Annual Report 2006

VARMA

Annual report 2006

Annual General Meeting

Varma Mutual Pension Insurance Company's Annual General Meeting will be held on 22 March 2007 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 every second year and next time in spring 2008. The report is published in Finnish and Swedish.

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

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 about 760,000 people. Premiums written totalled €3.0 billion in 2006 and pension payments stood at €2.9 billion. The value of the company's investment assets stood at €26.9 billion at the end of 2006.

Varma's core function

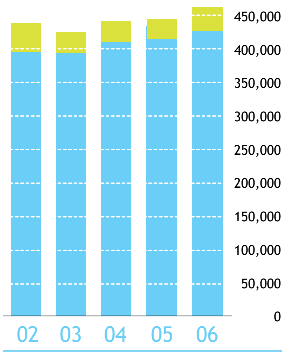
Key figures	2006	2005
Premiums written, € mill.	2,983	2,764
Pension payments to pensioners, € mill. [1]	2,886	2,703
Technical provisions, € mill.	23,774	21,824
Solvency capital, € mill.	6,666	5,599
Solvency capital/technical provisions, % [2]	32.1	29.2
Solvency capital/ solvency limit	2.1	2.4
Investment portfolio, € mill.	26,858	24,621
Investment income, € mill.	2,330	2,499
Return on invested capital, %	9.4	11.6
Transfer to client bonuses, € million	78	84
% of TEL payroll	0.6	0.7
TEL policies 31 Dec.	25,200	25,200
TEL insured 31 Dec.	426,000	409,000
YEL policies 31 Dec.	37,400	36,700
Pensioners 31 Dec.	296,000	293,000
Personnel 31 Dec.	667	670

1) Before the reduction of received clearing of pay-as-you-go (PAYG) pensions.

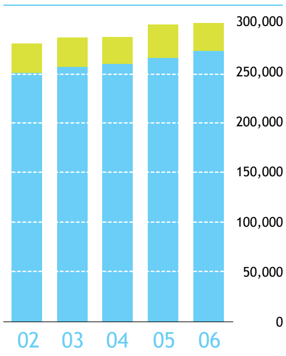
2) Ratio calculated as a percentage of technical provisions used in calculating the solvency limit.

The year 2006 in brief

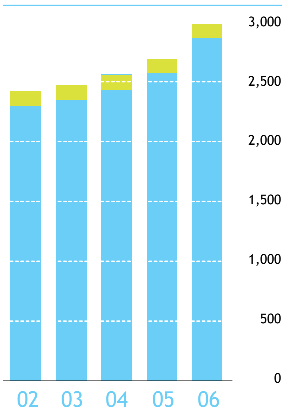
Insured



Pensioners



Premiums written € mill.



Varma's financial performance continued to develop strongly in 2006, a year of fluctuation that ended with a good investment return of 9.4%: Varma's leading market position was strengthened by success in client transfers. The year was characterised by the preparations for the coming of the new Employees Pensions Act (TyEL).

Varma's total result amounted to €1.1 (2005:1.7) billion thanks to the good investment returns. The return on investments calculated at fair value was 9.4% (11.6%) and the market value of the investments €26.9 (24.6) billion.

The investment portfolio was increased in particular by the rise in the value of equity investments. The return was also improved by the fact that equities and hedge funds accounted for more of the investments and fixed-interest investments for less.

The company's solvency rose to €6,666 (5,599) million with 32.1 (29.2)% of technical provisions based on solvency requirements.

The operating cost efficiency was extremely good; the loading profit stood at €29 million.

Market leadership strengthened

Varma strengthened its market position again as the biggest earnings-related pension insurer in Finland. Premiums written went up by 8% to €3.0 billion. The number of insured employees and entrepreneurs rose by 4% to 463,000. Varma's result of €15 million in account transfers was the best in the sector.

A transfer of €78 (84) million was made to the provision for current bonuses, about 3.5% of the employers' TEL contribution.

Number of old-age pension decisions return to normal

Pension payments totalling €2.9 billion were made i.e. 7% more than in the previous year. There were about 296,000 pensioners i.e. 1.2% more than one year earlier.

The number of old-age pension decisions dropped by 11%, which meant in practice a return to normal. In 2005 three age-groups exceptionally reached the lower age limit for the old-age pension, which momentarily increased the number of decisions.

Ready for new competition

In 2006 Varma made preparations for the coming of the new Employees Pensions Act (TyEL) and the change it will cause in the competitive environment among earnings-related pension companies.

Online services in particular and their availability were improved and information systems were developed. A web service (Pesti) specifically for

"Online services and their availability were improved."

temporary employees was constructed.

Start on new office building and Good Work campaign

Varma started construction of a new office building at Salmisaari in Helsinki. At the same time it was confirmed that some of the company's present office space in Annankatu will be let to the European Chemicals Agency in 2007.

In autumn 2006 Varma began the Good Work campaign, through which it wants to emphasise the importance of work done in Finland for the success of the whole country.

Balance sheet at fair value (parent company) € million

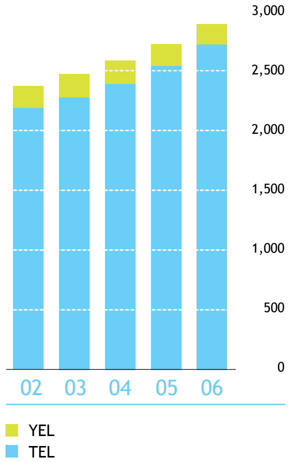
Assets	**2006**	**2005**
Investments	26,859	24,621
Receivables	693	366
Fixtures	5	5
	27,557	24,992
Liabilities		
Capital and reserves	76	66
Valuation differences	3,604	2,903
Provision for future bonuses	3,008	2,640
Items included in solvency capital	6,688	5,610
Provision for current bonuses	77	85
Equalisation provision	910	947
Technical provisions	19,778	18,152
Technical provisions excluding provision for current and future bonuses	20,689	19,099
Other liabilities	102	198
	27,557	24,992

Income statement at fair value (parent company)

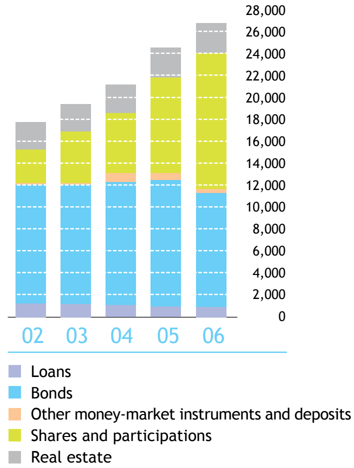
€ million	**2006**	**2005**
Premiums written	2,983	2,764
Claims paid	-2,556	-2,401
Change in technical provisions	-1,542	-1,096
Net investment income	2,344	2,514
Total operating expenses	-90	-84
Other expenses	-14	-12
Taxes	-4	-3
Total result*	**1,121**	**1,681**

*Profit at fair value before change in provision for current and future bonuses and equalisation provision, used mainly to strengthen solvency.

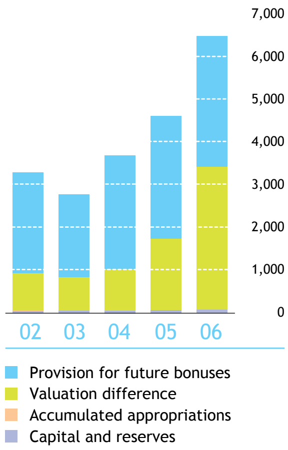
Pensions paid € mill.



Investment portfolio € mill.



Solvency capital € mill.



Varma makes strong progress

The year 2006 was successful for Varma both operationally and in terms of the results. The company's investment performance was quite good, and we achieved our goals in client acquisition and the insurance business. At the same time we improved our operating cost-efficiency and made our operations more efficient. The company made decisions regarding all types of pensions quicker than the average in the field.

Varma prepared itself for the major reforms concerning the earnings-related pension sector during the year under review. With the reform of the earnings-related pension legislation, from the beginning of 2007 both short-term employment and employment with private households as employers can be insured at Varma. We have prepared ourselves carefully for these new opportunities. We want to develop our services so that they are within easy reach of policyholders. Our aim is for our clients to feel that our services are good and efficient.

The new cover and solvency provisions concerning investment by earnings-related pension companies will provide more opportunities to improve the return on our investments. We have also made preparations to increase the transparency of our operations.

Opportunities and challenges in operating environment

Varma's success with its investments in 2006 was quite good. At fair value the return on the investments was 9.4% and without inflation the real return was 7.0%. The investment markets have performed well for four years and the average five-year return on Varma's investments (2002–2006) is 8.0%.

Equities now account for a greater part of our investment portfolio. At the same time the risk level of our investments has gone up, which is why we have been working resolutely to develop the management of investment risks at our company.

Prospects for the international economy are still quite propitious, and companies are reporting good results. However, economic growth is strongest outside Europe, which will further increase production's sensitivity to interruption in Finland.

Varma will for its part be endeavouring to strengthen the competitiveness of Finland as a marketplace. We are participating in many ways in developing the Finnish capital and investment market, and we want to continue this in the future as well. With the reform to investment in the earnings-related pension scheme we have been able to increase and diversify our investments in Finnish companies.

Debate about pension provision

Pensions are a topic of debate among Finns, which is a good thing. The extensive reforms to the earnings-related pension scheme have proved to be very efficient and our system also stands up well to international comparison.

At the same the as the transparency of our pension scheme must be increased, the sector must be ready to continue reforms and earnings-related pension companies must make their operations more efficient. The best means of achieving this is to increase inter-company competition, which can be done and promoted in many ways without jeopardising the level of pension provision and pension services.

I would like to thank the personnel at Varma for their fine efforts during 2006 and our clients for the confidence they have shown in the company.

Matti Vuoria
President and CEO

“With the reform to investment in the earnings-related pension scheme we have been able to increase and diversify our investments in Finnish companies.”

Good signs from results of pension reform

The incentives in the pension reform seem to be having a good effect: employment among the aged is on the increase.

A pension reform for the private sectors aimed at protecting the financing of the pension provision by extending working careers and increasing the incentives built in the pension scheme came into effect at the beginning of 2005. It is now two years since the reform, so some cautious observations about its success can be made.

The reform kept all the basic principles of the earnings-related pension provision. The statutory earnings-related pension is an essential part of Finnish social security, and it is based on an employment relationship or entrepreneurial activities. The earnings-related pension is determined more clearly than previously on earnings; there is no pension ceiling.

Earnings-related pensions are the responsibility jointly of the employer and employee. Earnings-related pensions and the development of a pension scheme are agreed on a tripartite basis, in cooperation with employee and employer organisations.

Employment of aged on the rise

The pension reform made major amendments even in international terms, such as the introduction of the life expectancy factor and the change in the accumulation period of the pension to cover the entire working career.

So far the opportunity brought by the reform to retire flexibly has not caused a stampede to retire. Instead of the earlier 65 years of age, it is now possible to retire flexibly between the ages of 63 and 68. At the end of 2005 Varma had 4,753 insured 63–64-year-olds who were working. Of these 1,983 applied for the old-age pension during 2006.

It would seem that the employees who passed by their first possible retirement age consider continuing to do work as something to be respected and hoped for.

Employment among the aged has improved rapidly, which may be a sign that the incentives in the reform are working. In addition to this improvement, an increasing number of pensioners are in gainful employment, at least periodically.

The increase in the euro amounts of pensions that have started remained strong. The average old-age pension starting at Varma in 2006 was about €1,400 a month.

Vocational rehabilitation cuts pension costs

Thanks to the rehabilitation reform vocational rehabilitation became a statutory right for people whose working capacity is at risk. The aim of vocational rehabilitation is for those who have been rehabilitated to continue in working life. Successful vocational rehabilitation cuts pension costs.

The growth in the disability pension applications slowed down clearly in 2006. However, the number of those who were taking part in vocational rehabilitation was still rising.

Varma has developed cooperation with its client companies in promoting working capacity and rehabilitation planning, and this has increased the number of applications for rehabilitation as well as the appropriateness of the applications.

The positive progress from the pension and rehabilitation reforms is connected with the good economic situation. In addition to economic incentives, changes in attitude are crucial for achieving the targets of the earnings-related pension reform. In the Good Work campaign that started in 2006 Varma wants to emphasise the importance of Finnish work in a positive sense, as an important part of life — from society's perspective as well as the individual's.

"Changes in attitude will decide whether the aims of the pension reform are achieved."

Reforms change the earnings-related pension sector

The reforms that came into effect in 2007 will change the competitive environment of earnings-related pension companies and the regulations concerning investment activities.

Simpler earnings-related pension provision

The pension acts applying to wage and salary earners in private sectors will be combined in 2007 into one earnings-related pensions act i.e. the Employees Pensions Act (TyEL), replacing the former Employees Pensions Act (TEL), the Temporary Employees Pensions Act (LEL) and the Pension Act for Performing Artists and Certain Groups of Individuals (TaEL).

The reform will cause employers fewer problems and difficulties with pension provision. The length of the employment relationship and the area of activity will no longer be of significance; the employer will be able to concentrate the earnings-related pension provision for employees in all the private sectors at Varma. An employer providing temporary employment, e.g. a household, can insure its employees through Varma's Pesti online web service.

Concentrating the insurances on one earnings-related company will reduce the client's expenses and facilitate work routines.

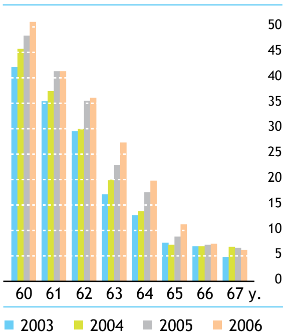
Investment reform improves prospects of better return

The investment assets at Varma's disposal are the policyowners' and the insured's property, invested productively in order to safeguard the pensions. The pension companies' investment activities are regulated by the regulations on margins and solvency, monitored by the Insurance Supervisory Authority.

The reform to the investment regulations, which came into effect at the beginning of 2007, will improve Varma's chances of achieving a better return on the pension assets. The reform will provide the scope for increasing the proportion of equity investments.

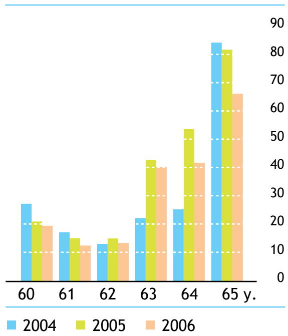
Increasing pension investors' scope for achieving a higher return on pension assets will safeguard pensions and alleviate the rise in pension contributions.

Employment rate of the aged in Finland 2003-2006



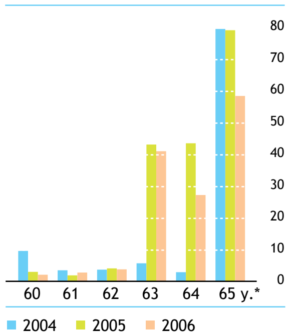
Source: Statistics Finland

Proportion of those who took up earnings-related pension compared with insured, entire private sector



Source: Finnish Centre for Pensions

Proportion of those who took up old-age pension compared with those at work, insured with Varma



*Age at beginning of year

Tiina Metsikkö, Kaleva Travel's expert in human resources (left), and Terhi Utriainen, H.R. Director, handle their insurance matters with Varma account manager Kirsti Keravuori (right).

Wide-ranging 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 and additional services, specific service teams with specialised knowledge of a customer's line of business)

Varma's headquarters are located in the centre of Helsinki, but the company's network of account managers covers the whole country. Varma insurance is also sold by If and Nordea. Applications for the TyEL (employee) and YEL (entrepreneur) cover can be completed online on Varma's website.

New act brings new insurance services online

In 2006 Varma again strengthened its market position as the biggest earnings-related pension insurer in Finland. The company's aim is an efficient and competitive service. Varma developed in particular its online services, which played a central role in preparation for the new Employees Pensions Act (TyEL).

The acts applying to wage and salary earners in private sectors (the Employees' Pensions Act (TEL), the Temporary Employees Pensions Act (LEL) and the Pension Act for Performing Artists and Certain Groups of Employees (TaEL)) were combined into one employees pensions act, the Employees Pensions Act (TyEL), from the beginning of 2007. The reform of the earnings-related pension legislation sets challenges for the efficiency of the information systems, skills of the personnel and, above all, for operating in a new competitive situation. The development of online services and information systems played a central role in Varma's preparation for TyEL in 2006.

The transfer to TyEL will increase considerably the notification traffic of insurances online, because their notification density will increase and random employment relationships will be notified mainly electronically.

When preparing for TyEL, Varma diversified the Kansio online service for its corporate clients and expanded the notification services provided for small client companies. An online service (Pesti) for temporary employers, in particular households, was also constructed.

Improved availability of online services

The availability of Varma's online services was improved: the Kansio service can now be used with netbank codes and the Pesti service can be accessed via the Nordea Bank Solo service and If's web service.

Almost 900,000 insurance notifications come to Varma every year, and the company has some 11,400 corporate clients that have made a network contract. During 2006 81% of the employment and annual notifications came via online channels. The Kansio online service accounted for 38% of the notifications received, a rise of 3% on the previous year.

Under construction is a general earnings information system for the entire earnings-related pension sector. All the information affecting the amount of an earnings-related pension has been concentrated in it. The project is being carried out jointly with Arek Oy. Varma brought some of the system into operation at the end of 2006, and it will be fully operational at the company in the summer of 2007.

"The rapid economic cycles were also reflected in the operations of earnings-related pension companies."

Varma campaigns for Good Work

Varma's communications and marketing started the 'Good Work' theme in the autumn of 2006.

'Good Work' means Varma's efficient and responsible operating method, while on the other hand it can also be read as a wish or gratitude in the direction of the clients, for instance. The campaign emphasises that Finland's and Varma's success is based on Finnish work.

The advertising campaign has been conspicuous in newspapers and on the street.

The campaign website www.hyvaatyota.fi provoked discussion about good Finnish work and visitors to the site were challenged to write their own good-work stories. By the end of 2006 the website had been visited by about half a million people, and more than 500 stories had been published.

The Good Work theme is also supported by Avainlippu, which was granted to Varma in 2006. Avainlippu is Finland's best-known mark of origin, indicating that a service has been produced in Finland or that a product has been made in Finland.

In addition, agreement was reached about Varma being the main cooperation partner in the Great Place to Work Institute's 2007 survey, in which Varma awarded a special Good Work prize.

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 2006

Harri Broman, Managing Director, Broman Group Oy
Henry Fagerström, Chairman of the Board, Oy Schenker East Ab
Markku Haavisto, Managing Director, Veolia Transport 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
Pekka Kauranen, Administrative Director, Finnish National Opera
Mika Kiljunen, Managing Director, Kaleva Invest Oy
Jari Kokkonen, President, University Pharmacy Ltd
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, Chairman of the Board, Ensto Oy and EM Group Oy
Jari Ollila, Chairman of the Board, Purso Oy
Jukka Ottela, Managing Director, Esan Kirjapaino Oy
Ahti Paananen, Business Area Director, Fenestra Oy
Simo Parhankangas, Managing Director, Kyrel Oy
Antti Reenpää, Managing Director, Otava Publishing Company Ltd
Tuomo Räsänen, Managing Director, Carel Capital Oy
Tuomo Rönkkö, Managing Director, Eltel Networks Oy
Mauri Saarelainen, Chairman of the Board, Honkarakenne Oyj
Risto Salo, Chairman of the Board, Hollming Oy
Ralf Sandström, Managing Director, Restel Oy
Juha Silvanto, Chairman of the Board, Sylva Group Oy
Saara Sinivuori, Managing Director, Aleksin Ravintolat Oy
Harri Suutari, Chairman of the Board, PKC Group Oyj
Heikki Takamäki, Managing Director, Heikki Takamäki Oy/ Rauta-Otra Nekala
Petteri Walldén
Kaija Ward, Chairman of the Board, Eurokangas Oy
Einari Vidgrén, Chairman of the Board, Ponsse Oyj
Jorma Wiitakorpi, Managing Director, Patria Plc
Heikki Väänänen, Chairman of the Board, Karelia Yhtymä Oyj
Pertti Yliniemi, Chairman of the Board, Lapland Hotels Group

Rise in premiums written

Varma's TEL premiums written for 2006 amounted to €2.9 billion, an increase of 8% over the previous year. Correspondingly the YEL premiums written went up by 0.6% to €125 million.

The number of TEL insurance policies was 25,200 and YEL policies 37,360.

Growth in new business

The number of new TEL and YEL insurance policies went up in 2006 by 4.1% to 7,957. Varma accounted for 22.9% of this, so the company fell slightly short of its target of 24.0%. The premiums written on new business rose to €54.6 million. The amount of new business with entrepreneurs was increased in particular by the distribution cooperation with Nordea and traditional cooperation with If.

Success with account transfers

In 2006 Varma again strengthened its position as the biggest earnings-related pension insurer in account transfers between earnings-related pension companies. Measured in terms of premiums written, the net result in these transfers amounted to €15 million, which strengthens Varma's leading position by about 0.2 percentage points. Account transfers in the earnings-related pension sector measured in terms of premiums written amount to about €200 million annually.

A total of about €20 million in annual earnings-related pension insurances was transferred from pension foundations to Varma's management in 2006. About €18 million in annual earnings-related pension insurances was transferred from Varma to pension foundations and funds.

A look at the transfers in terms of numbers shows that Varma lost clients in the small-company field. Varma lost a net figure of about 860 YEL and 340 TEL customer accounts, so measured in terms of number of policies the company lost some of its market position. Varma has traditionally had a strong role as an insurer of large companies. In the future some of the company's client service organisation will be focusing on the small-company field in particular.

Client bonuses

Varma reserved a sum of €78 million for client bonuses i.e. 3.5% of the TEL income (2005: €84 million). In 2006 client bonuses remained at an extremely competitive level. The reduction in bonuses from the amount in 2005 was mainly the result of changes in the company's investment allocation.

Rapid changes in society present a challenge

In 2006 the banking and insurance sector saw the continuation of much corporate restructuring that changed the competition among earnings-related pension insurers and some of the distribution channels for companies insurance services.

The rapid economic cycles brought to Finland by globalisation were seen in the changes in client companies' business structures and reflected increasingly strongly in the operations of earnings-related pension companies. Client companies are in a state of constant flux – their business structures are changing as a result of corporate sales and acquisitions, mergers and focusing. Many companies outsource their workforce, which at the same time makes strong growth in totally new fields possible. These phenomena are a challenge to Varma, but, on the other hand, they also give the company better opportunities in the competition among earnings-related pension companies.

All insurances under the same roof

The hotel and restaurant chain Next Hotels provides top-class and alternative services in southern Finland. The company has been a client of Varma from the outset in 1990.

Next Hotels uses almost all Varma's services: insurance and pension services and services associated with occupational well-being. When the Employees Pensions Act (TyEL) came into force, Next Hotels concentrated all its pension insurances at Varma in 2007.

In 2006 there were an average of 375 employees insured under TEL and 88 under TaEL.

Terttu Kunnaala, the office manager, who has handled Next Hotels' pension affairs since the company's inception, says that TyEL and the opportunity to concentrate insurance services at the same company is a welcome change.

"Insuring with the same pension company under one insurance makes the work considerably easier. TyEL will bring only positive aspects when it comes," Kunnaala says, adding that preparation for the reform was started in good time in the autumn of 2005. More detailed plans were examined with Varma in 2006.

The Next Hotels cluster includes the Klaus K in Helsinki, the Next Hotel Rivoli in Järvenpää, the Next Hotel Linnea in Riihimäki and the Next Hotel Hirvihaaran Kartano in Mäntsälä. In 2006 the company's turnover was approximately €21 million.

"TyEL was expected. Since the reform employees obtain more precise information about their coming pension," says Terttu Kunnaala, who is responsible for pension matters at Next Hotels.

Promoting occupational well-being is financially worthwhile

Occupational well-being services placed emphasis on age management, controlling sickness absences and developing vocational rehabilitation. With these services Varma's client companies can achieve savings and efficiency.

In order to promote occupational well-being, Varma offers a wide variety of services to its client companies. The complete package includes work tools for employers and employees to use independently, sessions for clients and company-based consultation.

In 2006 sessions for clients were especially popular. The target groups were primarily those working in personnel administration and occupational well-being at companies. In addition to up-to-date information about occupational well-being, coaching in the use of occupational well-being tools was also given.

A total of eight training sessions were arranged in different localities, and the feedback from them was extremely good. All in all, during the year Varma engaged in cooperation of varying extent with about 300 client companies.

One of the most significant projects was the development of the Good Age (Hyvä ikä) product package, which is aimed at age management. The products associated with it were launched at a session for clients in November 2006.

"With age management a company can achieve considerable savings."

Client cooperation, which is part of one of the Good Age products, has started promisingly. Finland and Varma are now right at the top in age-management expertise.

Results that are widely used to good effect are obtained from projects that deal with occupational well-being in different sectors, and they support the prevention of disability. In 2006 an extensive project concerning the well-being of employees in the whole-sale and retail sector was started and it will go on into 2007.

Varma is continuously developing occupational well-being services in association with client companies and Finnish H.R. experts. In addition to the products developed in the past year, the Change as a Challenge to a Superior's Work (Muutos haastaa esimiestyön) project was continued. When changes are taking place in a company, the responsibility of superiors and their skills in managing occupational well-being come in for par-

China decorator Mirja Mielonen applies slide-off decals to bowls at the Arabia factory in Helsinki.

ticular emphasis and special support is needed for this.

The cornerstone of the cooperation carried out with client companies is always the financial facts: the promotion of well-being and prevention of disability are worthwhile financially.

Rehabilitation helps in new start

Varma can support a rearrangement of work or change in profession in the form of vocational rehabilitation when an employee or entrepreneur is threatened with a loss of working capacity in the near future. It is a statutory earning-related pension benefit.

Vocational rehabilitation is a profitable activity in many ways. The winners are not only the person being rehabilitated but also the employer and society at large. In 2006 1,400 clients took part in vocational rehabilitation organized by Varma.

In association with a company and occupational health care it is possible to help a person who has fallen sick remain at work. The percentage of rehabilitation applications rejected (12) is quite low, which is a result of long-term cooperation with clients: most of the applications come to Varma in good time and are filled out correctly.

In 2006 the focus was on developing rehabilitation's customer service. Group interviews were used to identify the experiences that those undergoing rehabilitation had had with work try-outs. The results show that the rehabilitation services were thought to be quick and individualized. To succeed in a work try-out it was important for the person undergoing rehabilitation to be self-motivated and to cooperate well with superiors and occupational health care.

Spring 2006 saw the start of a pilot project in which people who had been on sick leave due to depression are supported in a comeback to working life through a work try-out and supplementary return-to-work coaching. The project was carried out in cooperation with the private health care company Mehiläinen.

Big challenge caused by sickness absences

The control of sickness absences has taken on an important role at the workplace. Frequent absences always reduce work's effectiveness. In addition, as the age groups become smaller, the workforce will be an increasingly important productivity factor.

It is essential to agree on joint practices and prevent sick leave absences from being extended.

Varma uses training and guideline material to promote the drawing up of operational models for preventing disability.

Good age – new resources for age management

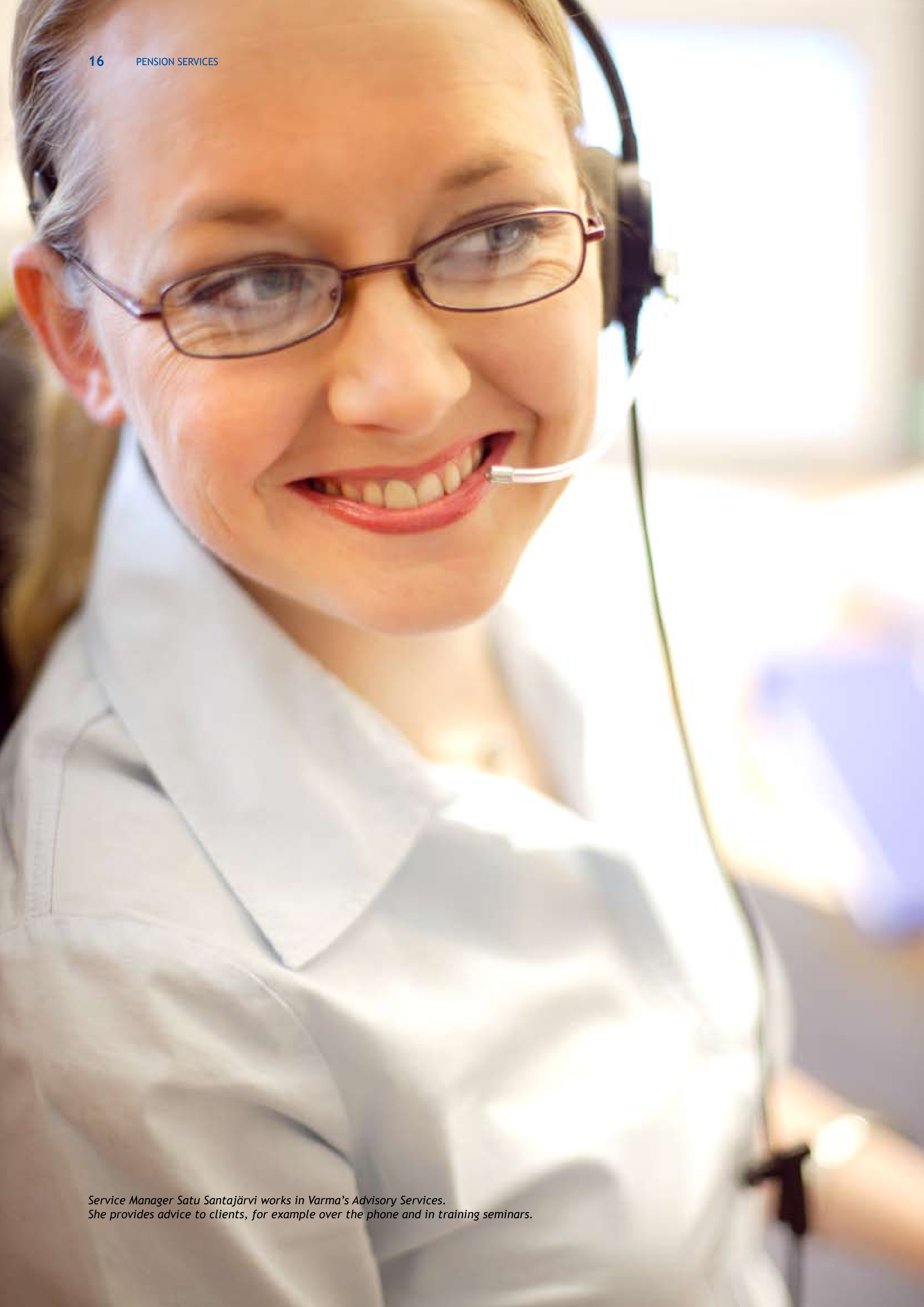
Age management was the most important theme in Varma's occupational well-being services in 2006. Emphasis was laid on questions relating to it expressly at clients' request.

"The average age of employees is high at an increasing number of companies, and employers have asked for practical support from Varma", says **Maaret Ilmarinen**, the client relations manager.

In November Varma published the wide-reaching Good Age product family. The English version will be published in spring 2007. It contains a guide, batteries of questions and a knowledge test accessible online that companies can use to examine knowledge about the personnel's age. The needs of experienced employees and companies can be charted by means of different individual and corporate mirrors.

"We want to use new work tools to promote long working careers and the transfer of know-how from one generation to the next. They help corporate management and superiors to recognize the strengths of senior people and to make good use of them. The tools also help in recognizing and preventing the threats associated with aging such as a deterioration in working capacity, health and motivation," Ilmarinen says.

With age management a company can achieve considerable savings, which are created when pension costs and sickness absences are reduced. The turnover of personnel is kept under control and the intellectual capital remains within the company.



*Service Manager Satu Santajärvi works in Varma's Advisory Services.
She provides advice to clients, for example over the phone and in training seminars.*

Better services for the insured

Varma is developing its services enormously in all matters relating to the pension provision for an individual. The most important of these is retiring, but before that insured people receive information about the advantages of continuing at work.

Varma has more than 760,000 individual clients, i.e. approximately the same number of people living in Helsinki and Vantaa. This figure includes 296,000 pensioners, 426,000 people insured under TEL and 37,000 entrepreneurs.

In the traditional manner Varma sent out a personal pension calculation to TEL insured clients which was posted to employees who had reached the ages of 30, 35, 40, 45, 50, 55, 57 and 58. Almost all the 50,000 insured received an estimate of their old-age pension at the ages of 63, 65 and 68. Thus the younger age-groups can also see how working longer affects the amount of the pension.

A similar calculation was sent to each YEL insured, explaining the effects of the pension reform. More than 11,000 employees with a bonus insurance received an estimate of the amount of their pension at their own retirement age.

Varma's pension experts calculated almost 27,000 pensions at the request of the insured.

Service online and at Varma advisory sessions

The Pension Estimate service is a Varma online service where you yourself can estimate the amount of old-age pension based on your work history at various ages. Those over 53 years of age can assess their part-time pension as well.

The insured made 41,000 pension estimates themselves at the Pension Estimate service in 2006.

In 2006, Varma Advisory Services arranged 152 advice and training sessions for employees and entrepreneurs. They were attended by more than 4,200 insured persons.

Most of the sessions were held at the request of corporate clients and they were customised to fit in with companies' needs. Some were on a regional basis and attended by employees of local corporate clients.

Most of the sessions dealt with the pension reform and continuing at work. Some of them focused on the unemployment pension.

Telephone service remains popular

Almost 30,000 clients contacted Advisory Services by telephone. The telephone was the most popular way

"The insured made 41,000 pension estimates themselves at the Pension Estimate service."

Pension record brings own pension company nearer

In 2008 a reform will come into force under which all employees between the ages of 18 and 67 will receive a pension record annually. According to the new Employees Pensions Act TyEL, an employee's own earnings-related pension company is primarily responsible for the information.

The record will show all the private sector employment relationships and earnings from which a pension will accumulate. It will also disclose the pension that has been earned by the end of the previous year.

Responsibility for the correctness of the information will gradually transfer to some extent to the insured.

Preparations for posting 700,000 pension records to the insured have been started. The number to be sent is compiled from the employees and entrepreneurs insured at the moment or last by Varma.

In addition to information about their employment and earned income, the insured will also receive additional information about Varma in their letters, which will increase the openness and transparency of the company's operations.

Their own pension company and its investment operations are of interest to the insured, which was shown by a questionnaire sent to those who received age-group calculations.

The Consultative Committee for Pension Affairs

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.

Members of the Committee, 31 Dec. 2006

Chairman **Markku Hyvärinen**, Executive Vice-president, Varma
Vice Chairman **Sakari Tola**, Senior Physician, Varma
Lasse Laatunen, Director, Confederation of Finnish Industries EK
Petri Mustakallio, Socio-political Advisor, Central Organisation of Finnish Trade Unions, SAK
Mervi Flinkman, Social and Health Policy Officer, Finnish Confederation of Salaried Employees, STTK
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

In the meetings of the Consultative Committee has also participated the following people from Varma: **Marja Ahola**, Pension Director, **Marja Korpilahti**, Head of Department and **Kari Ahtiainen**, Ajudication Manager.

The Consultative Committee of the Insured

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.

Members of the Committee, 31 Dec. 2006

Representatives of the Central Organisation of Finnish Trade Unions, SAK
Ellen Helo, Tradeka Oy
Teuvo Kalso, Ovako Bar Oy Ab
Keijo Kekäläinen, Savon Mediat Oy
Jukka Mahlamäki, Meira Oy
Hannu Paronen, Versowood Oy
Eero Pennanen, Abloy Oy
Antero Raanoja, Stora Enso Oyj
Jouni Suomalainen, Sokotel Oy
Simo Virolainen, Honkarakenne Oyj
Kari Virtanen, Koiviston Auto Oy
Timo Virtanen, Metsä Tissue Oyj
Kari Ylikauppila, Fortum Corporation

Representatives of the Finnish Confederation of Salaried Employees, STTK
Timo Jaakkola, NCC Rakennus Oy
Matti Kangas, TietoEnator Corporation
Pauli Karhu, Wärtsilä Corporation
Kimmo Koskivaara, TS-Yhtymä Oy
Irma Kronlöf, Mehiläinen Terveyspalvelut Oy
Seppo Lampinen, Ovako Bar Oy Ab
Jorma Malinen, Aker Yards Oy
Jukka Nyberg, UPM-Kymmene Corporation
Kaija Roukala-Hyvärinen, Nordea Bank Finland Plc
Marika Siren, If P&C Insurance

Representatives of the Confederation of Unions for Academic Professionals in Finland, Akava
Kimmo Heinonen, Sunila Oy
Jani Huhtamella, Elektrobit Wireless Communications Ltd
Marko Klapuri, Etteplan Oyj
Ari Liesola, Aker Yards Oy
Matti Ollila, Elisa Corporation

for the insured to make contact.

The second-most popular was e-mail. In 2006 almost 5,000 enquiries about pension matters were sent by e-mail. They were answered by letter, if the reply included personal information.

Pension decisions correct and on time

The handling of pension decisions regarding all pension benefits at Varma has been faster than the average in the sector. Three out of four pensions were paid in the month during which the right to receive a pension commenced. Almost 90 per cent of old-age pensions were according to the target schedule.

The pension decisions were also correct because Varma was to blame for less than half a per cent of the adjustments needed.

There is a long transitional stage for the pension reform that came into force at the beginning of 2005. During it pensions will be calculated according to both the regulations that preceded the reform and the present regulations, if employment has continued uninterrupted during the new Act.

The double calculation means extending the average handling time. For the pensioner, however, its benefit is modest. The protective regulations have had an effect on only a couple of per cent of the pensioners within its sphere and even then most usually it is under €10 a month.

Number of pension decisions unchanged

During 2006 Varma issued about 22,000 new pension decisions, around the same as in the previous year. The number would be bigger without a break in obtaining register information that lasted a couple of weeks at the end of the year and resulted from the start-up of the Arek earnings system.

The number of old-age pension decisions fell by 11%. In the previous year three age-groups had, exceptionally, reached the minimum age limit for the old-age pension, so the year under review marked a return to normal.

The number of unemployment and part-time pensions increased, because the larger age-groups reached the age-limits for these pension benefits.

The fall in applications for disability pension continued. The increase in pensions resulting from depression would seem to be declining on the basis of experiences of the past two years.

The percentage of new disability pension applications granted was 77 (76.3).

Old-age pensions biggest cost

In 2006 Varma paid pensions totalling €2.9 billion, of which €2.7 billion was TEL pensions and €0.2 billion YEL pensions.

Two-thirds of the pension costs were old-age pensions. Early retirement pensions paid before the pension age i.e. disability, unemployment and part-time pensions accounted for 24%. This is a figure that can to some extent be affected by developing occupational well-being and rehabilitation.

At the end of the year there were 296,400 pensioners i.e. 1.2% more than a year earlier. During the year the oldest pensioner was 107 years of age. There were 3,200 pensioners under the age of 18. Their pension is the orphans' pension, which is paid upon the death of a guardian.

Average pensions showing clear growth

The present standard of living is depicted by the average old-age pension, which is now about €1,400 per month. This includes, according to the principle of the last institution, pensions that have been earned in both the private and public sectors. Average pensions show a clear increase for this reason.

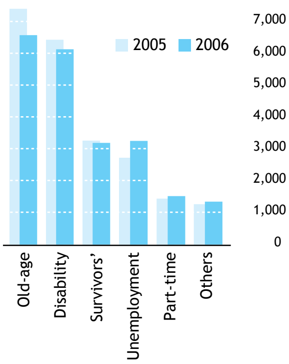
A man's average starting old-age pension is more than €1,800 a month and a woman's just under €950 a month, which is also above the sector's average. The level of a man's pension can be considered, on average, to meet the objectives of pension provision. The pension ensures that the income that comes while working is retained to a reasonable level during retirement.

The pensions paid by Varma are, particularly for men, higher than the TEL average.

This may be the result of the structure of Varma's client base, where there is a good representation of industrial and service sectors that are better paid than average.

"A pension ensures that the income that comes while working is retained to a reasonable level during retirement."

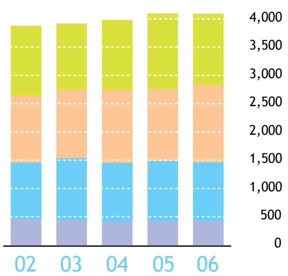
New pension decisions according to pension benefit 2005-2006



Varma's pension expenditure according to pension benefit total €2.9 billion 2006

Old-age and early old-age	66%
Survivors'	10%
Pensions paid before retirement age (Disability, unemployment and part-time)	24%

New disability pensions and rehabilitation allowances granted according to main disease group 2002-2006



- Diseases of the circulatory system
- Mental disorders
- Musculoskeletal diseases
- Other diseases

A colourful and productive year for investments

The year 2006 was one of success for Varma's investment operations. The company's investments rose in value to €26.9 billion and the return on invested capital was 9.4%.

The most significant role in Varma's good investment return was played by the rise in equity prices. The return was also improved by the fact that a greater proportion of the investments was allocated to equities and hedge funds and the proportion of fixed-income investments was reduced.

The degree of diversification of Varma's investments during 2006 increased and the range was broadened. More personnel resources were allocated to risk management and hedge fund investments.

Varma's investments are handled according to the following categories: equities, fixed income, real estate, hedge funds and private equity. Assets are also diversified according to line of business, geographical location and company size.

Return on invested capital 9.4%

Varma's investment income for 2006 totalled €2,330 million i.e. a return of 9.4% on the investments. Excluding inflation, the real return was about 7%, which can be considered an extremely good result. Varma's solvency consequently strengthened to 32.1%.

Equities accounted for €1,704 million of the income, fixed-income investments for €116 million, real estate for €206 million, and hedge and other money market instruments and deposits for €323 million.

Investment allocation

The market value of Varma's investments at the end of 2006 stood at €26.9 billion (2005: 24.6 billion). The investment portfolio was increased in particular by the rise in value of the equity investments.

Because of the investment norms that regulate the investment activities of earning-related pension companies, Varma's investment allocation is very much fixed-income oriented. In 2006, however, a significant amount of assets were transferred to equity investments, hedge funds and private equity.

Varma handles its investment portfolio actively within each asset category. Derivates are used for managing the risk on investments, mainly, however, for hedging purposes.

Equity portfolio

The equity markets had a mixed year: at the beginning prices went up only to fall again drastically in May-June. Subsequently there was a steady strengthening until the year-end. Companies continued to post good results and balance sheets became stronger. In Finland some new companies became listed on the stock exchange including Ahlstrom Corporation and Outokumpu Technology Oyj. Varma is a significant shareholder in both.

At the end of the year equities accounted for almost 36% of Varma's investments compared with 29% at the beginning of the year. The total return on the equity portfolio was 23%, a good result.

The biggest single investment, i.e. Sampo plc, produced an unusually high return of 47%. Varma's interest in Sampo was reduced from 10.6% to 8.7% during the year.

In addition to the strong price movement on capital markets in Finland and Europe the return on the equity portfolio was increased by in-

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 private investor in Finland. At the end of 2006 the market value of the company's investments stood at €26.9 billion, the large portfolio making for efficient investment 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.

Movement of Varma's investment return 2006

Senior analyst Eerikki Tikka (left) and equity trader Sami Nevalainen are part of Varma's Investment Operations, where just under 80 people handle almost €27 billion in assets.

Varma handles pension assets efficiently

Varma's investment operations have been organised efficiently. Their direct business expenses were 0.04% of the value of the investments. Cost-effectiveness is a major competitive factor in investment operations over the long term.

Most (about 80%) of the investment assets are managed internally by 78 people. Varma uses external asset managers mainly for equity investments outside Europe, private equity and hedge fund investments and real estate and infrastructure fund investments abroad.

In 2006 Varma participated for the second time in an international survey on the cost effectiveness of investment operations, in which the company's income and expenses were compared with both a European peer group and a global peer group with a corresponding portfolio size.

Varma's investment operations were found again to be cost-effective. The company's expenses were about a third smaller than the benchmark for pension funds in the same size category.

Portfolio management costs were low mainly because the assets are handled 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 income from 2000-2005 and asset management costs from 2005.

vestments on emerging markets. Of Varmas' equity investments, 34% are listed on the Helsinki Stock Exchange and 40% in other European countries. The remaining 26% are divided among the USA, Japan and emerging markets.

Fixed-income portfolio

Varma's fixed-income investments comprise mainly government-issued bonds. A third of the portfolio is corporate bonds.

Market interest rates rose noticeably at the beginning of the year because of the rise in the central bank rates in Europe and the USA and the strong market reactions. The rise in interest rates was hedged by shortening the duration of the fixed-income investments and transferring assets from fixed-income investments to hedge funds.

Fixed-income investments accounted for 42% of Varma's investments at the end of the year (2005:52%). The return on their portfolio of 0.9% was low in absolute terms, but higher than the corresponding market return.

Varma has also made investments within different asset categories outside the euro currency area. During the year the currency risks were hedged, so the fluctuations in exchange rates did not affect the income. However, the interest rate difference between the euro and dollar brought about some reduction in the return from investments denominated in dollars such as hedge funds and US equities.

As an asset category, customer loans are included in fixed-income assets. The demand for loans was low but there was a clear increase in the financing of various restructuring arrangements.

The return on customer loans was 4.3%.

Real estate portfolio

Euro-denominated real estate transactions totalling well over €5 billion took place in Finland in 2006, a record figure. A sizeable portion of the transactions comprised large corporate or portfolio transactions.

The interest of foreign real estate investors in the Finnish market strengthened, and the return requirements for Finnish real estate properties have been approaching the European level. Fierce competition for investments reduced the return requirements further on all submarkets. The rise in interest rates has not had an effect on the development of the return requirements.

On the premises market the differentiation between operating premises continued. There was plenty of empty office space on offer, and regional differences in both the old and new premises became more pronounced. New building increased enormously, especially in southern Finland.

The market value of Varma's real estate portfolio was about €2.6 billion, of which €84 million was real estate used by the company for its own purposes. According to the KTI index (Institute for Real Estate Economics), the net return on real estate in-

"Varma's investment operations emphasize the wide-ranging diversification of assets."

vestment stood at about 7.5% and the total return at 8.2%. The total return was lifted by profits on the sale of real estate assets.

The vacancy rate of operating premises was 5.2% at the end of the year. In 2006 Varma's real estate operations were characterized by the development of the real estate portfolio in the form of sales. The value of real estate sold exceeded €300 million.

Furthermore Varma focused in particular on new-building projects.

Alternative investments

Alternative investments accounted for 12% of Varma's investments during 2006 (2005:8%). Hedge funds accounted for 8% and private equity 4%. The return on alternative investments was good, approaching 12%.

Hedge funds

Hedge fund investments have gone up considerably since autumn 2005, and in 2006 assets continued to be allocated out of fixed-income investments to hedge funds because of the poor return outlook for fixed-income investments.

The return on hedge funds in 2006 was 8%, which was markedly higher than that for fixed-income investments. At the same time the risk level was moderate, because the volatility i.e. the standard deviation of the return was much lower than for equities.

About a third of Varma's hedge funds have been invested in funds of funds and two-thirds in 34 individual hedge funds. The fund portfolio has been diversified into very different types of investment strategies. The focus is on low-risk and market-neutral multi-strategies comprising several types of investments.

Private equity

Private equity comprises investments in private equity funds, investment in unlisted equities and loans. Investments in foreign real estate and infrastructure funds are also included in this asset category because of their high leverage and special nature.

The operating environment for private equity funds was extremely good and a number of realisations were made. During the year Varma made many new commitments to capital trusts. Many co-investments were also made directly in the companies in which the funds invested.

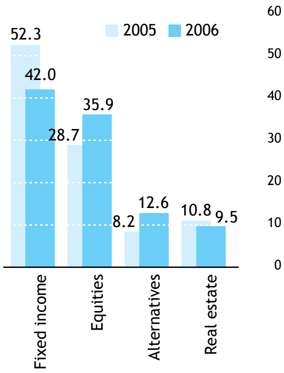
The total return on the private equity investments was 19%, an excellent result. Most productive were the private equity funds, 26%, and unlisted equities 31%.

In line with its ownership policy Varma supports — while meeting the company's investment criteria — work done in Finland. The company is active in investing directly in unlisted Finnish companies such as growth

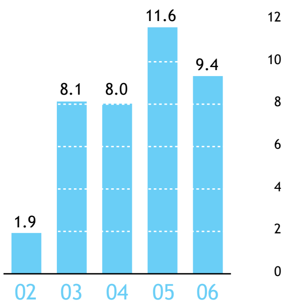
15 largest equity investments

	holding € mill.	% of Varma's equity portfolio
Sampo plc	1,001.9	10.3%
Nordea Bank AB	148.6	1.5%
YIT-Yhtymä Corporation	147.9	1.5%
Stora Enso plc A	143.7	1.5%
Fortum Corporation	123.8	1.3%
Uponor Corporation	113.4	1.2%
Metso Corporation	105.0	1.1%
Nokia Corporation	85.1	0.9%
BP Amoco plc	83.0	0.9%
Total SA	76.6	0.8%
Vodafone Airtouch Plc	75.1	0.8%
Cargotec Corporation B	72.0	0.7%
Novartis	70.6	0.7%
Neste Oil Corporation	69.1	0.7%
Nokian Tyres plc	68.7	0.7%
Total	2,384.5	24.5%

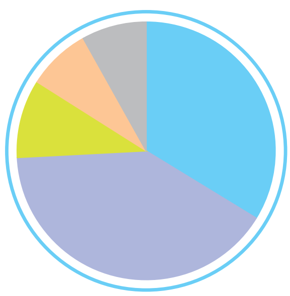
Investment portfolio 2005-2006 %



Investment returns 2002-2006 %

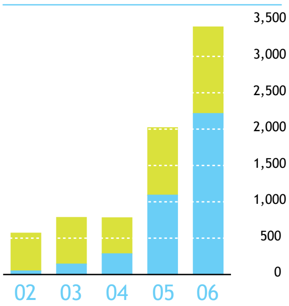


Geographic distribution of equity investments 2006



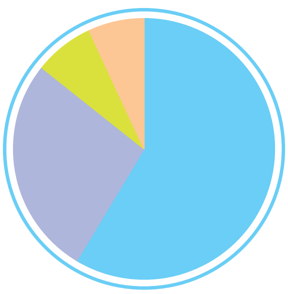
Finland	34%
Europe	40%
USA	10%
Japan	8%
Emerging markets	8%

Alternative investments
2002–2006 € mill.



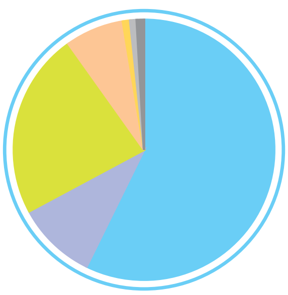
Hedge funds
Private equity

Distribution of fixed-income investments 2006



Government bonds	58.6%
Corporate bonds	27.1%
Derivatives, funds and money market investments	7.4%
Loans	6.9%

Bond portfolio by credit rating 2006



AAA	57.3%
AA	9.9%
A	23.0%
BBB	7.2%
BB	0.9%
B, CC, CCC	0.8%
No classification	0.9%

companies, corporate restructuring or changed circumstances at companies. There were plenty of projects under way in 2006, and Varma made many investments both in the form of share capital and various types of mezzanine financing.

Investment policy

Varma is a long-term investor.

The aim of Varma's investment operations is to secure the payment of pensions, so attempts are made to obtain the best possible return for investors without jeopardising the company's operations. For that reason the company's investment operations emphasise the wide-ranging diversification of funds and cautious risk-taking.

At the beginning of 2007 a reform to investment legislation came into force, thanks to which earnings-related pension companies will be able to increase the proportion of equity and other asset-based investments and at the same time diversify the investment portfolio more effectively.

Active investor in Finland

As a Finnish pension company, Varma is an active player on the domestic market. It knows Finnish companies well and is a preferred partner. A Finnish investment takes priority if the return expectations and quality criteria are met.

Equity portfolio
Of Varma's equity investments 34%, €3.3 billion, is invested in Finnish listed companies. Varma is an active and long-term owner of Finnish companies.

Real estate portfolio
Direct real estate investments are concentrated solely on Finland. Varma is one of the biggest Finnish real estate owners.

Private equity and direct investments in unlisted companies
Varma is widely involved in unlisted Finnish investments. The company is an investor in many private equity funds, in addition to which, it is a direct financier of Finnish companies in the form of share capital and other mezzanine financing instruments.

Corporate funding
Besides traditional client lending Varma is actively involved in financing various corporate arrangements.

Building a new head office

Varma's new head office will be erected at Salmisaari in Helsinki, on the Länsiväylä highway. Construction work began in summer 2006 and Varma employees will be moving there after the 2008 summer holidays.

The company's present operating premises in Annankatu were built on an old industrial property that real estate director **Matti Viitala** says no longer meet current-day requirements. Varma needed a modern building that is more efficient in terms of space.

"It is natural for a real estate investor to build its own offices itself. A modern, convertible office building will provide scope for more efficient space usage, thus achieving cost savings."

The operating premises of 42,000 square metres at Salmisaari will at the same time be an investment for Varma, because more than half the area will be leased to outsiders. Lemminkäinen, for example, will have its head office there.

"I believe that all the premises will be leased in good time before the building is completed," says Viitala.

Market situation encourages contracting

Besides Salmisaari, Varma had two other big building projects underway in 2006. Business and office space is being built at the Panorama Tower in Leppävaara, Espoo, and a hotel, spa and cinema, and business premises will be coming to the Aviapolis recreational centre in Vantaa.

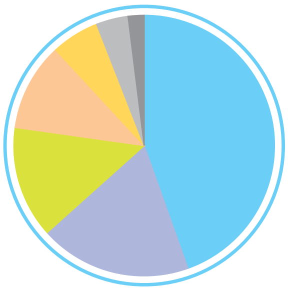
The costs for these three ventures will amount to more than €300 million.

Varma carried out more investment in new construction than ever before during 2006. Self motivated construction contracting is one way for an earnings-related pension company to cope with increasing competition.

"The coming of foreign real estate investors to the market has raised the prices for existing real estate considerably. Foreign investors who use debt can be satisfied with lower return levels, yet obtain an adequate return on capital invested," Viitala says. Varma's investment operations emphasise the wide-ranging diversification of assets.

Pauli Penttilä, Varma's Housing Development and Real Estate Manager shows how the office building under construction at Salmisaari will look when completed.

Real estate portfolio 2006



Office premises	45%
Residental	19%
Business premises	14%
Industrial facilities	11%
Warehouse space	6%
Other operating premises	4%
Other	1%

Total €2.6 billion

Competent personnel does good work

Varma's mission is to guarantee earnings-related pensions for Finns. Competent personnel play a key role in this task.

In 2006, Varma continued the development of its management and competence, and specified the procedures for ensuring the well-being of its personnel at work.

Varma has focused on a targeted development of supervisory work for several years. Supervisor training started in February 2005 concluded in spring 2006. The training focused on developing leadership skills and ensuring uniform supervisory practices. All supervisors participated in the training.

As part of the training, an assessment of the supervisors was undertaken. According to the results, its strengths included human resources management, expertise and leadership for performance.

Management and supervisory activities rated well in an internal corporate image survey carried out by Corporate Image Ltd in February 2006. The management index, which indicates the level of staff satisfaction with management, was 61.8 (on a scale from 0 to 100), compared with 60.1 in 2005.

Competent personnel benefit the client

Developing personnel competence is a crucial part of Varma's operating approach, starting with an orientation programme for each new employee. By mapping and developing personnel skills, Varma can ensure that personnel competence supports its operational strategy and the achievement of its goals.

At Varma, core areas of competence drawn from the corporate strategy have been determined and form a basis for updated competency maps. In the autumn 2006 performance reviews, competency maps were used throughout almost the entire company.

Personnel training in 2006 focused on the Employees Pensions Act (TyEL), the joint earnings-related pensions act for those employed in private-sectors, as well as the development of customer service and teamwork.

New practices were adopted in client management in 2006. Consistent practices and a diverse partner network help us provide our customers the best service in the field.

Services manager Tiina Kärki, and financial analyst Reijo Nurvo, are content Varma employees. Survey results indicate that the overall satisfaction of Varma personnel is on the rise.

Varma personnel figures 31 December, 2006

- Varma employed an average of 671 people in 2006 (2005: 671).
- 76% were women and 24% men (2005: 77% and 23%).
- The average age was 46 years and 1 month (2005: 45 years 7 months).
- The average period of service was 13 years and 2 months (2005: 13 years).

Overall satisfaction of Varma personnel at an excellent level

At Varma, the well-being of the work community and productive operations are based on skills development, competent work by supervisors and an atmosphere that promotes teamwork.

Corporate Image has studied the internal corporate image of Varma since 1999. A survey was again conducted in February 2006. The response percentage was high at 81%. The overall satisfaction index for Varma employees continued to be much higher than the corresponding Finnish norm for clerical employees. The overall satisfaction index at Varma was 66.5 (2005: 65.4) compared with 61.1* for clerical employees in general.

According to the survey, Varma's greatest strengths continue to be its good working conditions, such as training and the physical work environment, and its supervisor-employee relations. The corporate image assessments of Varma employees had improved on the previous years. Employees were also more satisfied with internal communication and co-operation than previously.

* 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.

"The best service in the field is created from clear responsibilities and consistent practices."

Varma values updated with the help of 80 employees

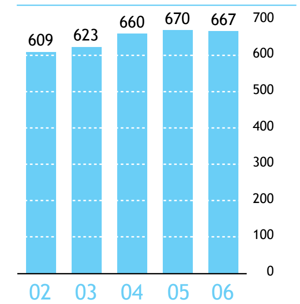
The Varma values were updated in spring 2006. About 80 Varma employees from different parts of the company participated in the review. The new Varma values are productiveness, client orientation and teamwork.

Service development director Elina Mäkinen participated in one of the focus groups that started off the value review. She considered it important that a large group of Varma personnel could get their voices heard during the review.

"To me it was obvious that Varma employees should participate in the review of values. Thanks to the high participation rate, the new values will not remain alien to personnel, but will be understood and shown in practice", she says.

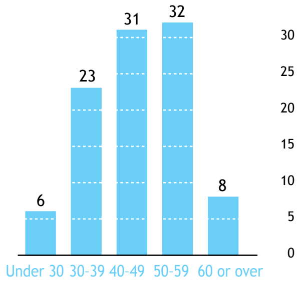
Elina Mäkinen believes that good values are the company's bedrock: you can turn to them to confirm everyday work choices and decisions

Number of staff by year

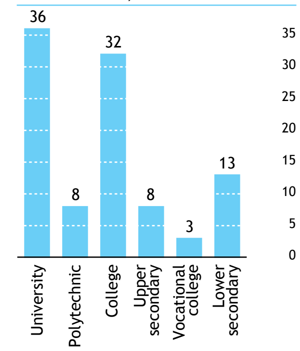


Present 31 December, 2006

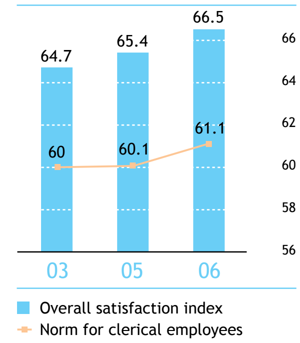
Age structure
31 December, 2006 %



Level of education
31 December, 2006 %



Overall satisfaction index of personnel in internal corporate image surveys by year



The survey was not carried out 2004

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, which in turn will contribute to strengthening public confidence in the earnings-related pension scheme.

Varma's governance is based on the Finnish Employee Pension Insurance Companies Act and the regulations of the Insurance Companies Act and the Companies Act specifically mentioned therein. Varma also compiles with the Corporate Governance Recommendation for Listed Companies 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.

In 2006, the Annual General Meeting was held on 22 March.

Supervisory Board

As prescribed in the Finnish Employee Pension Insurance Companies Act, Varma has a Supervisory Board that is responsible for supervising the company's administration by the Board of Directors and Managing Director.

The Supervisory Board has 28 members of which seven members are elected from among the candidates put forward by major employer organisations; correspondingly, seven members are representatives of major employee organisations. In 2006 the Supervisory Board convened three times. Average attendance was 60.9%. The members of the Supervisory Board are presented on page 31.

Remunerations to the Supervisory Board are decided by the Annual General Meeting. In 2006, an annual remuneration of €5,000 was paid to the Chairman of the Supervisory Board, €3,800 to the Deputy Chairmen and €2,500 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.

Varma's Board of Directors comprises 12 members and three deputy members. Board members, deputy members, the Chairman and the Deputy Chairmen are elected by the Supervisory Board. 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. The members of the Board of Directors are presented on pages 32–35.

The Board of Directors convened nine times in 2006. Average attendance was 87%, including deputy members.

"The point of departure for Varma's corporate governance is the company's core task: that of securing pensions."

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 2006. 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 Appointment 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 2006.

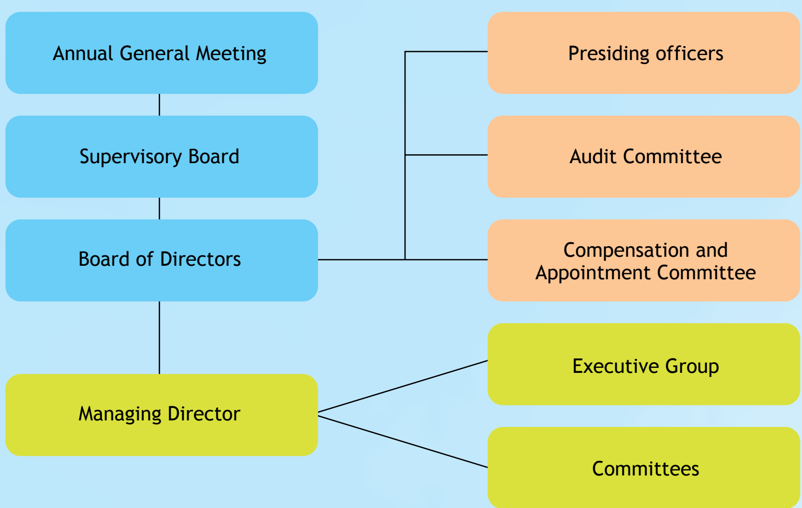
In its meeting held on 19 January 2006, the Board of Directors elected Jyrki Juusela, Mikko Mäenpää, Birgitta Kantola and Markku Pohjola as members of the Audit Committee; and Jyrki Juusela, Mikko Mäenpää and Ole Johansson as members of the Compensation and Appointment Committee.

Remunerations

Remunerations to the Board of Directors are decided by the Supervisory Board. In 2006, an annual fee of €20,000 was paid to the Chairman of the Board, €15,000 to the Deputy Chairman, €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 were the same as those paid to the Board members.

There are no members of the Executive Group on the Varma Board of Directors. Neither have any of the members of the Board of Directors had an employment relationship with or held a position in Varma in 2006 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.

Varma administration



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 seven 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. Varma's Executive Group is presented on pages 36–37.

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 plans

In 2006 the remunerations and fringe benefits received by Managing Director Matti Vuoria totalled €580,035. He is set to retire at the age of 62 and his pension will amount to 60% of the calculated pensionable salary.

The Managing Director's period of notice is six 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 €317,330 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.

Control systems

Varma's internal auditing assesses and develops internal control. It 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.

Varma's risk management and control systems are presented in the financial statements on pages 38–43.

The Annual General Meeting on 22 March 2006 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 2006, auditors' remunerations amounted to €210,000. In addition, the auditing company was paid €43,000 in consultation fees.

Supervisory Board

31 December 2006

Chairman
Pekka Paasikivi, born 1944
Chairman of the Board,
Oras Invest 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,
Oy Etra Ab and Tiiviste-Group Oy
Term expires 2008

Stig Gustavson, born 1945
Chairman of the Board,
KCI Konecranes 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

Tapio Huttula, born 1963
President, Federation of Special
Service and Clerical Employees ERTO
Term expires 2009

Matti Huutola, born 1959
Deputy Chairman of the Board,
Central Organisation of Finnish
Trade Unions
Term expires 2009

Erkki Isokangas, born 1946
Term expires 2009

Kari Jordan, born 1956
President & CEO, Metsäliitto Group
Term expires 2009

Seppo Koskinen, born 1946
Chief shop steward, Paroc Oy Ab
Term expires 2009

Tapio Kuula, born 1957
Senior Vice President,
Fortum Corporation
Term expires 2009

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 of the Board, Elcoteq SE
Term expires 2007

Matti Pulkki, born 1947
President, Sokotel Oy
Term expires 2009

Juha Rantanen, born 1952
President & CEO, Outokumpu Oyj
Term expires 2008

Antti Remes, born 1947
Managing Director,
Cooperative Tradeka Corporation
Term expires 2009

Helena Rissanen, born 1949
Director, Union of Salaried
Employees TU
Term expires 2008

Jyrki Salo, born 1960
Executive Vice President and CFO,
UPM-Kymmene Corporation
Term expires 2008

Jorma Takanen, born 1946
Group CEO,
Chairman of the Board, Scanfil Oyj
Term expires 2009

Pekka Tefke, born 1950
Managing Director,
Volvo Auto Oy Ab
Term expires 2009

Memberships that expired in 2006:

Matti Kyytsönen, born 1949
Term ended 30 August 2006

Mika Seitovirta, born 1962
Term ended 30 May 2006

Board of Directors

31 December 2006




Chairman
Jyrki Juusela, born 1943

Member as of 2004
Term expires 2007

Deputy Chairman
Ole Johansson, born 1951

President & CEO,
Wärtsilä Corporation
Member as of 2005
Term expires 2007

Chairman of the Board of Technology Industries of Finland, Vice Chairman of the Boards of Outokumpu Oyj and the Confederation of Finnish Industries EK

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 2009

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, born 1954

Chairman,
Finnish Paperworkers' Union
Member as of 2003
Term expires 2009

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 Confederation of Finnish Industries EK in SMI delegation

Erkki Kangasniemi,
born 1945

President, The Trade Union of Education in Finland, OAJ
Member as of 1998
Term expires 2007

President of the Public Sector Negotiating Commission JUKO, 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 Helsingin Op Pankki Oyj

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

Birgitta Kantola,
born 1948

Member as of 2004
Term expires 2006

Member of the Boards of Nordea Bank AB, Fortum Corporation, Stora Enso Oyj, Åbo Akademi and Vasakronan AB

Lasse Laatunen,
born 1950

Director, Confederation of Finnish Industries EK
Member as of 1998
Term expires 2009

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, Confederation of Finnish Industries EK
Member as of 1999
Term expires 2008

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 2009

Member of the Board of OMX AB

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

Arto Kuusiola, born 1952

Director, Central Organisation of Finnish Trade Unions SAK
Member as of 2006
Term expires 2007

Member of the Finnish Accounting Board
Elected on the proposal of the central employee organisations

Mikko Ketonen, born 1945

Chairman of the Board, TS-Yhtymä Oy
Member as of 1998
Term expires 2007

Chairman of the Board of Priimus Group Oy

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 2006

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

Vice Chairman of the Board of Sampo plc, member of the Boards of Danisco A/S, Stora Enso Oyj, Wärtsilä Oyj Abp and Garantia Insurance Company, Chairman of the Board of Winwind Oy, Chairman of the Board of the Finnish Pension Alliance TELA and member of the Board of Federation of Finnish Financial Services

Member of the Executive Group since 2004

Markku Hyvärinen

Executive Vice-President
Born 1948
Work experience includes:
Managing Director, Sampo Pension 1996–1998

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

Member of the Executive Group since 1998

Tiina Hellgrén

Senior Vice-President, Corporate Development
Born 1960
Work experience includes: Managing Director, Skandia Life Insurance Company (Finland) 2000–2005, Managing Director, Retro Life Insurance Company, Employees' Group Life Insurance Pool 1998–2000, Life Insurance Senior Manager, Federation of Finnish Insurance Companies 1998–2000

Member of the Executive Group since 2006

Risto Murto

Senior Vice-President, Chief Investment Officer, born 1963
Work experience includes:
Managing Director, Opstock Ltd 2000–2005, Head of Equities and Research, Opstock Ltd1997–2000

Member of the Boards of VVO-yhtymä Oyj and NV Kiinteistösijoitus Oy

Member of the Executive Group since 2006

Pasi Mustonen

Senior Vice-President, Chief Actuary
Born 1964
Work experience includes:
Actuary, Varma 1998–2001, Actuary, Sampo Pension 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

Senior Vice-President, 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 and Insurance
Born 1952
Work experience includes:
Senior Vice-President, Marketing, Sampo Pension 1996–1998

Member of the Boards of Kaleva Mutual Insurance Company and Fundservice RP Ltd.

Member of the Executive Group since 1998

Merja Haikonen

Employee representative
Born 1950
Work experience includes:
Lawyer, Varma 2003–

Employee representative in the Executive Group 2002–2003, employee representative in the Extended Executive Group 2004–2005, employee representative in the Executive Group from 2006

Secretary of the Executive Group is Tiina Hellgrén, Corporate Development Director.

Varma's Executive Group, 31 December 2006: Standing, from the left Matti Vuoria, Hannu Tarvonen, Pasi Mustonen, Jouko Oksanen, Risto Murto and Markku Hyvärinen. Sitting, from the left Tiina Hellgrén and Merja Haikonen.

Other management

Sakari Aaltonen, Administration
Marja Ahola, Pension Services
Carina Geber-Teir, communications (maternity leave)
Ralf Joutsenlahti, Corporate Clients
Pirkko Jääskeläinen, communications (acting up to 16 February 2007)
Eija Kaipainen-Perttula, Insurance Services/Major Clients
Timo Kaisanlahti, Legal Affairs
Asko Kinnunen, Development of Client Services
Ilkka Kohonen, Corporate Development (retired 31 December 2006)
Mikko Koivusalo, Capital Markets
Jorma Kuokkanen, Real Estate & Client Financing
Irmeli Otava-Keskinen, Information Management
Mika Pitkälä, Distribution Channels
Jukka Ruuth, Internal Auditing
Sakari Tola, Medical Affairs

Employee representatives

Marjaana Vuorinen, deputy for the employee representative until 31 August 2006
Asta Häkkinen-Tolvanen, deputy for the employee representative as from 1 September 2006

Consultant physicians

Mari Antti-Poika, born 1946
Per-Henrik Groop, born 1956
Juhani Juntunen, born 1943
Tuula Kieseppä, born 1963
Matti Klockars, born 1940
Heikki Nikkilä, born 1955
Pekka Palin, born 1950
Ritva-Liisa Peltomäki, born 1953
Henrik Riska, born 1945

Key terminology

Account transfer
Policyholders may transfer their earnings-related pension insurance from one company to another. The account must be terminated at the latest 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.

Client bonus
Rebate payable to TyEL (earnings-related pension) policyholders out of the provision for current bonuses. 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.

Derivative
A financial investment instrument, the value of which 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 in interest rate is fairly small.

Employees Pensions Act TyEL
The single private-sector earnings-related pension act, which entered into force on January 1, 2007. The new act replaces 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 provision for claims outstanding accumulated from the risk business result used to equalise any fluctuations in the technical underwriting 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 contribution component covering the total operating expenses of an earnings-related pension company, excluding expenses related to the maintenance of working capacity and to managing investments.

Investment allocation
Distribution of investments by asset class.

Investment surplus
Investment income at fair value can be calculated by deducting the return credited on technical provisions, which is based on the technical 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).

Life expectancy factor
The life expectancy factor will be used for the first time in 2009 in order to adjust the amount of old-age pension in line with rising life expectancy. A pension will be multiplied by the life expectancy factor determined separately for each age group at the age of 62, based on the last five years' mortality statistics. While the application of the life expectancy factor will reduce pensions, this can be compensated for by staying at work longer.

Liquidity
For example, the ability of the securities market 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.

Provision for current bonuses
Part of the provision for unearned premiums. Certain portions of the investment surplus and loading profit have been transferred to the provision for current bonuses on the basis of the company's solvency status. Reserved for the payment of client bonuses.

Provision for future bonuses
Part of the provision for unearned premiums that is included in the company's solvency capital. The remaining investment surplus and loading profit are transferred to the provision for current bonuses, which is used as a measure to prepare for investment value fluctuations.

Return requirement on technical provisions
Until 31 December 2006, the return requirement on technical provisions was

determined on the basis of the technical interest rate confirmed by the Ministry of Social Affairs and Health (see Technical interest rate). As of 2007, the return requirement on technical provisions comprises the fund rate used to calculate pension liabilities (3%), a supplement factor confirmed by the Ministry of Social Affairs and Health (2.46% from 1 January 2007), and a return on shares component determined later.

Solvency capital
Net insurance company assets that are used as a measure to prepare for fluctuations in investment values. Solvency capital is the excess of assets at fair value over liabilities. It comprises capital and reserves, provisions, the valuation difference and the provision for future bonuses.

Solvency requirements
Solvency requirements, or the minimum solvency capital, 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 capital are determined on the basis of the solvency limit. The minimum level of the solvency capital is two-thirds of the solvency limit. The lower limit of the target zone is twice and the upper limit four times the solvency limit. The formula for calculating solvency limits has changed as of 1 January 2007, and at the same time, the concept of target zone has been abolished.

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 interest rate
The interest credited on the technical provisions. The technical interest rate is confirmed, at the request of the pension companies, by the Finnish Ministry of Social Affairs and Health. The technical interest rate is determined biannually on the basis of the average solvency of all the earnings-related pension companies, and, on the basis of this rate, investment income is divided into actual technical provisions and solvency capital.

The technical interest rate stood at 6.0% until 30 June 2006, and at 6.5% until 31 December 2006. As of 1 January 2007, the technical interest rate will mainly be used only as the interest on insurance premiums and certain other items, and will be 5.5%.

Technical provisions
An estimate entered into the financial statements on the company's future pension expenditure for the part that is funded. Technical provisions comprise provision for unearned premiums and provision for claims outstanding. The provision for unearned premiums relates to the liabilities of the company for future contingencies for pensions that have accumulated by the end of the financial year. The provision for claims outstanding 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.

Technical underwriting result
For old-age, disability and unemployment pension business and unpaid contributions, the difference between the insurance contribution and claims expenditure. A positive balance on technical account adds to the equalisation provision and a negative result reduces the provision.

TyEL (earnings-related pension) 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 surplus, other returns and realised valuation gains entered into the income statement.

Valuation difference of investments
The difference between fair and book values of assets included in the solvency capital of an earnings-related pension company. Changes in valuation differences are added to the company's investment surplus.

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.

Contact information

Varma Mutual Pension Insurance Company
PO Box 1
FI-00098 Varma
FINLAND

Switchboard +358 10 515 13
Fax +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

Real Estate Investments
+358 10 514 5028

1499/04.07

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
Internet	www.varma.fi

VARMA

Report of the Board of Directors and Financial Statements 2006

VARMA

Varma Report of the Board of Directors and financial statements 2006

Financial statements

The complete set of financial statements and consolidated financial statements for 2006 are available at the company headquarters at Annankatu 18, Helsinki, Finland.

Report of the Board of Directors 2006

- Financial result totalled €1,121 (1,681) million
- Return on investment stood at 9.4 (11.6) per cent and market value of investments at €26.9 (24.6) billion
- Solvency was high, €6,666 (5,599) million, i.e. 32.1 (29.2) per cent
- Operating cost efficiency was good, and loading profit was €29 (24) million
- Premiums written increased by 8 per cent to €3.0 billion. The number of insured employees and entrepreneurs rose by 18,000 to 463,000
- Pensions totalling €2.6 billion were paid out to 296,000 people, an increase of 6 per cent on the previous year

Economic operating environment

Growth in the world economy continued to be strong, with the emerging economies of Asia acting as engines, and vigorous growth also continued in Europe. Export-led growth continued in Russia. The geographical distribution of economic growth has slightly reduced the dependence of the world economy on the economic trend in the USA. Domestic demand also improved in the developing countries, which, together with investments, increased the demand for western products, thus supporting improving financial performances by European companies, too. World market prices of crude oil and the rising trend in the prices of oil products turned downward at the end of the year.

In the USA, economic growth slowed down compared with the level of previous years. The rise in interest rates and the halt in the prolonged rise of housing prices reduced consumers' confidence in the economy. The growth in industrial output volumes slowed down. The fall in the price of oil supported growing demand and put the brakes on price increases. Towards the end of the year, growth in private consumption was also boosted by the employment situation, which remained good.

The central banks tightened their monetary policy and market rates rose. This led to somewhat poor returns on bond markets. The overall trend on capital markets was extremely good as a result of the favourable price trend on equity markets.

Economic growth strengthened in the euro area in 2006. Although many major euro countries still have significant structural problems, the recovery of the German economy was particularly encouraging. The structural factors of the economies in the euro area will, however, restrict potential economic growth in future years.

In Finland, economic growth was extremely strong. On the basis of preliminary data, growth in the gross domestic product will probably reach some six per cent. The economic cycle continues to be favourable for industrial enterprises, although growth in production volumes evened out towards the end of the year. Private investment seems to have increased slightly faster than expected. Private consumption grew substantially boosted by the good employment situation and increased borrowing. This was also reflected in a favourable employment trend. Demand for labour was lively in private services. The prolonged downward trend in the number of industrial jobs came to a halt and employment increased in many industrial sectors. Although the rate of unemployment continues to be relatively high, many companies say that labour shortages are restricting their growth potential.

Finland's earnings-related pension scheme

The pension reform that entered into force in the private sectors at the beginning of 2005 aimed at securing the financing of pension provision by extending working careers and increasing incentives within the scheme. It will take several years before a proper assessment can be made of how well the aims have been achieved. Flexible retirement between the ages of 63–68 allowed by the pension reform has not caused a rush for the old-age pension so far. Employment has improved rapidly among aged people, which can be regarded as a sign that the pension reform incentives are working. Progress in achieving the objectives of the pension reform is connected with the good economic situation. Apart from financial incentives, changes in attitudes will be decisive in achieving the objectives of the earnings-related pension reform. It would seem that people are beginning to postpone their retirement till later in the private sectors. The same favourable trend can be seen in both old-age and disability pensions. The rate of employment for the aged has also improved. The favourable downward trend in the number of disability pensions is probably in part due to the increase in vocational rehabilitation. According to research, a good working environment and interesting work are important incentives for continuing at work. Promotion of well-being at work and inputs in age management are important instruments in preventing labour shortages.

The earnings-related pension is calculated according to the regulations in force before 1 January 2005, if an employee was in an employment relationship on 1 January 2005 and the employment relationship continues up to retirement taking place by 2012. If the pension thus calculated is higher than that calculated according to the regulations of 2005, the difference is added to the pension. During the period 1 January 2005–15 September 2006, Varma made a total of 30,600 decisions on pension benefits to which the protective regulation applies. In one fifth of these cases, the portion covered by the protective regulation was calculated. This portion had an influence on the pension in 125 cases, an average of €11.97 in terms of money. The importance of the regulation has been minor, but the cost and amount of labour incurred have been considerable.

Contribution categories were adopted for major employers in the earnings-related pension company, determining the employer's employment-related pension contribution level in advance. In international calculation practice, disability pensions are treated as defined contribution pension plans.

The technical interest rate was 6.0 per cent up to 30 June 2006 and 6.5 per cent for the rest of the year. The average contribution level of TEL insurance was 21.6 (21.6) per cent of payroll. The employee's contribution was 4.3 (4.6) per cent of payroll for those under 53 years of age and 5.4 (5.4) per cent for those who were older. Furthermore, the average contribution was lowered temporarily by 0.6 percentage points in order to dissolve the surplus of disability pension contributions from previous years. Half of the reduction is allocated to the employee's contribution and half to the employer contribution based completely or in part on a tariff. The YEL contribution was 20.8 (21.4) per cent of the confirmed earnings for those under 53 and 21.9 (22.6) per cent for those who were older.

After the legislative amendment that came into force in April 2006, the level of the solvency capital transferred and received in transfers of insurance portfolios between pension institutions is defined as double the median of the solvency limits of pension institutions engaging in statutory earnings-related pension operations. The Ministry of Social Affairs and Health confirms the level of the solvency capital transferred twice a year.

A new Employees Pensions Act (TyEL) entered into force as of the beginning of 2007 in the private sector, replacing all the previous separate acts applying to the private sector. An employer can insure all its employees in the private sector with an insurance under a single act at a single earnings-related pension company. Connected with this is a major information systems project creating a joint earnings register at Arek Oy, a company jointly owned by the actors in the field. Part of the register came into operation at the beginning of 2007 as planned. According to the provisions of the Employees Pensions Act, the primary advisor in matters relating to implementation is the pension company at which the employer has its earnings-related pension insurance. For the employee, the primary advisor is the earnings-related pension company which has insured the employee most recently. Beginning in 2008, all employees aged 18–67 living in Finland will be sent an annual pension record showing all earnings entitling the person to a pension, other benefits and the amount of pension accrued. The composition and level of the TyEL contribution will be the same in 2007 as in the 2006 TEL contribution with the exception that in the major companies the age of the employee will no longer affect the percentage payable by the employer.

The Act on earnings-related pension companies and legislation on investment activities carried out by such companies were amended by legislation that entered into force at the beginning of 2007, based on an investigation carried out by rapporteur Matti Louekoski and an investment report issued by the pension negotiation group of the central labour market organisations in early 2006. The provisions of the Employees Pensions Act were updated to correspond to the amendments made in legislation on companies.

The objective of the new provisions on the solvency capital and technical provisions of earnings-related pension companies is to change the funding principles and the solvency mechanism so that pension institutions can increase the proportion of their equity investments in relation to their total investments and thus seek higher investment returns. The calculation of the solvency limit and the covering of the technical provisions will take into account the risks involved in investment more carefully than before and in keeping with the actual risk. At the same time the concept of target zone will be dropped. The reform will increase the Government's responsibility for arranging and controlling investment.

The capacity of earnings-related pension companies to bear investment risks will be strengthened with a new buffer balancing out the investment risk caused by fluctuations in equity values. The proportion of equity investments can be increased by some 10 percentage points over a transitional period of five years. The growth in equity investments is expected to improve the return percentage, which will keep the pressures to increase insurance contributions in check in the long term.

The technical bases concerning earnings-related pension insurance contributions and the determination of the technical provisions have also been revised. The technical interest rate is replaced with provisions on supplementing old-age pension funds. The value of the pension fund supplement factor is 2.64 per cent as of 1 January 2007. This value is determined every six months on the basis of the average solvency situation of pension companies. Furthermore, 10 per cent of the return requirement on the technical provisions will be tied to the equity returns of the pension companies over a flexible transitional period of five years. The 'equity return factor' is based on the average actual annual return on equity investments in pension companies. The return requirement on the technical provisions, which up to 31 December 2006 was derived directly from the technical interest rate will, as of 1 January 2007, consist of three components: the fund rate (3 per cent), the supplement factor and the equity return factor. From 1 January 2007 onwards, the rate for the oldest premium loans, insurance contributions and some other items is the technical interest rate confirmed every six months by the Ministry of Social Affairs and Health on application by earnings-related pension companies.

The investment report of the pension negotiation group of the central labour market organisations also proposed amending the client bonus mechanism regarding the loading profit so that incentives for earnings-related pension companies to make their operations more efficient would increase. In 2007 a separate working group will be examining to what extent the technical bases of earnings-related pension companies should be company-specific. The survey will cover the determination of all actual contribution components and client bonuses. As of the beginning of 2007, 25–50 per cent of the loading profit will be returned to clients faster than before. At the same time, the expense loading included in insurance contributions was amended as of the beginning of 2007 to make the average relation of operating costs and expense loading more even by client segment and to allow every earnings-related pension company an opportunity to achieve a positive loading profit.

Rapporteur Erkki Rajaniemi submitted his report on the competition situation within the earnings-related pension scheme on 11 January 2007. According to the report, the provisions obliging the pension companies to cooperate should be reassessed and specified further where necessary. Efficiency should be measured both at the level of the pension companies and the entire scheme. The goals of decentralised implementation of earnings-related pension provision and competition should be coordinated so that policyholders would benefit more clearly from competition. This would also advance the position of the insured and reduce the need to raise earnings-related pension contributions. Legislation should encourage and, where necessary, oblige pension companies to operate more efficiently.

Varma's financial trend

Varma's performance for 2006 was good and solvency was at a record high. The notes to the financial statements explain the composition of the result of the earnings-related pension company and present its balance sheet and income statement at fair value. The presentation method corresponds in principle to the IFRS if technical provisions are treated in accordance with current provisions. The total financial result at fair value came to €1,121 (1,681) million. The deterioration in the total financial result compared with the previous year is, on the one hand, due to a significant increase in the interest credited on the technical provisions and to reduced returns on the bonds market on the other. The notes present the components of the total result by comparing investment returns at fair value with the interest credited on the technical provisions (investment surplus), operating costs with the expense loading included in insurance contributions (loading profit) and the claims paid with the corresponding premiums written (balance on technical account).

The company's investment returns totalled €2,330 (2,499) million at fair value, i.e. 9.4 (11.6) per cent. Investment returns exceeded the interest credited on technical provisions by €1,124 (1,615) million. Varma's investment returns in 2002–2006 were on average 8.0 per cent, equalling a real return of 7.0 per cent. Efficiency kept operating costs 28 (25) per cent lower than the expense loading included in insurance contributions and the loading profit was €29 (24) million. A temporary reduction in the level of contributions caused the claims paid to exceed the corresponding premiums written, and the balance on technical account was estimated to be €–32 (43) million.

As a consequence of the good trend in the performance, Varma's solvency improved by €1,067 (1,613) million. The solvency capital was €6,666 (5,599) million at the end of the year and 32.1 (29.2) per cent of the technical provisions in accordance with the Decree on solvency. At the end of the year, the ratio of the solvency capital in relation to the solvency limit was 2.1 (2.4). The requirement concerning solvency capital follows the risk level of the company's investments. The solvency capital includes capital and reserves, accumulated appropriations, the provision for future bonuses and valuation differences of investments. The equalisation provision covering the risks of net claims decreased by €37 (40) million, totalling €910 (947) million.

Varma's balance sheet total at fair value was €27,557 (24,992) million.

The good performance trend allowed €78 (84) million to be transferred to the provision for current bonuses for clients. The transfer is about 0.58 (0.68) per cent of the payroll of the insured.

Insurance business

Varma is Finland's biggest earnings-related pension insurer in the private sector. The 2006 TEL payroll of those insured in the company totalled €13.4 (12.3) billion. The payroll is estimated to have grown by 7.3 per cent on the actual 2005 figure. The company's premiums written totalled €2,983 (2,764) million, of which the TEL basic insurance accounted for €2,846 (2,626) million and YEL insurance €125 (124) million. At the end of the year, Varma had some 463,500 (445,300) insured people, an increase of 18,200 on the previous year.

Varma did well in account transfers. Transfers to the company increased premiums written during the financial year by €15 million and Varma had greater success than other earnings-related pension insurance companies in this respect. Varma strengthened its position as an insurer of large corporations but lost some of its market share as an insurer of SMEs. In large companies disability cases affect the final contribution and Varma can influence them in cooperation with its clients through for instance, occupational well-being and rehabilitation. In addition to its own customer service, Varma serves policyholders via the service networks of If P&C Insurance Ltd and the Nordea Group.

	31 Dec. 2006	31 Dec. 2005	Change
Number of insured			
TEL [1]	426,090	408,650	17,440
YEL	37,360	36,650	710
Total	463,450	445,300	18,150
[1] TEL supplementary pension insurance	11,940	13,330	-1,390
Number of insurance policies			
TEL	25,200	25,170	30
Number of pensioners[2]			
Old-age pension	171,390	163,965	7,425
Survivors' pension	49,810	49,545	265
Disability pension	43,371	44,430	-1,059
Unemployment pension	11,513	13,109	-1,596
Early old-age pension	13,639	13,566	73
Individual early retirement pension	1,339	2,346	-1,007
Part-time pension	5,322	5,998	-676
Total	296,384	292,959	3,425
[2] Those receiving YEL pension	28,303	28,298	5
[2] Those receiving TEL/YEL supplementary pension	37,374	36,330	1,044

In 2006, €2,556 (2,401) million was paid out in claims. At the end of the year Varma was paying TEL and YEL pensions to some 296,000 (293,000) people. Processing of pension decisions was faster than average at Varma in all pension benefits. During the year, 21,844 (22,356) new pension decisions were made, a decrease of 2.3 per cent on the previous year. Also made were 4,945 (4,832) continuation decisions, 2,505 (2,324) advance decisions and 13,980 (13,796) other decisions. The number of old-age pension decisions (6,550) fell by well over 11 per cent, as three age groups had, exceptionally, reached the lower limit for old-age pension at the same time in the previous year. The number of first decisions on unemployment pensions (3,224) rose by close on 20 per cent. The rejection percentage for disability pensions was some 22 (23) per cent. The pension reform would appear to support staying at work longer and postponing retirement, but no firm conclusions can as yet be drawn on the progress made towards the objectives of the pension reform.

Through Varma's online service, insured employees can obtain estimates of their old-age and part-time pensions at various retirement ages. Some 41,000 (38,000) pension estimates were obtained through the online service. Apart from this, Varma mailed an age group calculation to 49,000 (37,000) TEL-insured people in 2006. Calculations went to insured employees aged 30, 35, 40, 45, 50 and 55 and those born in 1948–1949. All those with YEL insurance received a similar calculation with information on the impacts of the pension reform. Well over 11,000 insured persons with additional benefits received an estimate of their pension at the time of their retirement age.

In connection with the pension reform, a great many changes were made in the information systems, inputs were made in personnel training and advisory customer sessions were organised. Varma started a major new information technology project with the Local Government Pensions Institution in order to build a new claims payment system. As of the beginning of 2007, short-term employment has been dealt with online via the Pesti service for temporary employment and the monthly notification service for contract customers.

Technical provisions

Technical provisions amounted to €23,774 (21,824) million, up by 8.9 (9.0) per cent. They include a provision of €77 (85) million for current client bonuses and a provision €3,008 (2,640) million for future bonuses included in the solvency capital. The equalisation provision was €910 (947) million. A transfer of €1 million was made to Varma from a pension foundation. The assets covering the technical provisions accounted for 111 (114) per cent of the provisions.

Investment

The value of Varma's investments totalled €26,858 (24,621) million. Loan receivables accounted for €931 (954) million, bonds for €10,374 (11,570) million, other money-market instruments and deposits for €389 (620) million, shares and holdings for €12,428 (8,761) million and real estate investments for €2,737 (2,716) million. The investment distribution was as follows: loan receivables 4 (4) per cent, bonds 39 (47) per cent, other money-market instruments and deposits 1 (3) per cent, shares and holdings 46 (36) per cent and real estate investments 10 (11) per cent. Shares and holdings also include investments in e.g. private equity funds and hedge funds. The structure of the investment portfolio changed substantially: the weight of fixed-income investments was reduced and that of shares and holdings and alternative investments raised correspondingly. On the basis of the past year's return trend this shift proved to be profitable.

Varma's return on investment at fair value was €2,330 (2,499) million. The return on invested capital was 9.4 (11.6) per cent and was divided as follows: loan receivables 4.7 (4.5) per cent, bonds 0.8 (4.5) per cent, other money-market instruments and deposits 3.2 (2.0) per cent, shares and holdings 20.8 (29.4) per cent and real estate investments 7.9 (6.0) per cent.

The good return on investment was due in particular to the strong favourable trend on the equities market towards the end of the year. Also the composition of the investment portfolio and the trend it showed were favourable in relation to the market situation. Out of all investments, the best return was achieved by equities with a return of 20.8 (29.4) per cent. In a geographical comparison, Finnish companies recorded the best trend, which shows it was worthwhile giving additional weight to domestic equities. Domestic listed shares came to €3,180 (2,367) million. The market value of the Sampo shares owned by Varma was €1,002 million with a return of 47 per cent. Of other areas, primarily emerging markets were able to compete with Finnish equities in terms of equity returns. The poorest returns in the portfolio were achieved by the investments made in Japan. A total of €690 (490) million was invested in private equity funds. Apart from this, commitments have been made to subscribe shares in private equity funds to the amount of €710 (544) million.

The return on fixed-income investments rose and was slightly positive, having been negative in the first half of the year. The low return level was due to increases in long-term interest rates. The fixed-income portfolio was hedged in the first half of the year, which is why the return on the fixed-interest portfolio was higher than average bond return indices. The return on bond investments was 0.8 (4.5) per cent, while the return of the Salomon Euro Government index was –0.4 (5.5) per cent and that of the Merrill Lynch Euro Corporate index 0.6 (4.0) per cent. Listed public corporation bonds accounted for €5,606 (6,455) million of all bonds, listed financial institution bonds €2,761 (2,687) million and listed corporate bonds €1,610 (2,081) million. The average risk-weighted credit rating of the bond portfolio was A as at the end of the previous year. The average maturity of the fixed-income portfolio was 5.5 (4.3) years at the end of 2006.

Varma's hedge fund investments yielded the targeted return in 2006. During the year, assets were transferred from fixed-interest investments to these 'absolute yield' funds. The return on these funds was between the fixed-interest and equity returns as expected.

In 2006 returns on real estate investment reached a record high. At the turn of the year, the company had three major construction projects under way in the Helsinki Metropolitan Area: a head office and investment property in Salmisaari, an office property in Leppävaara (Panorama Tower) and a recreation centre in Vantaa (Aviapolis). During the year, direct investment of €198 (144) million went into these properties and sales came to €314 (24) million. A sum of €16 (28) million was invested in domestic real estate funds and €117 (38) million in foreign real estate funds. Apart from this, commitments have been made to subscribe shares in real estate funds for €517 (162) million. Varma's ownership share in SATO Corporation Plc housing investment and development company rose to 23 per cent in May. In July, Varma sold 116 retail properties for €74 million to an investment company owned by the real estate fund Sveafastigheter Fund II and HGR Property Partners Oy. In addition, Varma and Nordea Life Finland Ltd set up NV Kiinteistörahasto I Ky real estate fund. Varma holds a 45 per cent interest in this fund's general partner, NV Kiinteistösijoitus Oy. The three hydro power plants on the River Kymijoki were sold to UPM-Kymmene Plc for €126 million.

At the end of 2006, the lettable surface area of the real estate properties owned by Varma Group stood at some 1.9 million square metres. The vacancy rate for operating premises was 5.2 (5.2) per cent. Divided by invested capital, office and business premises accounted for 61 per cent of the real estate portfolio, housing for 19 per cent, industrial and warehouse facilities for 18 per cent and other facilities for 2 per cent.

Construction work on the €100 million operating premises complex in Salmisaari, Helsinki, started in June. Some fifty per cent of the premises will be used by Varma, and they will be completed in summer 2008. Varma will let its current head office property in Annankatu to the European Chemicals Agency, which will start using the property gradually in spring 2007.

A total of €142 (147) million was taken out in new loans; 58 (74) per cent of them were with a guarantee. The average remaining maturity was 6.5 (7.9) years.

The increase in equity investments in particular has raised the risk level of the portfolio, and they are clearly the most significant risk factor. Planned risk-taking has been profitable in recent years and in the long term. Varma has made material inputs in portfolio risk management and its methods. The VaR figure measuring the overall investment risk rose by €249 million during the year and stood at €747 (498) million at the end of the year. In this context VaR refers to the expected value of losses exceeding the VaR figure calculated for one month at a 97.5 per cent reliability.

For the second consecutive year, Varma participated in an independent international survey charting the effectiveness of investment activities. According to the survey, the profitability and cost-effectiveness of Varma's investment activities reflect a good level by international terms. Varma's investment expenses are as low as 0.18 per cent of the value of investments, i.e. slightly over half of the international benchmark for pension funds of the same size. Portfolio management costs are low since Varma manages its assets itself.

The key areas in Varma's share ownership policy are high-standard governance in the companies owned, transparency of operations, active engagement and incentive schemes for key personnel. In spring 2006 Varma attended the annual general meetings of all the domestic companies it owns and 89 AGMs outside Finland.

Operating expenses

Varma used 72 (75) per cent of the expense loading received to cover operating expenses. This percentage illustrating cost-effectiveness is the best of all time in Varma's history and competitive throughout the earnings-related pension sector. The company's cost-effectiveness will mean direct benefits for those insured at Varma and Varma's policyholders.

Human resources and information technology expenses account for more than 80 per cent of Varma's operating expenses. Operating expenses totalled €90 (84) million, up 7 (7) per cent on the previous year. The judicial administration fee of the Appeal Board (€0.9 million), which was included under statutory payments charged by the Finnish Centre for Pensions in 2005, is recorded under operating expenses in 2006. From 2007 onwards, charges recorded under the Finnish Centre for Pensions operating expenses will increase considerably and statutory payments will be reduced correspondingly.

At the year-end, Varma Group personnel excluding temporary employment relationships numbered 847 (840), of whom 667 (670) worked at the head office. Varma has a performance-based reward scheme covering the entire personnel and consisting of a company-specific and personal component. The company-specific component is affected by performance in investment, customer acquisition, operating expenses, and efficiency of pension and insurance processes.

The proposals for improving efficiency produced in connection with the efficiency survey carried out in the company in 2005 were implemented in operating processes and resource employment. Varma must carry out the entrusted executive function in the earnings-related pension scheme efficiently and thereby manage the assets of both current and future pensioners as well as possible. Varma's objective as part of the competition in the earnings-related pension business and improvement of operations is to reduce the number of personnel at the parent company from the present 670 to some 600 by 2010. This will be carried out primarily through an internal rearrangement of functions. Varma will move to Salmisaari in Helsinki in summer 2008; the new functional facilities will allow for more efficient operations and cost savings.

The most important outsourcing partners for Varma in information processing services are TietoEnator Pension Insurance Oy, TietoEnator Esy Ltd and Arek Oy. Arek will start charging for its earnings register system in 2007, and this will cause an increase in Varma's information management expenses, since the construction costs of the system will be amortized within 10 years. In the earnings-related pension business, the amount of administrative expenses is affected by the large amount of different pension legislation and the coordination of the needs of the various actors.

Varma's marketing communications implemented a successful campaign with the theme 'Good work'. The aim is to give Varma a distinctive profile among its competitors as an efficient actor that consumers find easy to approach.

Group companies and associates

At the end of 2006 Varma Group comprised 189 (227) subsidiaries and 39 (69) associates, primarily real estate companies. The most important subsidiaries and associates that are not real estate companies are TietoEnator Esy Ltd (50.1%), Silta Oy (39.1%), Ovenia Oy (28.8%), Garantia Insurance Company Ltd (27.5%), Sato Corporation (23.4%) and NV Kiinteistösijoitus Oy (45%). Varma Group also owns 50% of the guarantee capital of Kaleva Mutual Insurance Company.

Governance

At Varma's Annual General Meeting, the policyholders hold some 78 per cent of the voting power and the insured some 20 per cent, while the guarantee capital owner Sampo Group has some 2 per cent of the votes.

The Varma AGM held on 22 March 2006 re-elected Matti Huutola, Seppo Koskinen, Tapio Kuula, Antti Remes, Erkki Isokangas, Matti Pulkki, Jorma Takanen and Pekka Tefke as members of Varma's Supervisory Board. Antti Rinne was replaced by Tapio Huttula, Jukka Alho by Kari Jordan and Kari Toikka by Jyrki Salo. The Supervisory Board elected Pekka Paasikivi as its chairman and Jukka Härmälä and Sakari Tamminen as Deputy Chairmen. APA Mauri Palvi and APA Jaakko Nyman were elected auditors by the AGM and KPMG Oy Ab and APA Paula Pasanen deputy auditors.

At its meeting held on 1 December 2006 the Supervisory Board re-elected to the Board of Directors Birgitta Kantola, Lasse Laatunen, Mikko Mäenpää and Markku Pohjola, whose terms on the Board of Directors were coming to an end. The Chairman of the Board was Jyrki Juusela and Ole Johansson and Mikko Mäenpää were Deputy Chairmen. The Board elected Jyrki Juusela, Mikko Mäenpää, Birgitta Kantola and Markku Pohjola members of the Audit Committee and Jyrki Juusela, Mikko Mäenpää and Ole Johansson members of the Compensation and Appointment Committee.

Governance and risk management are discussed in more detail in the notes to the financial statements.

Outlook

Steady growth is expected to continue in world economy. Apart from geopolitical tension, the greatest threat to favourable economic development is presented by the uncontrolled release of imbalances within the global economy. In Finland, economic growth is expected to slow down slightly on the previous year, but to continue at a steady pace nevertheless. The improving trend in employment is also likely to slow down. Monetary policy is not expected to tighten significantly, which is expected to result in an evening out of the rise in short-term interest rates. Corporate income levels are likely to remain strong and the basic premises for equity markets to stay good. As a whole, however, the investment environment will be more challenging than in the past year.

The model of a flexible old-age pension according to the pension reform seems to be working. The trend in the volume of rehabilitation has also been in line with the pension reform's objectives. The rise in the level of earnings-related pensions is expected to continue. At the moment the income of pensioners is some 70 per cent of the level of those working in a profession, if the income of those living in the same household, taxation and current transfers are taken into account. As the earnings-related pension scheme is largely based on the pension contributions payable on employment relationships, it will be of decisive importance to ensure the good development of production in Finland. A favourable productivity trend, sufficient supply of labour and prolonged working careers will be key issues.

The reform of the legislation on earnings-related pensions at the beginning of 2007 will pose a major challenge to the efficiency of information systems, personnel expertise and ability to act in a new competitive environment now that even short-term employment relationships can be insured in Varma. The extensive changes in information systems and operating modes relating to the new Act were carried out as planned. The expected annual increase of 3–5 per cent in the number of pension applications and the long transitional period for the pension reform involving parallel calculation models will keep the work load heavy in the next few years. Inputs have been made into personnel expertise and revising operating procedures. It is Varma's duty to operate efficiently, since it manages the assets of current and future pensioners. Critical self-evaluation and continuous improvement of processes will play a key role in increasing efficiency. Development of regulations concerning the sector in a manner that is conducive to competition will give opportunities to improve the efficiency of the executive function.

The new technical provisions and solvency regulations concerning investment will allow increased opportunities to seek better returns on the pension assets. Raising the return level in the long term will reduce the pressure to increase earnings-related pension contributions. Varma has prepared well for these regulatory changes and has sufficient resources to carry out its duties efficiently.

Income statement

1 Jan.–31 Dec., € million	PARENT COMPANY 2006	2005	GROUP 2006	2005
Technical account				
Premiums written	**2,983.3**	2,763.9	**2,983.3**	2,763.9
Investment income	**2,732.0**	2,100.1	**2,711.1**	2,081.2
Claims incurred				
Claims paid	**-2,578.0**	-2,420.1	**-2,578.0**	-2,420.1
Total change in provision for claims outstanding	**-911.9**	-500.1	**-911.9**	-500.1
Portfolio transfer	**1.2**	136.1	**1.2**	136.1
	-3,488.7	-2,784.2	**-3,488.7**	-2,784.2
Change in provision for unearned premiums				
Total change	**-1,038.3**	-1,295.5	**-1,038.3**	-1,295.5
Portfolio transfer	**-2.5**	331.3	**-2.5**	331.3
	-1,040.8	-964.1	**-1,040.8**	-964.1
Statutory charges	**-14.5**	-12.4	**-14.5**	-12.4
Operating expenses	**-55.9**	-53.3	**-55.9**	-53.3
Investment charges	**-1,100.9**	-1,038.8	**-1,088.1**	-1,032.9
Balance on technical account	**14.6**	11.2	**6.5**	-1.8
Non-technical account				
Balance on technical account	**14.6**	11.2	**6.5**	-1.8
Share of associated companies' profit			**4.2**	-0.2
Income taxes on ordinary activities				
Taxes for the financial year	**-4.0**	-3.5	**-4.2**	-3.5
Profit/loss on ordinary activities after taxes	**10.6**	7.8	**6.5**	-5.5
Appropriations				
Change in depreciation difference	**0.2**	0.0		
Income taxes				
Taxes for the financial year	**-0.0**	-0.0		
Minority interest in the result for the financial year			**0.1**	0.5
Profit/loss for the financial year	**10.7**	**7.8**	**6.6**	**-5.0**

Balance sheet

31 Dec., € million	PARENT COMPANY 2006	2005	GROUP 2006	2005
Assets				
Intangible assets				
Other expenses with long-term effects	**0.5**	0.5	**0.5**	0.5
Investments				
Real estate				
Real estate and real estate shares	**1,504.2**	1,675.6	**2,066.1**	2,245.8
Loans to Group companies	**630.1**	611.5		
	2,134.3	2,287.1	**2,066.1**	2,245.8
Investments in Group companies				
Shares and participations in Group companies	**4.3**	4.5	**0.7**	1.3
Loans to Group companies	**1.3**	0.6	**1.3**	0.6
Shares and participations in associates	**57.9**	1.4	**61.8**	3.2
	63.5	6.4	**63.8**	5.0
Other investments				
Shares and participations	**9,684.0**	6,978.1	**9,699.9**	6,993.6
Money-market instruments	**9,920.8**	11,193.2	**9,920.8**	11,193.2
Loans guaranteed by mortgages	**163.7**	113.3	**163.7**	113.3
Other loans	**753.5**	826.0	**753.5**	826.0
Deposits	**329.5**	60.7	**329.5**	60.7
	20,851.5	19,171.2	**20,867.4**	19,186.8
	23,049.2	21,464.8	**22,997.3**	21,437.6
Receivables				
Direct insurance operations				
Policyholders	**117.0**	66.5	**117.0**	66.5
Other receivables				
Other receivables	**306.0**	254.8	**313.0**	256.3
	423.0	321.3	**430.1**	322.9
Other assets				
Tangible assets				
Furniture and fixtures	**3.9**	4.2	**3.9**	4,.2
Other tangible assets	**0.6**	0.6	**0.6**	0.6
	4.5	4.7	**4.5**	4.7
Cash at bank and in hand	**243.8**	35.3	**244.7**	36.5
	248.2	40.0	**249.1**	41.3
Prepayments and accrued income				
Accrued interest and rent	**264.6**	279.6	**265.1**	280.2
Other prepayments and accrued income	**22.0**	4.5	**23.0**	4.6
	286.6	284.1	**288.1**	284.8
TOTAL ASSETS	**24,007.5**	22,110.7	**23,965.0**	22,087.0

31 Dec., € million	PARENT COMPANY 2006	2005	GROUP 2006	2005

Liabilities

Capital and reserves				
Guarantee capital	**11.9**	11.9	**11.9**	11.9
Other reserves	**53.6**	46.6	**53.6**	46.6
Profit/loss brought forward	**0.1**	0.1	**-43.9**	-31.1
Profit/loss for the financial year	**10.7**	7.8	**6.6**	-5.0
	76.4	66.4	**28.2**	22.3
Accumulated appropriations				
Depreciation difference	**0.3**	0.4		
Minority interest			**16.7**	28.5
Technical provisions				
Provision for unearned premiums	**15,986.6**	14,948.3	**15,986.6**	14,948.3
Provision for claims outstanding	**7,787.7**	6,875.8	**7,787.7**	6,875.8
	23,774.3	21,824.1	**23,774.3**	21,824.1
Liabilities				
Direct insurance operations	**7.6**	6.4	**7.6**	6.4
Other liabilities	**128.2**	156.8	**117.1**	148.8
	135.7	163.2	**124.7**	155.2
Accruals and deferred income	**20.8**	56.5	**21.2**	56.8
TOTAL LIABILITIES	**24,007.5**	22,110.7	**23,965.0**	22,087.0

Statement of source and application of funds

	PARENT COMPANY		GROUP	
1 Jan.–31 Dec. € million	**2006**	2005	**2006**	2005
Cash flow from operations				
Gain/loss on ordinary activities	**14.6**	11.2	**6.5**	-1.8
Adjustments				
Changes in technical provisions	**1,950.2**	1,795.6	**1,950.2**	1,795.6
Impairments and revaluations on investments	**40.3**	44.7	**40.3**	38.9
Depreciation according to plan	**20.3**	21.1	**67.5**	72.2
Capital gain and loss	**-786.3**	-446.1	**-790.6**	-446.0
Cash flow before change in working capital	**1,239.2**	1,426.5	**1,274.0**	1,458.9
Change in working capital:				
Increase (-) / decrease (+) in non-interest-bearing short-term receivables	**-104.2**	28.9	**-110.5**	24.2
Increase (-) / decrease (+) in non-interest-bearing short-term debts	**-63.2**	81.5	**-66.2**	82.6
Cash flow from operations before taxes	**1,071.7**	1,531.8	**1,097.2**	1,565.7
Direct taxes paid	**-4.1**	-3.5	**-4.2**	-3.5
Cash flow from operations	**1,067.7**	1,528.4	**1,093.1**	1,562.2
Cash flow from investments				
Net investments and proceeds from asset sales	**-857.4**	-1,560.4	**-883.1**	-1,593.8
Investments and gains on intangible, tangible and other assets	**-1.0**	-1.0	**-1.0**	-1.0
Cash flow from investments	**-858.4**	-1,561.4	**-884.2**	-1,594.9
Cash flow from financing				
Interest paid on guarantee capital and other profit distribution	**-0.8**	-0.7	**-0.8**	-0.7
Cash flow from financing	**-0.8**	-0.7	**-0.8**	-0.7
Change in financial resources	**208.5**	-33.8	**208.1**	-33.4
Financial resources, 1 Jan.	**35.3**	69.1	**36.5**	69.9
Financial resources, 31 Dec.	**243.8**	35.3	**244.7**	36.5

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 Employee Pension Insurance Companies Act. 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 parent company has 187 (227) real estate companies and 2 (2) other companies as subsidiaries. The companies belonging to the Group are listed in the notes to the financial statements.

The consolidated financial statements have been compiled as combinations of the income statement 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. However, Tietoenator Esy Ltd has been consolidated using the equity method. Subsidiaries acquired during the year have been consolidated from the moment of acquisition. The minority interest in the result and the capital and reserves are shown under their own separate heading.

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. Revaluations on Group shares are shown in the consolidated balance sheet as a revaluation of real estate owned by a subsidiary.

Associated 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 associated companies. 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 associated companies' profit or loss is included in the consolidated income statement. The Group's share of the associated companies' profit or loss produced after the day of acquisition is added in the consolidated balance sheet to the acquisition cost of the associated company in question. Investments in associates are listed in the notes to the balance sheet.

Copies of the complete set of consolidated financial statements are available at the parent company's headquarters, at Annankatu 18, FI-00120 Helsinki, Finland.

Valuation and deferral of investments and their fair values
Real estate portfolio
Investments in real estate are entered at the lower of acquisition cost less depreciation, plus revaluation or fair value. The fair values of real estate 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 real estate is estimated annually. No real estate revaluations have been entered for the year 2006.

Shares and participations are entered in the balance sheet at the lower of acquisition cost or fair value. Previous value adjustments on securities are entered in the income statement as value readjustments 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. Investments in private equity funds are entered in the balance sheet at fair value estimated by the management company or, if this is not available, at acquisition cost. Investments in mutual funds 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 the lower of acquisition cost or fair value. Changes in value due to interest rate fluctuations are not entered. The difference between the nominal value and acquisition cost of the money market instruments is allocated to interest income and its reduction over the maturity of the instrument. The counterpart entry for the allocations entered as an increase or decrease in the acquisition cost is shown in the notes to the balance sheet. The acquisition cost is the average price calculated for each instrument.

Derivative contracts for hedging purposes are valued together with the hedged item. If no change in value has been entered in the income statement for the hedged balance sheet item, no entry has been recorded in the income statement 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 income statement. 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 rate at the balance sheet date. Currency conversion differences are entered as adjustments to income and expenses. Currency conversion differences for cash at bank and in hand 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 29 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
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

Profit for the year, and capital and reserves

In an earnings-related pension insurance company, the parent company's profit after taxes in the income statement 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.

Solvency capital

Solvency capital is calculated as the difference between the assets and debts valued at fair value. In this calculation, the provision for future bonuses, 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 capital.

Solvency capital 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.

Deferred tax liabilities or assets have 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 deferred tax liability or receivable 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 income statement, the 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 plans

The pension coverage for the personnel is arranged through TEL insurance and supplementary pension insurance. The pension plans of the President and CEO and his deputy are explained in the notes to the financial statements.

Balance sheet and income statement at fair value

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.

The main components of the solvency capital shown separately and measuring solvency in the balance sheet are the capital and reserves, provision for future bonuses, depreciation difference and valuation differences of investments. The provision for current bonuses reserved for the payment of client bonuses and the equalisation provision are shown on their own lines. Investments and their net return are shown at fair value. The interest credited on technical provisions is included under change in technical provision. The company's operating expenses have been combined into one line in the income statement.

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 return 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

Group companies

The following companies are included as new subsidiaries in Varma's consolidated financial statements:
Kiinteistö Oy Helsingin Hiilipiha
Kiinteistö Oy Helsingin Hiiliranta
Kiinteistö Oy Kouvolan Lehtikaari 3
Kiinteistö Oy Lönnrotinkatu 12 A
Kiinteistö Oy Porvoon Kuninkaantie 1
Kiinteistö Oy Turun Aninkaistenkatu 13
Kiinteistö Oy Vantaan Tasetie 8
Old Mill Oy

In addition, the Group comprises the following 181 subsidiaries:
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 Lintuvaarantie 37-39
Asunto Oy Espoon Pyölinpuisto
Asunto Oy Espoon Rautiaisentie 21
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 Jyväskylän Kiramo 4
Asunto Oy Katajaharjuntie 22
Asunto Oy Kokkovuori
Asunto Oy Korkeavuorenkatu 2 a
Asunto Oy Kuokkalan Tahkonkartano
Asunto Oy Lahden Kulmakatu 10
Asunto Oy Lahden Kulmakatu 12
Asunto Oy Lahden Lahdenkatu 39
Asunto Oy Lahden Massinhovi
Asunto Oy Lahden Massinpoiju
Asunto Oy Lahden Ritaripiha
Asunto Oy Linnantie 3
Asunto Oy Merihauki
Asunto Oy Neilikkatie
Asunto Oy Niittymaanpuisto
Asunto Oy Näkinkuja 4
Asunto Oy Oulun Lehmuskuja
Asunto Oy Paatsamatie 3
Asunto Oy Paratiisintie
Asunto Oy Raision Tasontorni
Asunto Oy Rovaniemen Välirakka
Asunto Oy Siltavoudintie 1
Asunto Oy Taivalpolku
Asunto Oy Tampereen Jankansampo
Asunto Oy Tampereen Kultaköynnös
Asunto Oy Tampereen Näsijärvenkatu 3
Asunto Oy Tampereen Palatsinraitti 1
Asunto Oy Tampereen Puuvillatehtaankatu 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 Turun Metallikatu
Asunto Oy Vantaan Kaivoslähde
Asunto Oy Vantaan Käräjäkuja 1
Asunto Oy Vantaan Vernissakatu 5
Asunto Oy Väinämöisenkatu 7
Hakunilan Kiinteistöt Oy
Helsingin Kiinteistösijoitus Oy
Kiinteistöosakeyhtiö Varma
Kiinteistö Oy Ahertajantie 3
Kiinteistö Oy Arabian Parkki
Kiinteistö Oy Arinatie 6
Kiinteistö Oy Aspius
Kiinteistö Oy Atomitalo
Kiinteistö Oy Avia Prima
Kiinteistö Oy Eerikinkatu 24
Kiinteistö Oy Elocinkulma 3
Kiinteistö Oy Espoon Kamreerintie 2
Kiinteistö Oy Espoon Kiltakallionrinne
Kiinteistö Oy Espoon Komentajan-Varma
Kiinteistö Oy Espoon Niittyhaka
Kiinteistö Oy Espoon Ruukinmestarintie 2
Kiinteistö Oy Fredrikinkatu 42
Kiinteistö Oy Friisikeskus
Kiinteistö Oy Gigahermia
Kiinteistö Oy Haunistenniitty
Kiinteistö Oy Heinolan Lampikatu 16
Kiinteistö Oy Helsingin Itämerenkatu 11-13
Kiinteistö Oy Helsingin Lemuntie 7
Kiinteistö Oy Helsingin Lönnrotinkatu 18
Kiinteistö Oy Helsingin Malminkatu 28
Kiinteistö Oy Helsingin Putkitie 3
Kiinteistö Oy Helsingin Ratavartijankatu 5
Kiinteistö Oy Helsingin Ristipellontie 16
Kiinteistö Oy Helsingin Tapulikaupungintie 13
Kiinteistö Oy Helsingin Valimopolku 4
Kiinteistö Oy Helsingin Valimotie 9-11
Kiinteistö Oy Helsingin Valimotie 16
Kiinteistö Oy Helsinki Niittylänpolku 10
Kiinteistö Oy Hotelli Torni
Kiinteistö Oy Hämeenkatu 23
Kiinteistö Oy Hämeentie 135
Kiinteistö Oy Itäinen Rantakatu 60
Kiinteistö Oy Itälahdenkatu 15-17
Kiinteistö Oy Itälahdenkatu 22 A
Kiinteistö Oy John Stenberginranta 2
Kiinteistö Oy Juhana Herttua 3
Kiinteistö Oy Jyväskylän maalaisk. Kotikeskus
Kiinteistö Oy Jyväskylän Mattilanniemi
Kiinteistö Oy Jämsän Torinkulma
Kiinteistö Oy Kaarenhanka
Kiinteistö Oy Kaikukatu 7
Kiinteistö Oy Kangasalan Vihervarpu
Kiinteistö Oy Kempeleen Kurikkatie 12
Kiinteistö Oy Keskustahotelli
Kiinteistö Oy Koirasaarentie 1
Kiinteistö Oy Koivuhaanportti 10
Kiinteistö Oy Kolmisopentie 3
Kiinteistö Oy Koroppa
Kiinteistö Oy Koskikastanja
Kiinteistö Oy Kotkan Suursaarenkatu 1
Kiinteistö Oy Kuparitie 2
Kiinteistö Oy Kuutosseppä
Kiinteistö Oy Lahden Jussilankatu 6
Kiinteistö Oy Lahden Tupalankatu 3
Kiinteistö Oy Lahden Virastotalo
Kiinteistö Oy Lammin Työkeskus
Kiinteistö Oy Lappeenrannan Patria
Kiinteistö Oy Lassilanlinna
Kiinteistö Oy Lohjan Sampotalo
Kiinteistö Oy Loimaanportti
Kiinteistö Oy Lönnrotinkatu 12
Kiinteistö Oy Menotie 1
Kiinteistö Oy Metsäpojankuja 1
Kiinteistö Oy Miekkoniemen Kauppakeskus
Kiinteistö Oy Myyrkumpu
Kiinteistö Oy Mälikkäläntalo
Kiinteistö Oy Nummenvaara
Kiinteistö Oy Nurmijärven Liiketalo
Kiinteistö Oy Olarinluoma 9
Kiinteistö Oy Oulun Kallisensuora 5
Kiinteistö Oy Oulunkyläntori 1
Kiinteistö Oy Oulun Tulliväylä 3
Kiinteistö Oy Oulun Tyrnäväntie 6
Kiinteistö Oy Palokanvarma
Kiinteistö Oy Pappilanrinteen Liiketalo
Kiinteistö Oy Partolan Kauppajätti
Kiinteistö Oy Pharma City
Kiinteistö Oy Porel
Kiinteistö Oy Porin Eteläväylä 2
Kiinteistö Oy Rajasampaanranta 2
Kiinteistö Oy Rastilan Liikekeskus
Kiinteistö Oy Savonkatu 21
Kiinteistö Oy Scanaine
Kiinteistö Oy Sinihelmi
Kiinteistö Oy Sompasaaren Tukoeka
Kiinteistö Oy Spektrin Trio
Kiinteistö Oy Suometsänkaari 2

Kiinteistö Oy Tampereen Kalevanpaasi
Kiinteistö Oy Tarhaajantie 2
Kiinteistö Oy Teerivuorenkatu 28
Kiinteistö Oy Teerivuorenpuisto
Kiinteistö Oy Tekniikantie 4
Kiinteistö Oy Teräslautelanrinne
Kiinteistö Oy Tietotalo
Kiinteistö Oy Tilkan Paletti
Kiinteistö Oy Turun Asemakeskus
Kiinteistö Oy Vaasan Monopol Fastighets Ab
Kiinteistö Oy Vaasan Sampotalo
Kiinteistö Oy Vantaan Martintalo
Kiinteistö Oy Vantaan Rasti
Kiinteistö Oy Vantaan Sarkatie 1
Kiinteistö Oy Varmantalo
Kiinteistö Oy Vuorenvarma
Kiinteistö Oy Vääksyntie 4
Kiinteistö Oy Äänekosken Ostoskeskus
Lepinpellonkatu Oy
Osakevarma Oy
Oy Ässäkeskus Ab
Pitäjänmäen Kiinteistöt Oy
Satakunnan Teollisuustalo Oy
Talo-osakeyhtiö Kuopion Tulliportinkatu 25
Tampereen Kiinteistö Invest Oy
Teräsportti Oy
TietoEnator Esy Oy
Upper Limit Oy
Vaasa Hitec Park Oy
Vaasa Tekno Park Oy
Valuraudankuja Oy

The following 46 subsidiaries exited the Group during the year under review:
Asunto Oy Helsingin Viulutie 1
Asunto Oy Kaustisenpolku 5
Asunto Oy Kotkan Alahovinniitty
Asunto Oy Kotkan Alahovintie 11
Asunto Oy Lappeenrannan Ihalaisenvuori
Asunto Oy Lintukallionrinne 1
Asunto Oy Matinkylän Poutapilvi
Asunto Oy Minkkikuja 3
Asunto Oy Raikukuja II
Asunto Oy Vantaan Lummepiha
Draco Oy
Fastighets Ab Baggen Kiinteistö Oy
Kaijonharjun Liikekeskus Oy
Kiikun Liiketalo Oy
Kiinteistö Osakeyhtiö Juvakeskus
Kiinteistö Oy Eurajoen Portti
Kiinteistö Oy Heinämäentie 2
Kiinteistö Oy Helsingin Kaisaniemenkatu 5
Kiinteistö Oy Hiiritornit
Kiinteistö Oy Hyvinkään Riihimäenkatu 79
Kiinteistö Oy Iin Liikekeskus
Kiinteistö Oy Kahvimylly
Kiinteistö Oy Kaivolankulma
Kiinteistö Oy Kalasääksentie 6
Kiinteistö Oy Karihaaran Liiketalo
Kiinteistö Oy Kattilansillan Kauppakeskus
Kiinteistö Oy Kirkkonummen Kirkkotalli
Kiinteistö Oy Korpilahden Liiketalo
Kiinteistö Oy Lahden Kansankartano
Kiinteistö Oy Lempäälän Tampereentie 14-18
Kiinteistö Oy Liikekulma
Kiinteistö Oy Lopen Linja-autoasema
Kiinteistö Oy Merraspuhos
Kiinteistö Oy Mäkitori
Kiinteistö Oy Nastolan Muurarintie 2
Kiinteistö Oy Peitsarin Liikekeskus
Kiinteistö Oy Poronsarvi
Kiinteistö Oy Seinäjoen Maakuntatalo
Kiinteistö Oy Säästöpudas
Kiinteistö Oy Taavetin Ostoskeskus
Kiinteistö Oy Ulvilan Automaatiohalli
Kiinteistö Oy Valkealan Kauppakulma
Kiinteistö Oy Viittakari
Kiuruveden Linja-autoaseman Kiinteistö Oy
Syväsaaren Liikekiinteistö Oy
Varissuon Toimistotalo Oy

The following companies are included as new associates in Varma's consolidated financial statements:
NV Kiinteistösijoitus Oy
Sato Oyj
Vakuutusosakeyhtiö Garantia

In addition, the Group comprises the following 36 associates:
Asunto Oy Harjavallankatu 6
Asunto Oy Helsingin Haapaniemenkatu 11
Asunto Oy Kuusiniementie 12
Asunto Oy Saarnilaakso
Haagan III Liikekeskus
Kamreerintien Pysäköintitalo Oy
Kemin Asemakatu 4
Kiinteistö Oy Alavuden Rantakeskus
Kiinteistö Oy Elocinkulma 1
Kiinteistö Oy Friitalan Liiketalo
Kiinteistö Oy Karkkilan Sähkökiinteistö
Kiinteistö Oy Kevätkummun Palvelukeskus
Kiinteistö Oy Liikejalava
Kiinteistö Oy Puijonlaakson Palvelukeskus
Kiinteistö Oy Salpausseläntie
Kiinteistö Oy Sammontori
Kiinteistö Oy Selloparkki
Kiinteistö Oy Suursuon Ostoskeskus
Kiinteistö Oy Turun Autopiha
Kiinteistö Oy Zeppelinin Markkinapaikka
Koivulan Liikekeskus Oy
Kulosaaren Ostoskeskus Oy
Lansantien Liikekiinteistö Oy
Martinparkki Oy
Näkin Pihapuistikko II Oy
Oulun Lehmusparkki Oy
Ovenia Oy
Poha-Pysäköinti Oy
Porin Talo Oy
P-Turku Oy
Ruohoparkki Oy
Sibylla Oy
Silta Oy
Spektri Business Oy
Spektri-Park Oy
Vaasan Toripysäköinti Oy

The following 31 associates exited the Group during the year under review:
Asunto Oy Akaankievari
Asunto Oy Helsingin Eino Leinonkatu 7
Asunto Oy Porin Harmaakarhu
Asunto Oy Vantaan Kaarenpaatsama
Hakopolun Liikekeskus Oy
Haapajärven Linja-autoaseman Liikekeskus
Kala-Matin Pysäköintitalo Oy
Kiinteistö Oy Enon Liikekeskus
Kiinteistö Oy Erjonkulma
Kiinteistö Oy Joutsan Liiketalo
Kiinteistö Oy Kellarpellon Liikekeskus
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 Putaan Liikekeskus
Kiinteistö Oy Rajamäen Rahakulma
Kiinteistö Oy Rinnekartano
Kiinteistö Oy Runoilijankulma
Kiinteistö Oy Suolahden Ostoskeskus
Kiinteistö Oy Vantaan Valimotie 11
Kiinteistö Oy Ylämyllyn Mylläri
Kiinteistö Oy Ämmäntori
Kortepohjan Liikekeskus Oy
Mäntän Pysäköinti Oy
Punkalaitumen Liikekeskus Oy
Turun Pitkämäenkatu 14

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 2006**	**Book value 2006**	**Fair value 2006**	Remaining acquisition cost 2005	Book value 2005	Fair value 2005
Investments in real estate						
Real estate	**487.6**	**504.2**	**611.2**	616.1	634.1	737.0
Shares in Group companies	**948.4**	**953.4**	**1,230.2**	965.2	971.9	1,216.5
Other real estate shares	**46.6**	**46.6**	**49.4**	69.6	69.6	74.4
Loans to Group companies	**517.0**	**517.0**	**517.0**	560.1	560.1	560.1
Loans to real estate companies	**113.1**	**113.1**	**113.1**	51.4	51.4	51.4
Investments in Group companies						
Shares and participations	**4.3**	**4.3**	**4.3**	4.5	4.5	4.5
Loan receivables	**1.3**	**1.3**	**1.3**	0.6	0.6	0.6
Investment in associates						
Shares and participations	**57.9**	**57.9**	**59.9**	1.4	1.4	1.4
Other investments						
Shares and participations	**9,674.8**	**9,674.8**	**12,844.5**	6,977.9	6,977.9	9,087.5
Money-market instruments	**9,894.5**	**9,894.5**	**9,938.4**	11,183.1	11,183.1	11,623.2
Loans guaranteed by mortgages	**163.7**	**163.7**	**163.7**	113.3	113.3	113.3
Other loan receivables	**753.5**	**753.5**	**755.0**	826.0	826.0	827.4
Deposits	**329.5**	**329.5**	**329.5**	60.7	60.7	60.7
	22,992.0	**23,013.7**	**26,617.4**	21,429.8	21,454.5	24,358.0

	2006	2005
The remaining acquisition cost of money-market instruments includes:		
- the difference between the nominal value and acquisition cost, released or charged to interest income	**-91.3**	-84.9
- income from index-bound loans	**18.2**	12.5
	-73.2	-72.4

	Book value 2006	Book value 2005
Book value includes		
Revaluations entered as income	**21.6**	24.7

	Fair value 2006	Fair value 2005
Valuation difference (difference between fair value and book value)	**3,603.7**	2,903.5

Investments at fair value and valuation differences, Group

31 Dec., € million	**Remaining acquisition cost 2006**	**Book value 2006**	**Fair value 2006**	Remaining acquisition cost 2005	Book value 2005	Fair value 2005
Investments in real estate						
Real estate	**2,002.9**	**2,019.5**	**2,462.1**	2,157.8	2,175.8	2,575.2
Other real estate shares	**46.6**	**46.6**	**49.4**	69.6	69.6	74.4
Loans to real estate companies	**0.0**	**0.0**	**0.0**	0.4	0.4	0.4
Investments in Group companies						
Shares and participations	**0.7**	**0.7**	**0.9**	1.3	1.3	1.3
Loan receivables	**1.3**	**1.3**	**1.3**	0.6	0.6	0.6
Investments in associates						
Shares and participations	**61.8**	**61.8**	**61.6**	3.2	3.2	3.2
Other investments						
Shares and participations	**9,690.7**	**9,690.7**	**12,860.4**	6,993.5	6,993.5	9,103.1
Money-market instruments	**9,894.5**	**9,894.5**	**9,938.4**	11,183.1	11,183.1	11,623.2
Loans guaranteed by mortgages	**163.7**	**163.7**	**163.7**	113.3	113.3	113.3
Other loan receivables	**753.5**	**753.5**	**755.0**	826.0	826.0	827.4
Deposits	**329.5**	**329.5**	**329.5**	60.7	60.7	60.7
	22,945.2	**22,961.7**	**26,622.3**	21,409.3	21,427.3	24,382.7
The remaining acquisition cost of money-market instruments includes:						
- the difference between the nominal value and acquisition cost, released or charged to interest income	**-91.3**			-84.9		
- income from index-bound loans	**18.2**			12.5		
	-73.2			-72.4		
Book value includes						
Revaluations entered as income		**16.6**			18.0	
Valuation difference (difference between fair value and book value)			**3,660.5**			2,955.4

Notes to the financial statements

Notes to the balance sheet

Investments in Group companies and associates, Parent Company

31 Dec. 2006, € million	
Shares and participations in Group companies	
Acquisition cost, 1 Jan.	**4.5**
Decrease	**-0.3**
Acquisition cost, 31 Dec.	**4.3**
Loans to Group companies	
Acquisition cost, 1 Jan.	**0.6**
Increase	**0.8**
Decrease	**-0.1**
Acquisition cost, 31 Dec.	**1.3**
Shares and participations in associates	
Acquisition cost, 1 Jan.	**1.4**
Increase	**56.6**
Acquisition cost, 31 Dec.	**57.9**

Shares and participations in Group companies

31 Dec. 2006	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
TietoEnator Esy Ltd	Helsinki	14.4%	50.1%	**0.9**
Osakevarma Oy	Helsinki	100.0%	100.0%	**3.3**
				4.3
Housing associations and real estate companies				**953.4**

Shares and participations in associates

31 Dec. 2006	**Domicile**	**Shares, %**	**Votes, %**	**Book value € million**
Garantia Insurance Company Ltd	Helsinki	27.5%	27.5%	**12.8**
NV Kiinteistösijoitus Oy	Helsinki	45.0%	45.0%	**0.0**
Ovenia Oy	Helsinki	28.8%	28.8%	**0.1**
Sato Corporation	Helsinki	23.4%	23.4%	**43.8**
Silta Oy	Helsinki	39.1%	39.1%	**1.3**
				57.9
Housing associations and real estate companies				**26.7**

Investments in Group companies and associates, Group

31 Dec. 2006, € million	
Shares and participations in Group companies	
Acquisition cost, 1 Jan.	**1.3**
Increase	**0.2**
Decrease	**-0.8**
Acquisition cost, 31 Dec.	**0.7**
Loans to Group companies	
Acquisition cost, 1 Jan.	**0.6**
Increase	**0.8**
Decrease	**-0.1**
Acquisition cost, 31 Dec.	**1.3**
Shares and participations in associates	
Acquisition cost, 1 Jan.	**3.2**
Increase	**58.6**
Acquisition cost, 31 Dec.	**61.8**

Shares and participations in Group companies

31 Dec. 2006	Domicile	Shares, %	Votes, %	Book value € million
TietoEnator Esy Ltd	Helsinki	14.4%	50.1%	**0.7**
				0.7

Shares and participations in associates

31 Dec. 2006	Domicile	Shares, %	Votes, %	Book value € million
Garantia Insurance Company Ltd	Helsinki	27.5%	27.5%	**12.8**
NV Kiinteistösijoitus Oy	Helsinki	45.0%	45.0%	**-0.1**
Ovenia Oy	Helsinki	28.8%	28.8%	**0.4**
Sato Corporation	Helsinki	23.4%	23.4%	**45.5**
Silta Oy	Helsinki	39.1%	39.1%	**3.3**
				61.8

Housing associations and real estate companies	**37.3**

Notes to the financial statements

Notes to the balance sheet

Changes in investments in real estate

31 Dec. 2006, € million	PARENT COMPANY Real estate and real estate shares	PARENT COMPANY Loans to Group companies	GROUP Real estate and real estate shares	GROUP Loans to Group companies
Acquisition cost, 1 Jan.	**1,905.9**	**611.5**	**2,875.5**	**0.4**
Increase	**77.8**	**83.2**	**162.7**	
Decrease	**-264.7**	**-64.6**	**-332.2**	**-0.4**
Acquisition cost, 31 Dec.	**1,718.9**	**630.1**	**2,706.0**	**0.0**
Accumulated depreciation, 1 Jan.	**-100.4**		**-533.9**	
Accumulated depreciation from items sold	**12.2**		**31.9**	
Depreciation for the financial year	**-19.0**		**-66.1**	
Accumulated depreciation, 31 Dec.	**-107.2**		**-568.1**	
Impairments, 1 Jan.	**-154.4**		**-121.0**	
Impairments on items sold	**25.2**		**27.5**	
Impairments, 31 Dec.	**-129.2**		**-93.4**	
Revaluations, 1 Jan.	**24.7**		**24.7**	
Decrease	**-3.1**		**-3.1**	
Revaluations, 31 Dec.	**21.6**		**21.6**	
Book value, 31 Dec.	**1,504.2**	**630.1**	**2,066.1**	**0.0**

Real estate in own use

31 Dec. 2006, € million	PARENT COMPANY	GROUP
Remaining acquisition cost	**65.2**	**65.2**
Book value	**65.2**	**65.2**
Fair value	**74.4**	**74.4**

Parent company's other investments, shares and participations

31 Dec. 2006	Shares %	Book value € million	Fair value € million
LISTED SHARES			
Finland			
Affecto Genimap Oyj	3.00%	1.8	1.8
Ahlstrom Corporation	3.36%	22.1	34.5
Alma Media Corporation	9.65%	31.1	65.9
Amer Sports Plc	2.20%	13.4	26.2
Aspocomp Group Oyj	5.01%	1.8	1.8
Aspo Plc	5.77%	2.2	10.2
Atria Plc	0.33%	1.4	1.4
Beltton-Yhtiöt Oyj	6.91%	2.0	2.0
Cargotec Corporation	2.68%	45.3	72.0
Comptel Corporation	4.81%	8.2	9.3
Cramo Plc	2.28%	9.8	13.0
Efore Plc	3.00%	1.5	1.5
Elcoteq SE	0.32%	1.0	1.0
Elisa Corporation	1.38%	44.2	47.5
Exel Oyj	4.32%	1.8	6.9
Finnlines Plc	0.12%	0.7	0.9
Fiskars Corporation	4.26%	28.8	40.4
Fortum Corporation	0.65%	71.7	123.8
HK Ruokatalo Group Oyj	1.35%	4.3	6.7
Huhtamäki Oyj	2.23%	23.8	35.0
KCI Konecranes Plc	4.78%	19.3	63.9
Kemira GrowHow Oyj	3.84%	11.9	14.9
Kemira Oyj	1.71%	16.5	36.5
Kesko Corporation	1.17%	14.3	45.6
Kesla A Oyj	4.43%	1.3	1.3
Kone Corporation	0.70%	22.4	38.4
Lassila & Tikanoja Plc	7.51%	30.2	62.6
Lemminkäinen Corporation	2.98%	5.4	18.1
Marimekko Corporation	4.34%	2.8	5.1
Metso Corporation	1.94%	49.6	105.0
M-real Corporation	2.96%	45.8	46.5
Neste Oil Corporation	1.17%	64.7	69.1
Nokian Tyres plc	3.63%	34.9	68.7
Nokia Corporation	0.13%	73.1	85.1
Nordic Aluminium Oyj	5.17%	2.1	4.9
Okmetic Oyj	3.70%	2.1	2.3
OKO Bank plc	0.56%	12.8	14.5
Oriola-KD Corporation	2.10%	4.5	9.1
Orion Corporation	2.10%	31.3	48.7
Outokumpu Oyj	0.85%	23.2	45.9
Outokumpu Technology	3.10%	16.3	29.6
Perlos Corporation	1.67%	3.1	3.1
Ponsse Oyj	3.43%	2.5	12.5
Pöyry Plc	3.38%	6.5	23.1
Raisio plc	0.44%	1.3	1.3
Ramirent Plc	0.70%	1.2	8.5
Rautaruukki Corporation	0.83%	31.7	35.0
Raute Plc	4.99%	2.2	2.6
Salcomp Plc	2.57%	2.6	2.6
Sampo Plc	8.70%	394.2	1,001.9
SanomaWSOY Corporation	1.64%	49.1	57.3
Satama Interactive Oyj	4.72%	1.9	1.9
Scanfil Plc	0.96%	1.4	1.4
Stockmann Plc	1.83%	28.5	36.8
Stora Enso Oyj	1.54%	125.4	145.4
SysOpen Digia Plc	3.69%	2.6	2.6
Tamfelt Oyj Abp	5.90%	14.9	17.3
Technopolis Plc	1.88%	2.6	5.8
Tecnomen Plc	1.92%	1.9	1.9
Teleste Corporation	3.00%	6.1	6.1
Tietoenator Corporation	1.88%	34.9	34.9
Tiimari Plc	3.81%	1.4	1.4
UPM-Kymmene Corporation	0.67%	56.6	66.8
Uponor Oyj	5.48%	27.3	113.4
Vaisala Oyj	4.23%	14.4	25.3
Wärtsilä Corporation	2.70%	41.9	105.0
YIT Corporation	5.57%	25.8	147.9
Austria			
Andritz AG	1.40%	17.1	29.9
C.A.T. Oil (DE) AG	0.58%	4.8	5.5
Erste Bank der österreichischen Sparkassen AG	0.01%	11.9	17.1
OMV AG	0.05%	4.2	5.8
Raiffeisen International Bank-Holding AG	0.16%	11.9	27.1
UNIQA Versicherungen AG	0.07%	2.2	2.2
Wienerberger AG	0.60%	17.1	20.7
Wiener Staedtische Versicherung AG			
Vienna Insurance Company	0.24%	10.4	11.0
Österreichische Elektrizitätswirtschafts-AG (Verbund)	0.26%	9.3	16.4
Belgium			
Barco N.V.	0.80%	6.9	6.9
Belgacom SA	0.13%	12.6	16.0
Cumerio	1.95%	8.6	9.1
InBew	0.08%	11.9	24.4
KBC Group SA	0.03%	10.2	11.2
Czech Republic			
CEZ AS	0.10%	7.6	20.9
MOL Magyar Olaj -es Gazipari Rt.	0.01%	5.7	9.4
Denmark			
Danisco A/S	0.17%	5.2	5.6
Danske Bank A/S	0.00%	13.0	13.4
LifeCycle Pharma A/S	0.31%	1.2	1.5
Novo Nordisk A/S	0.03%	3.5	5.2
Trygvesta A/S	0.18%	4.6	7.1
Vestas Wind Systems A/S	0.08%	2.5	4.9
France			
Accor SA	0.10%	6.8	12.4
Air Liquide SA	0.07%	13.3	15.8
Alstom	0.11%	11.0	15.4
AXA SA	0.07%	29.0	42.0
BNP Paribas SA	0.04%	27.6	31.0
Carrefour SA	0.05%	15.4	15.4
Compagnie de Saint-Gobain SA	0.09%	18.9	21.3
Compagnie Generale de Geophysique SA	0.57%	12.0	16.4
Danone Group	0.08%	13.5	23.6
EDF Energies Nouvelles SA	0.02%	10.2	11.7
Electricite de France SA	0.04%	31.7	35.8
France Telecom SA	0.04%	19.9	19.9
Galp Energia, SGPS, SA	0.18%	8.1	9.7
Gas de France SA	0.02%	4.1	5.6
JC Decaux SA	0.07%	2.7	3.1
Lafarge SA	0.05%	8.5	10.7
L'Oreal SA	0.03%	10.2	12.1
Louis Vuitton Moet Hennessy SA	0.04%	14.9	15.1
Pernod-Ricard SA	0.23%	20.8	36.0
Pinault-Printemps-Redoute SA	0.10%	11.9	14.2
Publicis Groupe SA	0.15%	7.0	9.6
Renault SA	0.05%	13.4	13.6
Rhodia SA	0.75%	21.0	23.7
Sanofi-Aventis SA	0.05%	30.8	43.6
Schneider Electric SA	0.01%	2.8	2.8
Suez Lyonnais Des Eaux SA	0.06%	18.0	31.8
Technip-Coflexip SA	0.10%	3.1	5.6
Thomson Multimedia SA	0.18%	7.4	7.4
Total SA	0.06%	58.0	76.6
Vallourec SA	0.19%	14.7	22.0
Vinci SA	0.16%	22.8	37.4
Vivendi SA	0.15%	45.2	47.4
Germany			
Adidas-Salomon AG	0.27%	20.1	20.6
Allianz SE	0.10%	33.2	39.6
Continental AG	0.18%	21.1	23.5
Deutsche Bank AG	0.05%	21.9	25.7
Deutsche Postbank AG	0.15%	15.2	15.9
Deutsche Telekom AG	0.00%	22.9	22.9
E.On AG	0.04%	29.1	31.8
Epcos AG	2.31%	17.1	23.0
Hochtief AG	1.16%	30.3	44.6
Hypo Real Estate Holding AG	0.15%	7.1	9.5
Infineon Technologies AG	0.08%	5.5	6.4
Interhyp AG	1.08%	3.6	4.6

Notes to the financial statements

Notes to the balance sheet

31 Dec. 2006	Shares %	Book value € million	Fair value € million
Linde AG	0.06%	4.5	5.4
Metro AG	0.09%	11.6	13.7
MunichRe	0.04%	9.5	10.6
ProSiebenSat1 Media AG	0.27%	4.2	7.3
Rhoen-Klinikum AG	0.17%	2.3	3.2
RWE AG	0.03%	8.9	15.2
SGL Carbon AG	0.30%	2.0	3.5
Siemens AG	0.03%	18.2	20.6
Thyssenkrupp AG	0.08%	10.5	14.3
Wacker Chemie AG	0.04%	1.9	1.9
Greece			
Alpha Bank A.E.	0.07%	5.9	6.4
Cosmote Mobile Telecommunications S.A.	0.16%	7.2	11.6
EFG Eurobank	0.06%	6.1	6.2
Marfin Financial Group S.A	0.29%	3.6	5.7
National Bank of Greece S.A.	0.11%	17.3	17.9
Piraeus Bank S.A.	0.27%	11.0	14.0
Ireland			
Anglo Irish Bank Plc	0.08%	6.8	8.8
Depfa Bank Plc	0.13%	6.3	6.3
Italy			
Assicurazioni Generali S.p.A	0.04%	16.2	18.4
Eni S.p.A.	0.02%	18.7	20.6
Mediobananca S.p.A	0.02%	2.9	3.0
Saipem S.p.A.	0.08%	2.8	7.1
Telecom Italia S.p.A	0.07%	22.9	22.9
Unicredito Italiano S.p.A	0.04%	27.0	29.6
Kazakstan			
Halyk Savings Bank of Kazakhstan	0.01%	1.2	1.7
NovaTek OAO	0.05%	2.1	7.2
OAO-TMK (GDR)	0.46%	20.2	25.1
Netherlands			
ABN-Amro Holdings N.V.	0.04%	15.3	17.0
Aegon N.V.	0.07%	15.1	16.2
Akzo Nobel N.V.	0.10%	13.9	13.9
Ballast Nedam N.V.	1.84%	5.8	6.1
Crucell N.V.	0.18%	1.8	2.0
European Aeronautic Defence N.V.	0.10%	17.5	20.9
Fortis N.V.	0.05%	18.0	19.7
Gamesa Corporacion Tecnologica SA	0.11%	5.0	5.6
ING Groep N.V.	0.04%	28.5	30.4
Koninklijke BAM Groep N.V	1.60%	22.2	29.0
Koninklijke Numico N.V.	0.22%	15.1	17.1
Koninklijke Philips Electronics N.V.	0.05%	11.8	16.3
Qiagen N.V.	0.33%	5.4	5.6
Reed Elsevier N.V.	0.04%	3.9	3.9
Royal Dutch Shell Plc	0.03%	32.9	33.4
Tele Atlas N.V.	0.07%	1.0	1.0
Unilever N.V.	0.07%	20.4	24.4
Wavin N.V.	1.65%	14.1	19.0
Vedior N.V.	0.55%	14.7	14.7
Norway			
Aker Kvaerner ASA	0.13%	4.8	6.8
Aktiv Kapital ASA	1.03%	5.5	5.5
APL AS	0.81%	1.2	2.6
Fred. Olsen Energy ASA	0.26%	5.1	5.7
Norsk Hydro ASA	0.05%	13.3	16.4
Odfjell Invest Limited	1.12%	2.3	2.3
Pertra AS	1.96%	3.8	3.9
Petroleum Geo-Services ASA	0.20%	2.8	6.4
Reservoir Exploration Technology ASA	2.38%	2.5	2.7
SeaDrill Ltd	0.14%	4.1	6.8
Statoil ASA	0.03%	8.0	11.4
Telenor ASA	0.06%	6.1	14.2
TGS Nopec Geophysical Company ASA	0.38%	4.9	6.3
Tomra Systems ASA	0.95%	8.6	8.6
Poland			
Grupa Lotos SA	0.29%	3.7	4.3
Spain			
Banco Bilbao Vizcaya Argentaria S.A.	0.04%	21.0	26.4
Banco Santander Central Hispano S.A.	0.04%	24.9	31.0
Industria de Diseno Textil S.A.	0.06%	8.6	16.1

	Shares %	Book value € million	Fair value € million
Repsol YPF S.A.	0.04%	10.5	12.9
Telefonica S.A.	0.04%	24.4	29.0
Sweden			
D. Carnegie & Co AB	0.18%	1.1	2.1
Elekta AB	0.11%	1.2	1.6
Hennes & Mauritz AB	0.05%	10.6	14.5
Intrum Justitia AB	0.66%	2.3	5.0
Modern Times Group MTG AB	0.28%	1.9	7.1
Nordea Bank AB (publ)	0.49%	129.6	148.6
Rezidor Hotel Group AB	1.20%	10.3	11.7
Sandvik AB	0.04%	4.1	5.2
Skandinaviska Enskilda Banken	0.16%	20.2	25.3
Tanganyika Oil Company Ltd	0.71%	4.1	4.5
Telefonaktiebolaget LM Ericsson	0.15%	61.4	65.8
TeliaSonera AB	0.03%	6.5	9.3
Switzerland			
ABB Ltd	0.12%	16.8	34.9
Adecco SA	0.25%	17.9	24.3
Credit Suisse Group	0.02%	9.9	10.6
Geberit AG	0.16%	3.6	7.8
Holcim Ltd.	0.02%	2.2	3.6
Nestle SA	0.05%	40.9	52.4
Nobel Biocare Holding AG	0.07%	3.5	4.3
Novartis AG	0.06%	60.0	70.6
Roche Holding AG- Genusscheine	0.07%	37.9	64.9
Santhera Pharmaceuticals Rec	1.52%	2.5	2.5
Swatch Group	0.08%	3.4	4.4
Swiss Life Holding	0.35%	19.6	22.7
Swiss Reinsurance	0.05%	10.1	10.9
Syngenta AG	0.35%	35.6	51.4
UBS AG	0.04%	29.4	41.9
Zurich Financial Services AG	0.06%	14.8	16.9
United Kingdom			
ARM Holdings Plc	0.20%	4.4	5.1
Astra Zeneca Plc	0.03%	19.3	19.6
Autonomy Corporation Plc	0.22%	2.8	3.1
Aviva Plc	0.04%	10.1	11.2
BG Group Plc	0.06%	8.7	21.3
BHP Billiton Plc	0.01%	2.7	2.8
BP Amoco Plc	0.05%	78.2	83.0
British Sky Broadcasting Plc	0.04%	5.1	5.4
Carnival Plc	0.14%	10.8	11.2
Dana Petroleum Plc	0.38%	5.0	5.9
Diageo Plc	0.07%	21.5	29.5
Emap Plc	0.23%	5.5	6.0
EMI Group Plc	0.28%	7.5	8.7
Enterprise Inns Plc	0.27%	6.8	15.9
Glaxosmithkline Plc	0.05%	56.1	58.5
HBOS Plc	0.05%	30.0	33.4
HSBC Holdings Plc	0.02%	37.8	40.0
International Power Plc	0.25%	8.8	21.0
ITV Plc	0.08%	4.6	4.8
Just Retirement Plc	0.18%	1.1	1.5
Kesa Electricals Plc	0.36%	6.9	9.5
Ladbrokers Plc	0.18%	6.7	6.9
Next Plc	0.22%	12.8	13.6
Prudential Plc	0.12%	22.3	29.6
Punch Taverns Plc	0.25%	7.1	12.7
Reckitt Benckiser Plc	0.01%	13.5	24.1
Reed Elsevier Plc	0.07%	4.2	4.6
Rolls-Royce Group Plc	0.00%	6.6	6.7
Royal Bank of Scotland Group Plc	0.04%	31.3	35.0
Royal & Sun Alliance Insurance Group Plc	0.18%	10.0	12.2
Scottish & Southern Energy Plc	0.07%	10.0	13.9
Standard Life Plc	0.17%	14.9	15.2
Tesco Plc	0.04%	12.7	20.6
William Hill Plc	0.45%	12.6	15.0
Vodafone Airtouch Plc	0.07%	74.7	75.1
Wolseley Plc	0.12%	13.1	13.3
WPP Group Plc	0.08%	9.4	10.3
United States			
AU Optronics Corp.	0.10%	8.2	8.3

31 Dec. 2006	Shares %	Book value € million	Fair value € million
Caremark Rx Inc.	0.07%	10.8	13.0
Exxon Mobil Corporation	0.01%	19.7	19.8
Intel Corporation	0.02%	19.1	19.2
Mittal Steel Company Nv US	0.11%	32.0	32.0
Omnivision Technologies, Inc.	1.00%	5.7	5.7
Other		1.6	3.7
		4,562.4	**6,763.6**
UNLISTED SHARES			
Finland			
Ahlström Capital Oy	6.51%	8.4	15.0
Arek Oy	18.00%	1.3	1.3
CTT Cancer Targeting Technologies Oy	17.23%	1.0	1.0
Fingrid Oyj	12.18%	13.6	13.6
Ipsat Therapies Oy	8.88%	2.1	2.1
Kaleva Mutual Insurance Company	30.00%	2.6	2.6
Kytäjä Golf Oy	3.75%	1.2	1.2
LTM Company Oy	12.24%	0.9	0.9
Lujapalvelut Oy	10.95%	0.7	0.7
Metsä Tissue Corporation	8.38%	15.5	15.5
Suomen Terveystalo Oyj	10.56%	11.1	11.1
Talvivaara Mining Company Ltd	3.58%	0.7	3.2
Tornator Timberland Oy	13.13%	10.5	13.5
Winwind Ltd	5.61%	2.6	3.0
Vivoxid Ltd	16.77%	2.0	2.0
VVO-group plc	9.91%	12.1	12.1
Australia			
SMG (Seven Media Group)	4.71%	2.8	2.8
Brazil			
Petroleo Brasileiro S.A.	0.08%	17.7	26.3
Bulgaria			
Bulgarian Telecommunications Co	1.21%	17.7	17.7
China			
China Life Insurance Co. Ltd	0.04%	1.4	7.7
Luxemburg			
Wilde International S.A.	4.22%	5.0	5.0
United Kingdom			
Nordben Life and Pension Insurance Co. Ltd	10.00%	1.2	1.3
Other		1.2	14.2
		133.2	**173.8**
FIXED INCOME FUNDS			
Mandatum Euro High Yield K		50.3	53.5
Mandatum Euro Yrityslaina K		50.2	50.2
Sampo Yhteisökorko Tuotto		140.5	142.3
		241.1	**245.9**
EQUITY FUNDS			
ABN Amro Latin America Equity Fund		12.5	45.5
ACM Bernstein American Value Portfolio		86.6	96.7
APS China A Share Fund		19.0	45.9
Babylon Fund A Corporation		5.3	5.4
Blakeney Investors Fund		15.6	31.2
CAF Thailand Institutional Fund		22.8	23.3
Carnegie Global Healthcare		29.8	51.4
CDC Hong Kong Renaissance class C		7.6	12.7
East Capital Balkan Fund		5.0	11.7
East Capital Bering Balkan Fund		3.8	4.6
East Capital Bering Russia Fund		7.6	24.6
East Capital Bering Ukraine Fund		7.6	9.5
East Capital Eastern European Fund		3.3	13.1
East Capital Explorer Financial Institutions Investors AB		20.0	24.6
East Capital Russian Fund		10.3	38.2
eQ Monityyli Eurooppa A		22.5	26.2
eQ Monityyli USA A Kasvu		27.3	28.5
Frank Russell Pacific Basin Eq Fund Fric A		91.4	113.5
Hansa Central Asia Equity Fund		20.0	20.8
Hermes European Focus Fund I		20.0	53.3
HSBC GIF Indian Equity I Cap		9.5	34.3
HSBC GIF Thai Equity		9.0	9.0
HSBC Korean Equity		18.2	20.8
IXIS AMA Greater China Renaissance		15.2	23.8

	Book value € million	Fair value € million
JPMorgan Fleming Japan Equity Fund A	91.7	102.8
JPMorgan US Dynamic I Fund	19.0	20.9
Loomis Sayles US Large Cap Growth I share	88.3	88.3
Mandatum Emerging Asia Kasvu	32.1	44.5
Mandatum Latin America Kasvu	51.2	78.2
Mandatum Mustameri Kasvu	20.5	21.9
Mandatum Poland Kasvu	10.3	17.8
Mandatum US Small Cap Value Kasvu	42.0	66.8
Martin Currie GF-Japan Mid-Cap Fund	88.0	129.3
Martin Currie Japan Alpha Fund B	88.4	90.2
MC Taiwan Opportunities Fund	34.2	40.4
Merrill Lynch IIF US Basic Value A2	86.7	101.3
Merrill Lynch IIF US Flexible Equity A2	91.1	98.0
Nordea Far Eastern Value Fund	24.5	25.2
Ocean Equities Japan Target II BC	22.6	22.6
Osiris Eq US Behavioral Value Fund	20.0	21.5
PXP Vietnam Fund Ltd	5.1	5.9
Renshares Utilities Ltd	9.1	10.5
Sampo Japani Osake Kasvu	30.0	30.0
SEB Japan Fund JPY	198.2	199.5
T. Rowe Price Funds SICAV	96.2	99.5
The Dog Fund	32.5	35.1
Trigon Central and Eastern European Fund B	10.0	15.9
Trigon New Europe Small Cap Fund EUR	10.0	13.6
Trigon Second Wave Fund	10.0	19.2
Vanguard U.S. Futures Fund	195.2	200.3
Vietnam Enterprise Inv Ltd	4.4	4.4
	1,901.2	2,372.2
PRIVATE EQUITY FUNDS		
1903 Equity Fund L.P.	2.3	2.3
Abingworth Bioventures III B L.P.	6.8	6.8
Access Capital Fund LP II A	6.8	8.2
Access Capital Fund LP II B	7.3	7.6
Access Capital Fund LP II C	19.8	23.0
Access Capital LP	3.2	3.5
Alpha Private Equity Fund 4 CI LP	17.6	19.8
Alpha Private Equity Fund 5 LP	6.6	6.7
Altor Fund II (No. 1) LP	2.5	2.5
Behrman Capital III L.P.	18.4	22.1
Bio Fund Ventures I Jatkosijoitusrahasto Ky	1.0	1.2
Bio Fund Ventures I Ky	0.6	0.6
Bio Fund Ventures II Jatkosijoitusrahasto Ky	1.8	19.0
Bio Fund Ventures II Ky	2.1	2.1
Blackstone Capital Partners IV LP	26.7	31.1
Blackstone Capital Partners V LP	19.0	1.9
Blackstone Chemical Coinvest Partns Cayman LP	0.3	1.4
Blackstone Health Comm Partnrs A LP	2.3	2.3
Blackstone Mezzanine Partners II L.P	3.3	3.3
BlueRun Ventures, L.P.	4.4	4.8
CapMan Buyout VIII Fund A LP	4.7	4.7
CapMan Equity VII B	4.2	6.2
CapMan Life Science IV Fund LP	3.0	3.0
Cognetas (ent. Electra) Fund B II L.P.	8.2	8.2
CVC European Equity Partners IV (C) LP	3.5	3.5
EQT II B.V.	2.3	2.3
EQT III ISS Limited Partnership	10.0	10.0
EQT III UK No. 1	30.2	31.7
EQT IV (No. 1) Limited Partnership	34.0	34.2
EQT IV Sanitec Co-investment Limited Partnership	7.3	8.1
EQT SSP Co-investment L.P.	14.5	14.9
EQT V (No. 1) Limited Partnership	2.4	2.4
Eqvitec Technology Fund II Ky	5.7	5.7
Eqvitec Technology Fund III K/S	1.5	1.5
Fenno Rahasto Ky	1.6	1.6
Finnmezzanine Rahasto I	0.0	0.0
Finnventure rahasto III	0.0	0.1
Finnventure rahasto V Ky	0.6	2.8
Forenvia Venture I Ky	0.1	0.1
Gilde Buy-Out Fund II SV-capital	3.2	16.0
Green Equity Investors IV LP	10.6	11.6
Hamilton Lane Co-Investment Fund L.P.	31.0	31.0
Helmet SME Ventures Ky	0.4	0.4

Notes to the financial statements

Notes to the balance sheet

31 Dec. 2006	Book value € million	Fair value € million
Helmet SME Ventures II G Ky	1.4	1.4
Industri Kapital 1994 LP I-IV	0.0	0.0
Industri Kapital 1997 LP I,IV	10.1	10.1
Industri Kapital 2000 LP I-IV	12.9	19.1
Industri Kapital 2004 (ent. 2003) LP I	15.6	24.2
Industrial Devel. & Inv. Equity KB	0.4	0.7
Kelso GB VII, L.P.	12.7	16.5
MB Equity Fund II	2.1	5.0
MB Equity Fund III	3.9	5.3
MB Mezzanine Fund II	0.0	0.1
MBK Partners, L.P.	4.7	4.7
Merlin Biosciences Fund LP	2.0	2.0
Nokia Venture Partners II LP	9.4	9.4
Nordic Mezzanine Fund II Limited Partners	1.3	3.2
Nordic Mezzanine Limited	0.0	0.0
Onex Partners II LP	2.9	2.9
Permira Europe II LP 2	4.5	4.5
Permira Europe III LP2	24.7	28.5
Permira Europe IV LP2	3.5	3.5
Platinum Equity Capital Partners, L.P.	7.9	8.1
Power Fund I Ky	1.0	1.0
Promotion Capital I Ky	0.4	0.4
Quadriga Capital Private Equity Fund III LP	2.7	2.7
Slap Shot Holdings Corp. Allocation	1.3	1.3
Sponsor Fund I Ky	0.0	0.3
Sponsor Fund II Ky	3.2	15.7
SunGard Capital Corporation	5.4	5.4
SunGard Capital Corporation II	2.1	2.1
SunRocket C, Inc.	7.6	7.6
TCW/Crescent Mezzanine Partners IVB L.P.	20.8	20.8
Tourneau Acquisition Holdings, Inc.	1.6	1.6
Warburg Pincus Private Equity IX, L.P.	33.8	36.8
Warburg Pincus Private Equity VIII, L.P.	38.6	65.7
WD Power Investment	0.6	0.6
VSS Communications Parallel Partners IV L.P.	8.4	8.4
	579.2	**689.9**
HEDGE FUNDS		
1903 Offshore Debt Fund Ltd	12.7	12.9
AQR Absolute Return Offshore Fund Ltd	87.3	95.7
Atticus European, Ltd	50.0	87.3
Black River Commodity Multi-Strategy Fund Ltd	22.8	24.4
Blackstone Distressed Debt Offshore Fund Ltd	19.0	19.8
Blackstone Fifth Avenue Offshore Fund Ltd Class A	178.4	203.1
Blackstone Global Park Avenue Fund Ltd	171.8	198.6
Blackstone Kailix Offshore Fund Ltd	3.8	4.1
Blackstone Market Opportunities Offshore Fund II Ltd Class A1	45.5	45.6
Blackstone Market Opportunities OffshoreFund SPC	91.1	105.7
Blackstone Pacific Opportunities Fund Ltd	53.2	56.6
Blackstone Strategic Equity Offshore Fund Ltd Class A1	96.0	107.3
BlueCrest Capital International Limited Class F USD	64.5	68.5
BlueTrend Fund Limited (Class B shares)	15.0	15.8
Cycladic Catalyst Fund EUR Class A	10.0	11.8
D.E.Shaw Composite International Fund	75.9	84.5
Elliot International Limited	19.0	19.9
Endeavour Fund III Ltd	79.1	79.1
Explorer Global Fund, Ltd	38.0	38.7
Ferox Fund Ltd Class C EUR	10.0	10.8
Fir Tree International Value Fund Ltd	25.1	31.4
Glenview Capital Partners Ltd Class A Series 12	64.5	69.7
Golden Tree MultiStrategy, Ltd	53.2	59.3
Golden Tree Offshore (ent. High Yield)Fund Ltd	56.9	66.2
GSO Special Situations Overseas Fund Ltd	30.4	33.0
Harbinger Capital Parnters Offshore Fund I, Ltd	30.4	32.6
HBK Offshore Fund Ltd	189.8	204.2
Helios 2xL (Bermuda) Ltd	50.0	53.9
Mariner Credit Risk Advisors Relative Value Offshore Fund Ltd	15.2	16.2
New Star Accelator Hedge Fund Limited	6.2	6.2
Oak Hill Credit Alpha Fund, Ltd Class A	22.8	24.0
Opstock Equity Hedge	9.9	9.9
OZ Asia Oveaseas Fund Ltd	34.2	37.3
OZ Oveaseas Fund Ltd	34.2	43.2
Pendragon Fund Limited	34.8	43.4
Resevoir Capital Overseas Partners II L.P.	6.0	6.0
Scout Capital Fund Ltd	64.5	74.0
Seneca Capital International, Ltd Class 2 Ser. E	38.0	47.7
York Investment Limited Class A/1	42.5	52.7
ZAIS Scepticus Fund III, Ltd	9.1	9.1
Other	3.8	3.8
	1,964.6	**2,214.3**
REAL ESTATE FUNDS		
Apollo European Real Estate Fund II L.P.	5.5	5.5
Blackstone Real Estate Partners International II L.P.	5.8	5.8
CapMan Real Estate I Ky	3.4	8.9
Captiva Capital (Luxenbourgh) Partners II SCA	17.0	17.0
CIT Real Estate L.P.	10.6	10.9
Colony Investors VII L.P.	19.0	21.2
Fairfield Aerium International S.C.A Class B Non-Dividend	20.0	20.0
Five Mile Capital Partners LLC	12.3	12.4
ICECAPITAL Housing Fund I Ky	4.6	4.6
Macquarie European Infrastructure Fund II	38.0	38.0
Moorfield Real Estate Fund B L.P.	6.5	6.5
NV Kiinteistörahasto I Ky	3.2	3.4
Other	11.8	16.1
	157.6	170.2
OTHER SHARES		
TOPIX index tr 191208	**144.9**	**152.0**
Parent Company total	9,684.0	12,781.8

The Group's shareholding deviates from the Parent Company's as follows:

	Book value € million	Fair value € million
Kaleva Mutual Insurance Company (guarantee capital)	3.3	3.3
Ruohoparkki Oy	3.3	3.3
Martinparkki Oy	2.4	2.4
Poha-Pysäköinti Oy	1.4	1.4
Vaasan Toripysäköinti Oy	3.0	3.0
Other	2.6	2.6
Group total	9,699.9	12,797.7

Changes in tangible and intangible assets, Parent Company

31 Dec. 2006, € million	Other expenses with long-term effects	Furniture and fixtures	Other tangible assets	Total
Acquisition cost, 1 Jan.	**1.6**	**9.8**	**0.6**	**11.9**
Completely depreciated in the previous year	**-0.7**	**-1.6**		**-2.3**
Increase	**0.2**	**1.2**		**1.4**
Decrease		**-0.3**		**-0.3**
Acquisition cost, 31 Dec.	**1.1**	**9.0**	**0.6**	**10.6**
Accumulated depreciation, 1 Jan.	**-1.1**	**-5.6**		**-6.7**
Completely depreciated in the previous year	**0.7**	**1.6**		**2.3**
Depreciation for the financial year	**-0.2**	**-1.1**		**-1.3**
Accumulated depreciation, 31 Dec.	**-0.6**	**-5.1**		**-5.7**
Book value, 31 Dec.	**0.5**	**3.9**	**0.6**	**4.9**

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

Loan receivables itemised by guarantee

	PARENT COMPANY		GROUP	
31 Dec., € million	**2006**	2005	**2006**	2005
Bank guarantee	**228.9**	312.1	**228.9**	312.1
Guarantee insurance	**220.4**	314.1	**220.4**	314.1
Other guarantee	**304.2**	199.8	**304.2**	199.8
Remaining acquisition cost, total	**753.5**	826.0	**753.5**	826.0

Total pension loan receivables itemised by balance sheet item

Loans to Group companies	**1.3**	0.6	**1.3**	0.6
Loans guaranteed by mortgages	**58.3**	72.2	**58.3**	72.2
Other loan receivables	**344.6**	483.5	**344.6**	483.5
Remaining acquisition cost, total	**404.2**	556.2	**404.2**	556.2

Loans to Group companies

Other receivables	**0.2**	0.0	**0.2**	0.0

Derivates

Other receivables				
Advance payments for option contracts	**23.2**	11.5	**23.2**	11.5
Other liabilities				
Advance payments for option contracts	**4.4**	11.4	**4.4**	11.4
Value adjustments of derivatives	**35.5**	10.3	**35.5**	10.3
Accruals and deferred income				
Interest liabilities	**7.7**	4.0	**7.7**	4.0

Notes to the financial statements

Notes to the balance sheet

31 Dec., € million	PARENT COMPANY 2006	2005	GROUP 2006	2005
Technical provisions				
Provision for unearned premiums				
Future pensions	**12,900.9**	12,223.4	**12,900.9**	12,223.4
Provision for future bonuses	**3,008.4**	2,640.1	**3,008.4**	2,640.1
Provision for current bonuses	**77.3**	84.8	**77.3**	84.8
Total provision for unearned premiums	**15,986.6**	14,948.3	**15,986.6**	14,948.3
Provision for claims outstanding				
Current pensions	**6,877.3**	5,928.9	**6,877.3**	5,928.9
Equalisation provision	**910.4**	947.0	**910.4**	947.0
Total provision for claims outstanding	**7,787.7**	6,875.8	**7,787.7**	6,875.8
Total technical provisions	**23,774.3**	21,824.1	**23,774.3**	21,824.1
Liabilities to Group companies				
Other liabilities	**0.9**	1.0	**1.3**	1.0

	PARENT COMPANY	
31 Dec., € million	**2006**	2005

Solvency capital

Capital and reserves	**76.4**	66.4
Interest on guarantee capital proposed for distribution	**-0.9**	-0.7
Accumulated appropriations	**0.3**	0.4
Valuation difference between fair values on assets and book values of balance sheet items	**3,603.7**	2,903.5
Provision for future bonuses	**3,008.4**	2,640.1
Intangible assets	**-0.5**	-0.5
Other items	**-21.7**	-9.9
	6,665.7	5,599.2

Minimum solvency capital required under the Employee Pension Companies Act, Section 17	**2,088.7**	1,531.9

The equalisation provision for years with heavy losses is included in the balance on technical account	**910.4**	947.0

Notes to the financial statements

Notes to the balance sheet

Capital and reserves, Parent Company

31 Dec. 2006, € million

	Guarantee capital	Contingency fund	Profit brought forward	Total
31 Dec. 2005	**11.9**	**46.6**	**7.9**	**66.4**
Transfer to contingency fund		**7.0**	**-7.0**	**0.0**
Distributed interest on guarantee capital			**-0.7**	**-0.7**
Transfer to the Board of Directors expense account			**-0.0**	**-0.0**
Profit for the financial year			**10.7**	**10.7**
31 Dec. 2006	**11.9**	**53.6**	**10.8**	**76.3**

Guarantee capital

31 Dec. 2006, € 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	**0.9**
Policyholders	**63.5**
Total	**76.3**

Distributable profits

Profit for the financial year		**10.7**
Other capital and reserves		
Other reserves	**53.6**	
Profit brought forward	**0.1**	**53.7**
Total distributable profits		**64.4**

Capital and reserves, Group

31 Dec. 2006, € million

	Guarantee capital	Contingency fund	Profit brought forward	Total
31 Dec. 2005	**11.9**	**46.6**	**-36.2**	**22.3**
Transfer to contingency fund		**7.0**	**-7.0**	**0.0**
Distributed interest on guarantee capital			**-0.7**	**-0.7**
Transfer to the Board of Directors expense account			**-0.0**	**-0.0**
Profit for the financial year			**6.6**	**6.6**
31 Dec. 2006	**11.9**	**53.6**	**-37.3**	**28.2**

Guarantee capital

31 Dec. 2006, € million

	Number	Nominal value	Book value
Sampo Life Insurance Company Limited	**14**	**2.4**	**2.4**
Sampo Plc	**57**	**9.6**	**9.6**

Distributable profits

Profit for the financial year		**6.6**
Other capital and reserves		
Other reserves	**53.6**	
Loss brought forward	**-43.9**	**9.6**
Accumulated appropriations		**-2.5**
Total distributable profits		**13.7**

Notes to the financial statements

Notes to the balance sheet

Liabilities

31 Dec., € million			2006	2005
Derivatives				
Interest rate derivatives				
	Forward and futures contracts	Underlying instrument, nominal value	**3,389.1**	1,400.0
		Fair value	**-4.2**	-13.7
	Option contracts			
	Excercised	Underlying instrument,	**15.0**	15.0
		Fair value	**0.0**	0.0
	Interest rate swap contracts	Underlying instrument, nominal value	**1,903.2**	505.0
		Fair value	**-10.3**	-0.3
Currency derivatives				
	Forward contracts	Underlying instrument	**943.4**	590.8
		Fair value	**11.9**	-5.7
	Option contracts			
	Excercised	Underlying instrument	**720.6**	1,183.0
		Fair value	**1.7**	-3.0
	Taken out	Underlying instrument	**1,137.4**	2,284.1
		Fair value	**-1.4**	1.5
	Currency swap contracts	Underlying instrument	**4,736.8**	2,275.1
		Fair value	**50.8**	3.1
Equity derivatives				
	Forward and futures contracts	Underlying instrument	**287.9**	54.0
		Fair value	**1.6**	1.8
	Option contracts			
	Excercised	Underlying instrument	**17.9**	
		Fair value	**-0.1**	
	Taken out	Underlying instrument		7.5
		Fair value		0.0
Total		Underlying instrument	**13,151.2**	8,314.5
		Fair value	**50.0**	-16.4

Forward exchange contracts are mainly considered as hedging.
Fair values of interest rate and equity options and futures contracts are based on market values.
The fair values of other derivatives are based on generally known models.

Liabilities

31 Dec., € million	**2006**	2005
Investment commitments		
Open investment commitments	**1,441.7**	740.4
Pension liabilities		
Pension commitments	**1.0**	
Guarantees given on own behalf		
Assets pledged as security for derivatives	**27.2**	23.2
Obligation to refund of VAT allowances		
Deduction from new buildings and renovation of real estate in 2002–2006/2001–2005	**11.2**	9.4
Total amount associated with collective registration for value added taxation		
Group companies	**-0.2**	4.3
Other companies	**0.9**	0.0
	0.7	4.3

Loaned securities

Equities		
Number	**24,230,915**	54,430,666
Remaining acquisition cost	**348.7**	405.0
Fair value	**444.8**	517.0
Bonds		
Nominal value	**2,928.5**	1,936.9
Remaining acquisition cost	**3,032.7**	2,000.3
Fair value	**3,131.7**	2,152.9

Loaned securities are mainly foreign items.
All loans can be cancelled at any time and they have been secured by a guarantee.

Group figures are the same as those of the parent company.

Notes to the financial statements

The parent company's balance sheet and income statement at fair value

The financial statements of an earnings-related pension insurance company are regulated by the Finnish Employee Pension Insurance Companies Act, 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 IFRS-standards do not concern earnings-related pension companies.

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 income statement and balance sheet of an earnings-related pension insurance company, which are based on acquisition values, do not reveal the company's financial result or financial status. The net result in the income statement of the parent company at €11 million (2005: €8 million) is determined according to the calculation bases confirmed in advance by the Ministry of Social Affairs and Health. The notes to the financial statements give an idea of the parent company's financial situation. 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 provision for future bonuses of a significant amount, which acts as a result buffer and increases solvency, provision for current bonuses reserved for the payment of client bonuses, 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 capital, which measures the solvency, are capital and reserves, provision for future bonuses and valuation differences of investments.

The operating expenses of the company are spread under a number of entries in the income statement 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 deferred tax 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. In an earnings-related pension insurance company, the significance of the consolidated financial statements consists mainly 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 expense loading component included in insurance contributions, and claims expenditure (at Varma about a quarter of the total) to the corresponding premiums written. 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. If technical provisions are handled according to the current regulations, the income statement and balance sheet on the next page would in outline comply with the IFRS standards, however, in such a way that they have not been calculated for the Group. Thus calculated Varma's result for 2006 stood at €1,121 (1,681) million and the balance sheet total was €27,557 (24,992) million.

Balance sheet at fair value, Parent Company

31 Dec., € million	**2006**	2005	2004	2003
Assets				
Investments	**26,859**	24,621	21,233	19,459
Receivables	**693**	366	451	390
Furniture and fixtures	**5**	5	5	6
	27,557	24,992	21,689	19,855
Liabilities				
Capital and reserves	**76**	66	59	53
Valuation differences	**3,604**	2,903	1,462	859
Provision for future bonuses	**3,008**	2,640	2,483	2,311
Items included in solvency capital	**6,688**	5,610	4,004	3,223
Provision for current bonuses (for client bonuses)	**77**	85	51	36
Equalisation provision	**910**	947	907	860
Technical provision	**19,778**	18,152	16,588	15,605
Technical provisions excluding provision for current and future bonuses	**20,689**	19,099	17,495	16,465
Other liabilities	**102**	198	139	131
	27,557	24,992	21,689	19,855

Income statement at fair value, Parent Company

1 Jan.–31 Dec., € million	**2006**	2005	2004	2003
Premiums written	**2,983**	2,764	2,615	2,455
Claims paid	**-2,556**	-2,401	-2,277	-2,182
Change in technical provisions	**-1,542**	-1,096	-946	-747
Net investment income	**2,344**	2,514	1,596	1,473
Total operating expenses	**-90**	-84	-78	-75
Other expenses	**-14**	-12	-11	-11
Taxes	**-4**	-3	-20	-3
Total result*	**1,121**	1,681	878	910

*Result at fair value before change in provision for current and future bonuses and equalisation provision, used mainly to strengthen solvency.

Notes to the financial statements

Risk management

Risk management as an element of internal control
Internal control is a process that aims to ensure matters such as: 1) the achievement of the goals and objectives set, 2) the economical and efficient use of resources, 3) sufficient management of operations-related risks, 4) the 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.

Varma is managed in a professional manner and in accordance with sound and cautious business principles. The company has established written procedures and quantitative and qualitative goals for its core functions. The Board of Directors follows a written working order, which defines its core tasks and operating principles. As part of the company's internal control function, the Board develops overall policy relating to areas such as the company's operating strategy, organisational development and management.

Risk management – organisation, responsibilities, supervision and reporting
The Board of Directors approves an annual 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, as well as 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 President and CEO monitors the company's risks in compliance with the principles defined in the risk management and investment plans, both approved by the Board of Directors.

Risk supervision is the responsibility of the Executive Group and includes: ensuring that the principles of risk management are followed in the company; assigning authorizations to responsible persons; monitoring risk limits and results, and risk calculation, independent of the function; overseeing the functioning of the risk management processes in relation to operational risks, investment and insurance risks, publicity and information risks; and monitoring legislative compliance. The risks are reported to the Audit Committee of the Board of Directors/to the Board of Directors every six months.

The appropriate manager is responsible for his/her area. Each manager must arrange appropriate risk management and ensure compliance with relevant legislation and regulations, the decisions of the Board and other bodies, authorities' stipulations, and internal guidelines. Risk limits and the indicators used are defined separately for each function. Each manager is responsible for the supervision of outsourced operations within his/her area of responsibility.

The functions responsible for preparing and implementing investment decisions (Investment Operations) and supervision and reporting (Financial Administration and Actuaries) have been separated. The supervisory function measures investment risks, draws up scenario and sensitivity analyses related to the result and solvency based on those risks, and 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, or more frequently if necessary. The risk supervisory function monitors, among other things, the diversification of the investment portfolio, market risk, credit risk, liquidity risk and model risk relating to risk measurement, taking into account issues related to both financing theory and to the nature of the statutory earnings-related pension scheme and the regulations pertaining to it. Risk management develops applications for matters such 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 the investment allocation, return on investment and investment risks, solvency position, and result and goals monitoring. In addition to these, margin, derivative and foreign exchange positions, risk concentrations, the exercise of decision-making authority, and the results of risk-limit monitoring are reported to the Board of Directors quarterly. More detailed reports by asset class on the development of investments, as well as a review of 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.

The readiness group is responsible for preparing an emergency plan and other related plans (such as a recovery plan and a security plan), and related guidelines and for handling the necessary measures. The readiness group comprises managers of the core functions and divisions. As the contacts for their functions, these managers are responsible for emergency planning in their area, and, for example, for prioritising other than core services and categorising them into those to be secured, reduced or discontinued.

Goals and general risk management principles
Risk management covers the essential areas in proportion to the risks inherent in operations. Risks relating to the company's operations are identified, assessed, limited and monitored, taking a long-term perspective. Risk management ensures that the realisation of investment, information, interruption, personnel or other risks will not cause significant financial loss, endanger the continuity of operations or jeopardise confidence in the company. Varma ap-

plies efficient and reliable operating processes.

Varma follows appropriate procedures in its organisation, in dealing with co-operation partners and in client acquisition. In order to manage the risks, the company emphasises the careful preparation of decisions, use of experts, risk insurance, job responsibilities and approval routines, 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, decision-making powers 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 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 the 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 supports the company's risk management.

Operational risks

Varma has one office, one operational area (Finland), a simple group structure, statutory products in common with its competitors, few personnel considering its turnover, and a low number of transactions considering its volume of investments. At Varma, risks are analysed from bottom to top and from top to bottom to ensure that all company risks are comprehensibly covered from different perspectives. Varma risk management plan is divided mainly into investment and other risks. Most of Varma's risks have an internal owner. A correct risk-return ratio is crucial to Varma's financial performance and is given particular consideration in investment risk management. In addition, Varma follows good governance principles, conducts comprehensive self-assessments from different perspectives, and follows a systematic planning process including scorecards. IFRS, Basel II and the future Solvency II provisions do not apply to Varma as an earnings-related pension insurance company.

Risks related to the earnings-related pension scheme, such as significant structural changes to the load-bearing capacity of the national economy, the development of the payroll, and to the pension system may, should they materialise, make it difficult for Varma to act in accordance with its executive function and to adapt its operations to the changed circumstances. To control these risks, the company manages its executive function with professionalism and efficiency, and lends its expertise to the development of the earnings-related pension scheme. Varma operates in good cooperation with its stakeholders and other operators in the field. In addition, the company develops its processes so that it is able to react flexibly and in good time to any potential changes in the earnings-related pension scheme in its own operations.

In exceptional circumstances, Varma will fulfil its legally- and continually-based responsibilities as comprehensibly and for as long as possible. The primary focus is on securing services related to citizens' income security. The aim is that, at a minimum, basic care services will remain operational, taking into consideration the available resources and utilising either information systems currently in production or separate solutions developed for exceptional circumstances. The services to be secured include the payment and financing of pensions, receipt of payments, essential changes to payment information, processing new pensions and claims, accounting, technical accounts, and communication. In exceptional circumstances, Varma will follow any orders by authorities and endeavour to adapt its operations to the practices of other earnings-related pension insurance companies. Services may also be affected by the usability of the insurance and bank services networks, the Internet and other community infrastructure.

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 in the 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 to outsourcing.

The earnings registration system at Arek Oy is crucial for implementing the Employees Pension Act (TyEL). The system was partially implemented at the beginning of 2007, as planned, but risks may be attached to the completion of the project in summer 2007.

Notes to the financial statements

Significant risks in exceptional circumstances include:

1) the payment of pensions is jeopardised
2) the financing of pensions is more difficult
3) no period of enhanced readiness between normal circumstances and full readiness
4) bank systems (including investment trading systems) or other community infrastructure are not operational
5) there are problems with the telecommunications capacity or availability of IT services
6) risks related to integrating with the operations of crucial cooperation parties and to managing outsourced functions.

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 one fifth are previously funded and the rest are 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 insurance companies, and the pooled components are the joint responsibility of all the pension insurance companies. The equalisation provision included in the technical provisions acts as a buffer for the insurance business and is the joint responsibility of all pension insurance companies. The clearing system is built so as to eliminate the impact of the varying trends in the pension insurance companies' active insurance portfolios. Thus the cost of the pooled components presents no risk for an individual pension insurance company. 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 insurance company 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. Earnings-related pension benefits are secured for the insured and pensioners by a statutory joint and several liability for bankruptcy applying to all earnings-related pension insurance companies. The costs of pension provision are borne by employers and employees together. The Ministry of Social Affairs and Health annually confirms the common technical bases applying to the technical provisions for earnings-related pension insurance companies, at the request of the companies. The technical bases include factors such as actuarial assumptions used in the calculation of technical provisions, for example, mortality and disability incidence rates. According to the Employees Pensions Act (TEL), the technical bases must be dimensioned in such a way as to be secure, and if the base for technical provisions proves to be insufficient for all pension insurance companies, a clearing system can be used to supplement the technical provisions.

The risks of Varma's insurance business are linked to the adequacy of the insurance contributions collected and the technical provisions accumulated from them in relation to the pensions that are the

The structure of Varma's technical provisions on 31 December 2005 was as follows:

	€ million	%
TEL basic insurance		
Future old-age pension liabilities	11,429	52.2%
Future disability pension liabilities	359	1.6%
Current old-age pension liabilities	2,613	11.9%
Current disability pension liabilities	1,655	7.6%
Current unemployment pension liabilities	500	2.3%
Equalisation provision	895	4.1%
Provision for pooled claims	1,063	4.9%
Provision for current bonuses	85	0.4%
Provision for future bonuses	2,640	12.1%
Total	**21,239**	**97.1%**
TEL supplementary pension insurance, total	**614**	**2.8%**
YEL basic pension insurance, total	**20**	**0.1%**
YEL supplementary pension insurance, total	**3**	**0.0%**
Total technical provisions	**21,876**	**100.0%**

The structure of the equalisation provision of TEL basic insurance on 31 December 2005 was as follows:

Old-age pension component	18	2.0%
Disability pension component	591	66.1%
Unemployment pension component	134	14.9%
Contribution loss component	152	17.0%
	895	**100.0%**
Lower limit	**140**	
Upper limit	**1,398**	

responsibility of the company. Because common technical bases can be changed annually, and the clearing system acts as a buffer for all insurance risks concerning earnings-related pension insurance companies, the risk for an individual company is its deviation from the average of the pension scheme. 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 per 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 insurance companies, and Varma's equalisation provision is in fact slightly higher than the average. Thus Varma carries no risk relating to an atypical insurance portfolio.

The risk management of insurance business applies insurance technique analyses. Insurance risks are analysed, for example, by using risk assumption analysis (mortality, disability intensity), or business result analysis (insurance technique, distribution of responsibility), and when statistics for contribution losses and disability expenditure are being compiled. In drawing up the financial statements, the estimate of the insured's payroll, in particular, may deviate from the final sum. This is reflected in premiums written and the amount of technical provisions, but it 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 capital, the amount of which is monitored in relation to the technical provisions and the limits calculated on the basis of investment allocation and other limits. Varma's solvency capital on 31 December 2006 stood at €6,666 million (32.1% of the technical provisions) and the solvency limit at €3,133 million (15.1% of the technical provisions), which means that the ratio of the solvency capital to the solvency limit was 2.13. 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, return, liquidity and the diversification of assets. Assets covering technical provisions amounted to 110.8% of the technical provisions on 31 December 2006, 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 confidence 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, for example, insurance or claims handling, reporting, monetary transactions, register details, data processing, distribution of work, operations of cooperation parties, or documentation.

The operational risks are mapped annually by each department. The significance of the impact 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 into a risk map, with risks classified on the basis of an overall evaluation of the department/function, according to the extent to which they, if realised, would threaten Varma's success and the goals approved by the Board of Directors. Risks affecting the earnings-related pension scheme are also mapped.

Investment risks

Market risk is the fluctuation of the value of investment objects. The greatest market risk is that involving equities. Other market risks are interest rate risk, foreign currency risk, and the risk of a change in the value 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 return on assets. Credit risk is the danger of loss caused by the inability of a 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. Model risk is constituted by the risks involved in risk measurement, which of necessity has to make assumptions and simplifications concerning calculation methods and calculation materials that may deviate from reality.

The investment plan confirmed by the Board of Directors 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 in value, expected return, security, 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 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-return 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 €747 million (€498 million) at the end of 2006. 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 investment risk is adjusted to the company's risk-bearing capacity in such a way that the company's solvency position is not endangered. The maximum level of risk is determined so that the solvency capital, after the 30% decrease in value based on listed equity type investments, exceeds the minimum solvency capital (= 2/3 of the solvency limit) by at least the amount of the VaR, and is in any case always at least at the solvency limit. In this context, the VaR equals the expected value of losses exceeding the VaR figure calculated for one month at 97.5% probability.

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 return 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

Sensitivity analysis of the investment portfolio

	Value 31 Dec. 2006	Effect		
		Share prices -30%	Interest rates +1 percentage	Real estate value -10%
Solvency capital	€6,666 mill.	€3,600 mill.	€6,055 mill.	€6,407 mill.
% of technical provisions	32.1%	17.4%	29.2%	30.9%
proportioned to the solvency limit	2.1 times	1.3 times	1.9 times	2.1 times
Return on investment,%	9.4%	-3.0%	6.9%	8.4%

Investment returns classified according to risk 2006:

	Market value € mill.	**Actual riskposition € mill.**	**Return on invested capital**	**Risk volatility**	**Modified duration**
Fixed-income investments					
Loans	781.8	781.8	**4.3%**		
Bonds	10,487.8	10,530.8	**0.7%**	2.4%	5.5
Other money market instruments	370.3	24.7	**3.1%**		
Equities and shares					
Listed equities and shares	9,358.5	9,661.1	**23.6%**	10.8%	
Private equity investments	778.0	778.0	**25.4%**		
Unlisted shares	108.1	108.1	**31.5%**		
Real estate investments [1]					
Direct real estate investments	2,566.5	2,566.5	**7.9%**		
Investment funds and UCITS	170.2	170.2	**10.3%**		
Other					
Hedge fund investments	2,237.2	2,237.2	**8.0%**	4.8%	
Commodities	0.0	0.0			
Others	0.0	0.0			
Investments total	**26,858.4**	**26,858.4**	**9.4%**	**3.9%**	

[1] Total return according the KTI index

The classification of investments and the calculation principles comply with the recommendations issued by the Finnish Pension Alliance TELA's working group for income calculation, and they deviate from the classification used in the financial statements.

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 counterparty 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 such risks as technical and location risks. Derivatives (e.g. interest, equity and currency derivatives) are considered equal with the underlying instruments, so derivatives are always monitored in tandem with the investments on which they are based.

Varma aims to maximise the return 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 when 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 return 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 return expectations will be adjusted to match the new situation.

The table on page 42 describes how the return and solvency figures in the financial statements wouπld change, were share prices and the value of real estate to fall and interest rates to rise.

Changes from the beginning of 2007

The risk-bearing capacity of investments and, consequently, the seeking of higher returns in the long term, will be improved by linking a gradually growing proportion of the return requirement for technical provisions to the actual equity returns of pension insurance companies with less delay than at present, and by increasing the level of solvency capital by a higher than previous proportion of the investment returns. In 2007, at 2% of the technical provisions, the return requirement will be determined afterwards on the basis of the average actual equity returns of earnings-related pension insurance companies. The proportion will grow annually by two percentage points, until it reaches 10% of the technical provisions. At that point, the related risk relative to the return requirement will be reduced to a deviation risk in relation to the average equity portfolio of the earnings-related pension insurance scheme. This risk is borne at the level of the earnings-related pension insurance scheme by a new supplementary insurance liability tied to the equity return, the size of which may vary from –10% to 5% of the technical provisions. In addition, the solvency capital is being increased a little by slightly reducing the level of return obligation, which is based on the degree of solvency.

Following the reform of the regulations on technical provisions and solvency, all investments can now be used for technical provisions within the legal maximum limits. The solvency regulations take precedence over the technical provision regulations, which were simplified from before. In the new technical provision and solvency regulations, diversification is a central requirement. In calculating the solvency limit and in listing assets covering technical provisions, investments must be categorised into solvency categories according to their real risk. The new provisions also require that euro-denominated authorizations and the permitted maximum loss be defined, and that derivative contracts be categorised into risk-reducing and other-than-risk-reducing contracts.

Varma's Board of Directors determines the principles to be used where investments are categorised in a manner not consistent with legislation, and the principles for the use and categorisation of derivative contracts. In addition, the Board of Directors monitors the use of derivate contracts and the application of the principles for investment categorisation, and approves annually reports detailing the total impact of the use of the principles on the solvency limit of pension insurance companies.

Varma investment and risk management plans now include a monthly monitoring report regarding compliance with the categorisation principles approved by the Board of Directors for investments related to technical provisions and solvency; an annual report on categorisation not consistent with legislation and their impact on the solvency limit; monthly reports on the monitoring of the use of derivative contracts in accordance with the principles approved by the Board of Directors; and an annual summary report on the use of derivatives and its impact on the solvency limit.

Internal audit

Internal audit operates in accordance with the principles defined in the professional standards of internal audit. It is responsible for providing independent and objective assessment, security and consulting services, the purpose of which is to support the organisation in achieving its goals by producing assessments and development proposals on 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 areas to be audited 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 President and CEO.

Notes to the financial statements

Corporate governance

Varma's corporate governance is based on the Finnish Employee Pension Insurance Companies Act and the regulations of the Insurance Companies Act and the Companies Act mentioned therein. Varma also complies with the Corporate Governance Recommendation for Listed Companies to the extent possible for a mutual earnings-related pension insurance company. Varma's central executive organs are the Annual General Meeting, the Supervisory Board, the Board of Directors and the President and CEO.

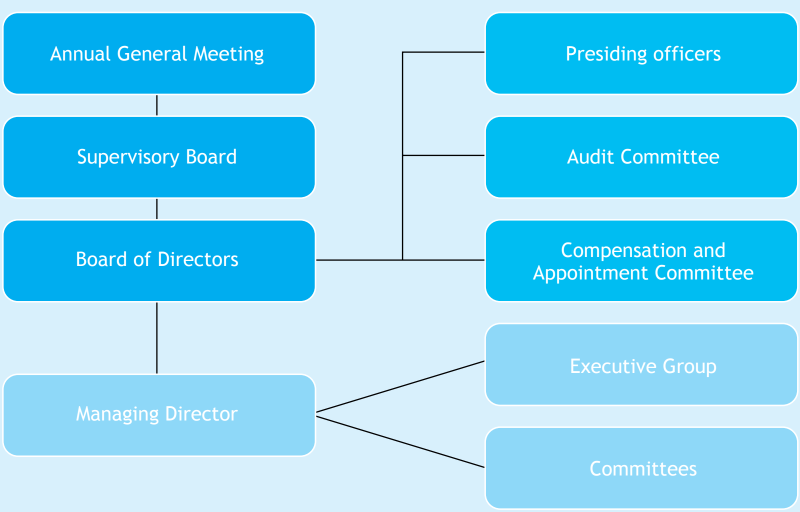
Varma's customers are policyholders and the personnel employed by them who are covered by the insurance. The policyholders, the insured and the guarantee capital owners have a right to participate in decision-making at the Annual General Meeting.

The Supervisory Board is selected by the Annual General Meeting. Its role is to monitor the administration of the company by the Board of Directors and the President and CEO. The Supervisory Board comprises 28 members, of whom 7 are selected on the basis of recommendations by the major employer organisations and 7 on the basis of recommendations by the major employee organisations. In 2006, the Supervisory Board convened three times. The average attendance was 61%. In 2006, an annual remuneration of €5,000 was paid to the Chair of the Supervisory Board, €3,800 to the Deputy Chairs, and €2,500 to the members. The meeting fee was €300 per meeting.

The Board of Directors is to manage Varma with professional expertise and in accordance with sound business principles. The Board of Directors must take care of Varma's administration and operational organisation in an appropriate manner. Varma's Board of Directors comprises 12 members and three deputy members. Board members, the Chair and the Deputy Chair are elected by the Supervisory Board. 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 of the members and one of the deputy members are freely elected.

The Board of Directors convened nine times in 2006. The average attendance was 87%, including attendance by deputy members. All members and deputy members of the Board of Directors have participated in self-assessment of Board work. During the year, the Board of Directors has worked on an investment plan and on investments in general, the organisation of internal control and risk management, technical bases, the management and incentive systems of the company, the development of the company's core functions, and operating cost-effectiveness.

Administration



The Audit Committee supervises, among other things, the company's financial and other reporting, and the status of internal control. The Committee convened twice in 2006. The main issues discussed were risk management, the election of the Auditors, the Auditors' report and the report on the internal audit. The Compensation and Appointment Committee develops for the approval of the Board of Directors both the company's incentive system and the general principles of rewarding management. The Committee convened twice in 2006.

The remuneration for the members of the Board of Directors is decided by the Supervisory Board. In 2006, an annual fee of €20,000 was paid to the Chair, €15,000 to the Deputy Chair, €10,000 to the members, and €6,000 to the deputy members. The meeting fee was €400 per meeting to the Chair, €375 to the Deputy Chair, and €275 to the members and deputy members. Meeting fees for the members of the Committees were the same as those paid to the Board members. The Board of Directors does not include any members who currently belong to Varma's executive management. None of the members of the Board have had an employment relationship with Varma in 2006 or in the two preceding years, nor does any member receive compensation from Varma for services unrelated to the Board's functions.

The President and CEO is in charge of Varma's current administration as advised by the Board of Directors. The President and CEO is supported in his task of managing the company by the Executive Group, which comprises seven members and the President and CEO. The Board of Directors decides on the salaries and benefits of the President and CEO, Executive Vice-President, and executives appointed by the Board of Directors. In 2006, the remuneration and fringe benefits received by the President and CEO totalled €580,035. He is set to retire at the age of 62 and his pension will amount to 60% of the calculated pensionable salary. The President and CEO's period of notice is six months, in addition to which he is entitled to compensation amounting to six months' salary. The remuneration and fringe benefits of the Executive Vice-President totalled €317,330 and his retirement age is 60 years. The maximum amount of payment by results for management, which is confirmed annually corresponds to 2–6 months' salary.

Auditors' remuneration

In 2006, the remuneration paid to auditors amounted to €210,000 (€220,000). In addition, the auditing company was paid €43,000 (€105,000) in consultation fees (e.g. foreign private equity). Hence, the auditors' remuneration totalled €253,000 (€325,000).

Notes to the financial statements

Key figures and analyses

Summary

	2006	2005	2004	2003	2002
Premiums written, € million	**2,983.3**	2,763.9	2,614.8	2,454.7	2,406.0
Pension and other payments made, € million [1)]	**2,556.3**	2,400.8	2,277.3	2,182.1	2,092.4
Net investment income at fair value, € million	**2,329.8**	2,498.8	1,565.7	1,460.8	339.6
Return on invested capital, %	**9.4**	11.6	8.0	8.1	1.9
Turnover, € million	**4,624.8**	3,834.5	3,604.5	3,749.3	2,839.9
Total operating expenses, € million	**89.8**	83.9	78.3	74.9	70.8
of turnover, %	**1.9**	2.2	2.2	2.0	2.5
Operating expenses covered by the expense loading included in insurance contributions	**73.4**	70.7	66.4	64.2	59.0
of TEL and YEL payroll, %	**0.5**	0.5	0.5	0.6	0.5
Total result, € million	**1,120.7**	1,681.0	877.9	909.8	-363.4
Technical provisions, € million	**23,774.3**	21,824.1	20,028.5	18,811.9	17,340.3
Solvency capital, € million	**6,665.7**	5,599.3	3,986.3	3,193.4	2,409.2
of technical provision, % [2)]	**32.1**	29.2	22.8	19.4	15.5
in relation to solvency limit	**2.1**	2.4	2.4	2.1	2.1
Equalisation provision, € million	**910.4**	947.0	906.9	860.3	797.6
Pension assets, € million [3)]	**27,378.0**	24,727.6	21,491.0	19,670.6	18,014.7
Transfer to client bonuses of TEL payroll, %	**0.6**	0.7	0.4	0.3	0.2
TEL payroll, € million	**13,402.2**	12,275.4	11,784.2	11,045.7	10,852.3
YEL payroll, € million	**648.3**	620.0	597.7	579.0	566.5
TEL policies [4)]	**25,200**	25,200	25,600	25,300	25,900
TEL insured persons	**426,100**	408,600	406,400	393,000	398,500
YEL policies	**37,400**	36,700	36,300	36,000	36,300
Pensioners	**296,400**	293,000	285,600	284,000	279,000

[1)] Claims paid in income statement excluding costs for operations relating to compensations and working capacity maintenance.
[2)] Ratio calculated as a percentage of the technical provisions used in calculating the solvency limit.
[3)] Technical provisions + valuation differences.
[4)] Policies written by employers with insurance contracts.

Performance analysis

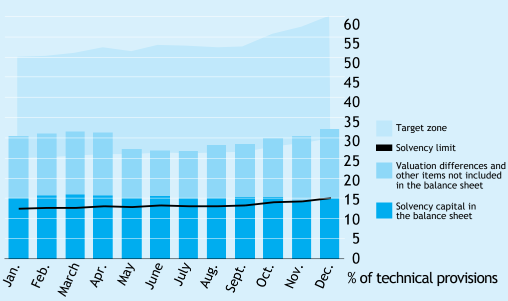
31 Dec., € million	**2006**	2005	2004	2003	2002
Sources of profit					
Technical underwriting result	**-32.1**	42.8	52.7	70.2	38.2
Investment surplus at fair value	**1,124.2**	1,614.6	802.6	820.4	-418.0
+ Net investment income at fair value	**2,329.8**	2,507.0	1,575.9	1,460.0	337.5
– Return requirement on technical provisions	**-1,205.6**	-892.4	-773.3	-639.6	-755.6
Loading profit	**28.5**	23.5	22.5	19.1	16.4
Total result	**1,120.7**	1,681.0	877.9	909.8	-363.4
Distribution of profit					
To increase solvency	**1,042.7**	1,597.0	826.9	874.8	-398.3
Equalisation provision (+/-)	**-36.5**	40.1	46.5	62.7	36.7
Solvency capital (+/-)	**1,079.2**	1,556.9	780.3	812.1	-435.0
Change in provision for future bonuses	**368.5**	108.1	171.9	626.8	-355.1
Change in difference between fair value and book value	**700.2**	1,441.0	603.9	180.4	-84.8
Change in accumulated appropriations	**-0.2**	0.0	-2.6	-0.5	-0.5
Profit for the financial year	**10.7**	7.8	7.1	5.4	5.5
Transfer to client bonuses	**78.0**	84.0	51.0	35.0	26.0
Transfer to augment the provision for current bonuses	**0.0**	0.0	0.0	0.0	8.9
Total	**1,120.7**	1,681.0	877.9	909.8	-363.4

Solvency

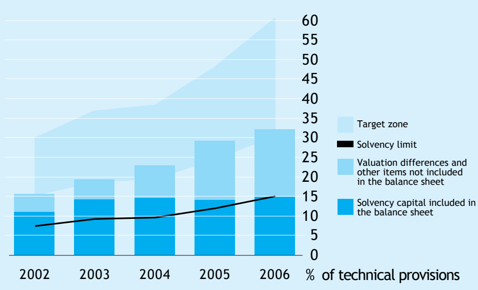
Solvency capital and limits
(in relation to technical provisions used in calculating the solvency limit)

	2006	2005	2004	2003	2002
Solvency limit	**15.1**	12.0	9.5	9.2	7.5
Lower limit of the target zone	**30.2**	24.0	19.1	18.4	14.9
Upper limit of the target zone	**60.4**	48.0	38.1	36.8	29.8
Solvency capital	**32.1**	29.2	22.8	19.4	15.5

Solvency capital 2006



Solvency capital 2002–2006



Notes to the financial statements

Key figures and analyses

Investment allocation at fair value

	2006		2005		2004		2003		2002	
	€ mill.	**%**	€ mill.	%	€ mill.	%	€ mill.	%	€ mill.	%
Loan receivables [1]	**930.6**	**3.5**	953.7	3.9	1,089.5	5.1	1,222.1	6.3	1,266.3	7.1
Bonds [1) 2)]	**10,373.5**	**38.6**	11,569.9	47.0	11,240.9	52.9	10,891.0	56.0	10,826.4	60.8
* includes fixed-income funds	**245.9**		240.8		140.6					
Other money-market instruments and deposits [1) 3)]	**389.2**	**1.4**	619.9	2.5	838.3	3.9	142.5	0.7	178.9	1.0
Shares and participations	**12,428.4**	**46.3**	8,761.4	35.6	5,476.5	25.8	4,683.2	24.1	3,028.5	17.0
Real estate [4]	**2,736.7**	**10.2**	2,715.9	11.0	2,587.2	12.2	2,520.1	13.0	2,519.9	14.1
* includes investments trusts and undertakings for collective investment in transferable securities (UCITS)	**227,0**		54,4		14,7					
Total investments	**26,858.4**	**100.0**	24,620.8	100.0	21,232.6	100.0	19,459.0	100.0	17,820.1	100.0
Modified duration of the bond portfolio	**5.52**									

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

Investment return specification and surplus

€ million	**2006**	2005	2004	2003	2002
Direct net income	**899.6**	885.8	948.0	795.0	795.3
Loan receivables	**44.0**	43.4	55.6	56.0	63.1
Bonds	**431.5**	479.8	476.7	505.3	514.6
Other money-market instruments and deposits	**17.8**	12.0	10.3	6.0	15.2
Shares and participations	**277.6**	208.3	294.3	119.9	93,.7
Real estate	**155.8**	153.7	132.0	123.1	116.2
Unallocated income, costs and operating expenses from investment activities	**-27.1**	-11.3	-20.8	-15.2	-7.4
Changes in book value [1]	**730.0**	172.1	13.7	485.4	-373.0
Shares and participations	**683.6**	176.0	254.2	252.3	-467.1
Bonds	**37.8**	22.8	-203.4	253.8	109.2
Real estate	**8.7**	-26.7	-37.1	-20.7	-15.0
Net investment income booked	**1,629.6**	1,057.8	961.8	1,280.4	422.3
Change in difference between fair value and book value [2]	**700.2**	1,441.0	603.9	180.4	-84.8
Shares and participations	**1,039.7**	1,402.8	306.9	255.1	-346.9
Bonds	**-384.5**	10.0	263.9	-103.5	216.6
Real estate	**45.0**	27.5	33.5	29.6	47.6
Other investments	**0.1**	0.7	-0.3	-0.8	-2.1
Net investment income at fair value	**2,329.8**	2,498.8	1,565.7	1,460.8	337.5
Return requirement on technical provision	**1,205.6**	892.4	773.3	639.6	755.6
Investment surplus, book value	**424.0**	173.6	198.7	640.0	-333.2
Investment surplus at fair value	**1,124.2**	1,614.6	802.6	820.4	-418.0
Share of net investment income accounted for by derivatives [3]	**290.5**	-309.9	-157.7	161.5	61.1

1) Capital gains and losses and other changes in book value.
2) Changes in book value not included in the balance sheet.
3) Includes currency hedges.

Net investment income at fair value

	Net investment income at fair value 1) € mill. 2006	Invested capital 2) € mill. 2006	Return on invested capital % 2006	Return on invested capital % 2005	Return on invested capital % 2004	Return on invested capital % 2003	Return on invested capital % 2002
Loan receivables	**44.0**	**936.9**	**4.7**	4.5	4.8	4.4	4.7
Bonds 3)	**84.7**	**11,028.7**	**0.8**	4.5	5.0	6.1	8.7
* of which fixed-income funds account for	**8.0**	**238.4**	**3.3**	2.1			
Other money-market instruments and deposits	**17.9**	**565.5**	**3.2**	2.0	2.6	3.4	3.4
Shares and participations	**2,000.9**	**9,615.4**	**20.8**	29.4	17.9	19.3	-19.7
Real estate 4) 5)	**209.4**	**2,657.6**	**7.9**	6.0	5.1	5.4	6.5
* of which investments trusts and undertakings for collective investment in transferable securities (UCITS) account for	**9.1**	**139.6**	**6.5**	8.9			
Total investments	**2,356.9**	**24,804.1**	**9.5**	11.6	8.1	8.2	2.0
Unallocated income, costs and operating expenses from investment activities	**-27.1**						
Net investment income at fair value	**2,329.8**	**24,804.1**	**9.4**	11.6	8.0	8.1	1.9

1) Net investment income at fair value = Change in the fair value 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 fixed-income funds reported as the investments in question.
4) Includes income from investment trusts and UCITS funds reported as real estate investments.
5) Return in accordance with KTI Index (Institute for Real Estate Economics) 7.8%.
Return in accordance with KTI Index for investment real estate objects (excluding objects in own use) 8.2%.

Loading profit

€ million	2006	2005	2004	2003	2002
Expense loading components included in contributions	**101.3**	93.6	88.2	82.4	74.6
Operating expenses covered by the expense loading component included in contributions	**-73.4**	-70.7	-66.4	-64.2	-59.0
Other income and expenses	**0.6**	0.6	0.7	0.9	0.8
Loading profit	**28.5**	23.5	22.5	19.1	16.4
Operating expenses in relation to the expense loading component included in contributions + other income	**72**	75	75	77	78

Distribution of Profit

The Board of Directors proposes that the profit for the year	€10,723,187.91
shown in the balance sheet be distributed as follows:	
to be transferred to the contingency fund (optional reserve)	€9,800,000.00
to be paid as intrest on quarantee capital	€865,992.73
to be transferred to the Board of Directors' expense account	€55,000.00
to be carried over on the Profit and Loss Account	€2,195.18

Helsinki, 16 February 2007

Jyrki Juusela

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

Auditors' Report

To the owners of
Varma Mutual Pension Insurance Company

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Varma Mutual Pension Insurance Company for the financial year from 1 January to 31 December 2006. 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's balance sheets, income statements, statements of source and application of funds, and notes to the financial statements. Based on our audit we express an opinion on these 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 12 February 2007 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 Standards on Auditing. Those standards require that we perform the audit 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 financial statements presentation. The purpose of our audit of administration is to examine that the members of the Supervisory Board, Board of Directors and the Managing Director have legally complied with the rules of the Insurance Companies Act and the Employee Pension Insurance Companies Act.

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's 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 regarding the distribution of profit is in compliance with the Finnish Insurance Companies Act.

Helsinki, 28 February 2007

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 2006, together with the consolidated financial statements 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 statements or auditors' report.

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

Helsinki, 8 March 2007

For the Supervisory Board
Pekka Paasikivi
Chairman of the Supervisory Board