early old-age pension	13 566	12 932	634
Individual early retirement pension	2 346	2 878	-532
Part-time pension	5 998	6 886	-888
Total	292 959	285 589	7 370
²⁾ Those receiving YEL pension	28 298	28 155	143
²⁾ Those receiving TEL/YEL additional pension	36 330	34 979	1 351

2005. At the beginning of 2005, the number of persons insured under TEL and YEL by Varma in these age classes was 6 900, and some 2 800 persons, or around 40%, of these had retired on old-age pension by the end of the year. It is not possible to draw any definite conclusions about the achievement of the goals of the pension reform; the number of applications regarding early retirement pensions has, however, decreased.

Varma again managed to curtail handling times of pension decisions, and some 77.2% of first decisions were made within a month of the commencement of entitlement, exceeding the goal set for Pension Services. Due to changes in legislation, all pensions cannot be calculated in advance, as information on earnings from employers has to be waited for until the end of employment, which in some cases slows down the handling of the pension applications.

The use of Varma's online services is continuously increasing. Varma's client companies can now pay their invoices for TEL insurance also electronically. Employers sent 813 000 (823 000) notifications to

Varma and as many as 75.4% (71.5%) of these were submitted electronically, exceeding the goal set for Insurance Services. Through the Eläkearvio (Pension Estimate) online service, insured employees can receive an estimate of their old-age and part-time pensions at different retirement ages. Data for around 38 000 (25 000) pension estimates were submitted online. In addition, Varma mailed an age class calculation to 37 700 (30 000) TEL insured employees aged 30, 35, 40, 45, 50 and 55 during the year.

Technical provisions

Technical provisions grew by 9.0% (6.5%) to €21 824 million (€20 029 million) during the year. A bonus reserve for client bonuses of €85 million (€51 million) and an unallocated insurance reserve included in the solvency margin of €2 640 million (€2 483 million) are included in technical provisions. The equalisation provision stood at €947 million (€907 million). Pension liabilities amounting to €467 million were transferred from seven pension foundations to Varma. The value of the assets that form the cover for technical provisions was 114% of the technical provisions.

Investment operations

Varma's investments stood at €24 621 million (€21 233 million) at year-end. Investment income stood at €2 499 million (€1 566 million), or 11.6% (8.0%), which corresponds to a real income of almost 11%. The result was good, and equities investments accounted for some two thirds of the income. Development in the equities markets was favourable during the year, with the exception of the US markets. Derivatives were employed for hedging the company against interest rate, foreign currency and equity risks. Equities investments and alternative investments (e.g. capital trusts, hedge funds, unlisted equities) were increased, and the share of fixed income investments was reduced. Long-term market rates fell during the year. Interest rates remain at historically low levels, and the interest rate curves are moderate. Real estate investments denominated in euro remained at approximately the same level as in 2004, with foreign real estate investors increasing their investments in the Finnish real estate market.

The loan portfolio amounted to €954 million (€1 090 million), or 4% (5%) of investment assets. Loans with guarantee constituted 74% (81%) of the total. A total of €147 million (€134 million) of new loans was taken out during the year. The loan portfolio yielded a return of €43 million (€56 million), or 4.5% (4.8%). The average remaining loan period before maturity was 7.9 years (9.2 years).

Bonds accounted for €11 570 million (€11 241 million), or 47% (53%) of investment assets. Public corporation bonds amounted to €6 455 million (€6 134 million), financing bonds to €2 687 million (€2 565 million) and corporate bonds to €2 081 million (€2 311 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 4.3 years (3.5 years) at the end of 2005. The return on fixed-income investments stood at €513 million (€535 million), or 4.5% (5.0%). In comparison, the return on the Salomon Euro Government index stood at 5.5% and that of the Merrill Lynch Euro Corporate index at 4.0%.

Other money-market instruments totalled €620 million (€838 million) at year-end, resulting in a return of €13 million (€12 million), or 2.0% (2.6%).

The equities portfolio (including e.g. capital trusts) stood at €8 761 million (€5 477 million) at year-end, or 36% (26%) of investment assets. Net investments in equities during the year totalled €1 666 million (€438 million). International stock exchange indexes rose in 2005: the annual change in the Dow Jones Stoxx 600 yield index was +27% (+32%), the HEX All-Share Index +35% (+8%) and HEX Portfolio

Index +35% (+21%). Investments in Finnish listed shares stood at €2 367 million (€1 834 million). A total of €490 million (€321 million) was invested in capital trusts. In addition, Varma has undertaken to subscribe to capital trust shares for €544 million (€338 million). The return on investments in equities and capital trusts stood at €1 787 million (€855 million), or 29.4% (17.9%). The yield from Varma's Sampo shares was 48% (market value €894 million).

Varma's real estate portfolio stood at €2 716 million (€2 587 million) at year-end, that is 11% (12%) of investment assets. Varma invested €144 million (€180 million) in real estate during the year, selling €24 million (€64 million). A sum of €38 million (€15 million) was invested in foreign real estate funds. In addition, Varma has undertaken to subscribe to real estate fund shares for €162 million (€54 million). At year-end 2005, the total real estate area owned by Varma Group amounted to some two million square metres. The vacancy rate of office space was 5.2% (3.7%). The real estate portfolio was divided according to invested capital as follows: office space and business premises 57% (59%), residential apartments 19% (18%), industrial and warehouse facilities 17% (16%), hydropower plants 5% (5%) and other premises 2% (2%). The largest investments were Hämeentie 135 in Helsinki (€123 million) and Tampereen Kiinteistö Invest Oy in the Finlayson area of Tampere (€123 million). The return on real estate investments was €154 million (€128 million), or 6.0% (5.1%). Varma is the third largest real estate investor in Finland. Real estate provides a steady yield in the long term in changing circumstances.

In investments, the market risk relating to equities constitutes the biggest risk affecting the result and solvency. The VaR (Value-at-Risk) figure, which measures the total risk of Varma's investments, stood at €498 million (€315 million) at year-end 2005. The figure indicates the greatest possible fall in the market value of the investment portfolio in ordinary market conditions over a period of one month at a probability of 97.5%. The open currency position was 2.1% of technical provisions. Since mid-2005, it has been possible to cover 10% (5%) of technical provisions with equities and debentures of OECD member countries from outside the European Economic Area. This change has improved Varma's opportunities to manage risk by increasing the diversification of investments geographically, for example to US markets. Varma employed derivatives for hedging interest rate and currency risks, and to some extent also for hedging equity risk.

Varma's annual investment charges of €11 million (€10 million) account for only around 0.05% of in-

vested assets. Varma participated in an independent international survey on the performance and cost-effectiveness of investment operations. According to the survey, the results and efficiency of Varma's investment operations are at a good level by international comparison.

Varma's share ownership policy emphasises a high standard of administration and operational transparency in the companies, while active engagement and incentive systems for key personnel are also important factors. During spring 2005, Varma attended the Annual General Meetings of all the Finnish companies in which it owns shares, and 115 AGMs of foreign companies.

Operating expenses

Of the administrative costs included in the insurance contributions, Varma allocated 75% (75%) to operating expenses funded from these costs. This percentage is an indicator of cost-efficiency, and competitive in the pension insurance industry. It will benefit Varma's customers in terms of larger client bonuses.

Personnel and information management account for more than 80% of Varma's operating expenses. Total operating expenses rose by 7% (4%) on the previous year to €84 million (€78 million).

Varma Group personnel, excluding temporary employment relationships, totalled 840 (837) at the year-end, 670 (660) of whom 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.

Varma will construct new premises for the company in Salmisaari, Helsinki, where the company intends to move at the end of 2008. Moving into new and appropriate premises will bring considerable cost savings. In addition, this will offer an opportunity to update the operations and work practices in the company.

An efficiency analysis project was carried out in 2005. Varma seeks to be the most cost-efficient earnings-related pension company offering the best customer service and applying the best practices in its operations. The company should carry out the tasks entrusted to it relating to the implementation of the earnings-related pension scheme efficiently and thus manage the assets of present and future pensioners in the best possible way. The efficiency analysis project brought numerous ideas on how to

improve processes and how to utilise the company's resources more efficiently. Processes and products were evaluated, and the results were used in developing performance indicators for the personnel.

The most important services that Varma has outsourced are IT operating services from TietoEnator Pension Insurance Oy, IT development services from TietoEnator Esy Oy (as from 2 January 2006) and maintenance services for real estate and apartments and rental services for apartments from Ovenia Oy.

Associated undertakings and significant participating interests

At the year-end, Varma Consolidated Financial Statements comprised a total of 227 (229) subsidiaries and 69 (69) significant participating interests, mainly real estate firms.

A total of 80% of Esy Oy's share capital was transferred to TietoEnator Oy on 2 January 2006, after which Varma owns 14.4% of the shares and holds 50.1% of the votes in Esy Oy. The aim of this arrangement is to create a wider technology, competence and resources base on which to develop business and customer service.

Pension calculation and payment services included in the services offered to the pension foundations and funds of the participating interest Silta Oy were transferred to Varma on 1 January 2006.

Company administration

Decisions at the Annual General Meeting are made by policyholders with around 78% of the votes, the insured holding some 20%, and the guarantee capital owner, Sampo Group, with around 2% of the votes.

The Annual General Meeting held on 22 March 2005 re-elected the following Supervisory Board members: Riku Aalto, Helena Rissanen, Matti Kyytsönen, Juha Rantanen, Erkki Etola, Hannu Penttilä and Kari Toikka. Matti Halmesmäki was elected to replace Matti Honkala, Martti Alakoski to replace Lauri Lyly, Jukka Alho to replace Ole Johansson and Pekka Tefke to replace Jouko M. Jaakkola. The Supervisory Board elected Pekka Paasikivi as Chairman, and Jukka Härmälä and Sakari Tamminen as Deputy Chairmen. Later on, Jukka Alho and Antti Rinne resigned from the Supervisory Board.

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 2005 amounted to €220 000 (€158 000) and fees paid to

auditing companies for consulting (e.g. taxation) amounted to €105 000 (€68 000), a total of €325 000 (€226 000).

On 1 December 2005, the Supervisory Board re-elected the Board of Directors' members Jouko Ahonen, Arto Ojala, Kari O. Sohlberg and Björn Wahlroos, whose terms were due to expire. In 2005, Jyrki Juusela was Chairman of the Board of Directors, and Ole Johansson and Mikko Mäenpää were Deputy Chairmen.

Varma's Board of Directors convened 10 times in 2005. Average attendance was 93%, including deputy members. Each member attended a minimum of six meetings. The Board of Directors' Audit Committee convened twice and the Compensation Committee twice 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, among other matters, Varma's strategy, investment plan and investments in general, the arrangement of internal control and risk management, Varma's management and incentive systems, the development of the company's core operations and operating cost efficiency.

Outlook

According to Finland's National Pension Strategy Report updated in 2005, Finland's national pension policy is mainly in line with the common objectives of the EU. The challenges of the Finnish earnings-related pension scheme are mainly attributable to the changing age structure of the population and the resulting accelerated growth rate of pension expenditure. Decisive factors in assuring the sufficiency and sustainable financing of pensions are the need to prolong work careers and increase the employment rate. In the EU's draft joint report published in December 2005, the Finnish earnings-related pension scheme and in particular the successfully implemented pension reform were highly commended. The draft report presents the Finnish scheme as an example of best practice for those countries that intend to reform their pension schemes.

With the retirement of the baby boom generation, the supply of labour will decrease. Coping at work will have to be supported both by developing the work environment and improving employees' capacity to work. A sustainable pension policy is based on continuous growth of the economy and productivity. Low investments in Finland will reduce the capital stock. According to the proposals presented in a report by the labour market organisations on investments and the earnings-related pension scheme,

pension institutions can on the one hand improve their risk bearing capacity by improving their investment income through increasing investment in equities, and on the other hand they can promote investments in Finland.

At Varma the volume of work will increase as the baby boom generation retires. We have made provision for this by investing in information systems, developing the competence of personnel and streamlining our processes. The combination of the private sector employees' pensions acts to be implemented at the beginning of 2007 will require extensive changes in information systems and work practices. Varma is an efficient earnings-related pension company, and as the largest operator in the sector we are continuously investing in the development of services for our customers. Varma also supports measures to improve the efficiency of the earnings-related pension scheme by increasing competition.

After a long period of positive development in the investment market, it will be a rigorous challenge to maintain the level of returns achieved. Growth in the emerging markets is expected to continue at a high rate. On the other hand, the global economy is affected by threats relating to the price of energy and US budget deficits, in addition to potential political conflicts and natural catastrophes. The need for structural reform in the Western economies and control of strong growth in the emerging economies will also present new challenges. However, the solvency of the earnings-related pension scheme is good, so any increase in the rate of interest or negative development in the equities market will not present a threat as they did a few years ago. Allocating investments appropriately is not an easy task, and this may make it difficult to achieve sufficient returns on pension assets. By reforming the regulations concerning technical provisions and solvency so that they support investments in equities, it will be possible to improve the opportunities for obtaining better returns. Increasing risks in the investment operations of earnings-related pension assets is an important issue, as an increase of one percentage point in the return on pension assets invested will mean a 2 to 3 percentage point decrease in pension contributions in the long term.

Profit and Loss Account

1 Jan.–31 Dec., € million	PARENT COMPANY		GROUP	
	2005	2004	2005	2004
Technical account				
Premiums written	2 763.9	2 614.8	2 763.9	2 614.8
Investment income	2 100.1	1 824.8	2 081.2	1 814.9
Other technical underwriting income		1.6		1.6
Claims incurred				
Claims paid	-2 420.1	-2 295.9	-2 420.1	-2 295.9
Change in claims reserve	-5 00.1	-452.1	-500.1	-452.1
Portfolio transfer		-2.2		-2.2
Liability transfer	136.1	3.6	136.1	3.6
	-2 784.2	-2 746.6	-2 784.2	-2 746.6
Change in premium reserve				
Total change	-1 295.5	-764.6	-1 295.5	-764.6
Portfolio transfer		-9.7		-9.7
Liability transfer	331.3	9.5	331.3	9.5
	-964.1	-764.8	-964.1	-764.8
Statutory charges	-12.4	-12.6	-12.4	-12.6
Net operating expenses	-53.3	-49.7	-53.3	-49.7
Investment charges	-1 038.8	-843.0	-1 032.9	-833.4
Technical underwriting result	11.2	24.5	-1.8	24.2
Non-technical underwriting result				
Share of participating interests' profit after tax			-0.2	1.2
Direct taxes on ordinary activities				
Taxes for the financial year	-3.5	-19.3	-3.5	-20.2
Profit/loss on ordinary activities	7.8	5.2	-5.5	5.3
Appropriations				
Change in depreciation difference	0.0	2.6		
Income taxes				
Taxes for the financial year	0.0	-0.7		
Minority interest in the result for the financial year			0.5	0.5
Profit/loss for the financial year	7.8	7.1	-5.0	5.7

Balance Sheet

31 Dec., € million	PARENT COMPANY		GROUP	
	2005	2004	2005	2004
Assets				
Intangible assets				
Other expenses with long-term effects	0.5	0.6	0.5	0.6
Investments				
Investments in land and buildings				
Land and buildings	1 675.6	1 598.1	2 245.8	2 194.9
Loans to associated undertakings	611.5	626.4		
	2 287.1	2 224.5	2 245.8	2 194.9
Investments in associated undertakings				
Shares and participations in associated undertakings	4.5	4.4	1.3	2.3
Loans to associated undertakings	0.6	0.7	0.6	0.7
Shares and participations in significant participating interests	1.4	1.4	3.2	3.0
	6.4	6.4	5.0	5.9
Other financial investments				
Equities and shares	6 978.1	4 959.1	6 993.6	4 975.5
Money-market instruments	11 193.2	11 213.5	11 193.2	11 213.5
Loans guaranteed by mortgages	113.3	182.6	113.3	182.6
Other loans	826.0	890.3	826.0	890.3
Deposits	60.7	46.2	60.7	46.2
	19 171.2	17 291.8	19 186.8	17 308.1
	21 464.8	19 522.7	21 437.6	19 509.0
Uncovered liabilities				
Direct insurance operations				
Policyholders	66.5	77.6	66.5	77.6
Other debtors				
Receivables, portfolio transfer		18.4		18.4
Other debtors	254.8	202.9	256.3	204.6
	321.3	298.9	322.9	300.6
Other assets				
Tangible assets				
Furniture and fixtures	4.2	4.5	4.2	4.5
Other tangible assets	0.6	0.5	0.6	0.5
	4.7	5.0	4.7	5.0
Liquid assets	35.3	69.1	36.5	69.9
	40.0	74.1	41.3	75.0
Pre-payment and accrued income				
Accrued interest and rent	279.6	276.8	280.2	277.2
Other pre-payments and accrued income	4.5	53.6	4.6	54.1
	284.1	330.3	284.8	331.3
TOTAL ASSETS	22 110.7	20 226.7	22 087.0	20 216.5

31 Dec., € million	PARENT COMPANY		GROUP	
	2005	2004	2005	2004
Liabilities				
Capital and reserves				
Guarantee capital	11.9	11.9	11.9	11.9
Other reserves	46.6	40.3	46.6	40.3
Profit/loss brought forward	0.1	0.1	-31.1	-29.9
Profit/loss for the financial year	7.8	7.1	-5.0	5.7
	66.4	59.4	22.3	28.1
Accrued appropriations				
Depreciation difference	0.4	0.5		
Minority interest				
			28.5	30.4
Technical provisions				
Premium reserve	14 948.3	13 652.8	14 948.3	13 652.8
Claims reserve	6 875.8	6 375.7	6 875.8	6 375.7
	21 824.1	20 028.5	21 824.1	20 028.5
Reinsurance operations				
	0.0	0.0	0.0	0.0
Creditors				
Direct insurance operations	6.4	9.3	6.4	9.3
Other creditors	156.8	116.1	148.8	105.5
	163.2	125.4	155.2	114.8
Accruals and deferred income				
	56.5	12.9	56.8	14.7
TOTAL LIABILITIES	22 110.7	20 226.7	22 087.0	20 216.5

Statement of Source and Application of Funds

1 Jan.–31 Dec., € million	PARENT COMPANY		GROUP	
	2005	2004	2005	2004
Operational cash-flow				
Gain / loss on ordinary activities	11.2	24.5	-1.8	24.2
Adjustment items				
Changes in technical provisions	1 795.6	1 216.7	1 795.6	1 216.7
Unrealised losses and gains on investments	44.7	41.7	38.9	28.3
Depreciation	21.1	14.8	72.2	70.2
Change in short-term debts	-446.1	-60.9	-446.0	-61.3
Cash-flow before change in working capital	1 426.5	1 236.7	1 458.9	1 278.1
Change in working capital:				
Increase (-) / decrease (+)				
in short-term receivables	23.9	-63.8	24.2	-39.8
Increase (-) / decrease (+) in short-term debts	81.5	10.1	82.6	-6.8
Operational cash-flow before taxes	1 531.8	1 183.1	1 565.7	1 231.5
Direct taxes	-3.5	-20.0	-3.5	-20.2
Total operational cash-flow	1 528.4	1 163.0	1 562.2	1 211.4
Investment cash-flow				
Net investments and gains on disposals	-1 560.4	-1 163.5	-1 593.8	-1 217.5
Investments and gains on intangible, tangible and other assets	-1.0	-1.3	-1.0	-1.3
Total investment cash-flow	-1 561.4	-1 164.8	-1 594.9	-1 218.7
Financing cash-flow				
Interest paid on guarantee capital and other profit distribution	-0.7	-0.7	-0.7	-0.7
Total financing cash-flow	-0.7	-0.7	-0.7	-0.7
Change in liquid assets	-33.8	-2.4	-33.4	-8.0
Liquid assets, 1 Jan.	69.1	71.5	6.9	77.9
Liquid assets, 31 Dec.	35.3	69.1	36.5	69.9

Notes to the Financial Statements

Accounting Principles

The Financial Statements have been prepared in accordance with the Finnish Accounting Act, Companies Act, Insurance Companies Act and Act on Employment Pension Insurance Companies. In addition, the decree of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements 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 have been complied with.

Consolidated Financial Statements

In addition to the parent company, those companies in which the Group holds more than 50% of the votes either directly or indirectly have been consolidated in the Consolidated Financial Statements as subsidiaries. The companies belonging to the Group are listed in the Notes to the Financial Statements.

The parent company has 227 (227) real estate companies and 2 (2) other companies as subsidiaries.

The Consolidated Financial Statements 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. However, Esy Oy has been consolidated using the equity method.

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 Financial Statements are available at the parent company's headquarters, at Annankatu 18, FI-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 Financial Statements using the equity method. Housing and real estate companies have not, however, been treated as participating interests. 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.

Share of participating interests' profit or loss is included in the Consolidated Profit and Loss Account. The Group's share of the participating interests' profit or loss produced after the day of acquisition is added in the Consolidated Balance Sheet to the acquisition

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

Valuation and matching of investments and their fair values

Real estate portfolio

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 lease-back arrangements, at which prices the sellers of hydropower plants have a repurchase right. 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. No real estate revaluations have been entered for the year 2005. 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 re-adjustments in respect of the value appreciation. The last available buying rates or, if these are not available, closing prices at the Balance Sheet date are used as fair values for listed securities. The fair value of other equities is the purchase price or the net realisable value or the net asset value. Shares of capital trusts are entered in the Balance Sheet at fair value estimated by the management company or, if this is not available, at acquisition cost. Shares of investment trusts are entered at the last available value of the share calculated by the management company.

Money-market instruments are entered in the Balance Sheet at acquisition cost, adjusted by 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

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.

Currency derivatives that are considered hedging in the Financial Statements are also considered hedging in the calculation of solvency and assets covering technical provisions.

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.

Currency derivatives that are considered hedging in the Financial Statements are also considered hedging in the calculation of solvency and assets covering technical provisions.

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

Foreign currency denominated investments are entered at the lower of rate on the date of transaction or price at the Balance Sheet date. Currency conversion differences are entered as adjustments to income and expenses. Currency conversion differences for liquid assets and deposits and items that cannot be entered as adjustments to income and expenses, are entered under investment income and charges. When calculating fair values, the European Central Bank average rate quoted on 30 December is used.

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

Depreciation

The acquisition cost of buildings, including components in buildings, movable property and other expenses with long-term effects, are depreciated according to plan over their useful lives. Revaluation of buildings entered as income is also depreciated according to plan. 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 expenses with long-term effects	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-Sijoituskiinteistö Oy, which merged with the parent company in 2004, 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 Financial Statements.

In addition to the information required by the regulations, the parent company's income statement and balance sheet at fair values are presented in the Notes to the Financial Statements. The purpose of this is to improve the transparency of the annual account information of an earnings-related pension insurance company.

Solvency margin

Solvency margin is calculated as the difference between the assets and debts valued at fair value. In this calculation, the unallocated insurance reserve, which is used as a measure to prepare for investment risks, is not included in technical provisions. For derivative contracts not concluded for hedging purposes, calculated maximum loss is also deducted from the solvency margin.

Solvency margin is presented in the Notes to the Financial Statements.

Taxes

Tax complying with the tax calculation of the tax form is entered as **tax for the financial year** on an accrual basis. Unused avoifiscal tax credit according to the tax statement amounted to €165 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 Financial Statements 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.

Key Figures and Analyses

The key figures and analyses describing financial development are calculated and presented in accordance with the stipulations of the Insurance Supervision Authority concerning Notes to the Financial Statements.

Key figures for investment operations and solvency are presented at fair values.

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 – income + expenses) weighted by the relative share of the length of the period that is left from the date of the event to the end of the period.

The total return on real estate in accordance with the Institute for Real Estate Economics (KTI) consists of the net return (income – maintenance expenses) adjusted by the change in market value. The total return is calculated on the average invested capital, which is calculated by adjusting the market value at the beginning of the year by half of the investments made during the year, which are assumed to be made at even intervals during the year. The total return percentage consists of the net return percentage adjusted by the capital return percentage (capital return percentage = change in value during the year as a percentage of average invested capital).

Notes to the Financial Statements

Associated undertakings

The following are included as new companies in Varma's Consolidated Financial Statements:

Asunto Oy Lahden Kulmakatu 10
Asunto Oy Raision Tasonorni
Asunto Oy Tampereen Palatsinraitti 1
Asunto Oy Turun Metallikatu
Kiinteistö Oy Acta Kivenlahti
Kiinteistö Oy Helsingin Malminkatu 28
Kiinteistö Oy Helsingin Ratavartijankatu 5
Kiinteistö Oy Helsingin Ristipellontie 16
Kiinteistö Oy Hämeenkatu 23
Kiinteistö Oy Lahden Tupalankatu 3
Kiinteistö Oy Oulun Tulliväylä 3
Kiinteistö Oy Vantaan Rasti

In addition, the Group comprises the following 215 companies:

Asunto Oy Kotkan Alahovintie 11
Asunto Oy Lahden Massinpoiju
Asunto Oy Lappeenrannan Ihalaisenvuori
Asunto Oy Rovaniemen Väilirakka
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 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 Katajajarjuntie 22
Asunto Oy Kaustisenpolku 5
Asunto Oy Kokkovouri
Asunto Oy Korkeavuorenkatu 2 A
Asunto Oy Kotkan Alahovinnytty
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 Minkkikuja 3
Asunto Oy Neilikkatie
Asunto Oy Niittymaanpuisto
Asunto Oy Näkinkuja 4
Asunto Oy Oulun Lehmuskaja
Asunto Oy Paatsamatie 3
Asunto Oy Paratisintie
Asunto Oy Raikukuja II
Asunto Oy Saarnilaakso
Asunto Oy Siitavoudintie 1
Asunto Oy Taivalpolku
Asunto Oy Tampereen Jankansampo
Asunto Oy Tampereen Kultaköynnös
Asunto Oy Tampereen Näsijärvenkatu 3
Asunto Oy Tampereen Puuvillatehtaanankatu 6
Asunto Oy Tampereen Satakunnankatu 22
Asunto Oy Tampereen Vihilahdenkontu
Asunto Oy Tervahovinkatu 12
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 Lummepeha
Asunto Oy Vantaan Vernissakatu 5
Asunto Oy Väinämöisenkatu 7
Draco Oy
Esy Oy
Fastighets Ab Baggen Kiinteistö Oy
Hakunilan Kiinteistöt Oy
Helsingin Kiinteistösijoitus Oy
Kaijonharjun Liikekeskus Oy
Kiikun Liiketalo Oy
Kiinteistö Oy Helsingin Lönnrotinkatu 18
Kiinteistö Oy Iin Liikekeskus
Kiinteistö Osakeyhtiö Juvakeskus
Kiinteistö Oy Kaarenhanka
Kiinteistö Oy Koskikastanja
Kiinteistö Oy Loimaanportti
Kiinteistö Oy Menotie 1
Kiinteistö Oy Olarinluoma 9
Kiinteistö Oy Partolan Kauppajätti
Kiinteistö Oy Äänekosken Ostoskeskus
Kiinteistö Oy Ahertajantie 3
Kiinteistö Oy Arabian Parkki
Kiinteistö Oy Arinatie 6
Kiinteistö Oy Aspius
Kiinteistö Oy Atomitalo
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 Niityhaka
Kiinteistö Oy Eurajoen Portti
Kiinteistö Oy Fredrikinkatu 42
Kiinteistö Oy Friisikeskus
Kiinteistö Oy Gigahermia
Kiinteistö Oy Haunistenniitty
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 Lemuntie 7
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 Hiirtornit
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 rantat 2
Kiinteistö Oy Juhana Herttua 3
Kiinteistö Oy Jyväskylän maalaiskunnan Kotikeskus
Kiinteistö Oy Jyväskylän Mattilanniemi
Kiinteistö Oy Jämsän Torinkulma
Kiinteistö Oy Kahvimylly
Kiinteistö Oy Kaikukatu 7
Kiinteistö Oy Kaivolankulma
Kiinteistö Oy Kalasääksentie 6
Kiinteistö Oy Kangasalan Vihervarpu
Kiinteistö Oy Karihaaran Liiketalo
Kiinteistö Oy Kattilansillan Kauppakeskus
Kiinteistö Oy Kempeleen Kurikkatie 12
Kiinteistö Oy Keskustahotelli
Kiinteistö Oy Kirkkonummen Kirkkotalli
Kiinteistö Oy Koirasaarentie 1
Kiinteistö Oy Koivuhaanportti 10
Kiinteistö Oy Kolmisopentie 3
Kiinteistö Oy Koroppa
Kiinteistö Oy Korpilahden Liiketalo
Kiinteistö Oy Kotkan Suursaarenkatu 1

Kiinteistö Oy Lopen Linja-autoasema
 Kiinteistö Oy Lönnrotinkatu 12
 Kiinteistö Oy Merraspuhos
 Kiinteistö Oy Metsäpojanukuja 1
 Kiinteistö Oy Miekkonien Kauppakeskus
 Kiinteistö Oy Myyrkumpu
 Kiinteistö Oy Mäkitori
 Kiinteistö Oy Mälikkäläntalo
 Kiinteistö Oy Nastolan Muurantie 2
 Kiinteistö Oy Niittylänpolku 10
 Kiinteistö Oy Nummenvaara
 Kiinteistö Oy Nurmijärven Liiketalo
 Kiinteistö Oy Oulun Kallisensuora 5
 Kiinteistö Oy Oulun Tyrnäväntie 6
 Kiinteistö Oy Oulunkyläntori 1
 Kiinteistö Oy Palokanvarma
 Kiinteistö Oy Pappilanjärven Liiketalo
 Kiinteistö Oy Peitsarin Liikekeskus
 Kiinteistö Oy Pharma City
 Kiinteistö Oy Porel
 Kiinteistö Oy Porin Eteläväylä 2
 Kiinteistö Oy Poronsarvi
 Kiinteistö Oy Rajasampaanranta 2
 Kiinteistö Oy Rastilan Liikekeskus
 Kiinteistö Oy Savonkatu 21
 Kiinteistö Oy Scanaine
 Kiinteistö Oy Seinäjoen Maakuntatalo
 Kiinteistö Oy Sinihelmi
 Kiinteistö Oy Sompasaaren Tukoeka
 Kiinteistö Oy Spektrin Trio
 Kiinteistö Oy Suometsänkaari 2
 Kiinteistö Oy Säästöpuudas
 Kiinteistö Oy Taavetin Ostoskeskus
 Kiinteistö Oy Tampereen Kalevanpaasi
 Kiinteistö Oy Tarhaajantie 2
 Kiinteistö Oy Teerivuorenkatu 28
 Kiinteistö Oy Teerivuorenpuisto
 Kiinteistö Oy Tekniikkatie 4
 Kiinteistö Oy Teräslautelanjärvi
 Kiinteistö Oy Tietotalo
 Kiinteistö Oy Tilkan Paletti
 Kiinteistö Oy Turun Asemakeskus
 Kiinteistö Oy Ulvilan Automaatiohalli
 Kiinteistö Oy Vaasan Monopol
 Kiinteistö Oy Vaasan Sampotalo
 Kiinteistö Oy Valkealan Kauppakulma
 Kiinteistö Oy Vantaan Martintalo
 Kiinteistö Oy Vantaan Sarkatie 1
 Kiinteistö Oy Varmantalo
 Kiinteistö Oy Viittakari
 Kiinteistö Oy Vuorenvarma
 Kiinteistö Oy Vääksyntie 4
 Kiinteistö Osakeyhtiö Varma
 Kiuruveden Linja-autoaseman Kiinteistö Oy
 Lepinpellonkatu Oy
 Osakevarma Oy
 Oy Ässäkeskus Ab
 Pitäjänmäen Kiinteistöt Oy
 Satakunnan Teollisuusatalo Oy
 Syväsaaren Liikekiinteistö Oy
 Talo-osakeyhtiö Kuopion Tulliportinkatu 25
 Tampereen Kiinteistö Invest Oy
 Teräsportti Oy
 Upper Limit Oy
 Vaasa Hitec Park Oy
 Vaasa Tekno Park Oy
 Valuraudankuja Oy
 Varissuon Toimistotalo Oy

The Group comprises the following 69 significant participating interests:

Asunto Oy Akaankievari
 Asunto Oy Harjavallankatu 6
 Asunto Oy Helsingin Eino Leinon katu 7
 Asunto Oy Helsingin Haapaniemenkatu 11
 Asunto Oy Kartanonpesä
 Asunto Oy Kuusiniementie 12
 Asunto Oy Nupukivenpuisto
 Asunto Oy Porin Harmaakarhu
 Asunto Oy Vantaan Kaarenpaatsama
 Haagan III Liikekeskus

Haapajärven Linja-autoaseman Liikekeskus
 Hakopolun Liikekeskus Oy
 Kala-Matin Pysäköintitalo Oy
 Kamreerintien Pysäköintitalo Oy
 Kemin Asemakatu 4
 Kiinteistö Oy Liikejalava
 Kiinteistö Oy Alavuden Rantakeskus
 Kiinteistö Oy Eerinkinkatu 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 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 Heinolan Lammaskallionkatu
 Asunto Oy Näsilinnankatu 21
 Asunto Oy Porin Keulanhaka
 Asunto Oy Porin Purjeentie 7
 Asunto Oy Tiilimäki 31
 Hauhon Teollisuusallit Oy
 Kiinteistö Oy Kolikoto
 Kiinteistö Oy Kustaantori
 Kiinteistö Oy Nummelanharju 1
 Kiinteistö Oy Nummelanvaara
 Kiinteistö Oy Riihimäen Junttatie 2
 Kiinteistö Oy Vantaan Linkokuja
 Kiinteistö Oy Vuosaaren Liikekeskus

Notes to the Financial Statements

Notes to the Balance Sheet

Investments at fair value and valuation differences, Parent Company

31 Dec., € million	Remaining acquisition cost 2005	Book value 2005	Fair value 2005	Remaining acquisition cost 2004	Book value 2004	Fair value 2004
Investments in land and buildings						
Land and buildings	616.1	634.1	737.0	604.1	622.2	723.3
Shares in associated undertakings	965.2	971.9	1 216.5	895.3	902.1	1 126.4
Other real estate shares	69.6	69.6	74.4	73.9	73.9	77.1
Loans to associated undertakings	560.1	560.1	560.1	579.3	579.3	579.3
Debtors, real estate companies	51.4	51.4	51.4	47.1	47.1	47.1
Investments in associated undertakings						
Shares and participations	4.5	4.5	4.5	4.4	4.4	4.4
Loans	0.6	0.6	0.6	0.7	0.7	0.7
Investments in significant participating interests						
Shares and participations	1.4	1.4	1.4	1.4	1.4	1.4
Other financial investments						
Equities and shares	6 977.9	6 977.9	9 087.5	4 959.1	4 959.1	5 643.4
Money-market instruments	11 183.1	11 183.1	11 623.2	11 213.5	11 213.5	11 661.5
Loans guaranteed by mortgages	113.3	113.3	113.3	182.6	182.6	182.6
Other loans	826.0	826.0	827.4	890.3	890.3	891.9
Deposits	60.7	60.7	60.7	46.2	46.2	46.2
	21 429.8	21 454.5	24 358.0	19 497.9	19 522.7	20 985.2
The remaining acquisition cost of money-market instruments includes:						
- the difference between the nominal value and acquisition cost, released or charged to interest income	-84.9			-47.7		
- income from index-bound loans	12.5			10.3		
	-72.4			-37.4		
Book value includes						
Other revaluations		24.7			24.7	
Valuation difference (difference between fair value and book value)						
			2 903.5			1 462.5

Investments at fair value and valuation differences, Group

31 Dec., € million	Remaining acquisition cost 2005	Book value 2005	Fair value 2005	Remaining acquisition cost 2004	Book value 2004	Fair value 2004
Investments in land and buildings						
Land and buildings	2 157.8	2 175.8	2 575.2	2 103.0	2 121.1	2 486.8
Other real estate shares	69.6	69.6	74.4	73.9	73.9	107.3
Debtors, real estate companies	0.4	0.4	0.4			
Investments in associated undertakings						
Shares and participations	1.3	1.3	1.3	2.3	2.3	2.3
Loans	0.6	0.6	0.6	0.7	0.7	0.7
Investments in significant participating interests						
Shares and participations	3.2	3.2	3.2	3.0	3.0	3.0
Other financial investments						
Equities and shares	6 993.5	6 993.5	9 103.1	4 975.5	4 975.5	5 659.7
Money-market instruments	11 183.1	11 183.1	11 623.2	11 213.5	11 213.5	11 661.5
Loans guaranteed by mortgages	113.3	113.3	113.3	182.6	182.6	182.6
Other loans	826.0	826.0	827.4	890.3	890.3	891.9
Deposits	60.7	60.7	60.7	46.2	46.2	46.2
	21 409.3	21 427.3	24 382.7	19 491.0	19 509.0	21 042.0
The remaining acquisition cost of money-market instruments includes:						
– the difference between the nominal value and acquisition cost, released or charged to interest income				-84.9		-47.7
– income from index-bound loans				12.5		10.3
				-72.4		-37.4
Book value includes						
Other revaluations		18.0			18.0	
Valuation difference (difference between fair value and book value)						
			2 955.4			1 533.0

Notes to the Financial Statements

Notes to the Balance Sheet

Investments in associated undertakings and significant participating interests, Parent Company

31 Dec. 2005, € million

Shares and participations in associated undertakings

Acquisition cost, 1 Jan.	4.4
Increase	0.2
Decrease	
Acquisition cost, 31 Dec.	4.5

Loans to associated undertakings

Acquisition cost, 1 Jan.	0.7
Increase	
Decrease	-0.1
Acquisition cost, 31 Dec.	0.6

Shares and participations in significant participating interests

Acquisition cost, 1 Jan.	1.4
Increase	
Decrease	
Acquisition cost, 31 Dec.	1.4

Shares and participations in associated undertakings

31 Dec. 2005	Domicile	Shares, %	Votes, %	Book value € million
Esy Oy	Helsinki	70.0%	70.0%	1.2
Osakevarma Oy	Helsinki	100.0%	100.0%	3.3
				4.5

Residential and real estate companies **971.9**

Shares and participations in significant participating interests

31 Dec. 2005	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

Residential and real estate companies **46.1**

Investments in associated undertakings and significant participating interests, Group

31 Dec. 2005, € million

Shares and participations in associated undertakings

Acquisition cost, 1 Jan.	2.3
Increase	0.2
Decrease	-1.2
Acquisition cost, 31 Dec.	1.3

Loans to associated undertakings

Acquisition cost, 1 Jan.	0.7
Increase	
Decrease	-0.1
Acquisition cost, 31 Dec.	0.6

Shares and participations in significant participating interests

Acquisition cost, 1 Jan.	3.0
Increase	0.2
Decrease	0.0
Acquisition cost, 31 Dec.	3.2

Shares and participations in associated undertakings

31 Dec. 2005	Domicile	Shares, %	Votes, %	Book value € million
Esy Oy	Helsinki	70.0%	70.0%	1.3
				1.3

Shares and participations in significant participating interests

31.12.2005	Domicile	Shares, %	Votes, %	Book value € million
Ovenia Oy	Helsinki	28.8%	28.8%	0.2
Silta Oy	Helsinki	39.1%	39.1%	3.0
				3.2

Residential and real estate companies **57.1**

Notes to the Financial Statements

Notes to the Balance Sheet

Changes in investments in land and buildings

31 Dec. 2005, € million	PARENT COMPANY		GROUP	
	Land and buildings, real estate shares	Loans to associated undertakings	Land and buildings, real estate shares	Loans to associated undertakings
Acquisition cost, 1 Jan.	1 800.5	626.4	2 754.6	
Increase	125.8	61.6	136.3	0.4
Decrease	-20.4	-76.4	-15.4	
Acquisition cost, 31 Dec.	1 905.9	611.5	2 875.5	0.4
Accrued depreciation 1 Jan.	-80.9		-466.7	
Accrued depreciation from items sold	0.1		3.6	
Depreciation for the financial year	-19.6		-70.8	
Accrued depreciation 31 Dec.	-100.4		-533.9	
Value adjustments, 1 Jan.	-146.2		-117.7	
Value adjustments on items sold	3.2		3.1	
Value adjustments for the financial year	-11.7		-6.4	
Value adjustments, 31 Dec.	-154.7		-121.0	
Revaluations, 1 Jan.	24.7		24.7	
Decrease				
Revaluations, 31 Dec.	24.7		24.7	
Book value, 31 Dec.	1 675.6	611.5	2 245.4	0.4

Land and buildings and real estate shares in own use

31 Dec. 2005, € million	PARENT COMPANY	GROUP
Remaining acquisition cost	65.3	65.3
Book value	65.3	65.3
Fair value	74.1	74.1

Parent Company's other investments, equities and shares

31 Dec. 2005	Shares %	Book value € million	Fair value € million		Shares %	Book value € million	Fair value € million
LISTED EQUITIES							
Finland							
AffectoGenimap Oyj	3.31%	1.7	1.7	Verenigde Nederlandse			
Alma Media Corporation	9.65%	31.1	54.7	Uitgeversbedrijven NV	0.19%	13.8	13.8
Amer Sports Plc	2.20%	13.4	24.8	Belgium			
Aspocomp Group Oyj	5.01%	3.8	3.8	Belgacom	0.11%	11.0	11.0
Aspo Plc	5.85%	2.2	9.5	InBew	0.15%	22.3	33.4
BasWare Corporation	1.06%	0.8	1.3	Brazil			
Beliton-Yhtiöt Oyj	6.91%	2.0	2.0	Petroleo Brasileiro S.A.	0.11%	10.7	23.7
Cargotec Corporation	1.91%	29.2	35.2	Cayman Islands			
Comptel Corporation	4.81%	8.2	8.4	O2Micro International Ltd	1.66%	5.5	5.6
Efore Plc	3.00%	2.2	2.2	Spain			
Elcoteq SE	0.43%	2.1	2.7	Banco Bilbao Vizcaya			
Elisa Communications Corporation	1.57%	40.7	40.7	Argentaria S.A.	0.03%	11.0	13.4
Exel Oyj	4.47%	1.8	6.7	Industria de Diseno Textil S.A.	0.11%	14.5	18.4
Finnlines Plc	0.12%	0.7	0.7	Telefonica S.A.	0.07%	46.2	46.2
Fiskars Corporation	4.27%	28.8	32.2	Ireland			
Fortum Corporation	0.46%	33.7	63.4	Depfa Bank Plc	0.10%	4.5	4.5
HK Ruokatalo Group Oyj	1.97%	6.3	6.6	United Kingdom			
Huhtamäki Oyj	2.10%	21.5	3.4	O2 (formerly MMO2)	0.03%	3.7	7.2
Jaakko Pöyry Group Oyj	3.38%	6.5	15.7	ARM Holdings plc	0.11%	2.1	2.6
KCI Konecranes International Abp	4.96%	19.3	29.7	BG Group Plc	0.07%	9.6	19.7
Kemira GrowHow Oyj	2.76%	9.0	9.4	BHP Billiton plc	0.01%	2.7	2.7
Kemira Oyj	1.72%	16.5	28.8	BOC Group Plc	0.05%	3.1	4.1
Kesko Corporation	1.19%	14.3	27.2	BP Amoco Plc	0.06%	93.9	115.0
Kone Corporation	0.42%	9.5	17.7	Compass Group plc	0.30%	21.1	21.1
Lassila & Tikanoja Plc	7.68%	30.8	43.6	Diageo plc	0.11%	34.0	39.9
Lemminkäinen Corporation	2.98%	5.4	15.5	EMI Group Plc	0.77%	20.7	21.5
Marimekko Corporation	2.48%	0.6	3.2	Enterprise Inns Plc	0.39%	11.2	18.1
Metso Corporation	1.74%	36.0	57.0	Glaxosmithkline Plc	0.06%	68.2	76.8
M-real Oyj	1.08%	15.0	15.0	Hilton Group plc	0.20%	12.6	16.9
Neste Oil Corporation	0.43%	17.8	26.3	HSBC Holdings Plc	0.01%	15.5	17.7
Nokian Tyres plc	4.45%	42.6	57.4	International Power Plc	0.40%	14.1	20.9
Nokia Corporation	0.17%	87.6	114.3	iSOFT Group Plc	0.35%	4.3	4.6
Nordic Aluminium Oyj	5.41%	2.1	3.8	ITV Plc	0.07%	4.9	4.9
OKO Osuuspankkien Keskuspankki Oyj	0.57%	12.8	13.5	Kesa Electricals Plc	0.26%	4.3	5.1
Orion Corporation	2.22%	37.4	48.1	Kingfisher Plc	0.22%	18.1	18.1
Outokumpu Oyj	0.30%	6.0	6.9	Marks & Spencer Group Plc	0.10%	6.5	11.5
Perlos Corporation	1.52%	7.2	7.2	MFI Furniture Group Plc	0.55%	4.0	4.0
Ponsse Oyj	3.43%	2.5	10.7	Pearson Plc	0.24%	19.5	19.5
Raisio plc	0.44%	1.6	1.6	Provident Financial plc	0.11%	2.3	2.3
Ramirent Plc	0.71%	1.2	4.7	Prudential Plc	0.11%	18.9	20.7
Raute Plc	5.24%	2.2	2.9	Punch Taverns Plc	0.22%	5.5	6.9
Sampo Plc	10.65%	485.5	894.4	Reckitt Benckiser Plc	0.14%	18.1	27.6
SanomaWSOY Corporation	1.00%	26.3	30.9	Rexam plc	0.30%	11.3	12.2
Satama Interactive Oyj	4.81%	1.9	2.0	Rio Tinto Plc	0.04%	17.2	17.4
Scanfil Plc	0.96%	2.5	2.5	Royal Dutch Shell Plc B	0.02%	9.5	11.6
Stockmann Plc	0.71%	8.4	12.4	Shire Plc	0.27%	13.5	14.7
Stora Enso Oyj	1.49%	125.4	138.7	Smith & Nephew Plc	0.36%	24.8	26.2
SysOpen Digia Plc	4.08%	3.3	3.5	Tesco plc	0.05%	12.7	17.2
Tamfelt Oyj Abp	5.90%	13.4	13.4	William Hill plc	0.55%	16.3	16.3
Technopolis Plc	1.76%	1.9	3.1	Vodafone Airtouch Plc	0.09%	106.0	106.0
Tecnomen Corporation	0.71%	0.7	1.0	Italy			
Teleste Corporation	4.11%	5.3	5.3	Cassa di Risparmio di Firenze	0.10%	2.6	2.9
Tietoenator Corporation	1.43%	34.1	34.7	Eni S.p.A.	0.05%	42.3	45.2
UPM-Kymmene Corporation	0.48%	37.1	41.4	Erg S.p.A.	0.27%	3.2	8.1
Uponor Oyj	5.40%	27.3	72.0	Saipem S.p.A.	0.34%	11.7	21.0
Vaisala Oyj (A)	4.36%	14.4	18.5	Telecom Italia SpA	0.09%	28.9	28.9
Wärtsilä Corporation	2.75%	41.9	64.3	Austria			
YIT-Yhtymä Corporation	6.26%	28.6	141.1	Andritz AG	1.08%	12.6	12.8
Netherlands							
European Aeronautic Defence	0.00%	3.1	3.6	Bank Austria Creditanstalt	0.04%	2.7	5.6
Koninklijke BAM Groep N.V	2.96%	33.3	51.4	Erste Bank der österreichischen			
Koninklijke Numico NV	0.05%	2.7	3.7	Sparkassen AG	0.10%	9.1	11.1
Koninklijke Numico NV	0.34%	22.7	22.7	OMV AG	0.25%	23.8	37.6
Koninklijke Philips Eletronics N.V.	0.01%	2.4	3.3	Raiffeisen International			
Koninklijke Philips Eletronics N.V.	0.05%	14.3	18.4	Bank-Holding AG	0.12%	6.8	9.4
Qiagen NV	0.17%	2.4	2.4	Wienerberger AG	0.83%	20.8	20.8
Reed Elsevier NV	0.31%	26.7	26.7	Wiener Staedtsche Allgemeine			
TPT NV	0.18%	18.1	21.6	Versicherung AG	0.13%	5.5	5.5
Unilever NV CVA	0.13%	39.3	42.3	Österreichische Elektrizitäts-			
				wirtschafts-AG (Verbund)	0.66%	23.8	29.8
				China			
				China Life Insurance Co. Ltd	0.27%	10.2	14.9

Notes to the Balance Sheet

31 Dec. 2005	Shares %	Book value € million	Fair value € million	Shares %	Book value € million	Fair value € million	
Greece							
Cosmote Mobile				0.09%	7.0	7.9	
Telecommunications S.A.	0.16%	7.2	10.0	0.21%	3.1	3.1	
Germanos S.A.	0.26%	2.3	3.0	0.21%	19.0	22.5	
Norway				0.07%	42.2	42.2	
Aktiv Kapital ASA	1.06%	6.0	6.4	E.On AG	0.06%	26.3	36.9
APL AS	0.91%	1.2	1.8	Hochtief AG	1.63%	28.0	43.2
Bergesen Worldwide Gas ASA	0.39%	5.1	5.6	Hypo Real Estate Holding AG	0.11%	4.2	6.6
Kongsberg				Interhyp AG	1.54%	5.1	7.5
Automotive ASA (KA)	0.52%	1.4	1.4	MAN AG	0.21%	10.5	13.5
Norske Skogindustrier ASA	0.99%	24.2	25.4	Merck KGaA	0.47%	15.0	16.8
Norsk Hydro ASA	0.12%	26.0	26.0	Metro AG	0.08%	10.1	10.2
Petroleum Geo-Services ASA	0.48%	5.0	7.5	MLP Ag	0.15%	2.5	2.8
Statoil ASA	0.09%	28.3	39.7	ProSiebenSat1 Media AG	0.49%	7.6	8.9
Telenor ASA	0.09%	9.3	12.4	Puma AG	0.41%	12.6	16.9
Tomra Systems ASA	0.93%	9.8	10.0	Rhoen-Klinikum AG	0.17%	2.3	2.8
TTS Marine ASA	3.56%	2.5	2.5	RWE AG	0.03%	6.6	11.3
Portugal				SGL Carbon AG	0.33%	2.0	2.6
Portugal Telecom SGPS S.A. Reg	0.31%	25.6	29.9	Siemens AG	0.01%	3.6	4.4
Poland				Singulus Technologies AG	0.92%	3.6	4.6
Grupa Lotos S.A.	0.79%	10.0	10.4	Switzerland			
Polski Koncern				ABB Ltd	0.14%	17.2	23.6
Naftowy Orlen S.A.	0.14%	9.9	10.0	Adecco SA	0.25%	18.3	18.3
France				Ciba Specialty Chemicals AG	0.72%	26.3	27.1
Accor SA	0.24%	16.0	23.3	Geberit AG	0.24%	5.5	6.7
AXA SA	0.07%	24.4	33.3	Holcim Ltd.	0.02%	2.1	2.7
Carrefour SA	0.06%	17.1	17.1	Micronas Semiconductor			
Danone Group	0.15%	25.1	33.9	Holding AG	0.31%	2.8	2.8
Eiffage SA	0.29%	7.2	11.8	Nestle SA	0.05%	44.1	52.2
Electricite de France (EDF)	0.01%	6.4	6.4	Novartis	0.05%	59.3	70.0
France Telecom SA	0.06%	32.0	32.0	Roche Holding			
Gas de France	0.05%	12.4	12.4	AG- Genusscheine	0.08%	47.7	73.6
JC Decaux SA	0.23%	9.1	9.8	Syngenta AG	0.31%	30.8	36.7
Lafarge SA	0.09%	10.9	11.4	UBS AG	0.04%	19.3	29.9
L'Oreal SA	0.04%	16.8	16.8	Denmark			
Louis Vuitton				Danisco A/S	0.96%	18.5	30.9
Moët Hennessy SA	0.01%	3.3	4.2	Novo Nordisk A/S B	0.13%	14.0	17.4
Pernod-Ricard SA	0.4%	34.8	54.6	Trygvesta AS	0.21%	4.7	6.1
Plastic Omnium SA	2.13%	11.4	11.4	Vestas Wind Systems A/S	0.16%	4.0	4.0
Publicis Groupe	0.24%	10.9	13.7	Czech Republic			
Renault S.A.	0.06%	11.6	12.0	CEZ AS	0.12%	8.9	17.8
Sanofi-Aventis SA	0.06%	40.2	58.8	Hungary			
Societe Television Francaise 1	0.32%	16.0	16.0	MOL Magyar Olaj -es Gazipari Rt.	0.12%	7.0	10.3
Suez Lyonnais Des Eaux SA	0.07%	19.5	24.0	Russia			
Technip-Coflexip S.A.	0.49%	13.6	23.9	NovaTek OAO	0.10%	4.7	5.7
Thomson Multimedia SA	0.11%	5.3	5.3	United States			
Total SA	0.02%	101.2	130.4	Abbott Laboratories	0.03%	13.8	14.0
Vinci S.A.	0.27%	28.7	36.6	AT & T INC.	0.02%	16.0	16.6
Sweden				AU Optronics Corp.	0.18%	12.1	13.3
Atlas Copco AB A	0.04%	1.7	3.0	Biogen Idec Inc.	0.04%	5.0	5.8
Billerud AB	0.28%	1.6	1.6	Boston Scientific Corporation	0.10%	15.3	16.3
Boliden AB	0.13%	1.0	2.6	Caremark Rx Inc.	0.11%	9.8	20.8
Capio AB	1.03%	5.0	13.0	Clear Channel			
D. Carnegie & Co AB	0.22%	1.3	1.9	Communications Inc.	0.06%	8.0	8.1
Elekta AB B	0.11%	1.2	1.3	DreamWorks Animation SKG-A	0.89%	9.0	9.7
Getinge AB B	0.20%	3.5	4.3	First Data Corporation	0.07%	15.3	18.2
Hemtex AB	0.34%	0.6	0.8	Goldman Sachs Group, Inc.	0.02%	8.9	10.8
Indutrade AB	0.42%	0.7	1.0	Medtronic Inc.	0.04%	19.7	23.7
Intrum Justitia AB	0.69%	2.2	4.2	Omnivision Technologies, Inc. (OVTI)	0.80%	4.3	7.1
Modern Times Group MTG AB B	0.49%	3.5	8.8	Petco Animal Supplies, Inc.	0.74%	7.8	8.0
Munters AB	0.20%	0.8	1.1	Pfizer Inc.	0.02%	26.3	26.3
Nordea Bank AB (publ)	0.32%	66.6	76.7	Photon Dynamics Inc.	4.79%	11.9	12.6
Observer AB B	1.09%	2.6	2.9	Regal Entertainment Group	0.49%	4.6	4.8
RNB Retail and Brands AB	0.90%	1.2	1.4	Stryker Corporation	0.11%	17.0	17.4
Sandvik AB	0.03%	2.5	2.5	Symantec Corporation	0.09%	13.3	14.8
Svenska Cellulosa AB	0.25%	15.1	15.3	The Coca-Cola Company	0.02%	15.1	16.1
Telefonaktiebolaget LM Ericsson	0.01%	2.4	3.2	Tribune Company	0.14%	11.0	11.2
TeliaSonera AB	0.11%	19.9	22.7	Verizon Communications Inc	0.02%	11.9	12.8
Germany				Zimmer Holdings, inc	0.07%	10.1	10.2
Adidas-Salomon AG	0.05%	3.0	4.1	Other		2.3	2.7
Bayerische Motoren Werke AG	0.04%	9.9	9.9			4 219.6	5 701.6

31 Dec. 2005	Shares %	Book value € million	Fair value € million		Book value € million	Fair value € million
UNLISTED EQUITIES						
Finland						
Ahlstrom Corporation	3.89%	19.6	23.9	CAPITAL TRUSTS		
Ahlström Capital Oy	6.51%	8.4	11.7	Abingworth Bioventures III B L.P.	7.0	7.0
Arek Oy	18.00%	1.3	1.3	Access Capital Fund LP II A	6.1	6.2
Fingrid Oyj	12.18%	13.6	13.6	Access Capital Fund LP II B	4.8	4.9
Inion Oy	1.31%	0.8	0.8	Access Capital Fund LP II C	15.2	16.3
Ipsat Therapies Oy	13.73%	1.7	2.0	Access Capital LP	3.7	3.7
Kaleva Mutual Insurance Company *)	30.00%	2.6	2.6	Alpha Private Equity Fund 4 CI LP	13.0	18.3
Kytäjä Golf Oy	3.75%	1.2	1.2	Behrman Capital III L.P.	19.5	19.5
Metsä Tissue Corporation	9.86%	15.5	15.5	Bio Fund Ventures II		
Talvivaara Mining Company	4.12%	0.7	0.7	Jatkosijoitusrahasto Ky	1.6	1.7
Tornator Timberland Oy	13.13%	10.5	10.5	Bio Fund Ventures II Ky	2.2	2.2
Garantia Insurance Company	17.73%	7.5	7.5	Bio Fund Ventures I		
Winwind Oy	11.09%	2.6	2.6	Jatkosijoitusrahasto Ky	0.8	0.8
Vivoxid Oy	10.70%	1.0	1.0	Bio Fund Ventures I Ky	0.7	0.7
Sato-Yhtymä Oyj	11.86%	17.2	17.2	Blackstone Capital Partners IV LP	25.2	38.6
VVO-Yhtymä Oyj	9.91%	12.1	12.1	Blackstone Chemical Coinvest Partns Cayman LP (Celanese AG)	1.0	4.3
YH-Yhtymä Länsi Oy	6.56%	0.4	0.9	Blackstone Health Comm Partners A LP (Vanguard Health Systems Inc)	2.4	2.5
Hong Kong						
China Gas Holdings Ltd	1.52%	4.8	6.3	Blackstone Mezzanine Partners II L.P.	0.7	0.7
United Kingdom						
Nordben Life and Pension (Kanta-)	0.15%	0.8	0.8	BlueRun Ventures, L.P.	1.8	1.9
Nordben Life and Pension (Etu-)	9.85%	0.6	0.6	CapMan Buyout VIII Fund A LP	0.1	0.1
Luxemburg						
Wilde International S.A.	4.22%	5.0	5.0	CapMan Equity VII B	4.0	4.3
Other		1.7	37.4	CVC European Equity Partners IV (C) LP	1.7	1.7
		129.4	175.2	Electra European Fund II L.P.	3.4	3.4
				EQT II B.V.	4.4	4.4
				EQT III ISS Limited Partnership	10.0	10.0
FIXED INCOME FUNDS				EQT III UK No. 1	36.1	41.0
Mandatum Euro High Yield K		49.8	49.8	EQT IV (No. 1) Limited Partnership	13.7	13.7
Mandatum Euro Yrityslaina K		50.0	50.0	EQT IV Sanitec Co-investment Limited Partnership	7.3	7.3
Sampo Yhteisökorke Tuotto		140.2	140.9			
		240.1	240.8	Eqvitec Technology Fund II Ky	5.1	5.1
EQUITIES FUNDS						
ABN Amro Latin America Equity Fund		13.8	36.0	Fenno Rahasto Ky	3.6	3.6
Blakeney Investors Fund		16.2	27.9	Finnmezzanine Rahasto I	1.1	1.1
CAF Thailand Institutional Fund		20.9	22.2	Finnventure rahasto III	0.5	0.6
Carnegie Biotechnology		9.3	9.3	Finnventure rahasto V Ky	3.6	7.0
Carnegie Global Healthcare		29.6	46.7	Forenia Venture I Ky	0.2	0.2
CDC Hong Kong Renaissance class C		8.0	9.5	Gilde Buy-Out Fund II SV-capital	6.9	10.6
East Capital Balkan Fund		4.8	9.3	Green Equity Investors IV LP	5.1	5.5
East Capital Eastern European Fund		3.2	10.2	Helmet SME Ventures II G Ky	1.4	1.4
East Capital Russian Fund		13.4	34.5	Helmet SME Ventures Ky	0.7	1.8
eQ Sirius A Erikoissijoitusrahasto		10.0	13.8	Industrial Devel. & Inv. Equity KB	0.4	0.6
eQ Superosakkeet A		15.0	15.2	Industri Kapital 1994 LP I-IV	1.6	4.2
FIM Japan		35.3	47.3	Industri Kapital 1997 LP I,IV	16.1	16.1
FIM Russia osakerahasto kasvu		15.9	37.5	Industri Kapital 2000 LP I-IV	19.4	22.4
FIM Russia Small Cap		10.0	10.7	Industri Kapital 2004 (ent. 2003) LP I	9.6	9.6
HSBC GIF Indian Equity I Cap		10.6	26.9	Kelso GB VII, L.P.	10.8	12.5
IXIS AMA Greater China Renaissance		15.9	16.6	MB Equity Fund II	3.4	10.0
JPMorgan Fleming Japan Equity Fund A		100.0	118.3	MB Equity Fund III	4.9	21.8
Mandatum Emerging Asia Kasvu		92.0	131.9	MBK Partners, L.P.	0.4	0.4
Mandatum Latin America Kasvu		30.1	40.9	MB Mezzanine Fund II	1.3	2.5
Mandatum Mustameri Kasvu		10.0	15.4	Merlin Biosciences Fund LP	2.7	2.7
Mandatum Poland Kasvu		10.0	12.7	Nokia Venture Partners II LP	9.2	9.2
Mandatum US Small Cap Value Kasvu		41.3	60.2	Nordic Mezzanine Fund II Limited Partners	1.1	2.1
Martin Currie GF Greater China Fund		16.1	17.2	Nordic Mezzanine Limited	0.0	1.1
Martin Currie GF-Japan Mid-Cap Fund		97.7	146.4	Permira Europe III LP2	13.2	14.4
Ocean Equities Japan Target II BC		25.0	26.9	Permira Europe II LP 2	7.2	7.4
TOPIX ETF Exchange Traded Fund		48.8	64.1	Platinum Equity Capital Partners, L.P.	3.9	8.3
Trigon Central and Eastern European Fund B		10.0	13.9	Power Fund I Ky	0.8	0.8
Trigon New Europe Small Cap Fund		10.0	10.9	Promotion Capital I Ky	0.3	0.3
Trigon Second Wave Fund		10.0	14.0	Sponsor Fund II Ky	4.6	9.8
UBS Small Cap Growth (Lux)		43.6	61.2	Sponsor Fund I Ky	0.7	0.7
APS China A Share Fund		20.3	23.8	SunGard Capital Corporation	5.7	6.0
East Capital Bering Fund		4.1	12.5	SunGard Capital Corporation II	2.2	2.3
Hermes European Focus Fund I		20.0	40.9	Warburg Pincus Private Equity IX, L.P.	15.1	15.4
The Dog Fund		24.5	25.7	Warburg Pincus Private Equity VIII, L.P.	45.0	56.3
		845.5	1 210.0	WD Power Investment	0.9	0.9
					395.6	490.4

*) Share of guarantee capital and votes based on guarantee capital.

Notes to the Balance Sheet

31 Dec. 2005	Book value € million	Fair value € million		Book value € million	Fair value € million
HEDGE FUNDS					
Blackstone Fifth Avenue Offshore Fund Ltd Class A	80.5	92.1	Kaleva Mutual Insurance Company		
Endeavour Fund III Ltd	30.0	30.8	(guarantee capital)	3.3	3.3
Ferox Fund Ltd Class C EUR	9.0	9.0	Ruohoparkki Oy	3.5	3.5
Golden Tree High Yield Fund Ltd	49.0	52.4	Martinparkki Oy	2.4	2.4
New Star Accelerator Hedge Fund Limited	7.5	8.3	Poha-Pysäköinti Oy	1.4	1.4
OZ Oveaseas Fund Ltd	36.0	41.9	Vaasan Toripysäköinti Oy	3.2	3.2
Raphael II Ltd	11.5	12.3	Other	1.8	1.8
UBS Global Equity Arbitrage Ltd Class A Ser. 1	8.5	9.4			
AQR Absolute Return Offshore Fund Ltd	36.9	41.5	Group Total	6 993.6	9 102.9
Atticus European, Ltd	50.0	61.5			
Blackstone Distressed Debt Offshore Fund Ltd	4.1	4.3			
Blackstone Global Park Avenue Fund Ltd	103.3	120.3			
Blackstone Market Opportunities Offshore-Fund SPC	65.2	71.0			
Blackstone Pacific Opportunities Fund Ltd	42.2	42.4			
Blackstone Strategic Equity Offshore Fund Ltd Class A1	88.1	96.6			
BlueCrest Capital International Limited Class F	23.9	26.4			
Bridgewater Pure Alpha Funds Ltd Class B Ord. Non Voting SHS Ser. IV	15.1	16.9			
Bridgewater TAA Total	98.4	103.5			
Cycladic Catalyst Fund Class A	10.0	10.4			
DKR Quantitative Fund Ltd	9.1	10.6			
er Umbrella Fund Ltd					
Class 1 er Multi-Core	10.0	10.5			
Fir Tree International Value Fund Ltd	26.7	30.8			
Glenview Capital Partners (Cayman) Ltd Class A Series 12	19.7	26.0			
Golden Tree MultiStrategy, Ltd	21.2	21.4			
GSO Special Situations Overseas Fund Ltd	16.5	17.0			
HBK Offshore Fund Ltd	42.4	42.4			
Helios 2xL (Bermuda) Ltd	20.0	21.2			
Mariner Credit Risk Advisors Relative Value Offshore Fund Ltd	3.9	4.3			
Nordea European Equity Hedge	10.0	10.0			
Pendragon (Merlin Class AA) Fund Limited	19.8	23.1			
Reservoir Capital Overseas Partners II L.P.	1.6	1.7			
Scout Capital Fund Ltd	40.4	45.9			
Seneca Capital International, Ltd Class 2 Ser. E	28.1	31.5			
York Investment Limited Class A/1	36.9	43.4			
	1 075.4	1 191.5			
REAL ESTATE FUNDS					
Apollo European Real Estate Fund II (Euro) L.P.	2.4	2.4			
Blackacre Institutional Partners, L.P.	13.3	14.7			
CapMan Real Estate I Ky	1.5	1.5			
CIT Real Estate L.P.	10.1	10.2			
Fairfield Aerium International S.C.A Class B	20.0	20.0			
Five Mile Capital Partners LLC	5.1	5.6			
	52.5	54.4			
COMMODITIES FUNDS					
Pohjola Raaka-aine B	10.0	11.3			
OTHER SHARES					
Dow Jones STOXX 600 Healthcare ex Etf	10.0	12.2			
Parent Company Total	6 978.1	9 087.4			

Group shareholdings deviate from the Parent Company as follows:

Changes in tangible and intangible assets, Parent Company

31 Dec. 2005, € million	Other expenses with long-term effects	Equipment	Other tangible assets	Total
Acquisition cost, 1 Jan.	2.4	10.1	0.5	13.0
Completely depreciated in the previous year	-1.0	-1.1		-2.2
Increase	0.2	1.3	0.0	1.5
Decrease		-0.5		-0.5
Acquisition cost, 31 Dec.	1.6	9.8	0.6	11.9
Accrued depreciation, 1 Jan.	-1.8	-5.6		-7.4
Completely depreciated in the previous year	1.0	1.1		2.2
Depreciations for the financial year	-0.3	-1.2		-1.5
Accrued depreciation, 31 Dec.	-1.1	-5.6		-6.7
Book value 31 Dec.	0.5	4.2	0.6	5.2

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

Loan receivables itemised by guarantee

31 Dec. 2005, € million	PARENT COMPANY		GROUP	
	2005	2004	2005	2004
Bank guarantee	312.1	369.3	312.1	369.3
Guarantee insurance	314.1	426.7	314.1	426.7
Other guarantees	199.8	94.4	199.8	94.4
Total	826.0	890.3	826.0	890.3

Total pension loan receivables

Loans to associated undertakings	0.6	0.7	0.6	0.7
Other loans guaranteed by mortgages	72.2	138.9	72.2	138.9
Other loan receivables	483.5	674.7	483.5	674.7
Total	556.2	814.3	556.2	814.3

Receivables, portfolio transfers

Joint liability receivables		4.6		4.6
Receivables from special receivership's estate		13.7		13.7
Total		18.4		18.4

Loans to associated undertakings

Other loans	1.0	1.2	1.0	1.2
-------------	------------	-----	------------	-----

Notes to the Financial Statements

Notes to the Balance Sheet

31 Dec. 2005, € million	PARENT COMPANY		GROUP	
	2005	2004	2005	2004
Technical provisions				
Premium reserve				
Future pensions	12 223.4	11 119.3	12 223.4	11 119.3
Unallocated insurance reserve	2 640.1	2 482.6	2 640.1	2 482.6
Bonus reserve	84.8	51.0	84.8	51.0
Total premium reserve	14 948.3	13 652.8	14 948.3	13 652.8
Claims reserve				
Current pensions	5 928.9	5 468.8	5 928.9	5 468.8
Equalisation amount	947.0	906.9	947.0	906.9
Total claims reserve	6 875.8	6 375.7	6 875.8	6 375.7
Total technical provisions	21 824.1	20 028.5	21 824.1	20 028.5

31 Dec. 2005, € million	PARENT COMPANY	
	2005	2004

Additional benefits of statutory pension insurance

Bonus reserve, 1 Jan.	51.0	35.6
Client bonuses paid during financial year	-50.1	-35.7
Transfer to bonus reserve	84.0	51.0
Bonus reserve, 31 Dec.	84.8	51.0

Solvency margin

Capital and reserves	66.4	59.4
Interest on guarantee capital proposed for distribution	-0.7	-0.7
Accrued appropriations	0.4	0.5
Valuation difference between fair values on assets and book values of Balance Sheet items	2 903.5	1 462.5
Unallocated insurance reserve	2 640.1	2 482.6
Intangible assets	-0.5	-0.6
Other items	-9.9	-17.3
	5 599.2	3 986.3

Minimum solvency margin required under the Act on Employment Pension Insurance Companies, Section 17	1 531.9	1 112.3
---	----------------	---------

Notes to the Financial Statements

Notes to the Balance Sheet

Capital and reserves, Parent Company

31 Dec. 2005, € million

	Guarantee capital	Security reserve	Profit brought forward	Total
31 Dec. 2004	11.9	40.3	7.2	59.3
Security reserve		6.3	-6.3	
Distributed interest on guarantee capital			-0.7	-0.7
The Board of Directors' expense account			-0.0	-0.0
Profit/loss for the financial year			7.8	7.8
31 Dec. 2005	11.9	46.6	7.9	66.4

Guarantee capital

31 Dec. 2005, € million

	Number	Nominal value	Book value
Sampo Life Insurance Company Limited	14	2.4	2.4
Sampo Plc	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
Policyholders	53.7
Total	66.4

Distributable funds

Profit for financial year		7.8
Other capital and reserves		
Other reserves	46.6	
Loss brought forward	0.1	46.7
Total distributable funds		54.5

Capital and reserves, Group

31 Dec. 2005, € million

	Guarantee capital	Security reserve	Profit brought forward	Total
31 Dec. 2004	11.9	40.3	-24.1	28.1
Security reserve		6.3	6.3	
Distributed interest on guarantee capital			-0.7	-0.7
The Board of Directors' expense account			-0.0	-0.0
Profit/loss for the financial year			-5.0	-5.0
31 Dec. 2005	11.9	46.6	-36.2	22.3

Guarantee capital

31 Dec. 2005, € million

	Number	Nominal value	Book value
Sampo Life Insurance Company Limited	14	24.0	24.0
Sampo Plc	57	96.0	96.0

Distributable funds

Loss for financial year		-5.0	
Other capital and reserves			
Other reserves	46.6		
Loss brought forward	-31.1	15.4	
Accrued appropriations		-9.4	
Total distributable funds		1.0	

Notes to the Financial Statements

Notes to the Balance Sheet

Parent Company's liabilities

31 Dec., € million 2005 2004

Derivative contracts

Interest rate derivatives

Open

Forward and futures contracts	Underlying instrument, nominal value	1 400.0	1 587.3
	Fair value	-13.7	-11.8

Options contracts

Exercised	Underlying instrument	15.0	15.0
	Fair value	-0.0	-0.0

Interest rate swap contracts	Underlying instrument, nominal value	505.0	
	Fair value	-0.3	

Currency derivatives

Open

Currency futures contracts	Underlying instrument	590.8	1 384.6
	Fair value	-5.7	31.6

Options contracts

Exercised	Underlying instrument	1 183.0	988.9
	Fair value	-3.0	19.5

Taken out	Underlying instrument	2 284.1	1 977.8
	Fair value	1.5	-6.1

Currency swap contracts	Underlying instrument	2 275.1	
	Fair value	3.1	

Equities derivatives

Open

Forward and futures contracts	Underlying instrument	54.0	49.3
	Fair value	1.8	-0.5

Options contracts

Exercised	Underlying instrument, value of warrants		41.5
	Fair value of warrants		0.2

Taken out	Underlying instrument	7.5	108.3
	Fair value	-0.0	-0.2

Total	Underlying instrument	8 314.4	6 152.7
	Fair value	-16.4	32.7

Currency futures contracts and interest forward and futures contracts are considered as hedging. Fair values of interest rate and equities options and futures contracts are based on market rates. The fair values of other derivative contracts are based on generally known models.

Parent Company's liabilities

31 Dec., € million	2005	2004
Investment commitments		
Commitments to subscribe to shares in capital trusts	740.4	392.2
Guarantees given on own behalf		
Pledged book assets	23.2	27.4
Value-added tax deductions		
Deduction from new buildings and renovation of real estates in 2001–2005/2000–2004	9.4	7.5
Total amount associated with collective registration for value-added taxation		
Associated undertakings	4.3	4.6
Other	-0.0	1.0
	4.3	5.6

Loaned securities

Equities

Number	54 430 666	54 546 955
Remaining acquisition cost	405.0	416.3
Fair value	517.0	463.0

Bonds

Nominal value	1 936.9	1 291.9
Remaining acquisition cost	2 000.3	1 315.3
Fair value	2 152.9	1 419.8

Loaned securities are mainly foreign items.

All loans can be cancelled at any time and they have been secured by a guarantee.

Notes to the Financial Statements

Balance Sheet and Income Statement at fair values

The financial statements of an earnings-related pension insurance company are regulated by the Finnish Act on Employment Pension Insurance Companies, the Insurance Companies Act, the Accounting Act and the Companies Act, the statute of the Ministry of Social Affairs and Health concerning the financial statements and consolidated financial statements of insurance companies, and furthermore by 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 shown 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 date of the closing of 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 become 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 status. The Notes to the Financial Statements give an idea of the parent company's financial situation. The net result in the profit and loss account of the parent company at €8 million (2004 €7 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 Financial Statements 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 a significant amount, which acts as a result buffer and increases solvency, the bonus reserve, and the equalisation provision under the Insurance Companies Act for years where a large number of losses are sustained. The main components of the solvency margin, which 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 Financial

Statements. 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, earnings-related pension insurance companies have not been able to utilise in full, for example tax credits relating to dividends. For Varma, this sum amounted to around €165 million at year-end 2005. In an earnings-related pension insurance company, the significance of the consolidated financial statements has mainly consisted in limiting the interest paid on the guarantee capital.

In the Notes to the Financial Statements, returns on investment at fair values is compared to the interest credited 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 financial statements information, Varma's parent company's balance sheet and income statement 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 in outline comply with the IFRS standards, however, in such a way that they have not been calculated for the Group.

The accounting and financial statements 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 to tax legislation have been specified in detail.

Varma's result for 2005 stood at €1 681 million (€878 million), the balance sheet total was €24 992 million (€21 689 million), and the solvency margin €5 599 million (€3 986 million).

Balance Sheet at fair value (parent company)

31 Dec., € million	2005	2004	2003	2002
Assets				
Investments	24 621	21 233	19 459	17 782
Uncovered liabilities	366	451	390	374
Fixtures	5	5	6	6
	24 992	21 689	19 855	18 162
Liabilities				
Capital and reserves	66	59	53	48
Depreciation difference	0	0	3	4
Valuation differences	2 903	1 462	859	678
Unallocated insurance reserve	2 640	2 483	2 311	1 684
Items included in solvency margin	5 610	4 005	3 226	2 414
Bonus reserve	85	51	36	30
Equalisation provision	947	907	860	798
Technical provisions	18 152	16 588	15 605	14 828
Technical provisions excluding bonus reserve and unallocated insurance reserve	19 099	17 495	16 465	15 626
Other creditors	197	138	128	92
	24 992	21 689	19 855	18 162

Income statement at fair value (parent company)

1 Jan.–31 Dec., € million	2005	2004	2003	2002
Premiums written	2 764	2 615	2 455	2 406
Claims paid	-2 401	-2 277	-2 182	-2 092
Change in technical provisions	-1 096	-946	-747	-933
Net investment income	2 514	1 596	1 473	347
Total operating expenses	-84	-78	-75	-71
Other expenses	-12	-11	-11	-17
Taxes	-3	-20	-3	-3
Total result *	1 681	878	910	-363

* Profit at fair value before change in bonus reserve, unallocated insurance reserve and equalisation provision, used mainly to strengthen solvency.

Notes to the Financial Statements

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 ensure matters such as: 1) achievement of the goals and objectives set, 2) economical and efficient use of resources, 3) sufficient management of operations-related risks, 4) reliability and correctness of financial and other management information, 5) compliance with laws and regulations, and 6) compliance with the decisions of the Board and other bodies and with internal rules, regulations and practices. Risk management is an element of internal control.

Risk management – organising, responsibilities, supervising and reporting

The Board of Directors annually approves a risk management plan 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 Managing Director supervises the company's risks in compliance with the principles defined in the risk management plan and the investment plan, both confirmed by the Board of Directors.

Risk supervision (e.g. the principles followed in risk management, assigning 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, supervision of legislative compliance) is the responsibility of the Executive Group (until 15 June 2005 the responsibility of the Risk Management Committee). The Executive Group steers and monitors risk management and supervision in the company. It reports on its activities to the Audit Committee of the Board of Directors/ to the Board of Directors every six months. Should the matter in question call for it, line managers are obliged to report directly to the Board of Directors.

The appropriate manager takes responsibility for their area of responsibility. Each manager must arrange appropriate risk management, and ensure compliance with legislation and regulations, the decisions of the Board and other bodies, authorities' stipulations and internal guidelines. Each department is in turn responsible for ensuring adherence to verified strategies, plans, internal rules, and the decisions of the Board and other bodies. Risk limits and the indicators used are defined separately for each function. Each function is responsible for the supervision of outsourced operations in their area of responsibility.

The function responsible for preparing and implementing investment decisions (Investment Operations) and the supervisory and reporting function (Financial Administration and Actuaries) have been separated. The supervisory function measures in-

vestment risks, draws up scenario and sensitivity analyses related to the result and solvency based on those risks, and furthermore supervises compliance with the risk limits and authorisations defined by the Board of Directors for the investment allocation and for different types of investment. The company's result and solvency position are calculated weekly, and more frequently if necessary. The risk supervisory function monitors among other things diversification of the investment portfolio, market risk, credit risk, liquidity risk, and the model risk relating to risk measurement, taking into account issues relating both to financing theory and to the nature of the statutory earnings-related pension scheme and the regulations pertaining to it. Risk management develops applications for such matters as the integration of assets and liabilities, stochastic models, and the development of solvency regulations.

In addition to internal reporting, the Board of Directors receives, to the extent required by the operating procedures, monthly reports on investment allocation, return on investment and investment risks, solvency position, and result and goals monitoring. Besides these, margin, derivative and foreign exchange positions, risk concentrations, the exercise of decision-making authorities and risk limit monitoring are reported to the Board of Directors quarterly. More detailed reports by asset class on the development of investments and a review on the company's operational activities are also submitted to the Board of Directors quarterly. 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 proportion corresponding to the risks inherent in operations. Risks relating to the company's operations are identified, assessed, limited and supervised, taking a long perspective. Risk management ensures that the realisation of investment, information, interruption, personnel or other risks will not incur significant financial loss, endanger the continuity of operations or jeopardise trust in the company. Varma applies efficient and reliable operating processes.

Administrative costs are borne in proportion to the related risk. Varma follows appropriate procedures in its organisation, in dealing with co-operation parties and in client acquisition. In order to manage the risks, the company emphasises careful preparation of decisions, use of experts, risk insurance, job responsibilities and approval routines, decentralisation of functions and tasks, physical control, data protection and security, personnel training, an 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 allowed to deal with a single matter throughout the handling chain, but potentially dangerous combinations have nevertheless

been separated. Actions are subject to independent supervision and approval mechanisms. Personnel are not allowed to participate in the preparation of or decision-making on 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, are carried out by each department; and if required, together with other departments. The company organises its operations in such a way that a loss of work input by key employees will not paralyse its operations.

Varma's new planning process, with its strategy maps and the balanced scorecard system, also contributes to supporting the company's risk management.

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 to outsourcing.

Risks related to insurance operations, technical provisions and the covering of these risks

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, which is covered by 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. The equalisation provision included in the technical provisions acts as a buffer for the insurance business and is the joint responsibility of all the pension institutions. The clearing system is built up so as to eliminate the impacts resulting from the varying trends of the pension insurance institutions' active insurance portfolios. Thus the cost of the pooled components presents no risk for the individual pension institution. 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 by the State's contribution, and thus these pensions do not present a risk for the individual pension institution, either.

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 ben-

efits are secured for the insured and pensioners by a statutory joint and several liability for bankruptcy concerning 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. The calculation bases include issues such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rate. According to the Employees' Pensions Act TEL, the calculation bases must be dimensioned in such a way as to be secure, 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 structure of Varma's technical provisions on 31 December 2004 was as follows:

	€ million	%
TEL basic insurance		
Future old-age pension liabilities	10 655	53.1%
Current old-age pension liabilities	2 162	10.8%
Current disability pension liabilities	1 621	8.1%
Current unemployment pension liabilities	544	2.7%
Equalisation provision	859	4.3%
Clearing reserve	1 045	5.2%
Bonus reserve	51	0.3%
Unallocated insurance reserve	2 483	12.4%
Total	19 419	96.8%
TEL additional pension insurance, total	615	3.1%
YEL basic pension insurance, total	20	0.1%
YEL additional pension insurance, total	3	0.0%

Total technical provisions 20 057 100.0%

The structure of the equalisation provision of TEL basic insurance on 31 December 2004 was as follows:

	€ million	%
Old-age pension component	14	1.6%
Disability pension component	593	69.0%
Unemployment pension component	111	12.9%
Contribution loss component	141	16.4%
Total	859	100.0%
Lower limit	131	
Upper limit	1 314	

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 pensions that are the responsibility of the company. Because common calculation bases can be changed annually, and the clearing system acts as a 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. As a measure to prepare for possible fluctuations in the annual result of insurance business, there is an equalisation provision, which has a lower and upper limit determined according to risk theory. Technical provisions are calculated per person and insurance during the spring following the financial year in a so-called annual calculation, after employers have provided the required earnings data. The Finnish Centre for Pensions carries out the clearing in the autumn following the financial year. The calculation of the technical provisions in the Financial Statements is based on estimates.

Neither the age structure of the employees insured by Varma nor the employers' size or lines of business deviate significantly from the average for all earnings-related pension institutions in terms of the risk they present, and the company's equalisation provision is in fact slightly higher than the average. Thus Varma carries no risk relating to an atypical insurance portfolio.

In the risk management of insurance business insurance technique analyses are applied. Insurance risks are analysed using e.g. risk assumption analysis (mortality, disability intensity), business result analysis (insurance technique, distribution of responsibility), and, for example, when compiling statistics for contribution losses and disability expenditure. In drawing up the financial statements, in particular the estimate of the insured's payroll may deviate from the final sum. This is reflected in the company's premium income and the amount of technical provisions, but hardly affects the company's result.

The risks involved in the assets covering technical provisions, i.e. primarily investment risks, are provided for by the solvency margin, whose amount is monitored in relation to the technical provisions and the limits calculated on the basis of investment allocation and other limits. Varma's solvency margin on 31 December 2005 stood at €5 599 million (29.2% of the technical provisions) and the solvency limit at €2 298 million (12.0% of the technical provisions), which means that the ratio of the solvency margin to the solvency limit was 2.4. The development of the investment risk is tracked using methods such as various calculation models, a margin calculation system, maximum risk level measurement, solvency scenarios and VaR analyses. Operations handle security, yield, liquidity and the diversification of assets. Assets covering technical provisions amounted on 31 December 2005 to 114% 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 diminishment of trust in the company caused either by the company's internal processes or by 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 abuses concerning e.g. insurance or claims handling, reporting, monetary transactions, register details, data processing, distribution of work, operations of co-operation parties, or documentation.

The operational risks were mapped, for the fifth year in succession, by department, in co-operation with Financial Administration. The significance of the impacts and the probability of realisation of identified risks were assessed risk by risk on a scale of 1–5, taking into account any preliminary measures taken to limit them. The risks identified were compiled to form a risk map, where risks were classified in three groups (green = not significant, yellow = fairly significant, red = significant) on the basis of an overall evaluation of the department/function, according to the extent to which they, if realised, would present a threat to Varma's achievement of its success factors and the goals approved by the Board of Directors. A continuation plan is drawn up as considered necessary by line management for the functions that are subject to significant risks, marked in red on the risk map. The analysis of the risks in the yellow area emphasises the importance of the risk for Varma's achievement of its goals, and the cost/benefit ratio.

Risks affecting the earnings-related pension system were also mapped. Strategic risks and questions arising in these risk management surveys are dealt with in conjunction with continuous operations planning.

The company has published internal guidelines relating 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 an obligation to be prepared to maintain the operations necessary for the functioning of the financial markets and the insurance business, even in exceptional circumstances.

Investment risks

Market risk is the fluctuation of the value of investment objects. The greatest market risk is that involved in 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 into cash at all or can only be converted at a major loss. The model risk is constituted by the risks involved in risk measurement. In measurement it is necessary to make assumptions and simplifications concerning calculation methods and calculation materials, which may deviate from reality.

The investment plan confirmed by the Board of Directors defines, among other things, 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 defining 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 ratio. Furthermore, Varma takes into account the corporate responsibility principles of investment allocation, and the share ownership principles in which, among other factors, 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 affecting the result and solvency. The VaR (Value-at-Risk) figure, which measures the total risk of Varma's investments, stood at €498 million (€315 million) at year-end 2005. 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 relating to investments is adjusted to 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 the 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, for example 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, by applying a sufficient and on-time supervision and follow-up system, and by minimising counter-party risks. Furthermore, Varma monitors such factors as the duration, classification and liquidity of investments. In the case of real estate objects, Varma pays special attention to technical and location risks, among others. Derivatives (e.g. interest, equity and currency derivatives) are considered equal with underlying instruments, so derivatives are always monitored in tandem with the investments on which they are based.

Varma aims to maximise the yield expectation at the selected total risk level, in which case investments will have optimum profitability 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 over 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 the allocation are defined in the investment plan, which 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.

Sensitivity analysis of the investment portfolio

	Value 31 Dec. 2005		Effect	
		Share prices -30%	Interest rates +1 percentage	Real estate values -10%
Solvency margin	€5 599 mill.	€3 204 mill.	€5 116 mill.	€5 315 mill.
% of technical provisions	29.2%	16.7%	26.7%	27.7%
proportioned to the solvency limit	2.4 times	1.7 times.	2.2 times	2.3 times
Return on investment, %	11.6%	2.7%	8.3%	10.2%

The table above describes how the yield and solvency figures in the financial statements 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 defined 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 achieving its goals by producing assessments and

development proposals concerning the status of risk management and other internal controls. The organisational position, task areas, responsibility and authority of internal audit have been defined in the instructions approved by the Board of Directors. The objects of audit are defined in the audit plan drawn up annually, which is approved by the Board of Directors after it has been heard by 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.

Notes to the Financial Statements

Key Figures and Analyses

Summary

	2005	2004	2003	2002	2001
Premiums written, € million	2 763.9	2 614.8	2 454.7	2 406.0	2 404.2
Pension payments, € million ¹⁾	2 400.8	2 277.3	2 182.1	2 092.4	1 948.1
Net investment income at fair values, € million	2 498.8	1 565.7	1 460.8	339.6	173.1
Yield on invested capital, %	11.6	8.0	8.1	1.9	1.0
Turnover, € million	3 834.5	3 604.5	3 749.3	2 839.9	3 061.1
Total operating costs, € million	83.9	78.3	74.9	70.8	68.6
of turnover, %	2.2	2.2	2.0	2.5	2.2
Total operating costs excluding costs for working capacity maintenance and costs of investment operations	70.7	66.4	64.2	59.1	58.6
of TEL and YEL payroll, %	0.5	0.5	0.6	0.5	0.5
Total result, € million	1 681.0	877.9	909.8	-363.4	-502.8
Technical provisions, € million	21 824.1	20 028.5	18 811.9	17 340.3	16 686.2
Solvency margin, € million	5 599.3	3 986.3	3 193.4	2 409.2	2 844.0
of technical provisions, % ²⁾	29.2	22.8	19.4	15.5	19.5
in relation to solvency limit	2.4	2.4	2.1	2.1	2.4
Equalisation reserve, € million	947.0	906.9	860.3	797.6	760.9
Pension assets, € million ³⁾	24 727.6	21 491.0	19 670.6	18 014.7	17 445.4
Transfer to client bonuses of TEL payroll, %	0.7	0.4	0.3	0.2	0.4
TEL payroll, € million	12 275.4	11 784.2	11 045.7	10 852.3	10 695.9
YEL payroll, € million	620.0	597.7	579.0	566.5	546.9
TEL policies	25 200	25 600	25 300	25 900	26 000
TEL insured persons	408 600	406 400	393 000	398 500	401 500
YEL policies	36 700	36 300	36 000	36 300	36 300
Pensioners	293 000	285 600	284 000	279 000	272 000

1) Claims paid in Profit and Loss Account excluding costs for operations relating to compensations and working capacity maintenance

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

3) Technical provisions + valuation differences

Performance analysis

31 Dec., € million	2005	2004	2003	2002	2001
Sources of profit					
Insurance business surplus	42.8	52.7	70.2	38.2	47.4
Investment surplus at fair values	1 614.6	802.6	820.4	-418.0	-566.2
+ Net investment income at fair values ¹⁾	2 507.0	1 575.9	1 460.0	337.5	188.0
- Required return on technical reserves	-892.4	-773.3	-639.6	-755.6	-754.2
Loading profit	23.5	22.5	19.1	16.4	16.0
Total result	1 681.0	877.9	909.8	-363.4	-502.8
Distribution of profit					
To increase solvency	1 597.0	826.9	874.8	-398.3	-544.9
Equalisation reserve	40.1	46.5	62.7	36.7	41.0
Solvency margin	1 556.9	780.3	812.1	-435.0	-585.9
Change in unallocated insurance reserve	108.1	171.9	626.8	-355.1	-115.1
Change in valuation difference	1 441.0	603.9	180.4	-84.8	-464.0
Change in accrued appropriations	0.0	-2,6	-0,5	-0,5	-12.2
Profit for the financial year	7.8	7.1	5.4	5.5	5.4
Transfer to client bonuses	84.0	51.0	35.0	26.0	42.1
Transfer to bonus reserve ²⁾	0.0	0.0	0.0	8.9	0.0
Total	1 681.0	877.9	909.8	-363.4	-502.8

1) Includes items in the Profit and Loss Account not entered in investment income

2) On 31 Dec. 2004, the supplementary transfer of bonus reserve had been completely amortised.

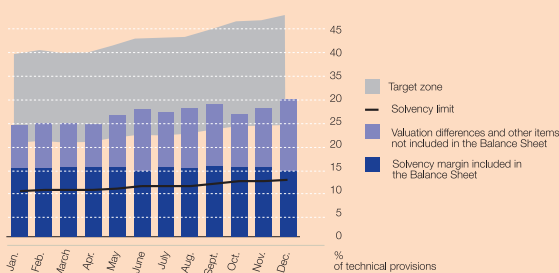
Solvency

Solvency margin and its limits

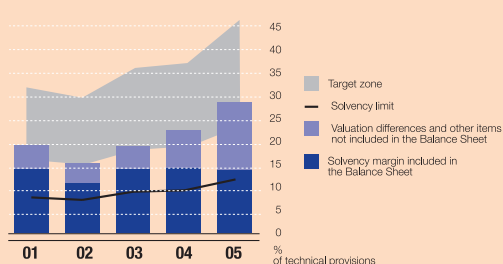
(in relation to technical provisions used in calculating the solvency limit)

	2005	2004	2003	2002	2001
Solvency limit	12.0	9.5	9.2	7.5	8.0
Lower limit of the target zone	24.0	19.1	18.4	14.9	16.1
Upper limit of the target zone	48.0	38.1	36.8	29.8	32.1
Solvency margin	29.2	22.8	19.4	15.5	19.5

Solvency margin 2005



Solvency margin 2001-2005



Notes to the Financial Statements

Investment allocation at fair values

	2005		2004		2003		2002		2001	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Loans ¹⁾	953.7	3.9	1 089.5	5.1	1 222.1	6.3	1 266.3	7.1	1 417.6	8.3
Bonds ^{1) 2)}	11 569.9	47.0	11 240.9	52.9	10 891.0	56.0	10 826.4	60.8	9 888.4	57.7
* includes fixed-income funds	240.8		140.6							
Other money-market instruments and deposits ^{1) 2) 3)}	619.9	2.5	838.3	3.9	142.5	0.7	178.9	1.0	255.9	1.5
Equities and shares	8 761.4	35.6	5 476.5	25.8	4 683.2	24.1	3 028.5	17.0	3 283.8	19.1
Real estate ⁴⁾	2 715.9	11.0	2 587.2	12.2	2 520.1	13.0	2 519.9	14.1	2 305.1	13.4
* includes investment trusts and undertakings for collective investment in transferable securities (UCITS)	54.4		14.7							
Total investments	24 620.8	100.0	21 232.6	100.0	19 459.0	100.0	17 820.1	100.0	17 150.8	100.0

Modified duration of the bond portfolio

4.26

1) Accrued interest included.

2) Of fixed-income funds, long-term funds are included in bonds and short-term funds in other money-market instruments.

3) Includes deposits included in the investments in the Balance Sheet.

4) Includes shares in investment trusts and investments in comparable UCITS funds investing in real estate and real estate communities.

Investment yield specification and surplus

€ million	2005	2004	2003	2002	2001
Direct income	885.8	948.0	795.1	795.3	805.1
Loans	43.4	55.6	56.0	63.1	65.2
Bonds	479.8	476.7	505.3	514.6	488.8
Other money-market instruments and deposits	12.0	10.3	6.0	15.2	13.8
Equities and shares	208.3	294.3	119.9	93.7	115.3
Real estate	153.7	132.0	123.1	116.2	112.8
Unallocated costs and operating expenses from investment activities	-11.3	-20.8	-15.2	-7.4	9.1
Changes in book value in bookkeeping ¹⁾	172.1	13.7	485.4	-373.0	-153.2
Equities and shares	176.0	254.2	252.3	-467.1	-180.1
Bonds	22.8	-203.4	253.8	109.2	30.2
Real estate	-26.7	-37.1	-20.7	-15.0	-3.2
Net investment income in bookkeeping	1 057.8	961.8	1 280.4	422.3	652.0
Change in valuation differences ²⁾	1 441.0	603.9	180.4	-84.8	-464.0
Equities and shares	1 402.8	306.9	255.1	-346.9	-444.2
Bonds	10.0	263.9	-103.5	216.6	-48.8
Real estate	27.5	33.5	29.6	47.6	29.1
Other investments	0.7	-0.3	-0.8	-2.1	-0.1
Net investment income at fair values	2 498.8	1 565.7	1 460.8	337.5	188.0
Other interest items ³⁾	8.2	10.2	-0.8		
Required return on technical provisions	892.4	773.3	639.6	755.6	754.2
Investment surplus, book value	173.6	198.7	640.0	-333.2	-102.2
Investment surplus, fair value	1 614.6	802.6	820.4	-418.0	-566.2
Share of net investment income accounted for by derivatives ⁴⁾	-309.9	-157.7	161.5	61.1	-22.8

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

2) Changes in book value not included in the Balance Sheet

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

4) Includes currency hedges.

Net investment income at fair values

	Net investment income at fair values ¹⁾ € million 2005	Invested capital ²⁾ € million 2005	Yield on invested capital % 2005	Yield on invested capital, % 2004	Yield on invested capital, % 2003	Yield on invested capital, % 2002	Yield on invested capital, % 2001
Loans	43.4	955.2	4.5	4.8	4.4	4.7	4.8
Bonds ³⁾	512.5	11 385.3	4.5	5.0	6.1	8.7	5.0
* of which fixed-income funds account for	3.0	144.9	2.1				
Other money-market instruments and deposits ³⁾	12.7	643.9	2.0	2.6	3.4	3.4	3.9
Equities and shares	1 787.1	6 082.3	29.4	17.9	19.3	-19.7	-14.0
Real estate ^{4) 5)}	154.4	2 556.7	6.0	5.1 ¹⁾	5.4	6.5	6.4
* of which investment trusts and UCITS funds account for	2.8	32.2	8.8				
Total investments	2 510.2	21 623.3	11.6	8.1	8.2	2.0	1.0
Unallocated costs, expenses and operating expenses from investment activities	-11.3						
Net investment income at fair values	2 498.8	21 623.3	11.6	8.0	8.1	1.9	1.0

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) Includes income from investment trusts and UCITS funds reported as real estate investments.

4) Includes income from fixed-income funds reported as the investments in question

5) Yield in accordance with KTI Index (Institute for Real Estate Economies) 6.2%.

Yield in accordance with KTI Index for investment real estate objects (excluding objects in own use) 6.6%

Loading profit

€ million	2005	2004	2003	2002	2001
Administrative costs of premium	93.6	88.2	82.4	74.6	73.9
Operating expenses by function 1)	-70.7	-66.4	-64.2	-59.0	-58.6
Other income and expenses	0.6	0.7	0.9	0.8	0.7
Loading profit	23.5	22.5	19.1	16.4	16.0
Administrative costs / Administrative costs of premium, %	75	75	77	78	79

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:	€7 786 052.42
to be transferred to the security reserve (optional reserve)	€7 000 000.00
to be paid as interest on guarantee capital	€731 775.30
to be transferred to the Board of Directors' expense account	€50 000.00
to be carried over on the Profit and Loss Account	€4 277.12

Helsinki, 16 February 2006

Jyrki Juusela

Ole Johansson	Mikko Mäenpää	Jouko Ahonen
Markku Jokinen	Erkki Kangasniemi	Birgitta Kantola
Lasse Laatonen	Arto Ojala	Markku Pohjola
Kari O. Sohlberg	Björn Wahroos	Matti Vuoria Managing Director

Auditors' Report

To the owners of Varma Mutual Pension Insurance Company

We have audited the accounting records, Financial Statements, Report of the Board of Directors and administration of Varma Mutual Pension Insurance Company for the financial year from 1 January to 31 December 2005. The Board of Directors and the Managing Director have prepared the Report of the Board of Directors and the Financial Statements, which include the consolidated and parent company Balance Sheets, Profit and Loss Accounts, Statements of Source and Application of Funds, and Notes to the Financial Statements. Based on our audit we express an opinion on the Financial Statements, as well as on the Report of the Board of Directors and on the pension insurance company's administration.

A supervisory auditor's report dated 16 February 2006 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 of whether the Report of the Board of Directors and the Financial Statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the Financial Statements, assessing the overall accounting principles used and significant estimates made by the management as well as evaluating the overall presentation of the Report of the Board of Directors

and the Financial Statements. The purpose of our audit of administration has been to examine that the members of the Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Insurance Companies Act and the Act on Employment Pension Insurance Companies.

In our opinion, the Report of the Board of Directors and the Financial Statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The Report of the Board of Directors and the Financial Statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations as well as of the financial position. The Report of the Board of Directors is consistent with the Financial Statements. The Financial Statements with the Consolidated Financial Statements 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 2006

Mauri Palvi
Authorised Public Accountant

Jaakko Nyman
Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board has received the Financial Statements for Varma Mutual Pension Insurance Company for the financial year 2005, together with the Consolidated Financial 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 Financial Statements, Consolidated Financial 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, 9 March 2006

For the Supervisory Board

Pekka Paasikivi
Chairman of the Supervisory Board

VARMA

*Varma Mutual Pension Insurance Company
Telephone +358 (0)10 515 13
Postal address PO Box 1, FI-00098 VARMA
Visiting address Annankatu 18, Helsinki
Domicile Helsinki, Finland
Business ID 0533297-9*