



Annual Report 1996

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ESPOON SÄHKÖ IN 1996

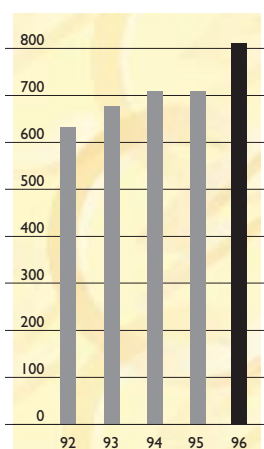
Espoon Sähkö Oy produces, procures and sells electricity, district heat and natural gas. The company provides a comprehensive, competitive and high-quality service which meets the energy needs of its customers. Espoon Sähkö was established in 1918 and it has been listed on the Helsinki Stock Exchange since 1994.

Espoon Sähkö owns the electricity network in the areas of Espoo, Kauniainen and Kirkkonummi, the district heating network in Espoo and Kauniainen, and cogeneration power plants and district heating boilers in Espoo.

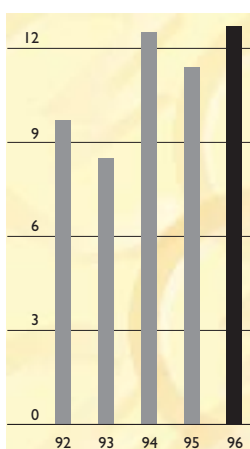
The Espoon Sähkö Group comprises the parent company, Espoon Sähkö Oy, together with two property companies: Kiinteistö Oy Espoon Energiatalo and Kiinteistö Oy Piispankylä 4.

	1996	1995	Change, %
Net sales, MFIM	809.4	707.7	14.4
Operating profit, MFIM	155.3	137.6	12.9
Profit before provisions and taxes, MFIM	155.7	131.3	18.6
Earnings per share, FIM	7.14	5.29	35.0
Return on investment, %	12.7	11.4	11.4
Solvency ratio 1, % (Connection charges included in shareholders' equity)	75.5	68.0	11.0
Solvency ratio 2, % (Connection charges excluded from shareholders' equity)	45.0	38.8	16.0
Full-time employees on 31 Dec.	396	398	-0.8

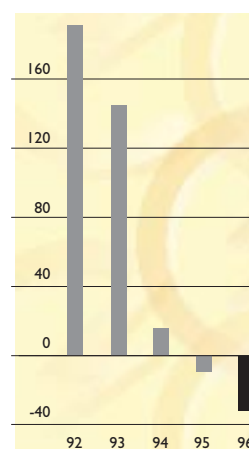
Net sales, MFIM



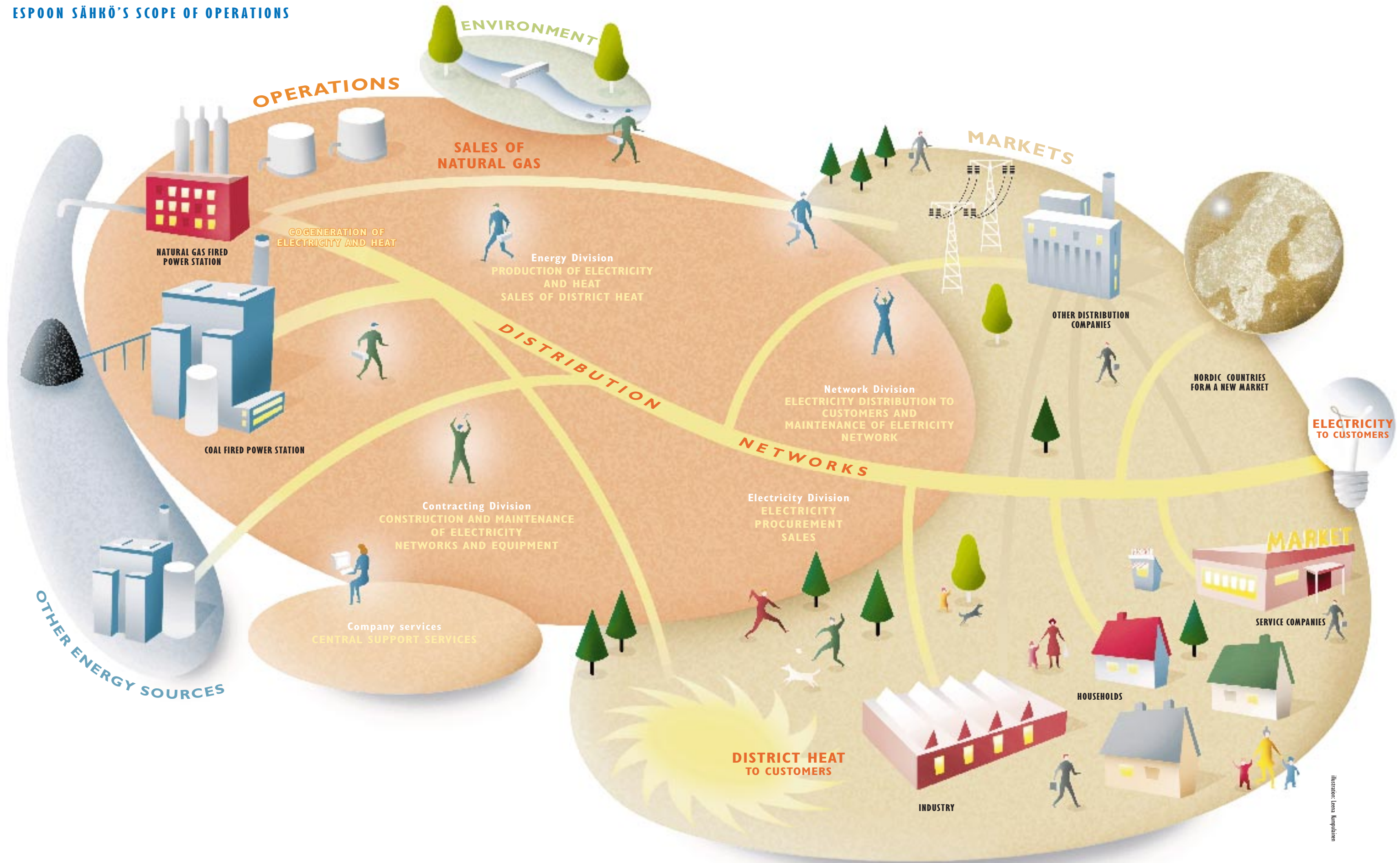
Return on investment, %



Gearing, %



ESPOON SÄHKÖ'S SCOPE OF OPERATIONS



MANAGING DIRECTOR'S REVIEW

Business conditions

The change in the structure of Finland's energy sector and its markets which began this decade was much in evidence during 1996 as well. It was the first full year when large customers were able to subject electricity suppliers to competitive bidding. Free competition, however, did not get under way immediately; instead, the activity of the parties increased fairly gradually. Only very few electricity suppliers made a strong effort to enter the market outside their traditional operating areas. In this regard Espoon Sähkö was among the fastest and most active. Determined development coupled with anticipation of the forthcoming change in the market well in advance helped the company make a convincing start to exploiting the new opportunities.

The extent of the change in electricity trading was further increased by the start up of the electricity power exchange in Finland and the opportunity from the autumn to trade on the Swedish-Norwegian Nord Pool power exchange. As the first Finnish member in Nord Pool after Finland's national power companies, Espoon Sähkö was rapidly able to start trading in significant amounts of electricity since price differences in different marketplaces were exceptionally large, especially at the beginning of the autumn. Development since then and the many projects now in the pipeline indicate that the geographical scope of electricity trading will expand. Initially this will cover the entire Nordic region and, as the network of transmission lines is strengthened, bilateral trading with the markets in western Europe will grow.



An important aspect of the change in the structure of this business sector was the fact that the large electricity producers continued to expand also as electricity distributors. On the other hand, no major changes were evident in Finland's towns and cities, which play an important role in the energy sector. Hence, pressure for structural change still exists.

Final decisions on the new national grid

company, Balance Electricity Unit and the possibility for small consumers to buy electricity on the open market, all of which are crucial to electricity trading, still remained to be settled.

Performance

Positive development took place in all matters of central importance to the company's performance during the year. Sales

volume increased strongly as the company attracted new customers outside its operating area, as it began trading on the power exchanges, and as sales also increased in the company's own operating area. Total energy procurement costs rose slightly faster than the growth in volume due to increases in the unit prices of purchased electricity and fuels. Pension schemes agreed with personnel offer an opportunity to increase productivity during the next two years.

The profit before provisions and taxes, FIM 156 million, was improved by net financial expenses, which decreased compared to the previous year and turned into financial income for the year. Altogether the company recorded its best financial performance ever in 1996.

Separate financial information for the first time

The Group and parent company accounts for 1996 mark the first time that separate statements for the businesses are also published, as required by the electricity

market regulations. These statements have been prepared in accordance with generally accepted accounting principles, which require that the notes to the financial statements must also include the Electricity Division's income statement and the Network Division's income statement and balance sheet. This project made it necessary to define, among other things, criteria for dividing the corporate activities among the divisions, principles for internal transmission pricing, and allocation of balance sheet items to the Network Division. In addition to the separate income statement and balance sheet information, the guidelines also require publication of the key indicators for these businesses.

Prospects

To manage the rapid changes in the sector and the challenges that they pose, the company has initiated several far-reaching development projects. The most important of these are the application of a quality management system, the adoption of an environmental management system and a comprehensive

risk analysis and the integration of risk management in the company's daily activities and management.

A decision on the structure of future energy procurement also required us to take a position on whether to go ahead with a new power plant investment. Decisions on these issues will be taken during the current year.

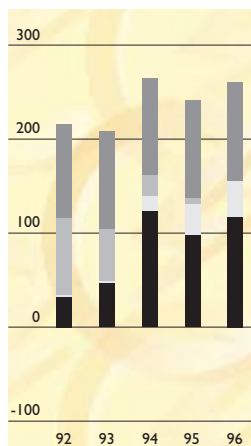
The removal of barriers to the electricity markets from the beginning of 1997, and the probable extension of this policy to cover small-scale consumers from the beginning of 1998, further underlines the importance of good customer service, product development, price competitiveness and marketing.

Espoo, March 1997

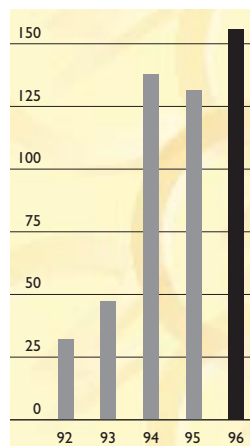


Matti Manninen
Managing Director

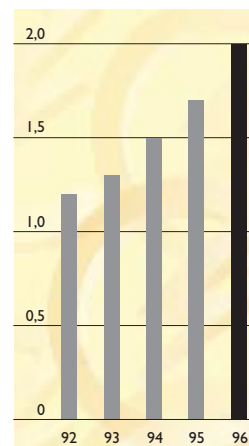
Operating profit before depreciation, MFIM



Profit before provisions and taxes, MFIM



Net sales/employee, MFIM



■ Depreciation
■ Financial expenses
■ Taxes
■ Net profit

THE NORDIC ELECTRICITY MARKETS

An important step forward in the formation of a Nordic electricity market was taken in 1996 when power lines in the north of Finland were transferred to Imatran Voimansiirto Oy's (IVS) ownership at the beginning of July. In summer IVS also decided to invest in a power transmission system between Finland and Sweden that will increase transmission capacity by between 300 and 500 MW.

The Nordic electricity markets generate a volume of around 370 TWh and the value of the power distribution market is estimated to be FIM 70 billion. Finland accounts for about 61 TWh and FIM 12 billion of these, according to statistics for 1995.

The Nord Pool common power exchange for Norway and Sweden was established in the winter of 1995-96. This development extended the market area of Statnett Marked AS, which had previously operated only on the Norwegian market. Originally involved were Norwegian producers, purchasers and brokers. These were joined later by Swedish and Finnish companies. Espoon Sähkö became a member of Nord Pool in September 1996.

Finland's national electricity spot market, EL-EX, started up in mid-August 1996. At the start it was only domestic and numbered 32 member companies. At year's end EL-EX gained its first foreign member, Enron Nordic AS. Feasibility studies were also initiated at the close of the year to look into the possibilities for co-operation between the Nordic spot markets.

The launching of the spot market is not highly significant judged by the volume traded

in Finland, at least in its early stages, but it does have a profound effect on the pricing of electricity. The spot market has a unifying and levelling influence on the price of electricity in Finland, and it is expected that price differences will be eroded. On the other hand, the volatility of electricity prices is expected to increase.

This being the case, the importance of up-to-date analysis of information on electricity markets will increase. In particular, pronounced changes in the weather will have an effect on the price of electricity. With relatively low price margins in traded electricity, the continuous management of capacity equilibrium and market risks become key factors for success in the new situation. It is predicted that there will be harmonisation of taxes on electricity in the Nordic countries. Although minor differences in taxation will remain between countries, the prices will tend to balance in a single Nordic electricity market as cross-border transmission capacity increases and as the expertise and information technology of the players develop.

Greater integration of the Nordic electricity networks with other European grids

and the progress of the electricity market directive in the EU will once again create a new state of affairs. The price level in Europe and the general development of an electricity market in continental Europe will also start to have an impact on the Nordic market.

High-volume transmission possible

The growing volume traded in the Nordic power exchanges will have an intrinsic effect on the volatility of the market price of electricity. In Norway, for instance, daily electricity prices virtually doubled in a short space of time due to poor water availability. Danish power companies especially have exploited the situation by exporting large amounts of electricity from coal condensing power plants to Norway over the year.

In such conditions, relatively large power trading reactions are feasible as the market opens up. The fundamental differences between production capacities of the Nordic countries is of considerable importance in the logic underpinning the Nordic electricity market: ranging from Norway's almost exclusively hydro power to the 97 per cent

dominance of thermal production in Denmark.

During 1996 the Finnish company Imatran Voima Oy (IVO) branched out into the Swedish market through a series of corporate acquisitions. IVO now accounts for roughly 10 % of the electricity generated and distributed in Sweden. The Swedish Vattenfall AB has entered the Finnish market by taking over control of the regional power distribution companies Hämeen Sähkö Oy and Lapuan Sähkö Oy, and by concluding large electricity supply contracts with major Finnish industrial consumers.

Change favours large corporate size

The change under way in the electricity markets in many regions around the world gives larger companies the edge. One indication of the extent of this market change is

the 50 billion dollars or more spent globally in 1995 alone on corporate acquisitions in the electrical sector, according to one estimate. Such changes continued during the review year. The companies involved are looking to boost efficiency in electricity generation, transmission and distribution by reorganizing an infrastructure once regarded as inherently national and heavily regulated.

Large corporate size in the electricity sector makes risk management much easier and reduces relative operating costs. For instance, a wider framework in energy supply allows operations to be optimized and investments to be scheduled more flexibly. Similarly, product marketing, trading, market analysis, financing, and the development and maintenance of personnel skills are all considerably easier for large companies than for firms working with fewer resources.

The driving trend towards deregulated electricity markets is occurring simultaneously in Finland, Sweden and Norway. Preparations are also being made in Finland to interconnect transmission grids. These fundamental changes are making themselves felt at the regional level of the energy business as well.

Large producers of electricity hold a strong position and have extended their business to the retail market. This strengthening of vertical integration appreciably changes the logic on which the electricity market operates. Higher efficiency and better marketing expertise are required of the regional energy sector. The quality of service in handling customer relationships is also of growing importance as customers can now select from between competing energy suppliers.



ESPOON SÄHKÖ AND THE ENVIRONMENT

International environmental agreements and goals are affecting an increasing number of companies and setting new requirements on their operations. With the energy markets now rapidly opening up and becoming more international, the competitive efficiency of energy companies, those in Finland included, will also depend on how they manage their environmental responsibilities. Corporate customers in particular are choosing their energy partners not only on price but increasingly on their commitment to environmental responsibility.

The environmental management system

Espoon Sähkö has initiated a quality development programme which includes integrating environmental considerations in the company's operations.

The company began work on preparing an environmental management system in spring 1996 with an environmental audit based on documents, visits to the company's various plants and properties, and interviews with staff. The work involved the use of outside expertise. The report notes that on the whole the company has managed its environmental responsibilities well and in compliance with official regulations. Aspects requiring further development were definitions of environmental tasks and responsibilities and waste disposal accounting. In accordance with the report's proposals procedures will be formulated enabling the company to comply with the international ISO 14001 environmental standard.

The company's Environmental Policy, confirmed in January 1997, is the basis for its environmental activities. The environmental management system will be basically implemented in early 1997. Personnel will receive training to help them participate in drawing up the system as experts in their own fields.

After further action and training based on internal audits, the system will be completed by the end of the year. An environmental programme, including goals and action, will be prepared as the work progresses. In 1997 the company will concentrate on building up the system, and on educating the entire personnel in environmental matters. No decision has yet been made on applying for certification of the environmental management system. The system and action will be monitored regularly to ensure that the company's standard of environmental protection is raised.

The energy company and lifecycles

As a company both producing and selling energy, Espoon Sähkö is part of a chain extending from fuel procurement to energy consumption by the end user, the customer. The preparation of the environmental management system also involves a systematic survey of the environmental impact of the company's operations. The most important of these arise from energy production. Construction of the electricity network and power plants mainly affects the landscape and use of land.

Through its own activities Espoon Sähkö

ENVIRONMENTAL POLICY OF ESPOON SÄHKÖ OY

THE COMMITTED, GOAL-ORIENTED AND PROACTIVE MANAGEMENT OF OUR ENVIRONMENTAL RESPONSIBILITIES IS INTEGRAL TO OUR OPERATIONS.

We are continuously engaged in developing our operations to reduce and prevent adverse effects on the environment and to promote the rational use of energy.

We are open and active in communicating about our activities and their environmental impact.

We train our personnel to be aware of the environmental impact of the company's and their individual activities, and we encourage them to take responsibility for improving the state of the environment.

We value partnerships which promote environmentally positive solutions and procedures.

makes every effort to promote efficiency in energy production and consumption and environmental responsibility. For thirty years the company has been producing district heat, an environmentally efficient means of meeting the space heating needs of population centres. When the heat is produced in a larger unit instead of equipment in individual properties, the flue gas emissions are better controlled. Adding electricity generation to heat production, a process called combined heat and power, makes it possible to use up to 90 per cent of the fuel energy. Condensing plants generating only electricity operate at efficiencies of around 40 per cent.

Espoon Sähkö mainly uses coal and natural gas in its energy production. Emissions arising from the combustion of these fuels are efficiently reduced using modern cleaning equipment and combustion techniques. Low-sulphur fuel oil is used mainly in boiler plants as a reserve fuel and at peak consumption periods caused by severe frost.

As part of its R&D activities the company also follows developments in renewable energy sources. Thorough analysis led to the preparation in 1995 of a plan to build a semi-offshore wind-power plant in the Espoo archipelago. However, the plan was dropped for financial reasons and due to local resistance. The company is co-sponsoring an international conference on solar energy in Espoo in June 1997.

Espoon Sähkö participated in the SEEP project, implemented in Finland between 1993 and 1996, to create a general database as a source for lifecycle analyses of energy produced in Finland. In the next few years the company will devote attention to the lifecycle effects of its products primarily through development of its own operations and by

promoting the rational use of energy and other environmentally positive operating procedures in cooperation with customers and suppliers.

Using energy rationally

Customer service and co-operation with local schools are important means of providing information about the use of energy and its effects. More than 7000 leaflets on energy conservation have been posted to new customers. The Energy in Uusimaa programme, repeated in 1996 for the eighth time, introduced the company and energy and environment aspects to more than 3000 eighth-grade school children in the operating area. The company and two local schools were also involved in gathering material for the MOTIVA Energy Conservation Centre's national energy conservation project directed at second-grade school children. Uppergrade schools in the area also received a copy of the computerized Power energy teaching programme.

Espoon Sähkö is also represented on a City of Espoo committee which during 1996 prepared a follow-up report on the city's energy conservation programme and participated in drawing up an environmental protection programme for the years 1997-2000.

Environmental studies and analyses

An environmental risk evaluation was included in a risk analysis of the company conducted in spring 1996 and in a programme of projects, based on this analysis, to develop the company's risk and safety management capabilities.

Espoon Sähkö, together with other energy companies in the Helsinki metropolitan area,

participates in the air quality monitoring conducted by the Helsinki Metropolitan Area Council (YTV). At the end of 1996 the Meteorological Institute completed a study analysing nitrogen oxide emissions in the area, determining nitrogen oxide concentrations using a dispersion model, and developing a nitrogen fall-out model on a city scale. Although nitrogen emissions from energy production account for almost half of total emissions in the area, their impact on ground-level nitrogen oxide quantities and on the nitrogen fall-out is minimal. Traffic exhaust emissions are now, and will continue to be, a major source of air pollution.

A subject of research and development is the potential to make further use of the fly ash and desulphurization products from the energy production process as a raw material in civil engineering and construction projects. The company participated in the construction of an experimental waste disposal site at Ämmässuo in Espoo. This project is studying the suitability of fly ash and desulphurization residue produced at sites such as the Suomenoja power plant as a foundation material for landfill sites. Monitoring and measurements will continue until 1998.

YTV started an analysis in 1996 to determine the use of incinerable municipal waste. The Suomenoja fluidized bed boiler is included in the study as a potential site of application.

Recent environmental discussions have drawn attention to the health effects of fine particles arising from combustion processes. Espoon Sähkö is participating in two studies whose purpose is to establish the origin, dispersion and health effects of inhalable particles.

Environmental investments

Investments totalling approximately FIM 100 million at the beginning of the 1990s have considerably reduced emissions at the Suomenoja power plant. The basic air protection investments comprised a new desulphurization plant in 1991 and measures to reduce nitrogen oxides between 1991 and 1995. No significant investments to reduce emissions will be necessary during the next few years.

In 1996 the company spent FIM 0.4 million on raising the efficiency of its fly ash discharge systems. The company plans to spend FIM 0.5 million in summer 1997 to

improve the desulphurization residue discharge system. These measures will increase reliability, improve the possibility to use fly ash and desulphurization products for construction purposes, and reduce dust emissions at the plant site. In early 1997 the electrode rods in the electrostatic filtering plant, downstream of the desulphurization process, will be replaced with stronger materials.

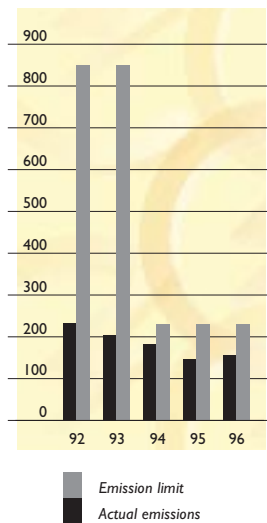
Emission levels in 1996

The company's emissions from its production processes are below the regulated levels. The sulphur dioxide emissions per fuel energy

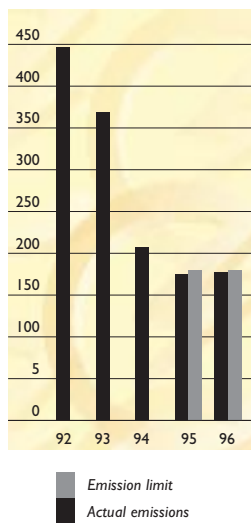
unit, ie. the specific emissions from the coal-fired steam power plant, were 156 mg SO₂/MJ. The plant's specific nitrogen oxide emissions were 178 mg NO₂/MJ. The plant's particle levels were also close to the target values despite repeated disturbances to the electrostatic precipitator during the autumn. The specific nitrogen oxide emissions of the gas-turbine power plant were 95 mgNO₂/MJ.

Burning fossil fuels creates carbon dioxide emissions. As the company's energy production volume rose, CO₂ emissions also increased and calculated emissions totalled 835,000 t.

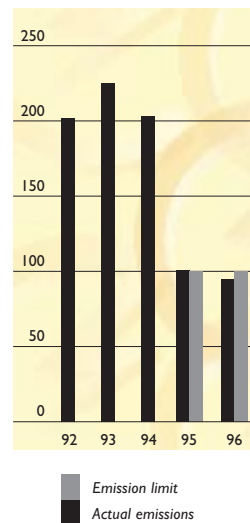
Specific emissions of sulphur dioxides at the Suomenoja coal-fired power plant, mg SO₂/MJ



Specific emissions of nitrogen oxides at the Suomenoja coal-fired power plant, mg NO₂/MJ



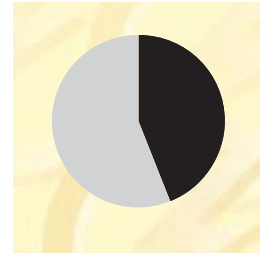
Specific emissions of nitrogen oxides at the Suomenoja gas turbine power plant, mg NO₂/MJ



ELECTRICITY DIVISION

The Electricity Division is responsible for selling, marketing and procuring electricity. Roughly 40 % of the Division's electricity is supplied by Espoon Sähkö Oy's own power plants, the remainder being purchased from electricity wholesalers or on power exchanges. The Division has 109,000 customers. There were 47 employees at the end of the year.

Share of Group net sales 44 %



The electricity business became more international when Finland's cross-border lines were partially opened in autumn 1996. The occasionally large electricity price differences in the Nordic markets offered greater scope for electricity trading. Protection of national interests in all the Nordic countries by legal and fiscal means is still hampering free trade. Nevertheless, the common Nordic electricity market has offered new opportunities to Espoon Sähkö.

The EL-EX Sähköpörssi electricity spot market was set up in Finland in the summer and Espoon Sähkö began trading on the exchange as a member in August. In September the company joined the Norwegian-Swedish Nord Pool spot market and has been active in electricity trading on both exchanges.

Spot markets are only one means of electricity trading, however. Until now, and

for the foreseeable future, electricity trading will be based primarily on short or long bilateral electricity supply contracts.

Hence, the spot market will not entirely displace existing means of trading. It appears more likely, in fact, that the volume of trading on the spot market will not increase until confidence in the availability of spot market electricity rises and price forecasts become more reliable.

In most of Finland's largest towns and cities electricity companies purchase less than half of the electricity they sell, although in rural districts this share exceeds 80 %. In Espoo roughly 60 % of the total electricity supply is procured from outside the area. If Espoon Sähkö makes the decision to build a new combined heat and power plant, the share of externally procured electricity in proportion to current volumes will fall to around one-third. Only about half of the

electricity distribution companies in Finland also have own electricity generation.

In the expanding electricity markets it is becoming increasingly important to develop new operating models and to base operations on customer needs. Segmentation and specialization will be challenges in the future.

Prices affected by several factors

A number of factors were evident in the market, some of which raised and some lowered electricity procurement and generation costs. Costs were raised by a sharp increase in wholesale prices at the beginning of the year, an electricity tax which came into force at the beginning of 1997, and prices of imported fuels. On the other hand, successful efforts were made to reduce the impact of these increases by raising operational efficiency and developing new forms of electricity procurement.

Increases in Imatran Voima Oy's electricity wholesale prices raised market prices by more than 10 %. These increases did not affect Espoon Sähkö's prices to their full extent, however, since Espoon Sähkö also has electricity generation of its own.

Despite increases in electricity procurement costs during the year, the company needed to raise sales prices by only 2-3 % due to an increase in volume. This meant a further improvement in Espoon Sähkö's price competitiveness.

DID YOU KNOW ?
WE PROCURED
19 % MORE
ELECTRICITY DURING
1996.



The Electricity Division's operating volume rose substantially during 1996 as new customers were gained. The colder weather compared to the previous year was also a partial factor in raising electricity sales.

Sales margins decisive

More important than absolute price development for companies operating in the electricity markets is the development of price margins for electricity. Companies able to outperform their competitors in electricity procurement, for example by developing their own structure of supply and expertise, will have a distinct advantage.

Stiffer competition, on the other hand, will force procurement costs down in the future, as will greater operating efficiency and the new dynamics created, among other things, by the spot markets. The net impact of factors

raising or lowering costs is still difficult to predict.

The fundamental change in the electricity markets can be described by noting that whereas Espoon Sähkö previously exercised exclusive control over its operating area, its market share today is only 5 % of the national electricity retail market. This emphasizes the need for greater efficiency throughout the organisation. Since price has been the main yardstick for choosing an electricity supplier, Espoon Sähkö has placed special priority on developing its expertise, organisation and business processes to raise cost efficiency.

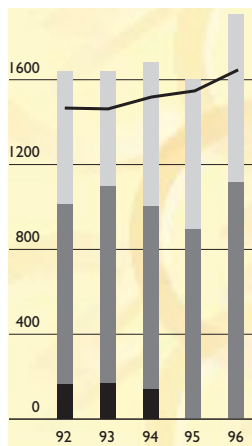
Customers have rapidly become aware of the available alternatives. Until now customers have regarded the procurement cost of electricity as a minor factor, but as companies face strong pressure to raise profitability

and cut costs customers are showing increasing interest in the price of electricity as well. Market developments indicate, however, that in this transition period private consumers have had excessively high expectations concerning prices.

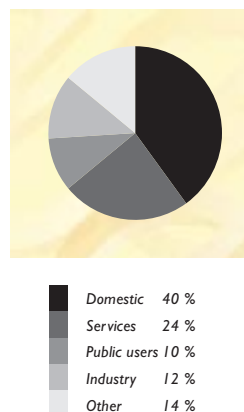
Only minor changes took place in Espoon Sähkö's customer base, thanks to long-term sales contracts. On the other hand the company gained a number of new customers. Sales is concentrated on the Helsinki metropolitan area, where a significant amount of electricity contracts are also made for other areas in Finland.

A significant role will also be played by small-scale consumers, who will probably enter the competitive arena from the beginning of 1998.

Electricity supply, GWh



Electricity sales by customer segment



— Use in distribution area
 Generation
 Purchases
 Shares

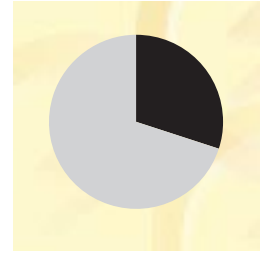


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ENERGY DIVISION

The Energy Division's operations comprise electricity and heat production and district heating. The Energy Division sells the electricity it cogenerates with heat to the Electricity Division, which covers about 40 % of its total electricity procurement volume. The Energy Division had 151 employees at the end of the year.

Share of Group net sales 30 %



Roughly 70 % of the building volume in Espoon Sähkö's area of operation is supplied with district heat, 15 % relies mainly on electrical heating, and the remainder comprises individually heated properties which almost invariably use oil heating.

The scope for expanding combined heat and power production depends largely on the extent to which sales of district heat can be increased. The potential for district heat, in turn, depends crucially on local building and construction trends.

The strongest advantages of district heating are that it is easy to apply, environmentally clean and cost-competitive. District heating is viewed favourably by both consumers and developers. Espoon Sähkö has made every effort to keep the cost of its district heating stable.

The cost-efficiency of a district heating network depends on how large its coverage is; in Espoon Sähkö's case, this is good. All

major population centres in the Espoo area are connected to each other via the main district heating network.

When Espoo's population centres were originally interconnected and the entire district heating network was looped to improve its reliability, it was necessary to build a number of strong trunklines. Now that the basic structure of the network is in place, local expansion is easier and building additional local distribution networks makes better financial sense.

The most efficient means of producing district heat is through combined heat and power (CHP), a technique in which Finland is a leading pioneer in the world. CHP reduces electricity production costs substantially compared to electricity generation in condensing power plants. Centralized production also enables the company to implement sufficient environmental investments for cleaning flue gases, which individual and small

heating plants are unable to do.

The development of the district heating markets has a significant impact on the company's profitability: firstly through growth in its district heating operations, and secondly through the possibility to increase electricity generation using the CHP process. In this respect Espoon Sähkö's location in the Helsinki metropolitan area, Finland's fastest growing region, puts it on a solid foundation.

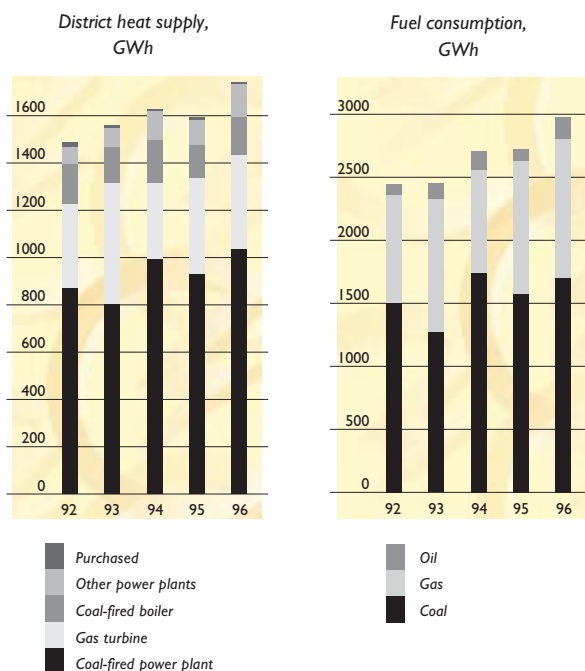
Record electricity production

Sales of district heat rose 10 % as a result of colder weather than during the previous year and an increase in the number of customers. Together with the excellent availability of the power plants, this also raised the company's own electricity generating volume by a full 12 % on the previous year.

During the year the company began regional heating at Kalajärvi in Espoo. Heat is initially being produced by a portable oil-fired heating boiler.

Increased production also raised fuel consumption by 10 % but the relative shares of the different fuels used remained roughly unchanged: coal 58 %, and natural gas 37 %.

Flue gas emissions from power generation were managed well. Sulphur emissions totalled only about two-thirds of the official guidelines.



NETWORK DIVISION

The Network Division is responsible for distributing electricity to customers. The Division constructs, operates and maintains the electricity network and is responsible for customers connected, or due to be connected, to the network. Its largest customer is Espoon Sähkö's Electricity Division. Some 36,000 customers are connected to the network. The Network Division had 58 employees at the end of the year.

Share of Group net sales 24 %



The Electricity Market Act requires that each electricity network operator is assigned a specific geographical area. Within this area the operator holds exclusive building and electricity transmission rights. Network companies are also required by law to distribute electricity in their own operating areas, a service which should be reasonably and fairly priced. Network operators are supervised by the Electricity Market Centre, which operates under the Ministry of Trade and Industry.

Espoon Sähkö operates to the highest international standards of network management. Its graphic network information systems, developed over a period of ten years, are able to integrate vast amounts of individual data from its electricity network. This data makes it easier to dimension and schedule the use and construction of the

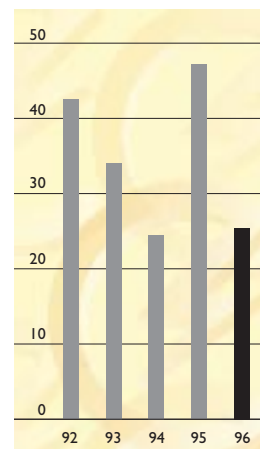
network, and to raise the average capacity utilization of the electricity network. As a result capital employed is used more effectively, interruptions are rectified more quickly and fault times are significantly reduced.

Deregulation of the electricity markets has provided new opportunities for serving customers. Operating the network is increasingly a customer service function. It includes providing a connection service for new customers, pricing of transmission services, advice on drawing up supply contracts, and making the contracts themselves. Altogether fifteen separate new transmission contracts were made during the year. Thirty-four remote-readable hour meters, which increase scope for outside competition, were installed in Espoon Sähkö's operating area. As expected, sales of external suppliers in the area remained very low.

The new Electricity Safety Act became law on 1 September 1996, which opened inspection to competitive tender where this function had previously been the official responsibility of electricity companies. It also meant a substantial reduction in the number of sites requiring inspection. Espoon Sähkö Oy will continue to offer its customers inspection services also in the new competitive situation.

The Network Division's capital expenditure remained relatively minor and mostly involved replacement investments. In the future overhead transmission lines will be

Network investments, MFIM



renewed or increasingly replaced with underground cables. The latter's share of the network has been growing at an annual rate of about one per cent and underground cables now account for 33 % of the medium-voltage network and 42 % of the low-voltage network. Altogether 787 new customers were connected.

According to all essential criteria 1996 was the second best in the company's history. Few medium-voltage disturbances leading to permanent faults occurred. Interruptions averaged 80 minutes during the year, and less than half of these were caused by faults. To maintain the high level of capacity utilization the company is giving priority to maintenance of the overhead transmission line corridors, which is a faster and more economical way of reducing the number of faults than installing cables.

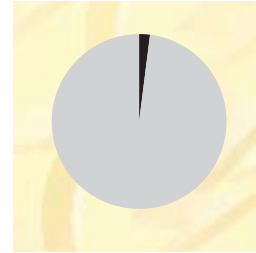
DID YOU KNOW ?

OUR ELECTRICITY NETWORK IS ABOUT 5,000 KM LONG, AND MORE THAN ONE-THIRD IS IN UNDERGROUND CABLES.

CONTRACTING DIVISION

The Contracting Division builds and maintains electricity networks and their equipment. The Division is also responsible for building street and road lighting networks, area and park lighting, and transformer substations. Its largest customer is Espoon Sähkö's Network Division. The Contracting Division had 81 employees at the end of the year.

Share of Group net sales 2 %



Contracting is a service function based on building and maintenance contracts. Success in this business requires simultaneous management of many individual work stages, close logistical control and rapid completion of contracts. The majority of the Contracting Division's work comprises internal assignments to the company network. Outside contracts represent about one-third of its annual volume, the main customers being local municipalities and the National Road Administration. Outside contracts mainly involve the building and maintenance of public and street lighting installations. The main customer for these is the City of Espoo.

Demand in this sector is directly related to municipal growth, new road projects and the construction of new suburbs. Building medium-voltage transmission substations for individual properties and electricity networks

for industry have taken the place of infrastructure development, which has been in decline in recent years. Having gained solid expertise and experience in building its own network, the Contracting Division is now increasingly contracted to install worksite transformers and property switchgear.

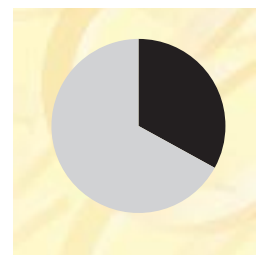
Contracts completed during the year included road lighting and signposting work on the Bemböle-Juvanalmi section of Ringroad III for the National Road Administration, and street lighting installation at the intersection of Ringroad III and the Turku motorway for Tekra. A 4800 kVA transformer substation was built for Nokia Corporation's new office building at Keilalahti.

Contracting is a labour-intensive business, which emphasizes the importance of high motivation and professional skills. Active measures to promote these have raised average productivity in Espoon Sähkö's Contracting Division by more than 30 % in recent years.

Market outlook

Network capacity was still growing during the 1980s by 5-10 % a year, but this rate has since fallen to only 1-3 % a year during the current decade. Electricity companies have always met their own contracting needs and previously it was not even possible to buy such services anywhere. This means that many companies now face the prospect of having to run down their contracting opera-

Contract invoicing, %



■ External invoicing 33 %
■ Intragroup invoicing 67 %

tions. This will be necessary before a larger nationwide network contracting business can emerge.

Stiff price competition has been a constant feature of the contracting sector in recent years. Only over the past year have signs appeared indicating that customers expect a higher standard of working quality, for example by requiring contractors to demonstrate the use of quality systems in their operations. Overall expertise is assuming greater importance than the simple comparison of unit prices.

DID YOU KNOW ?
WE SERVICE MORE THAN 44,000 STREET LAMPS.



BOARD OF DIRECTORS' REPORT 1 JAN. - 31 DEC. 1996

Overview

Electricity consumption in Finland increased 1.6 % during 1996 and totalled 70 TWh (billion kWh). The rise in household consumption was 4.4 % and in the service sector, 2.0 %.

Espoon Sähkö Oy supplied 2.4 % of total electricity consumption in Finland (2.2 % in 1995). Sales of the company's main product, electricity, rose 21 % and amounted to 1836 (1522) GWh in 1996. Electricity sales increased 7 % in the company's own operating area. Sales of electricity outside the operating area came to 259 (53) GWh, a significant share of which was derived from sales to the Finnish EL-EX and joint Norwegian-Swedish Nord Pool power exchanges. The company became a member of EL-EX in the summer and began trading on 16 August 1996. Trading on Nord Pool began in September 1996.

Heat sales totalled 1624 GWh in 1996, which was 10 % more than during the previous year. Calculated in degree days, the year was 10 % colder than 1995 but corresponded with long-term trends. The particularly cold months at the beginning of the year were balanced by a warmer spell towards the end of the year. Altogether 109 new properties were connected to the district heating network.

1996 was the first full year of operation since the deregulation of the electricity markets. The liberalisation of competition did not have a major impact on the company's electricity sales during the year since the company has long-term contracts with its largest electricity customers.

Net sales

Espoon Sähkö Oy's consolidated net sales rose 14 % and were FIM 809 (708) million. Electricity sales and transmission increased 16 % and totalled FIM 547 (470) million. The growth in electricity sales was mainly due to an increase in sales outside the company's operation area. District heat sales rose 8 % and totalled FIM 234 (216) million, which was principally due to increased heat consumption compared to the previous year. Other sales, construction and maintenance of public lighting, and sales of local heat and natural gas, totalled altogether FIM 28 (21) million.

Expenses

The Group's operating expenses totalled FIM 552 (469) million. Energy expenses rose 20 % on the previous year, which was the result of strong growth in sales volumes, especially outside the operating area. The company

achieved a new production record, 790 GWh; this was 12 % more than during 1995 and was made possible by increased district heat sales. The company generated 41 (44) % of its total electricity supply. Operating expenses other than energy expenses came to FIM 179 (158) million. Personnel expenses included an additional FIM 10 million cost arising from a personnel pension scheme. Net financial items became positive, ie. income was FIM 0.4 million more than expenses.

Result

The Group's operating profit before depreciation was FIM 260 (241) million, which represented 32 (34) % of consolidated net sales. The operating profit increased 13 % and was FIM 155 million, and the profit before provisions and taxes rose 19 % and was FIM 156 (131) million.

Financing

The Group's liquidity was good. On 31 December 1996 interest-bearing debt was FIM 123 million, and financial assets totalled FIM 353 million. FIM 132 million in loans were amortised during the year. The solvency ratio, excluding connection charges, was 45 % and including connection charges,

75 (68) %. Other key indicators describing the company's financial performance and per share data are given in the annual report.

Investments

Investments in fixed assets amounted to FIM 78 million in 1996. FIM 25 million of this involved investments in the electricity network. Construction of the district heating network required FIM 17 million. Production investments totalled FIM 26 million. The largest project was the purchase of a district heat boiler for the Otaniemi power plant. The company acquired ownership of the sites of its electricity substations and district heating boilers which were previously leased. These acquisitions amounted to approx. FIM 8 million.

Personnel

Personnel averaged 413 (422) during the year. The company had 396 full-time employees at the year end. Pay and other remuneration totalled FIM 77,914,660 (77,710,922), which included FIM 811,414 (838,593) received by

the Supervisory Board, the Board of Directors and the Managing Director. No share of profits was paid to the management.

Supervisory Board, Board of Directors and Auditors

The following changes took place in the composition of the Supervisory Board during the year: Mr Jukka Uosukainen acted as the 1st deputy chairman until 19 March 1996, and thereafter Mr Mika Salonoja. Mr Jari Erholm resigned from the Supervisory Board on 11 April 1996 and Mr Jorma Kari joined the Supervisory Board. No changes took place in the composition of the Board of Directors. The Annual General Meeting elected the following as the company's auditors: Kari Manner APA, Tuomo Vesanen APA and Ole Westerback APA. Jarmo Lohi, APA was elected to perform supervisory accounting.

Prospects for 1997

Further liberalisation of the electricity markets took place at the beginning of 1997 when the 500 kW restriction to free compe-

tion was removed altogether. Taxes on electricity production and imports were also removed at the beginning of the year, which is further increasing the dynamics in this sector. For these reasons competition in the electricity markets will continue to expand.

Fundamental decisions due to be taken in Sweden on production capacity and the use of the national grid will have a significant impact on developments in the Nordic electricity markets. More liberal competition, however, will also present new market opportunities. Expanding business volume and population growth in the Helsinki metropolitan area give the company a natural platform for growth in all its core businesses.

Espoon Sähkö Oy is expected to maintain its share of electricity sales in 1997 at the previous year's level. Electricity transmission volumes are forecast to increase on the previous year due to growth in the volume of customers in the company's operating area. Sales of district heat (temperature adjusted) are also expected to rise due to the greater number of customers.

(FIM 1,000)	Note	I Jan.-31 Dec. 1996	%	I Jan.-31 Dec. 1995	%
Net sales	1	809,377	100	707,686	100
Other operational income	2	3,349		2,707	
Expenses					
Energy and fuels	3				
Purchases during the year		364,985		307,398	
Change in fuel stocks		8,240		3,944	
Materials and supplies					
Purchases during the year		21,938		22,069	
Change in stocks		1,769		-2,890	
Personnel expenses	4	109,818		102,153	
Rents	5	4,455		4,354	
Other expenses	6	41,033		32,303	
		-552,238	-68	-469,332	-66
Operating profit before depreciation		260,488	32	241,062	34
Depreciation	7	-105,158	-13	-103,443	-15
Operating profit		155,330	19	137,619	19
Financial income and expenses	8				
Interest income		15,731		17,349	
Exchange rate differences		44		1,163	
Interest expenses		-14,053		-24,591	
Other financial expenses		-1,334		-229	
		389		-6,308	
Profit before provisions and taxes		155,719	19	131,311	19
Increase in depreciation difference		-34,966		-41,256	
Decrease in voluntary provisions		18,075		0	
Direct taxes					
For the year		-39,023		-22,724	
For previous years		453		0	
		-38,570		-22,724	
Net profit for the year		100,258	12	67,332	10

CONSOLIDATED BALANCE SHEET

Assets (FIM 1,000)	Note	31 Dec. 1996	%	31 Dec. 1995	%
Fixed assets and other long-term investments	9				
Intangible assets					
Intangible rights		9,651		6,298	
Other long-term expenses		16,597		18,620	
		26,248	2	24,919	2
Tangible assets					
Land and water areas		52,376		44,175	
Buildings and constructions		268,894		278,026	
Power and district heat equipment		188,991		214,837	
Transmission and distribution network		336,374		344,474	
District heat network		179,594		182,670	
Machinery and equipment		13,413		14,304	
Other material goods		875		1,141	
Advance payments and work in progress		17,107		7,153	
		1,057,624	65	1,086,779	67
Stocks and other long-term investments					
Stocks and shares		3,081		3,886	
Other long-term investments		275		263	
		3,356		4,149	
Current assets					
Inventories	10				
Materials and supplies		6,856		6,445	
Work in progress		2,292		4,472	
Fuels		70,074		78,315	
		79,222	5	89,232	5
Receivables					
Sales receivable		90,305		91,792	
Loan receivables		359		0	
Deferred charges		19,577		18,106	
		110,241	7	109,898	7
Financial assets					
Other securities		327,966	20	309,169	19
Cash in hand and at banks		25,347	2	6,519	0
		1,630,003		1,630,664	

Liabilities (FIM 1,000)	Note	31 Dec. 1996	%	31 Dec. 1995	%
Shareholders' equity	11				
Restricted equity					
Share capital		31,472		31,472	
Reserve fund		141,453		141,453	
Revaluation fund		0		19	
		172,925		172,945	
Non-restricted equity					
Profit from previous years		81,749		33,312	
Profit for the year		100,258		67,332	
		182,007		100,644	
Shareholders' equity, total		354,933	22	273,588	17
Provisions	12				
Accumulated depreciation difference		488,962		453,996	
Voluntary provisions					
Transition provision		26,657		44,733	
		515,619	32	498,729	31
Connection charges	13	491,814	30	475,460	29
Liabilities	14				
Long-term liabilities					
Loans from financial institutions		38,730		60,872	
Pension loans		64,736		93,461	
Other long-term loans		143		196	
		103,609	6	154,530	9
Current liabilities					
Loans from financial institutions		14,769		91,259	
Pension loans		4,873		9,035	
Advances received		16,273		1,270	
Accounts payable		43,687		44,231	
Deferred liabilities		83,938		81,946	
Other current liabilities		489		618	
		164,029	10	228,358	14
Liabilities, total		267,638	16	382,888	23
		1,630,003		1,630,664	

CONSOLIDATED FUNDS STATEMENT

(FIM 1,000)	1996	1995
Source of funds		
Internal financing:		
Net profit	100,258	67,332
Depreciation	105,158	103,443
Change in reserves	16,891	41,256
Internal financing, total	222,307	212,030
Sale of long-term investments	793	0
Sale of fixed assets	576	906
Increase in connection charges	16,354	19,661
Total source of funds	240,030	232,597
Application of funds		
Investments	77,949	77,217
Repayment of long-term loans	131,562	84,041
Dividends	18,883	11,015
Total application of funds	228,394	172,273
Change in net operating capital	11,636	60,324
Change in net operating capital itemized:		
Cash in hand and at banks	37,625	67,384
Current financial assets	343	11,284
Inventories	-10,010	-1,054
Current liabilities	-16,322	-17,290
Total (+decrease/-increase)	11,636	60,324
Net operating capital 1 Jan.	386,753	326,429
Net operating capital 31 Dec.	398,389	386,753

Income statement | Jan.-31 Dec.

(FIM 1,000)	Note	1996	1995
Net sales	1	809,930	708,393
Other operational income	2	1,039	682
Expenses:			
Energy and fuels	3		
Purchases during the year		364,985	307,398
Change in fuel stocks		8,240	3,944
Materials and supplies			
Purchases during the year		21,995	22,327
Change in stocks		1,769	-2,890
Personnel expenses	4	109,815	102,150
Rents	5	9,278	9,166
Other fixed expenses	6	39,874	31,529
		-555,956	-473,625
Operating profit before depreciation		255,013	235,450
Depreciation on fixed assets and other long-term expenditure	7	-102,391	-100,682
Operating profit		152,621	134,767
Financial income and expenses	8		
Interest income		17,056	19,080
Exchange-rate differences		44	1,163
Interest expenses		-14,153	-24,698
Other financial expenses		-1,334	-229
		1,613	-4,684
Profit before provisions and taxes		154,235	130,083
Increase in depreciation difference		-34,093	-40,233
Decrease in voluntary provisions		18,075	0
Direct taxes			
For the year		-38,749	-22,496
For previous years		453	0
		-38,296	-22,496
Net profit for the year		99,922	67,353

Source and application of funds

(FIM 1,000)	1996	1995
Source of funds		
Internal financing:		
Net profit	99,922	67,353
Depreciation	102,391	100,682
Change in reserves	16,018	40,233
Internal financing, total	218,331	208,268
Sale of long-term investments	3,867	2,757
Sale of fixed assets	576	906
Increase in connection charges	16,354	19,661
Total source of funds	239,128	231,592
Application of funds		
Investments	77,915	77,199
Repayment of long-term loans	131,562	84,041
Dividends	18,883	11,015
Total application of funds	228,360	172,255
Change in net operating capital	10,768	59,337
Change in net operating capital itemized:		
Cash in hand and at banks	36,789	67,342
Current financial assets	413	11,274
Inventories	-10,010	-1,054
Current liabilities	-16,424	-18,225
Total (+decrease/-increase)	10,768	59,337
Net operating capital 1 Jan.	384,539	325,202
Net operating capital 31 Dec.	395,308	384,539

PARENT COMPANY'S BALANCE SHEET

Assets

(FIM 1,000)	Note	31 Dec. 1996	31 Dec. 1995
Fixed assets and other long-term investments	9		
Intangible assets			
Intangible rights		9,651	6,298
Other long-term expenses		16,588	18,611
		26,239	24,910
Tangible assets			
Land and water areas		30,752	22,551
Buildings and constructions		180,096	186,482
Power and district heat equipment		188,991	214,837
Transmission and distribution network		336,374	344,474
District-heat network		179,594	182,670
Machinery and equipment		13,369	14,274
Other material goods		875	1,141
Advance payments and work in progress		17,107	7,153
		947,157	973,581
Stocks and other long-term investments			
Shares in subsidiaries		81,809	81,709
Other stocks and shares		3,081	3,886
Loans receivable		29,275	32,449
Other investments		275	263
		114,440	118,307
		1,087,836	1,116,798
Current assets			
Inventories	10		
Materials and supplies		6,856	6,445
Work in progress		2,292	4,472
Fuels		70,074	78,315
		79,222	89,232
Receivables			
Sales receivable		90,343	91,792
Loan receivables		359	0
Deferred charges		19,574	18,070
		110,275	109,862
Financial assets			
Other securities		327,966	309,169
Cash in hand and at banks		24,432	6,439
		1,629,731	1,631,500

Capital and liabilities

(FIM 1,000)	Note	31 Dec. 1996	31 Dec. 1995
Shareholders' equity	11		
Restricted equity			
Share capital		31,472	31,472
Reserve fund		141,453	141,453
Revaluation fund		0	19
		172,925	172,945
Non-restricted equity			
Accumulated retained earnings		81,471	33,012
Profit for the year		99,922	67,353
		181,393	100,366
Shareholders' equity, total		354,318	273,310
Provisions	12		
Accumulated depreciation difference		487,104	453,011
Voluntary provisions			
Transition provision		26,657	44,733
		513,761	497,744
Connection charges	13	491,814	475,460
Liabilities	14		
Long-term liabilities			
Loans from financial institutions		38,730	60,872
Pension loans		64,736	93,461
Other long-term loans		143	196
		103,609	154,530
Current liabilities			
Loans from financial institutions		14,769	91,259
Pension loans		4,873	9,035
Advances received		16,273	1,270
Accounts payable		43,687	44,231
Deferred liabilities		83,294	81,935
Other current liabilities		3,333	2,727
		166,229	230,456
Liabilities, total		269,838	384,985
		1,629,731	1,631,500

Consolidation

The consolidated financial statements include the parent company, Espoon Sähkö Oy, and the subsidiaries Kiinteistö Oy Piispankylä 4, Kiinteistö Oy Espoon Energiatalo and Viikinki Energia Oy, which are fully owned by the parent company. The consolidated financial statements have been prepared by combining the income statements and balance sheets of the parent company and its subsidiaries. Intragroup income and expenses, mutual receivables and liabilities, internal margins and the internal distribution of profits have been eliminated.

Exchange-rate differences for loans in foreign currencies

Exchange rate differences related to loans and payments in foreign currencies are recorded in the income statement.

Depreciation according to plan

Depreciation is calculated on a straight-line basis. The economic life of fixed assets and long-term expenditure varies as follows:

- buildings 25-40 years
- electricity and district heat network 20-30 years
- machinery and equipment 5-20 years
- other tangible assets 3-30 years

The difference between booked and planned depreciation is shown in the Income State-

ment as a change in the depreciation difference. Accumulated depreciation in excess of plan is shown in the Balance Sheet as a separate item together with provisions.

Research and development expenses

Research and development expenses are booked with annual expenses. Development expenses related to significant investments and made after an investment decision have been capitalized at the acquisition cost of the investment.

Research and development expenses are minor.

Pension arrangements

Pension coverage for the Group's personnel, the members of the Board of Directors, the chairman and vice-chairmen of the Supervisory Board, and the Managing Director has been arranged through pension insurance. The minor uncovered pension liability is shown in the notes to the financial statements.

Direct taxes

Direct taxes in the Income Statement consist of the estimated taxes corresponding to the Group companies' results for the year less the change in provisions, together with tax adjustments for previous years. The deferred tax liability included in provisions has not been booked.

Fixed assets and other long-term investments

Fixed assets have been entered in the Balance Sheet according to direct acquisition cost less depreciation according to plan. Buildings include revaluations allowed by the Book-keeping Act, which are itemized in the notes to the financial statements.

Other long-term investments include the parent company's receivable in the subsidiary Kiinteistö Oy Espoon Energiatalo.

Inventories

Supply stocks have been evaluated according to the average acquisition cost. Fuel stocks (coal and oil stocks) have been evaluated according to direct acquisition cost on an FIFO basis. Work in progress booked in inventories has been valued at acquisition cost.

Work in progress related to non-core activities is booked under inventories.

Financial assets

Current investments, mainly consisting of bank investment certificates, commercial papers and trustee investments, are included under other current assets.

(1,000 mk)	GROUP		PARENT COMPANY	
	1996	1995	1996	1995
1. Net sales				
Electricity	546,561	470,481	546,869	470,977
Heat	234,332	216,040	234,577	216,250
Auxiliary operations	28,483	21,166	28,483	21,166
Net sales, total	809,377	707,686	809,930	708,393
2. Other operational income				
Rents	2,937	2,482	627	457
Other income	412	225	412	225
Other operational income, total	3,349	2,707	1,039	682
3. Energy and fuels				
Purchasing of electricity	216,305	176,102	216,305	176,102
Purchasing of heat	373	679	373	679
Purchasing of fuels	148,306	130,617	148,306	130,617
Change in fuel stocks	8,240	3,944	8,240	3,944
Energy expenses, total	373,226	311,342	373,226	311,342
4. Personnel expenses				
Wages and salaries	75,183	73,266	75,180	73,263
Pension expenses	25,179	17,810	25,179	17,810
Other compulsory personnel expenses	7,878	9,565	7,878	9,564
Voluntary personnel expenses	1,578	1,513	1,578	1,513
Personnel expenses, total	109,818	102,153	109,815	102,150
Tax value of fringe benefits	425	410	425	410
Pay and other remuneration received by the members of the Board of Directors and the Supervisory Board and the Managing Director	813	842	811	839
Other pay	77,103	76,872	77,103	76,872
Pay, total	77,916	77,714	77,915	77,711
Pension commitments for employees have been taken care of through outside pension insurance.				
Pension liabilities for Board members and the Managing Director:				
The members of the Board of Directors and the Managing Director have pension benefits corresponding to those of other personnel.				
5. Rents				
Leasing fees	477	536	477	536
Other rents	3,978	3,818	8,801	8,630
Rents, total	4,455	4,354	9,278	9,166
6. Other expenses				
Outside services	27,105	20,285	26,472	19,683
Administrative expenses	12,659	10,755	12,675	10,725
Liability expenses and public charges	2,779	2,270	2,238	2,128
Expense adjustments	-1,510	-1,007	-1,510	-1,007
Other expenses, total	41,033	32,303	39,874	31,529

	GROUP		PARENT COMPANY	
	1996	1995	1996	1995
7. Depreciation				
Depreciation according to plan				
Other intangible rights	1,982	1,704	1,982	1,704
Other long-term expenditure	1,041	693	1,041	693
Buildings and constructions	12,295	12,192	9,548	9,446
Power and district heat equipment	31,700	31,231	31,700	31,231
Transmission and distribution network	31,650	30,106	31,650	30,106
District heating network	20,171	20,306	20,171	20,306
Machines and equipment	6,050	6,765	6,030	6,751
Other material goods	268	445	268	445
Depreciation according to plan, total	105,158	103,443	102,391	100,682
Tax depreciation	140,124	144,699	136,484	140,916
Depreciation difference, total	34,966	41,256	34,093	40,233
Depreciation difference on 1 Jan. 1996	453,996	412,740	453,011	412,778
Increase	34,966	41,256	34,093	40,233
Depreciation difference on 31 Dec. 1996	488,962	453,996	487,104	453,011
8. Financial income and expenses				
Interest income	15,731	17,349	17,056	19,080
Interest expenses	-14,053	-24,591	-14,153	-24,698
Net interest	1,678	-7,241	2,903	-5,618
Exchange rate gains	535	3,324	535	3,324
Exchange rate losses	-491	-2,161	-491	-2,161
Exchange rate differences	44	1,163	44	1,163
Intragroup financial income and expenses				
Interest income from Group companies			1,331	1,740
Interest expenses to Group companies			100	107
9. Fixed assets and other long-term expenditure				
Intangible rights:				
Acquisition cost 1 Jan.	20,275	18,536	20,275	18,536
Increases 1 Jan.-31 Dec.	4,352	1,739	4,352	1,739
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	24,627	20,275	24,627	20,275
Accumulated planned depreciation 31 Dec.	14,976	12,994	14,976	12,994
Book value 31 Dec.	9,651	7,281	9,651	7,281
Other long-term expenditure:				
Acquisition cost 1 Jan.	22,498	13,488	22,498	13,488
Increases 1 Jan.-31 Dec.	0	9,010	0	9,010
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	22,498	22,498	22,498	22,498
Accumulated planned depreciation 31 Dec.	5,910	4,869	5,910	4,869
Book value 31 Dec.	16,588	17,629	16,588	17,629

	GROUP		PARENT COMPANY	
	1996	1995	1996	1995
Land and water areas:				
Acquisition cost 1 Jan.	44,175	43,943	22,551	22,319
Increases 1 Jan.-31 Dec.	8,232	232	8,232	232
Decreases 1 Jan.-31 Dec.	31	0	31	0
Acquisition cost 31 Dec.	52,376	44,175	30,752	22,551
Buildings and constructions:				
Acquisition cost 1 Jan.	398,559	395,251	294,201	290,910
Increases 1 Jan.-31 Dec.	3,162	3,308	3,162	3,290
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	401,721	398,559	297,363	294,201
Accumulated planned depreciation 31 Dec.	132,828	120,533	117,267	107,719
Book value 31 Dec.	268,894	278,026	180,096	186,482
Power and district heating equipment:				
Acquisition cost 1 Jan.	485,823	478,207	485,823	478,207
Increases 1 Jan.-31 Dec.	5,906	7,620	5,906	7,620
Decreases 1 Jan.-31 Dec.	51	4	51	4
Acquisition cost 31 Dec.	491,678	485,823	491,678	485,823
Accumulated planned depreciation 31 Dec.	302,687	270,986	302,687	270,986
Book value 31 Dec.	188,991	214,837	188,991	214,837
Transmission and distribution network:				
Acquisition cost 1 Jan.	617,628	577,039	617,628	577,039
Increases 1 Jan.-31 Dec.	23,807	41,071	23,807	41,071
Decreases 1 Jan.-31 Dec.	258	482	258	482
Acquisition cost 31 Dec.	641,178	617,628	641,178	617,628
Accumulated planned depreciation 31 Dec.	304,804	273,154	304,804	273,154
Book value 31 Dec.	336,374	344,474	336,374	344,474
District heating network:				
Acquisition cost 1 Jan.	410,061	400,521	410,061	400,521
Increases 1 Jan.-31 Dec.	17,167	9,539	17,167	9,539
Decreases 1 Jan.-31 Dec.	72	0	72	0
Acquisition cost 31 Dec.	427,156	410,061	427,156	410,061
Accumulated planned depreciation 31 Dec.	247,562	227,391	247,562	227,391
Book value 31 Dec.	179,594	182,670	179,594	182,670
Machinery and equipment:				
Acquisition cost 1 Jan.	94,772	90,185	94,686	90,098
Increases 1 Jan.-31 Dec.	5,355	5,007	5,319	5,007
Decreases 1 Jan.-31 Dec.	195	420	195	420
Acquisition cost 31 Dec.	99,932	94,772	99,810	94,686
Accumulated planned depreciation 31 Dec.	86,519	80,468	86,442	80,412
Book value 31 Dec.	13,413	14,304	13,369	14,274
Other tangible assets:				
Acquisition cost 1 Jan.	3,390	3,309	3,390	3,309
Increases 1 Jan.-31 Dec.	3	81	3	81
Decreases 1 Jan.-31 Dec.	0	0	0	0

	GROUP		PARENT COMPANY	
	1996	1995	1996	1995
Acquisition cost 31 Dec.	3,394	3,390	3,394	3,390
Accumulated planned depreciation 31 Dec.	2,518	2,250	2,518	2,250
Book value 31 Dec.	875	1,141	875	1,141
Machinery and equipment's share of book value 31 Dec.	341,557	374,956	341,512	374,869

Stocks and other long-term investments

	Number of shares	Holding, %	Nominal value	Book value
Shares in subsidiaries:				
Kiinteistö Oy Piispankylä 4	217,000	100	21,700,000	21,709,000
Kiinteistö Oy Espoon Energiatalo	200	100	20,000,000	60,000,000
Viikinki Energia Oy	100	100	100,000	100,000
			41,800,000	81,809,000
	Shareholders' equity		Profit/loss for the year	
Kiinteistö Oy Piispankylä 4	24,529		623	
Kiinteistö Oy Espoon Energiatalo	57,785		-287	
Viikinki Energia Oy	100		0	

Shares in other companies:	Number of shares	Holding, %	Nominal value	Book value
Asunto Oy Espoon Etelätie 41	115		4	395
Helsinki Stock Exchange Ltd	20,000		200	300
Helsinki Telephone Company	163		897	399
Helsingin Seudun Lämpövoima Oy	115	11.5	575	575
Innoli Oy	2,465		247	198
Kiinteistö Oy Irmelinpesä	75		75	288
Kirkkonummen Lämpö Oy	3		18	448
Central Share Register of Finland Cooperative				140
Other companies			101	338
			2,116	3,081

Tax value of shares in real estate and stocks in 1996:

	Group	Parent company
Land areas	29,072	22,310
Buildings and constructions	90,185	62,214
Stocks and shares	2,611	84,481
	121,867	169,004

Revaluations of fixed assets:

Buildings	7,000	7,000
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Group receivables and liabilities:

Receivables from Group companies:	1996	1995
Long-term receivables/Espoon Energiatalo	29,275	32,449

Liabilities to Group companies:

	1996	1995
Short-term debt/Piispankylä 4	2,844	2,344

	GROUP		PARENT COMPANY	
	1996	1995	1996	1995
10. Inventories				
Materials and supplies	6,856	6,445	6,856	6,445
Work in progress	2,292	4,472	2,292	4,472
Fuels:				
Coal stocks	58,537	68,969	58,537	68,969
Oil stocks	11,537	9,346	11,537	9,346
Fuel stocks, total	70,074	78,315	70,074	78,315
Inventories, total	79,222	89,232	79,222	89,232
11. Shareholders' equity				
Restricted equity:				
Share capital 1 Jan./31 Dec.	31,472	31,472	31,472	31,472
Other restricted equity 1 Jan.	141,473	141,473	141,473	141,473
Reversal of revaluation	-19	0	-19	0
Other restricted equity 31 Dec.	141,453	141,473	141,453	141,473
Restricted equity, total 31 Dec.	172,925	172,945	172,925	172,945
Non-restricted equity:				
Profit from previous years 1 Jan.	100,644	44,327	100,366	44,028
Dividends	-18,883	-11,015	-18,883	-11,015
Reversal of revaluation	-11	0	-11	0
Profit from previous years 31 Dec.	81,749	33,312	81,471	33,012
Profit for the year	100,258	67,332	99,922	67,353
Non-restricted equity, total 31 Dec.	182,007	100,644	181,393	100,366
12. Provisions				
Accumulated depreciation difference	488,962	453,996	487,104	453,011
Transition provision	26,657	44,733	26,657	44,733
Provisions, total	515,619	498,729	513,761	497,744
13. Connection charges				
Electricity connection charges 1 Jan.	231,689	222,367	231,689	222,367
Increase	5,556	9,323	5,556	9,323
Electricity connection charges 31 Dec.	237,245	231,689	237,245	231,689
Heat connection charges 1 Jan.	241,468	231,130	241,468	231,130
Increase	10,778	10,338	10,778	10,338
Heat connection charges 31 Dec.	252,246	241,468	252,246	241,468
Natural gas connection charges 1 Jan.	2,302	2,302	2,302	2,302
Increase	20	0	20	0
Natural gas connection charges 31 Dec.	2,322	2,302	2,322	2,302
Connection charges, total 31 Dec.	491,814	475,460	491,814	475,460

	GROUP		PARENT COMPANY	
	1996	1995	1996	1995
14. Liabilities				
Long-term liabilities				
Interest-bearing liabilities	103,609	154,530	103,609	154,530
Current liabilities				
Non-interest-bearing liabilities	144,388	128,065	146,587	130,163
Interest-bearing liabilities	19,642	100,293	19,642	100,293
Interest-bearing liabilities, total	123,250	254,823	123,250	254,823
Repayment schedule for long-term loans:				
	Bank loans:	Pension loans:	Other loans:	Total:
Repayments 1997	14,716	4,873	54	19,642
Repayments 1998	11,604	4,531	54	16,190
Repayments 1999	7,609	4,214	39	11,862
Repayments 2000	5,458	3,920	0	9,378
Repayments 2001	5,458	3,645	0	9,103
Repayments 2002-	8,601	48,425	50	57,076
Total 31 Dec. 1996	53,446	69,608	196	123,250
15. Contingent liabilities				
Mortgages as security for loans	78,000	110,000	78,000	110,000
Pledges	3,804	5	3,804	5
Leasing commitments	2,593	3,163	2,593	3,163
Pension commitments	155	220	155	220

16. Derivative contracts on power exchanges

Forward contracts and placed option contracts totalled FIM 0.6 million on 31 December 1996.

SUPPLEMENTARY INFORMATION FOR THE SEPARATED OPERATIONS

Electricity companies are required by the Electricity Market Act to separate electricity sales, network operations and electricity generation from each other and from other activities in their financial accounts. The income statements for electricity sales and network operations and the balance sheet for network operations are public information.

The basis for separate accounting at Espoon Sähkö is the divisional organisation. The income and expenses of the divisions are booked as they occur. The company service unit, which provides administrative and financial services for the Group, has reorganised and priced its services as separate products. The divisions pay for these services as they are used. Management overheads are allocated to the divisions in proportion to number of personnel.

In the balance sheet intangible and tangible assets, financial assets and long-term investments, inventories, sales receivables and deferred charges, and accounts payable and deferred liabilities are allocated as they occur. Shareholders' equity, provisions and loans are allocated in proportion to items on the assets side.

Planned depreciation is as follows: on buildings 25-35 years; on the transmission and distribution network, 20-30 years; and on machinery and equipment, 5-10 years.

Electricity and heat prices are based on market and reference prices.

From own cogeneration 790 GWh of electricity was transferred for sale at a price of FIM 177/MWh, and 1450 GWh of heat for FIM 89/MWh respectively.

Key financial indicators for Network Operations in 1996:

Average personnel in network operations	121
Investments in distribution and transmission network	FIM 25,447,000
Other investments	FIM 1,376,000
Return on investment at balance sheet values	13.9%
Return on investment when the network is valued at its technical current value and depreciation is calculated from replacement prices	7.7%
(The calculated deferred tax liability has not been included.)	

SEPARATED INCOME STATEMENTS
1 JAN. - 31 DEC. 1996

(FIM 1,000)

	Electricity Sales	Network Operations
Net sales	381,336	201,201
Other income	138	186
Energy and fuels	341,342	31,671
Materials and supplies	61	1,696
Personnel costs	9,475	17,976
Other fixed costs	13,317	38,914
Expenses, total	364,195	90,257
Operating profit		
before depreciation	17,278	111,130
Depreciation	1,056	36,139
Operating profit	16,223	74,992
Share of financial income and expenses	520	3,036
Profit before taxes	16,742	78,028
Taxes	4,688	21,848
Profit after taxes	12,054	56,180

NETWORK OPERATIONS' BALANCE SHEET
ON 31 DEC. 1996

(FIM 1,000)

Assets

Fixed assets and other long-term expenditure

Intangible assets	10,862
Tangible assets	
Transmission and distribution network	336,374
Other tangible assets, total	70,913

Inventories

Receivables	25,901
Share of other cash reserves	185,791
Total	633,425

Liabilities

Share of shareholders' equity and reserves	324,926
Connection charges	237,245
Share of long-term liabilities	36,309
Share of current liabilities	34,945
Total	633,425

Group Financial Development

	1992	1993	1994	1995	1996
Net sales, MFIM	632.0	676.8	709.4	707.7	809.4
Operating profit before depreciation, MFIM	214.6	207.2	263.0	241.1	260.5
% of net sales	34.0	30.6	37.1	34.1	32.2
Operating profit, MFIM	115.4	103.1	160.0	137.6	155.3
% of net sales	18.3	15.2	22.6	19.4	19.2
Profit before extraordinary items, MFIM	32.0	47.2	137.7	131.3	155.7
% of net sales	5.1	7.0	19.4	18.6	19.2
Profit before provisions and taxes, MFIM	32.0	47.2	139.6	131.3	155.7
% of net sales	5.1	7.0	19.7	18.6	19.2

Balance Sheet, main items

Shareholders' equity 1, MFIM (including connection charges)	689.1	743.1	1,016.2	1,108.1	1,218.0
Shareholders' equity 2, MFIM (excluding connection charges)	273.8	308.9	560.4	632.7	726.2
Interest-bearing debt, MFIM	626.7	549.5	338.9	254.8	123.3
Interest-bearing debt/balance sheet total, %	41.5	36.4	21.4	15.6	7.6
Gross capital expenditure on fixed assets, MFIM	92.2	86.0	60.3	77.2	77.9
% of net sales	14.6	12.7	8.5	10.9	9.6
Balance sheet total, MFIM	1,509.0	1,508.5	1,580.2	1,630.7	1,630.0

Key figures

Return on investment, %	9.7	8.5	12.5	11.4	12.7
Return on shareholders' equity, % (including connection charges)	10.7	5.3	12.1	7.8	9.7
Return on shareholders' equity, % (excluding connection charges)	28.9	12.9	24.4	14.0	16.5
Solvency ratio 1, % (including connection charges)	45.7	49.3	64.3	68.0	75.5
Solvency ratio 2, % (excluding connection charges)	18.1	20.5	35.5	38.8	45.0
Gearing, % (Shareholders' equity excludes connection charges)	191.3	145.1	16.2	-9.6	-31.7
Average personnel	529	513	467	422	413
Dividend, MFIM	2.6	3.1	11.0	18.9	¹⁾ 34.6

Per share data

Earnings per share, FIM	5.29	2.88	6.77	5.29	7.14
Dividend per share, FIM	0.20	0.24	0.70	1.20	¹⁾ 2.20
Dividend payout ratio, %	3.8	8.3	10.4	22.7	¹⁾ 30.8
Price/earnings ratio (P/E)			7.4	11.9	14.3
Shareholders' equity per share, FIM (including connection charges)	52.55	56.67	64.58	70.42	77.40
Shareholders' equity per share, FIM (excluding connection charges)	20.88	23.56	35.61	40.21	46.15
Adjusted number of shares	13,113,275	13,113,275	13,393,504	15,735,930	15,735,930
Number of shares at 31 Dec.	13,113,275	13,113,275	15,735,930	15,735,930	15,735,930
Dividend yield, %			1.4	1.9	¹⁾ 2.2
Share price on 31 Dec., FIM			50	63	102
Market capitalization, MFIM			786.8	991.4	1,605.1
Trading volume, 1000			226	2,047	2,649
Trading volume, %			1.4	13.0	16.8

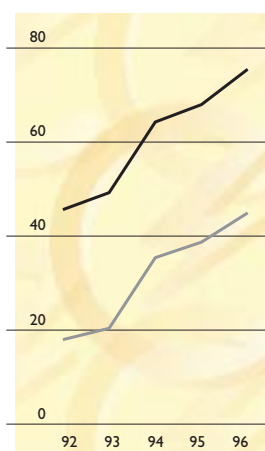
¹⁾ Board of Directors' proposal

Computation of Indicators

Shareholders' equity	Share capital + other restricted shareholders' equity + non-restricted equity + provisions - deferred tax liability on the balance sheet date
Return on equity (ROE), %	$\frac{\text{Profit after financial items (= profit before extraordinary items) - taxes for the year}}{\text{Shareholders' equity + minority interest + untaxed provisions (average)}} \times 100$
Return on investment (ROI), %	$\frac{\text{Profit after financial items (= profit before extraordinary items) + interest expenses + other financial expenses}}{\text{Total assets - interest-free debts (average)}} \times 100$
Solvency ratio 1, % (Shareholders' equity including connection charges)	$\frac{\text{Shareholders' equity + connection charges + minority interest + untaxed provisions}}{\text{Total assets - advances received}} \times 100$
Solvency ratio 2, % (Shareholders' equity excluding connection charges)	$\frac{\text{Shareholders' equity + minority interest + untaxed provisions}}{\text{Total assets - advances received}} \times 100$
Gearing, % (Shareholders' equity excluding connection charges)	$\frac{\text{Interest-bearing debt - cash funds}}{\text{Shareholders' equity + minority interest + untaxed provisions}} \times 100$
Earnings per share (EPS), FIM	$\frac{\text{Profit after financial items (= profit before extraordinary items) +/- Group share of profits/losses of associated companies less dividends received +/- minority interest in Group profit/loss less taxes for the year from which the effect of extraordinary income and expenses is eliminated}}{\text{Average adjusted number of shares}}$
Shareholders' equity per share, FIM (Shareholders' equity excluding connection charges)	$\frac{\text{Shareholders' equity + provisions}}{\text{Adjusted number of shares at the end of the year}}$
Shareholders' equity per share, FIM (Shareholders' equity including connection charges)	$\frac{\text{Shareholders' equity + connection charges + provisions}}{\text{Adjusted number of shares at the end of the year}}$
Dividend per share, FIM	$\frac{\text{Dividend for the year}}{\text{Adjusted number of shares at the end of the year}}$
Dividend payout ratio, %	$\frac{\text{Dividend for the year}}{\text{Earnings (calculated as in earnings per share)}} \times 100$
Price/earnings ratio (P/E)	$\frac{\text{Share price at 31 December}}{\text{Earnings per share}} \times 100$

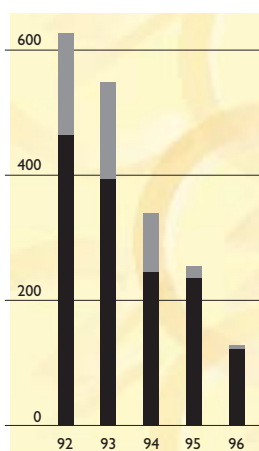
The method of calculating key indicators was changed; the deferred tax liability included in provisions has been transferred from provisions to current liabilities.

Solvency ratio, %



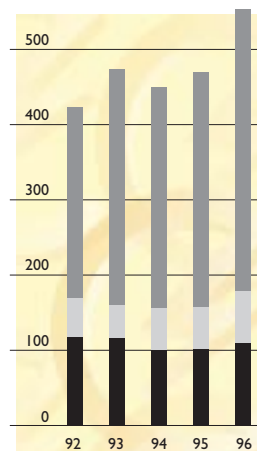
Solvency ratio incl. connection charges
 Solvency ratio excl. connection charges

Loans at 31 December, MFIM



Currency-based loans
 FIM-based loans

Operating expenses, MFIM



Energy expenses
 Other expenses
 Personnel expenses

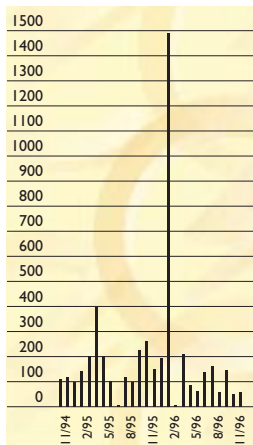
The company's registered and paid up share capital at the end of 1996 stood at FIM 31,471,860 and was divided into 15,735,930 shares with a nominal value of FIM 2 each. According to the Articles of Association the minimum share capital is FIM 20,226,550 and the maximum share capital is FIM 80,906,200, within which limits the share capital may be raised or lowered without amending the Articles of Association. Shares are all equal and each share entitles the holder to one vote at shareholders' meetings. All shares entitle their holders to the same dividend for the financial year 1996.

The Espoon Sähkö Oy share was listed on the Helsinki Stock Exchange on 24 November 1994. During 1996 altogether 2,648,699 shares (16.8 % of the sharestock) were traded on the Helsinki Stock Exchange for a total value of FIM 225,274,619. The average quotation was FIM 85.05 per share. The highest quoted price during the year was FIM 108.00 and the lowest quoted price was FIM 62.00. The price quoted on the balance sheet date was FIM 102.00, according to which the market capitalization was FIM 1,605 million.

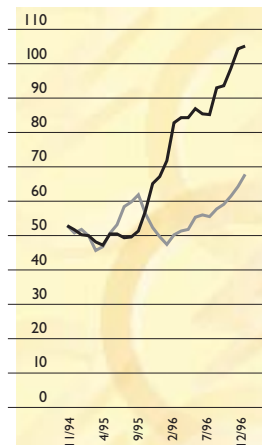
The company's Supervisory Board, the Board of Directors and the Managing Director owned altogether 1,500 Espoon Sähkö Oy shares, which represented 0.01 % of the sharestock and voting power.

The company has not issued bonds with warrants or convertible bonds. The Board of Directors has no current authorizations from the Annual Shareholders' Meeting to issue new shares.

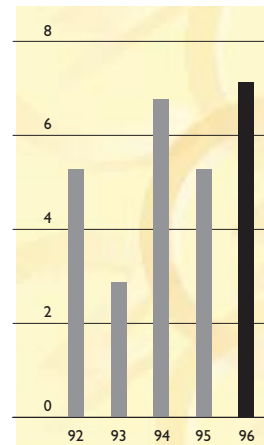
Trading volume, 1,000 shares



Share price, FIM



Earnings/share, FIM



Espoon Sähkö share
 HEX (Helsinki stock Exchange) index

Principal shareholders on 31 Dec. 1996

	Number of shares	% of shares and votes
1. City of Espoo	10,703,717	68.0
2. Mutual Insurance Company Kaleva	500,000	3.2
3. Industrial Insurance Oy	495,000	3.1
4. Ilmarinen Pension Insurance Oy	396,200	2.5
5. The Local Government Pensions Institution	300,000	1.9
6. Pension Varma Mutual Insurance Company	256,000	1.6
7. Mutual Life Insurance Company Suomi	226,500	1.4
8. Mutual Pension Insurance Company Tapiola	145,200	0.9
9. Norvestia Oy Ab	120,000	0.8
10. Mutual Insurance Company Tapiola	107,996	0.7
Nominee-registered	1,263,500	8.0
Principal shareholders, total	14,514,113	92.2

Shareholders groups on 31 Dec. 1996

	Number of shareholders	% of shareholders	% of shares and votes
Private persons	381	85.2	0.7
Companies	28	6.3	1.6
Financial and insurance institutions	17	3.8	12.3
Public organizations	13	2.9	77.1
Non-profit organizations	7	1.6	0.2
Nominee-registered	1	0.2	8.0
	447	100.0	100.0

Ownership distribution on 31 Dec. 1996

	Number of shareholders	% of shareholders	% of shares and votes
1-100	217	48.6	0.1
101-1,000	163	36.5	0.4
1,001-10,000	39	8.7	0.8
10,001-100,000	16	3.6	5.8
100,001- 1,000,000	10	2.2	16.8
1,000,001-	2	0.4	76.1
	447	100.0	100.0

The Group's non-restricted shareholders' equity according to the Balance Sheet on 31 December 1996 is FIM 182,007,393.76. Espoon Sähkö Oy's non-restricted shareholders' equity is FIM 181,393,210.97 of which the profit for the year is FIM 99,921,786.90.

The Board of Directors proposes to the Annual Shareholders' Meeting that a dividend amounting to FIM 2.20 per share or FIM 34,619,046.00 be distributed for the financial year and that FIM 146,774,164.97 be transferred to the retained earnings account.

Espoo, 19 March 1997

Olli Männikkö

Martti Kaasinen

Kurt Byman

Lars Hongelin

Anne Leppälä-Nilsson

Jouko Petäjä

Majja-Liisa Pitkä

Yrjö Rossi

Esko Tapanainen

Matti Manninen
Managing Director

To the shareholders of Espoon Sähkö Oy,

We have audited the accounting, financial statements and the administration of Espoon Sähkö Oy for the financial period 1 January-31 December 1996. The financial statements prepared by the Board of Directors and the Managing Director provide a review of operations together with an income statement, balance sheet and notes for the Group and the parent company. Based on our audit, we express an opinion on these financial statements and administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether 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, the assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of administration included examining whether the Supervisory Board, the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act. Mr Jarmo Lohi, APA has taken care of supervisory auditing during the year.

In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company result of operations and financial position. The financial statements can be approved, and the members of the Supervisory Board, the Board of Directors and the Managing Director be discharged from liability for the financial period audited by us. The Board of Directors' proposal for the distribution of profit is in compliance with the Companies Act.

We have reviewed the interim reports published during the financial year. In our view, these have been prepared in accordance with applicable regulations.

We have reviewed the income statements, balance sheet and supplementary information for the separated operations in the notes to the financial statements. In our opinion, they have been prepared in accordance with the Electricity Market Act and the regulations and stipulations required by it.

Espoo, 20 March 1997

Kari Manner
APA

Tuomo Vesänen
APA

Ole Westerback
APA

SUPERVISORY BOARD'S STATEMENT

The Supervisory Board of Espoon Sähkö Oy has examined the report of the Board of Directors, the financial statements and the auditors' report for the company and Group in 1996. The Supervisory Board proposes that the financial statements for the company and Group be approved and that the profits be used in the manner proposed by the Board of Directors.

Espoo, 24 March 1997

Jari Lanki
Chairman

Mika Salonoja
1st Deputy Chairman

Kalevi Onnela
2nd Deputy Chairman

Björn Ahlroos
Jukka Erävuori
Timo Haapaniemi
Kristina Homén
Ulf Johansson
Jorma Kari
Ilmari Kianne
Ulla Klötzer

Eero Korosuo
Taimi Kursu
Eeva Laatikainen
Matti Lahtinen
Esko Meuronen
Pertti Moll
Kaj Nurmi

Ilpo Nousiainen
Marja Rahkonen
Pentti Rautalahti
Leena Rehn
Esko Roininen
Ossi Terola
Jukka Uosukainen

GROUP MANAGEMENT

Supervisory Board

Chairman

Jari Lanki, 47
member 1985-
LLB

Ist Deputy Chairman to 19 March 1996

Jukka Uosukainen, 41, 1993-
MSc Eng.

Ist Deputy Chairman 19 March 1996-

Mika Salonoja, 32, 1993-
MSc Eng.

2nd Deputy Chairman

Kalevi Onnela, 54, 1993-
MSc Eng.

Members

Björn Ahlroos, 46, 1993-
Cert. of Bus.Admin.

Jari Erholm, 44 1993-11 April 1996
MSc Pol.Sc.

Jukka Erävuori, 60, 1993-
MSc Pol.Sc.

Timo Haapaniemi, 40, 1993-
Managing Director

Kristina Homén, 62, 1993-
Physiotherapist

Ulf Johansson, 55, 1989-
Editor-in-Chief

Jorma Kari, 60 11 April 1996-
Educational Counsellor

Ilmari Kianne, 68, 1993-
MSc Eng.

Ulla Klötzer, 48, 1993-
Teacher

Eero Korosuo, 48, 1993-
Architect

Taimi Kursu, 55, 1993-
Registered child minder

Eeva Laatikainen, 34, 1993-
Lawyer

Matti Lahtinen, 54, 1990-
Technician

Esko Meuronen, 51, 1993-
Manager

Pertti Moll, 66, 1993-
MSc Eng.

Kaj Nurmi, 56, 1989-
Fire chief

Ilpo Nousiainen, 64, 1993-
Manager

Marja Rahkonen, 51, 1989-
Journalist

Pertti Rautalahti, 71, 1993-
MSc Eng.

Leena Rehn, 51, 1993-
Secretary

Esko Roininen, 59, 1993-
Managing Director

Ossi Terola, 64, 1980-85, 1989-
Master builder

Personnel representatives on the Supervisory Board

Olavi Lahtinen, 41, 1993, 1995-
Control room supervisor

Reima Siro, 57, 1993-
Stock controller

Raimo Mattsson, 50, 1993-
Work planner

Markku Onnela, 52, 1993-
Shift supervisor

Board of Directors

Chairman

Olli Männikkö, 52, 1989-
Managing Director

Deputy Chairman

Martti Kaasinen, 54, 1985-
Deputy Director

Members

Kurt Byman, 47, 1993-
MSc Eng.

Lars Hongelin, 45, 1993-
Marketing Director

Anne Leppälä-Nilsson, 43, 1993-
LLM, BSc Bus.Admin

Jouko Petäjä, 40, 1993-
Assistant lecturer

Maija-Liisa Pitkä, 64, 1993-
Training secretary

Yrjö Rossi, 46, 1992-
Managing Director

Esko Tapanainen, 55, 1993-
Managing Director

Operational management

Matti Manninen, 43
MSc Eng.
Managing Director 1993-

Erkki Ala-Risku, 50
BSc Eng.
Director, Electricity Unit 1994-

Mauri Hätönen, 43
MSc Eng.
Director, Network Unit 1994-

Launo Koskinen, 51
BSc Eng.
Director, Contracting Unit 1994-

Matti Kuusisto, 50
MSc Eng.
Director, Energy Unit 1994-

Reija Väätäinen, 41
MSc Econ.
Chief Financial Officer 1996-

Auditors

Kari Manner, APA

Tuomo Vesanen, APA

Ole Westerback, APA

Supervisory Auditor

Jarmo Lohi, APA
Arthur Andersen Kihlman Oy
Authorized Public Accountants

KORT OM ESBO ELEKTRISKA UNDER 1996

Esbo Elektriska Ab producerar, anskaffar och säljer elektricitet, fjärrvärme och naturgas.

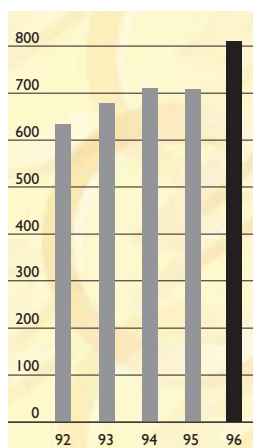
Företaget saluför konkurrenskraftiga och högklassiga heltäckande tjänster för att tillgodose kundernas energibehov. Företaget grundades 1918 och noterades i Helsingfors Fondbörs 1994.

Företaget äger ett elnät som täcker Esbo, Grankulla Kyrkslätt, ett fjärrvärmenät som omfattar Esbo och Grankulla samt samproduktionsanläggningar och värmecentraler i Esbo.

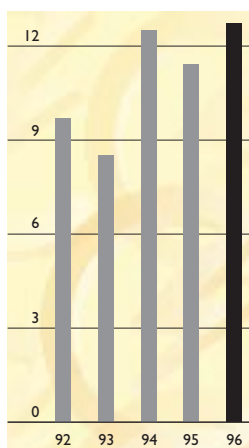
Koncernen Esbo Elektriska består av moderbolaget Esbo Elektriska Ab och två fastighetsbolag, Kiinteistö Oy Espoon Energiatalo och Kiinteistö Oy Piispankylä 4.

	1996	1995	Ändring, %
Omsättning, Mmk	809,4	707,7	14,4
Rörelsevinst, Mmk	155,3	137,6	12,9
Resultat före reserveringar och skatter, Mmk	155,7	131,3	18,6
Resultat/aktie (EPS), mk	7,14	5,29	35,0
Avkastning på investerat kapital, % (ROI)	12,7	11,4	11,4
Soliditet 1, % (anslutningsavgifter ingår i eget kapital)	75,5	68,0	11,0
Soliditet 2, % (anslutningsavgifter ingår ej i eget kapital)	45,0	38,8	16,0
Antal fast anställda 31.12.	396	398	-0,8

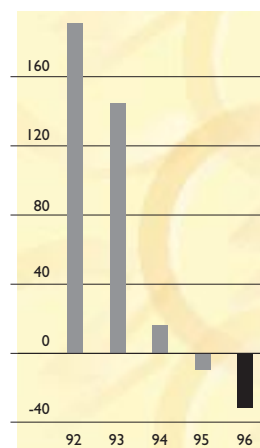
Omsättningsutveckling, Mmk



Avkastning på investerat kapital (ROI), %



Gearing, %



VERKSTÄLLANDE DIREKTÖRENS ÖVERSIKT

Bransutveckling

Energimarknaden och energibranschen som började omstruktureras på 1990-talet uppvisade fortsatt kraftiga förändringar under 1996. Detta var det första helår när de största kunderna hade möjlighet att begära in offerter från konkurrerande elleverantörer. Marknadsstarten skedde inte plötsligt, utan parternas aktivitet på marknaden visade en relativt jämn tillväxt. Ett fåtal elleverantörer gjorde en stark inbrytning på en marknad som låg utanför deras traditionella koncessionsområde. Esbo Elektriska var i detta avseende en av de snabbaste och mest aktiva aktörerna. Med målmedvetet utvecklingsarbete och genom att i god tid föregripa förändringarna på marknaden skapades ett gynnsamt utgångsläge för nya affärsmöjligheter.

Den finländska elbörsen inledde sin verksamhet och detta ledde till ännu mer omfattande förändringar av elhandeln. Även möjligheten att från hösten 1996 delta i den elhandel som drivs inom ramen för den svensk-norska elbörsen Nord Pool ASA bidrog till detta. Esbo Elektriska kunde som första finländska medlem i Nord Pool efter de riksomfattande energibolagen snabbt inleda en volymmässigt betydande elhandel. Prisskillnaderna mellan olika marknadsplatser var nämligen exceptionellt stora framför allt i början av hösten. Utvecklingen hittills och ett flertal alltjämt pågående projekt innebär att elhandeln expanderar geografiskt, i inledningskedet till de övriga nordiska länderna. I takt med att överföringsförbindelserna stärks ökar interaktionen med den västeuropeiska marknaden.



Ett påfallande drag i branschens omstrukturering var att de större elproducenterna fortsatte att expandera även i distributionsledet. Inga genomgripande förändringar skedde dock ännu inom stadsdistributionen, som är av stor betydelse för energibranschen i Finland. Inom denna sektor finns det alltså fortfarande ett tryck mot strukturförändringar.

Vissa frågor som berör de centrala verksamhetsprinciperna i elhandeln väntar

alltjämt på sin lösning. Hit hör ett nytt bolag för stamnätet, ett balansansvarigt elbolag och möjligheter för mindre kunder att skapa konkurrens mellan elleverantörerna.

Resultatutveckling

De omständigheter som har avgörande effekter på räkenskapsårets resultat utvecklades positivt. En stark tillväxt av försäljningsvolymen noterades som ett resultat av fram-

gångsrik kundvärning utanför det egna nätområdet, starten av handeln vid elbörserna och försäljningstillväxten inom det traditionella verksamhetsområdet. Totalkostnaderna för anskaffning av energi växte något snabbare än volymerna till följd av att priset på köpt elektricitet och enhetspriserna för bränslen steg. En pensionsplan som utarbetades med de anställda skapar möjligheter till ökad produktivitet under de närmaste två åren. Resultatet före reserveringar och skatter, som uppgick till 156 miljoner mark, förbättrades från föregående år som ett resultat av minskade finansiella kostnader; på årsnivå omvandlades de till finansiella intäkter. Som helhet betraktat blev året det hittills bästa i resultat hänseende.

Bokslutsinformation per affärsområde

I anslutning till koncernens och bolagets resultat publiceras nu för första gången

separata resultaträkningar för respektive affärsområden, vilket stadgas i lagen om elmarknaden. Resultaträkningarna har uppgjorts enligt allmän praxis, varvid resultaträkningen för affärsområde el och resultat- och balansräkningarna för affärsområde nät skall upptas som noter till det egentliga bokslutet.

Vid uppgörandet av separata resultaträkningar fastställdes bl.a. normerna för fördelning av bolagsfunktioner på de enskilda enheterna, principerna för prissättning vid intern överföring samt fördelning av posterna i balansräkningen på nätenheterna. Utöver detaljerade uppgifter om resultaträkningar och balansräkningar offentliggörs nyckeltal som uträknats enligt direktiven.

Framtidsutsikter

För att kunna möta de snabba förändringarna och de utmaningar dessa för med sig har ett flertal omfattande utvecklingsprojekt inletts. De mest betydande av dessa är införande av

kvalitetsstyrning, ett miljöstyrssystem, heläckande riskbedömning samt riskstyrning så att denna blir en integrerad del i företagets dagliga verksamhet och ledning.

Som ett led i strukturlösningen för kommande energianskaffning skall avgörande även nås om investering i ett nytt kraftverk. Beslut om dessa frågor kommer att fattas under 1997.

Avregleringen av elmarknaden i början av 1997, vilket i praktiken väntas omfatta även mindre kunder från början av 1998, understryker betydelsen av god kundservice, produktutveckling, priskonkurrens och marknadsföring.

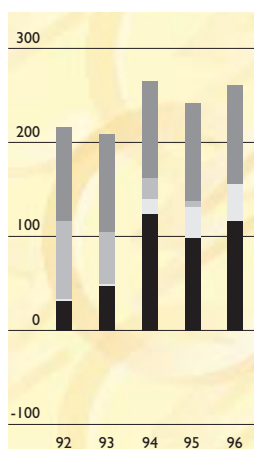
Esbo i mars 1997



Matti Manninen

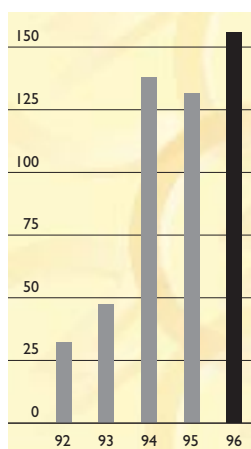
Verkställande direktör

Driftsbidrag, Mmk

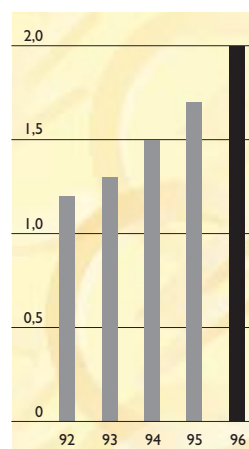


Avskrivningar
Finansiella Kostnader
Skatter
Nettovinst

Resultat före reserveringar och skatter, Mmk



Omsättning/person, Mmk



STYRELSENS VERKSAMHETSBERÄTTELSE

Verksamhetsberättelse

Elförbrukningen i Finland uppgick till totalt 70 TWh (mrd. kWh) under 1996, en ökning med 1,6 % jämfört med året innan. Inom privat-hushållen steg förbrukningen med 4,4 % och inom tjänstesektorn med 2,0 %.

Esbo Elektriska Ab stod för 2,4 % av elförbrukningen i hela landet (2,2 % under 1995). Försäljningen av elektricitet, som är företagets viktigaste produkt, ökade under 1996 med 21 % till 1 836 (1 522) GWh. Elförsäljningen inom bolagets koncessionsområde växte med 7 %. Försäljningen utanför koncessionsområdet uppgick till totalt 259 GWh (53 GWh). En betydande del av försäljningen utanför koncessionsområdet gick till elbörserna, EL-EX och nordiska Nord Pool. Företaget anslöt sig till EL-EX på sommaren och elhandeln inleddes 16.8.1996. Handeln inom Nord Pool startade i september 1996.

Försäljningen av värme uppgick till totalt 1 624 GWh under 1996, en ökning med 10 % jämfört med året innan. Räknat på basis av nyckeltalet temperatur/ dagar var det 10 % kallare under 1996 än året före, men detta motsvarade medelvärdena under en längre period. De mycket kalla månaderna i början av året jämnades ut av den varma perioden i

slutet av året. Under 1996 anslöts 109 nya fastigheter till fjärrvärmenätet.

1996 var det första hela verksamhetsåret efter avregleringen av elmarknaden. Även om marknaden öppnades för konkurrens, hade detta inga större effekter på företagets elförsäljning, eftersom bolaget hade ingått långtidskontrakt med större elkunder.

Omsättning

Koncernen Esbo Elektriska ökade sin omsättning med 14 % till 809 (708) miljoner mark. Försäljningen och överföringen av elektricitet steg med 16 % till 547 (470) miljoner mark. Det var främst elförsäljningen utanför ansvarsområdet som bidrog till ökningen. Försäljningen av fjärrvärme växte med 8 % till 234 (216) miljoner mark. Tillväxten berodde främst på ökad försäljningsvolym jämfört med föregående år. Övrig försäljning, byggande och underhåll av utomhusbelysning samt försäljning av närvärme och naturgas uppgick till totalt 28 (21) miljoner mark.

Kostnader

Koncernens driftskostnader uppgick till totalt 552 (469) miljoner mark. Energikostnaderna steg med 20 % jämfört med året före som ett

resultat av kraftigt ökade försäljningsvolymerna framför allt utanför företagets ansvarsområde. Företaget noterade rekord i producerad elvolym: 790 GWh, vilket motsvarade en ökning på 12 % från föregående år. Den ökade försäljningen av fjärrvärme möjliggjorde rekordproduktionen av elektricitet. Egen produktion stod för 41 (44) % av den totala elanskaffningen. Övriga driftskostnader frånsett kostnaderna för energi uppgick till totalt 179 (158) miljoner mark. I personal-kostnader ingår en extraordinär kostnad på 10 miljoner mark för pensionsarrangemang. Finansnettot blev positivt, d.v.s. intäkterna översteg kostnaderna med 0,4 miljoner mark.

Resultat

Koncernens driftsbidrag blev 260 (241) miljoner mark, vilket utgjorde 32 (34) % av omsättningen. Rörelsevinsten ökade med 13 % och uppgick till 155 miljoner mark. Koncernens resultat före reserveringar och skatter steg med 19 % till 156 (131) miljoner mark.

Finansiering

Koncernens finansiella ställning är god. De räntebärande skulderna uppgick till

123 miljoner mark 31.12.1996 och de finansiella tillgångarna till 353 miljoner mark. Amorteringar på lån uppgick till 132 miljoner mark under räkenskapsåret. Soliditeten frånräknat anslutningsavgifter uppgick till 45 % vid slutet av året och soliditeten inklusive anslutningsavgifter uppgick till 75 (68) %. Övriga nyckeltal för bolagets ekonomiska utveckling och relationstal för aktien presenteras på annat ställe i årsredovisningen (på finska).

Investeringar

Investeringarna i anläggningstillgångar uppgick till totalt 78 miljoner mark under 1996. Av detta investerades 25 miljoner mark i elnät. Till utbyggnad av fjärrvärmenätet användes 17 miljoner mark. Investeringar i produktion uppgick till totalt 26 miljoner mark. Det mest betydande objektet var inköp av en vattenpanna till kraftverket i Otnäs. Bolaget köpte in tidigare hyrda tomter för elstationer och värmecentraler. Tomtaffärerna uppgick till totalt ca 8 miljoner mark.

Personal

Antalet anställda uppgick till 413 (422) i medeltal under räkenskapsåret. Antalet fast

anställda var 396 vid slutet av året. I löner och arvoden utbetalades 77 914 660 (77 710 922) mark, av vilket löner och arvoden till ledamöter i förvaltningsrådet och styrelsen samt verkställande direktören utgjorde 811 414 (838 593) mark. Inga partiella arvoden har utbetalats till företagsledningen.

Förvaltningsråd, styrelse och revisorer

Under räkenskapsåret skedde följande förändringar i förvaltningsrådets sammansättning: förste vice ordförande Jukka Uosukainen efterträddes 19.3.1996 av Mika Salonoja. Ledamoten Jari Erholm avgick från förvaltningsrådet 11.4.1996 och ersattes av Jorma Kari. Inga förändringar inträffade i styrelsens sammansättning. Bolagsstämman valde följande personer till revisorer: CGR Kari Manner, CGR Tuomo Vesanen och CGR Ole Westerback. CGR Jarmo Lohi utsågs att verkställa övervakningsrevision.

Utsikter för 1997

Avregleringen av elmarknaden fortgick under början av 1997, när bestämmelsen om en minimieffekt på 500 kW, som begränsat

konkurrensen till storkunder, helt slopades. När skatterna på produktion och import av elektricitet avskaffas i början av året, kommer detta att ytterligare öka dynamiken i elhandeln. Konkurrensen på elmarknaden kommer därför att tillta ytterligare.

De principbeslut som Sverige kommer att fatta om produktionskapacitet och stamnätsdrift har betydelse för utvecklingen av den nordiska elmarknaden.

När marknaden öppnas för konkurrens innebär det å andra sidan även nya möjligheter. Den snabba utvecklingen av näringslivet och befolkningsökningen i huvudstadsregionen skapar en naturlig tillväxtpotential inom företagets centrala affärsområden.

Esbo Elektriska Ab förväntas bibehålla sin marknadsandel för elförsäljning på oförändrad nivå under 1997. Volymerna för elöverföring förutses växa jämfört med föregående år som ett resultat av ökat kundunderlag inom ansvarsområdet. Även den temperaturkorrigerade försäljningsvolymen för fjärrvärme beräknas växa till följd av ökat kundunderlag.

INFORMATION FOR SHAREHOLDERS

Shareholders' meeting

The Annual General Meeting of Espoon Sähkö Oy shareholders will be held on Wednesday 16 April 1997, beginning at 4.00 pm at the Hotel Kuninkaantie in Espoo, street address Lakelankatu 1. Shareholders will be entitled to participate in the annual meeting who have registered their names in the company's share register maintained by the Finnish Central Securities Depository Ltd by 4 April 1997. Shareholders whose shares have not been transferred to the book-entry system will also be entitled to participate in the shareholders' meeting provided they were registered in the company's share register before 30 September 1994. In this case shareholders must present their share certificates or other proof that the right to shares has not been transferred to a book-entry account.

Shareholders who wish to participate in the annual meeting must give notification by 4.00 pm on 14 April 1997 either in writing to Espoon Sähkö Oy, Osakerekisteri, P.O. Box 109, FIN-02201, Espoo, or by phone to +358-9-8048 0802. Any power of attorney on the basis of which an agent is authorized to vote for a shareholder by proxy should be sent to the company before the period of notification expires.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 2.20 per share be distributed for the financial year 1996. The record date for dividend payments will be 21 April 1997 and the payment date will be 24 April 1997 if the Board's proposal is approved.

Shareholders who have not transferred their shares to the book-entry system by the record date will be paid dividends when their shares have been transferred to the system.

Financial publications in 1997

Espoon Sähkö Oy will publish interim reports on the first four months of the year on 12 June 1997 and on the first eight months of the year on 16 October 1997.

Please write to the following address for financial publications: Espoon Sähkö Oy, Piispanportti 10, P.O. Box 109, FIN-02201 Espoo, Finland. Phone +358-9-804 801, and fax. +358-9-8048 0238. These may also be ordered on the Internet by filling out the return coupon at <http://www.esoy.fi/>.

