

Espoon Sähkö Annual Report 1997



Espoon Sähkö in 1997

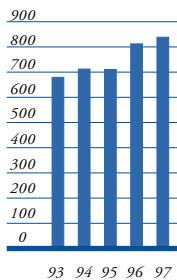
Espoon Sähkö Oyj produces, procures and sells electricity, district heat and natural gas. The company provides a comprehensive, competitive and high-quality service which meets the energy needs of its customers. Espoon Sähkö is divided into four divisions: Electricity, Energy, Network and Contracting as well as Corporate Services which provides support services on behalf of the Group. Espoon Sähkö was established in 1918 and it has been listed on the Helsinki Stock Exchange since 1994.

Espoon Sähkö owns the electricity and district heating networks in the areas of Espoo, Kauniainen and Kirkkonummi, together with cogeneration power and heating plants in Espoo.

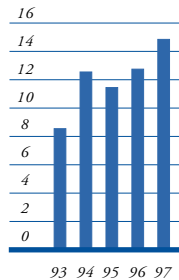
The Espoon Sähkö Group comprises the parent company, Espoon Sähkö Oyj, the Kirkkonummen Lämpö Oy heating facility and two property companies: Kiinteistö Oy Espoon Energialato and Kiinteistö Oy Piispankylä 4.

	1997	1996	Change, %
Net sales, MFIM	835.8	809.4	3.3
Operating profit before depreciation, MFIM	300.0	260.5	15.2
Operating profit, MFIM	195.4	155.3	25.8
Profit before provisions and taxes, MFIM	202.7	155.7	30.2
Earnings per share, FIM	9.25	7.14	29.6
Return on investment, %	14.8	12.7	16.5
Solvency ratio 1, % (connection charges included in shareholders' equity)	77.9	75.5	3.2
Solvency ratio 2, % (connection charges excluded in shareholders' equity)	47.6	45.0	5.8
Full-time employees on 31 December	387	396	-2.3

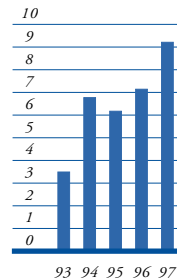
Net sales, MFIM



Return on investment, %



Earnings per share, FIM



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Chief Executive's Review



Espoon Sähkö offers an extensive range of services in the area covered by its own distribution networks and it also sells electricity throughout the country. Its operations are based on a cost-effective, locally integrated business unit structure coupled

with nationwide electricity trading which utilizes economies of scale.

The success of a regional energy company depends partly on the factors governing its own operating area. The foundation for Espoon Sähkö's success is its location in Espoo, a rapidly growing municipality. Espoon Sähkö's operating area encompasses many of Finland's leading high-tech corporations and it also has the country's largest concentration of research institutes. The local population is growing fast, as is the number of companies in the area and their degree of internationalization. These positive trends are also reflected in a lower than average rate of unemployment in the region.

Business development

The deregulation of the electricity markets and the emergence of competition have affected the electricity sector in many ways. The Nordic electricity markets clearly depend on balanced production capacity. The power exchanges today play a powerful role in determining the price of electricity. Capacity was fairly widely available during the year. Moreover, the greater choice of electricity providers and the large number of existing fixed electricity purchasing contracts resulted in a pronounced drop in the price of electricity and put pressure on companies to reduce their trading margins.

The energy sector has faced considerable pressure to change in recent years, which is reflected in a new business environment and in the strategies of the various players in the market. In recent years Espoon Sähkö has developed operating models in preparation for future changes. The basic idea behind the 'Kaupunkienergia Model' (City Energy), for example, is to integrate efficient and locally integrated municipal energy companies into a nationwide group. By working together, companies are better positioned to gain benefit from nationwide efficiency and economies of scale, especially in electricity trading.

This operating model was opened for public debate in mid-1997 with the company's main owner, the City of Espoo. This was considered necessary because local discussion and decision making are essential to inter-city collaboration. The new model has aroused interest from the outset. Concrete preparations were put in motion with the City of Kuopio at the end of the year and it is envisaged that the proposed national group will start operation in summer 1998.

Internal development

Espoon Sähkö's efficient operating structure gives it a foundation for success even as the business environment changes. Satisfying customer needs in the future will require all its business processes to run smoothly and to high standards. Customer service, productivity and cost-effectiveness are growing in importance continuously as competition increases.

During the year Espoon Sähkö's personnel attended seminars which outlined the company's strategy and operating goals. We also began internal discussion on the company's values to create a common vision for the foundation of our business and to ensure continuous improvement. Wide-ranging development of the Net-

work and Contracting Divisions started during the year, the results of which will be put into effect during 1998. A similar project was started at the end of the year in the Energy Division. The largest challenge for the Electricity Division is marketing planning and standardization of service products. Development also focused on our sales support systems, expertise in managing the risks associated with electricity trading and information systems.

When the network operations were reorganized during the year the competences of its personnel were also assessed, which led to a comprehensive training programme tailored to their needs. A long-term supervisor training system was started in 1997 covering the entire company. Based on a survey conducted at its outset, this scheme will focus on central development needs.

Planning of the company's environmental management system reached completion. Its implementation and training of personnel will take place mainly in 1998. The company also became a party to the energy conservation agreement between the Ministry of Trade and Industry and the power generating sector.

Performance

Espoon Sähkö's acquisition of the share capital of Kirkkonummen Lämpö Oy strengthened its role as the regional power and heat provider.

The company showed further strong performance during the year. All the business areas reached their targets. The company's profit for the year before provisions and taxes, FIM 203 million, was a 30 % improvement on the previous year's result and the best in its

history. Our electricity operation performed substantially better despite more intensive competition in the electricity market. Efficient marketing and sales were the reasons for the growth in electricity sales volume. Trading on the power exchanges in Finland and the Nord Pool made a major contribution to the company's entire electricity operation.

An electrical future

As competition in the electricity markets extends also in practice to all customer groups, business structure and efficient operations will become critical factors for success. Rapid development in the sector and changing customer expectations require a real ability to change. Espoon Sähkö is delighted to be serving some of Finland's most demanding customers. This is the surest guarantee of staying at the leading edge of development in the future. I extend my heartfelt thanks to our customers for their long-term commitment and collaboration.

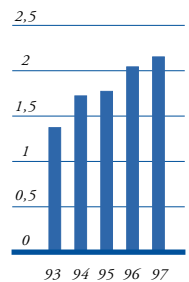
Espoon Sähkö has played a strong and successful role in the changes which the energy sector has undergone. This has required the considerable efforts of all our employees, to whom I extend my sincere gratitude. The energy sector and our company are now living through the most dynamic and interesting period of their history.

Espoo, March 1998

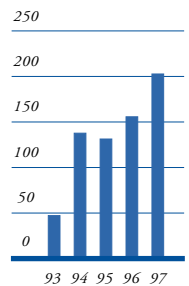


Matti Manninen
President and CEO

*Net sales/employee,
MFIM*



*Profit before
provisions and
taxes, MFIM*



The Energy Sector and its Players

Global electricity market trends

Electricity supply has rapidly been opened up to competition around the world in recent years. Great Britain and Norway pointed the way in Europe in the early 1990s. Finland's large electricity consumers have been able to purchase their electricity from outside the operating areas of their power utilities or companies since November 1995. In Sweden the market was opened up for competition at the beginning of 1996 and at the same time responsibility for electricity sales and distribution was assigned to separate companies.

The EU's electricity market directive took years to prepare and in 1996 it was decided to open the sector to competition in stages, starting with the major industrial consumers. Almost identical principles will be employed to deregulate the natural gas markets in the EU. Hence, a uniform energy market is emerging in Europe covering electricity and gas. The forthcoming merger of IVO (power) and Neste (gas) in Finland, a giant energy group by Finnish standards, aims to create a competitive Finnish company in this market.

Both European and American energy companies have taken an active role in structural changes in the energy sector worldwide. American companies have acquired a significant number of Britain's privatized distribution companies. Similarly France's state-owned Electricité de France and German energy giants have also acquired certain Nordic energy companies.

The Finnish electricity market

The passing of the Electricity Market Act in 1995 marked the beginning of deregulation of the electricity market in Finland. The purpose of the act was to lay the foundation for an efficient and functional electricity market. Electricity generation, transmission and sales were made separate functions to ensure healthy competition in generation and sales and fair transmission terms.

Initially only consumers with a power demand over 500 kW were permitted to bypass their local electricity suppliers but this restriction was lifted at the beginning of 1997. In practice, however, the requirement for hourly measurement of electricity consumption prevented all but medium and large companies from subjecting electricity suppliers

to competitive bidding. It is planned to introduce typical load curves for different customers groups in 1998, which will make free selection of electricity suppliers a practical option for small-scale consumers as well. In this case annual consumptions according to normal electricity meters will be divided among the electricity sales companies in the area, based on the typical consumption curves, to obtain an accurate balance among them.

Structural change in the Finnish energy sector

The energy sector has a long and stable background. Increased competition and changes in market mechanisms, therefore, are obliging players in this sector to develop the way they operate. Large and financially efficient companies are better positioned than their competitors to increase market share because they are able to benefit from greater efficiency and economies of scale. Electricity generation and network operation require very considerable amounts of capital. Similarly, successful electricity trading depends on having large information technology systems and expertise in exploiting all potential market opportunities. Marketing investments and development of services are obviously more cost-efficient in companies with large customer bases.

The energy sector has started to change rapidly. Municipal electricity utilities have been turned into public enterprises or even joint stock companies. In recent years alliances or joint ventures have been formed to handle purchasing and sales of electricity. Direct changes in ownership have taken place as well. The Nordic markets have been opened up to competition at a tangible level. Examples include the opening up of cross-border transmission lines and several substantial cross-border acquisitions by state-owned companies.

Several towns and cities have also begun to investigate the feasibility of forging stronger alliances. The parties in this so-called 'Kaupunkienergia' (City Energy) concept could play a significant role in Finland's electricity distribution and district heating markets in future years.

Development of electricity trading

Deregulation has also changed the rules governing electri-

city trading. Electricity utilities can no longer take a captive and stable customer base for granted and the volume of dynamic electricity trading is growing. Electricity is nowadays sold and purchased on increasingly short-term contracts. The price of electricity in Finland will depend more and more on the market price in the Nordic countries, which in turn is determined among other factors by the balance between consumption and available generation capacity. Obstacles to trade between different countries are disappearing. The electricity transmission border tariffs between the Nordic countries are being reduced or removed altogether.

Electricity purchasing used to be based on long-term agreements between sellers and generators. Today electricity can be purchased from several parties on different contractual terms. A new dimension was given to national electricity trading in Finland with the start-up of the EL-EX power exchange in August 1996. The Nordic Nord Pool started operation at the beginning of 1996. In January 1998 Suomen Kantaverkko Oyj (Fingrid) acquired the entire share stock of the EL-EX power exchange. This will mean development of the EL-EX's services and activities in spring 1998 to make Finland a fixed part of the Nordic spot markets. New players have entered the market specializing in electricity retailing.

The market price of electricity, e.g. on the power exchanges, has fallen to a point which makes it unprofitable to build new generation capacity. Future decisions will have to rest on solid proof or expected changes in the market situation which will improve the feasibility of projects.

Official regulations

The pricing of electricity transmission is supervised by the Electricity Market Authority, which requires it to be fair and balanced.

Distribution network companies used to build and maintain their own networks. Competition is now possible in this business as well. To raise competitiveness and internal efficiency some energy companies have concentrated their building and maintenance operations into larger units.

Further regulation of the electricity markets should take into account rational development and the efficiency of network operations when assessing transmission prices.

Customer base

More than one-third of companies responding to an electricity market questionnaire in December 1997 have negotiated more favourable electricity agreements since the Electricity Market Act came into force. Almost one company in ten reported that the price of electricity they pay has risen. Almost a quarter of customers in the over 500 kW bracket changed electricity supplier in 1997. The study also revealed that one-fifth of large and one-third of small consumers had not subjected suppliers to competitive bidding, nor did they intend to in the near future.

The new opportunities presented by the electricity markets are activating buyers as well as sellers. However, experience in other countries indicates that the majority of small consumers will continue to purchase electricity from their local supplier during the initial stages of deregulation.

Marketing and corporate image

Electricity is a difficult commodity to market because it is not a physical product. For large consumers, suppliers draw up customer-specific offers with various pricing and service options. In general marketing targeted at small consumers suppliers will probably concentrate initially on raising their corporate profile. They will also seek to differentiate themselves with various services related to electricity sales and terms suited to specific groups of customers.

Energy savings and the environmental impact of products and services have received considerable attention in recent years. Some energy companies have signed an energy conservation framework agreement formulated by the Ministry of Trade and Industry and the energy sector organizations. Suppliers will also be able to tailor services like energy audits and other means of providing additional benefits.

Espeen Sähkö and the Environment

Over the last few years companies have become committed to making responsible stewardship of the environment an integral part of their normal business operations. Usually an environmental management system has been built into the existing quality system. Quality systems based on a standard have not been widely adopted by companies in the energy sector, but power generation companies are now actively establishing an environmental system conforming to ISO 14001.

Espeen Sähkö's environmental management system

The first step in establishing Espoon Sähkö's environmental management system was taken in the summer of 1996 with an initial review. Drafting of an environmental system was started at the end of the year. An Environmental Policy, appropriate to the nature of Espoon Sähkö's business operations, was prepared as a guideline for the company's environmental activities.

All aspects of the company's operations, products and services that have an impact on the environment were reviewed in the planning stage. The study focused mainly on the environmental impact of our operations that we ourselves can monitor. Nevertheless, our target also includes encouraging our customers and partners to be energy-conscious and environmentally aware.

An energy company needs fuels, raw materials and other materials to run its business. The production processes generate emissions and waste, both of which have an impact on the environment. Possible consequences include pollution of the air, water or ground, the depletion of raw material resources and land use. An important criterion for assessing environmental impact is the existence of legislation and regulations that apply to the company's business operations.

Emissions from energy production form the major im-

part of Espoon Sähkö's operations on the environment. Coal combustion and desulphurization produce fly ash and other by-products. Construction of the electricity distribution network, apart from changing the landscape, also entails the environmental impact caused by vehicles and machinery. District heating, on the other hand, has a positive environmental impact in that it reduces local fuel transportation and emissions. Recyclable or re-usable material from replacement of equipment and structures in the electricity distribution network is collected.

Environmental issues are an essential part of the personnel's work. This means that responsibilities and competencies must be clearly defined. In October 1997 environmental officers were appointed for each of the business units, and also an environmental coordinator. The environmental officers are in charge of handling environmental matters in the units. Implementing the environmental management system means that practical work follows common procedures in all situations. Documentation and training ensures that everyone is aware of the environmental impact of their activities and knows their duties and responsibilities. During 1998 the entire personnel will be given training on the environmental management system to ensure that it works effectively and that the implementation is sufficiently extensive.

Activities of importance to the environment are monitored with measurements to prevent deviations from the set targets or to minimize their environmental impact. The company's management holds regular reviews in order to assess how well the system is working and its results, and to initiate any corrective action necessary to continually improve the standard of the company's environmental management.

Environmental objectives and programme

The company's environmental objectives were established

in October 1997. They are based on the Environmental Policy and on analyses of the environmental impact of the company's activities. The Environmental Policy is supported by the general objective of continual improvement in the standard of the company's environmental management.

Other environmental objectives include:

- Reducing and preventing adverse environmental impact
- Using materials, fuels and other raw materials more efficiently
- Promoting the rational use of energy
- Managing waste and encouraging recycling
- Addressing landscape values
- Communicating actively and reliably
- Increasing the environmental awareness of personnel
- Promoting the environmental activities of our partners.

The environmental management programme sets targets and defines practical methods, schedules and responsibilities to achieve those targets. The 1998 environmental programme is detailed in the Environmental Report that will be published in May 1998.

Encouraging the rational use of energy

Customer newsletters and various other publications and events address the rational use of energy and other environmental issues. The Energy in Uusimaa programme, organized jointly by schools and energy companies to introduce aspects of energy and the environment to school children, was run for the ninth time. Almost 7,000 eighth-grade school children took part in the company visits. Of these, half came from the company's operating area and 450 visited the Suomenoja power plant. Over 1,000 second-grade school children and their teachers participated in the activities arranged for them during a National Energy Conservation Week held in October.

In November 1997 Espoon Sähkö became a party to

the energy conservation agreement between the Ministry of Trade and Industry and the power generating sector.

This aims to make the use of energy more efficient in co-generation processes. During 1998 the company is drafting a conservation plan containing the targets and steps to be taken towards this aim.

Energy production and the environment

Emissions of sulphur dioxide and nitrogen oxides from the company's energy production plants were below the regulated levels. Although the electrode rods and earthing plates in the electrostatic filtering plant, downstream of the desulphurization process, were replaced with stronger materials, there were repeated malfunctions in the operation of the filtering plant. For this reason particulate emissions from the coal-powered steam power plant were double compared to the target guideline value.

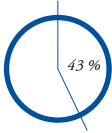
Other environmental activities

The study required by the Uusimaa Regional Environment Centre on the reduction of nitrogen oxide emissions from the main boiler of the Suomenoja power plant was completed in June 1997. Since the autumn of 1997 the arrangements for hazardous waste management have been streamlined and the personnel have received training in this field.

The company took part in supporting the arrangement of an international conference on solar energy held in Otaniemi in June 1997.

The company has also participated in a study to promote the re-use of waste which examines the possibilities for using fly ash and desulphurization products in civil engineering projects. A study has focused on the use of these types of waste as a foundation material for the experimental waste disposal site at Ämmässuo. Monitoring and inspection measurements will continue into 1998.

Share of Group
net sales



Electricity Division

The Electricity Division is responsible for selling, marketing and purchasing electricity. Roughly 36 % of the Division's electricity is supplied by Espoon Sähkö Oyj's Energy Division, the remainder being purchased from electricity wholesalers or on power exchanges. At the end of 1997 the Division had 111,000 customers and 51 employees.

The Nordic countries form a common electricity market in which the electricity prices prevailing in different areas rapidly converge. The price level of electricity in Finland is on the same level as in the other Nordic countries after transmission charges for cross-border tie lines are factored in.

At the beginning of January 1997 the average weekly price level of electricity on the power exchange was high (18 p/kWh) owing to the water shortage in Sweden and Norway. When the water shortage ended, however, the wholesale price dropped sharply to 12 p/kWh. This also affected the retail price of electricity in Finland because a rise in the dollar price of coal was not passed on to consumers in retail prices. Nevertheless, Espoon Sähkö is less dependent on the dollar price of coal than electricity companies with traditional electricity procurement contracts.

Espoon Sähkö's active presence in the Nordic electricity market was a considerable factor in the favourable development of its electricity trading operations. In the autumn of 1996 Espoon Sähkö became a member of the joint Norwegian-Swedish Nord Pool power exchange. Up to the end of 1997 Espoon Sähkö was the only Finnish electricity company on the market also making forward transactions in electricity.

More focus on risk management

Espoon Sähkö trades in the electricity futures market to safeguard its own supply of electricity and to hedge against the risks posed by price fluctuations. During the year in-

vestments were made in a new risk management system that will be introduced during 1998.

Electricity trading in Finland is increasingly following the trends in financial trading. Through financial transactions the company secures a certain price level for the electricity it will buy, for example three years in advance. However, for practical trading purposes the contracts with a maturity of less than one year have the greatest significance. Financial trading is expected to become of increasing importance to the company's profitability in the future.

Both the volumes of electricity traded and the number of companies trading in electricity rose during the review period. Conversely, the volume of trade on the EL-EX electricity spot market remained low. The gradual expansion in electricity trading is creating a genuine market price for electricity based on supply and demand for the first time ever. The smooth functioning of the markets has also increased customers' confidence in the pricing of electricity.

Towards cooperation with purchasing pools

It is now possible to assess the efficiency and competitiveness of an individual electricity company against the market price of electricity. This means that construction of the new cogeneration plant that Espoon Sähkö plans to build in Vermo is even more dependent on the market forecast for the price of electricity.

The retail markets have become more price-conscious during the year. A variety of purchasing pools, formed for example by building service companies, are also becoming active. Espoon Sähkö has initiated cooperation with

building service companies in its operating area that should provide additional benefits not only to Espoon Sähkö but also to residents in the properties serviced by these companies.

The number of purchasing pools is forecast to grow throughout Finland, and consortiums that have not procured electricity systematically before are now expected to do so.

Competition for small-scale customers begins

The electricity market in Finland grew by 5 %. Nevertheless, Espoon Sähkö's net sales rose distinctly faster than the market owing to the increased activity of industry and the business community in the operating area, and to growth in sales outside the operating area.

There were no significant changes in the market shares of electricity companies, however, because local electricity providers have been intent on retaining their own customer base at any cost. Espoon Sähkö renewed contracts for the supply of electricity with almost all major customers during the year.

The price of electricity sold by Espoon Sähkö has throughout the 1990s also been competitive for small-scale consumers. The reorganization resulting from the Electricity Market Act will oblige electricity suppliers to compete for small-scale consumers during 1998. The current pricing for electricity varies between regions; in future, households will have the opportunity to buy electricity from the supplier of their choice. Typical load curves will be used to convert the consumption of a small-scale consumer into hourly units, on the same basis as the national electricity balance. This new state of affairs will still allow small-scale consumers to make the same electricity supply contracts as they have up until now.

With the forthcoming competition for small-scale con-

sumers in mind, the company invested in a new Asterix customer database system during the review period. A system to provide customers with feedback in the form of an energy consumption report and collated invoice was introduced in the autumn of 1997.

The extensive personnel training that was started in 1997 will be continued. This will focus on customer service, sales and the development of cross-discipline skills.

Electricity companies will soon have to provide more detailed definitions of the electricity products and related services that they offer. Marketing will become of increasing importance as the trend towards standardizing electricity products develops. Offering clear and easily-recognizable packages of services and products is essential in a deregulated market where the customer can compare the alternatives offered and select the most suitable of them.

Price restructuring

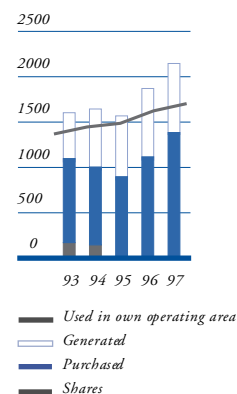
The most significant change in the new pricing system which came into effect at the beginning of 1998 was the earlier start of the off-peak electricity tariff in the evening. Prices for the common tariff and time-based tariff were also lowered, making the company's electricity even more competitive.

Prospects

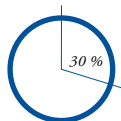
The complete liberation of competition is not expected to bring major changes during 1998.

A substantial number of major wholesale purchasing contracts will expire in Finland during 1998. Competition for these contracts, and the details of the scope and form of the contracts, will intensify since the price level of wholesale contracts is generally higher than the daily market price. This opens up more sales opportunities for Espoon Sähkö.

Electricity supply, GWh



Share of Group
net sales



Energy Division

The Energy Division produces and sells district heat, natural gas and related auxiliary services to properties in its operating area. The Energy Division sells the electricity it cogenerates with heat to the Electricity Division, which covers about 36 % of its total electricity procurement volume. The Energy

Division had 151 employees at the end of the year.

Cogeneration means producing both electricity and heat in the same process. Instead of being lost as wasted energy, the heat produced when generating

electricity is recovered and used for space heating. The high efficiency and fuel flexibility of the cogeneration process make it a highly competitive operation.

Conversely, efficient production plants which meet environmental requirements and an extensive district heating network tie up large sums of capital. For this reason the uninterrupted operation of production plants and effective use of the networks are crucial to achieving good financial performance.

Nevertheless, the most important factors for success are competitive pricing and operations based on customer needs. These, in turn, require continuous development of processes and procedures to make operations more cost-effective and customer-oriented.

District heat customers up 59 % on the previous year

Demand for connections to the district heating network continued to rise. The additional demand from customers connected to the network during the year was 31 MW, up 43 % on the previous year. The district heating network now covers southern Espoo so well that almost all potential new buildings can be connected to the district heating network.

Concentrated areas of demand for district heating have also formed outside the company's main area. The-

se are so large that a good basis now exists for centralized regional heating. Regional heating was started in Kajajärvi in 1996 and in Juvanmalmi during the year under review.

Espoon Sähkö took over the ownership of Kirkkonummen Lämpö Oy in April. Kirkkonummen Lämpö continues to operate under its own name as a subsidiary of Espoon Sähkö within the company's Energy Division.

Anniversary of district heating and cogeneration

Two milestones in the company's history were passed during 1997. At the end of September the company celebrated its 30th anniversary of district heating, and November marked the 20th anniversary of cogeneration at the coal-fired plant at Suomenoja.

The INEX logistics centre at Kilo (3.4 MW) and the Kauniala Hospital for Disabled War Veterans (2.5 MW) were connected to the company's district heating network during the year. These were the last big oil-heated properties near the district heating network which still remained to be connected.

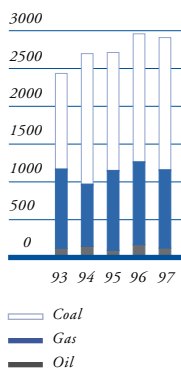
Active efforts were made during the year to ensure the reliable delivery of heat. A 40 MW gas- and oil-fired hot water boiler was connected to the Otaniemi power plant. At the end of the year a 16 MW light fuel oil fired standby heating station was completed at Auroranportti for ensuring heat supply to central Espoo, although connection of the station to the district heating network was postponed until the current year.

Work to considerably reinforce the pipeline between

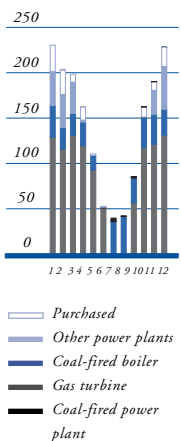




Fuel consumption, GWh



Monthly district heat supply in 1997, GWh



Puolarmetsä and the Keskuspuisto pump station was completed at the end of the year. A new pump station was built at Otaniemi, which will substantially improve heat distribution capacity in the Leppävaara direction. The Keskuspuisto pump station was also extended during the year.

The company's supply of energy is largely based on the Suomenoja power plants. Their production volumes were lower than the preceding year due to warmer weather during the review period. The number of disruptions in production remained low. Development work carried out during the year resulted in a distinct improvement in the efficiency of the production process.

District heat for even smaller buildings

Newbuilding in the residential sector is expected to increase privately-funded construction as well as the construction of rented and co-owned premises. This will stimulate the entire construction sector in the company's operating area. The gross floor area for which building permits were granted in Espoo climbed by 22 % compared to the previous year.

Uncertainty about future energy tax policy and the radical changes occurring in the energy market have clearly made owners of even smaller buildings more interested in connecting them to the district heating network. This indicates that customers view district heat as a secure and safe form of heating.

Privately heated properties have become increasingly interested in joining the district heating network. This is due in part to more effective marketing of district heat.

Critical self-review and continuous improvement

The Division initiated a wide-ranging development project called ENERGY98 in order to ensure that the targets for cost-effectiveness, quality and customer-orientation are met. The project aims to streamline operating processes and make activities more efficient.

The Division is developing a system for continuously monitoring customer satisfaction and is making the processing of customer feedback more methodical. Planned network development will reduce temperature deviations and excessive pressure differences in the district heating network.

The steady growth in demand for district heat provides a good foundation for expanding cogeneration capacity. Preparations are still being made to go ahead with the planned new power plant at Vermo. An environmental permit has already been granted for the plant and an application for building permission will be made when the change to the zoning plan for the area has been approved. The schedule for building the plant still mainly depends on price developments in the electricity markets.



Network Division

The Network Division is responsible for distributing electricity to the customers in Espoon Sähkö's operating area. The Division constructs, operates and maintains the electricity network and is responsible for customers connected to the network. At the end of the year the Division was distributing electricity to 111,000 customers, most of whom received their electricity from Espoon Sähkö's Electricity Division. The Division had 118 employees at the end of the year.

The Network Division is a capital-intensive business in which success relies on effective utilization of the electricity network's capacity. Enhancing the efficiency of operating capital calls for good advance planning, a clear vision of electricity distribution needs in the future, and a network which satisfies these needs. Efficiency in the short-term is achieved by systematic but flexible operational procedures that enable effective use of resources and produce a high level of customer satisfaction.

Electricity distribution increased

The Network Division had an exceptionally brisk year. The amount of electrical energy distributed was 1,639 GWh, up by a good 2 % on the previous year. External electricity suppliers provided about 3 % of this amount. Altogether 78 separate new transmission contracts were made during the year and 160 remote-readable meters, which increase scope for outside competition, were installed. A total of 1,166 new customers were connected to the network. This was 379 more than in the previous year and a substantial increase after the recent recession years. The figure is a clear reflection of the upswing in the construction sector in Espoon Sähkö's operating area.

The Network Division's capital expenditure remained at the previous year's level. Investments totalled FIM 25.6 million. The largest projects were renovation of the Kantvik substation and the acquisition of a new remote-operating system. Investments in the distribution network comprised numerous minor items and amounted to much the same as in preceding years. The investments increasingly focused on replacing overhead transmission lines with underground cables.

Judged by the central quality criteria, the operational year was better than the average for the last ten years.

Disturbances caused an average interruption in supply to customers of 61 minutes during the year. Utilization of network capacity has been improved by such measures as using specially-constructed helicopter saws to clear access roads to overhead transmission lines. The greater use of cabling will further improve the availability of the network.

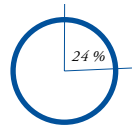
The number of employees in the Network Division increased by 59 people during the review period. This was due to a reorganization in which the Network Division took over network personnel previously employed by the Contracting Division. The actual number of company personnel working on Espoon Sähkö's network, however, did not increase.

Deregulation also challenges the Network Division

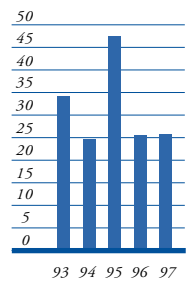
The sharp growth in the number of customers connected to the network is expected to continue during 1998. This means the amount of electricity to be distributed over the next few years will increase by about 3 %. A crucial challenge in the current year stems from the deregulation of the electricity market, which will allow small private consumers to subject electricity providers to competition. This will probably be enabled during 1998 by using load curves. Espoon Sähkö has anticipated electricity supply contracts with small-scale customers by increasing its personnel resources and upgrading its computer systems.

Customers require an uninterrupted supply of electricity in the operating area without fluctuations in voltage. Matching distribution quality to customers' quality expectations is a continuous development process. New customer service premises due to be completed during 1998 will help to improve the Division's service levels.

Share of Group net sales



Network investments, MFIM





Contracting Division

The Contracting Division designs, builds and maintains street and road lighting networks, area and park lighting, and transformer substations. Its main customer groups are city authorities, the National Road Administration and companies. The Contracting Division had 16 employees at the end of the year.

New service products give competitive edge

The Contracting Division's strength stems from its wide-ranging expertise and the solid know-how derived from long experience of electricity distribution networks. This is supported by its up-to-date and specialized equipment. The Division has developed service products to complement the service packages it provides for electricity distribution, in addition to its normal activities of designing, constructing and maintaining street and road lighting, and electrification projects for business and industry. These service products include operational management and installation of temporary electricity substations at worksites.

There has been a strong recovery in the housebuilding and renovation sectors, and this trend is forecast to continue. Competition in construction of street and road lighting has intensified, which is keeping prices low.

In March Espoon Sähkö Oyj and contractor Tekra-Skanska jointly agreed that Espoon Sähkö would supply the road lighting system for the section of motorway to be constructed between Lahti and Järvenpää, and that Espoon Sähkö would also maintain it, and supply the electrical energy needed for the lighting. Other contracted work completed during the review period included the lighting for the E18 traffic intersection at Espoo, construction of substations for Inex Partners and the University of Helsinki, and industrial electrification work for Gyproc Oy. The Contracting Division also carried out contracted maintenance for the City of Espoo's and the City of Kauniainen's road lighting, as well

as the National Road Administration's road lights in Espoo and Kirkkonummi.

The 'Espoo - City of Light' project with the City of Espoo was continued during the year. This project aims to enhance the city's amenity value with carefully designed area lighting.

The Division also designed and constructed the Christmas lighting for Espoonlahti and Espoo city centre.

The number of employees in the Contracting Division declined during 1997. At the beginning of the year the Division employed 81 people, and at the end of the year it had 16 employees. This was due to the transfer of network construction to the Network Division. At the same time external lighting and its documentation were transferred from the Network Division to the Contracting Division. The required number of people will be assigned to projects from network operations.

The Contracting Division now concentrates on outdoor lighting contracts and electrification projects. These include substations, main distribution centres, feeder cables and compensating equipment for business and industry.

The Division is continuously developing its expertise as a provider of high-quality service packages and systems that are tailored to the needs of customers.



Share of Group
net sales

2 %





Board of Directors' Report | Jan. - 31 Dec. 1997

Electricity consumption in Finland increased 5 % during 1997 and totalled 73.5 TWh (billion kWh). Household consumption remained at the previous year's level, whereas services and public consumption rose 2.4 %. The largest rise, 8.6 %, took place in the industrial sector:

Espoon Sähkö Oyj sold altogether 2.1 TWh of electricity during 1997, up 14 % on the preceding year. Sales of electricity outside the operating area grew vigorously and a considerable share of this was derived from sales on the Finnish EL-EX power exchange. Altogether 1,639 GWh of electricity was distributed within the company's operating area, an increase of 2.3 %.

Heat sales totalled 1,575 GWh in 1997, which was three per cent less than in the previous year. Calculated in degree days, the year was 7 % warmer than in 1996. The number of properties connected to the company's district heating network rose 4.9 % (3.2 %) and totalled 3,673 at the year end.

In April 1997 Espoon Sähkö Oyj acquired the shares of the Kirkkonummen Lämpö Oy heating facility from the municipality of Kirkkonummi. The shares have a market value of FIM 10.4 million. Discussions were started in June between Espoon Sähkö, Savon Voima and Kuopion Energia on the possibility of cooperation. Espoon Sähkö Oyj made an offer to acquire a minority holding in Savon Voima, with which Kuopion Energia would be merged. This venture failed to materialize after the shareholders of Savon Voima Oy were unable to reach a decision. In January 1998 a preliminary agreement was announced by the cities of Espoo and Kuopio to merge the operations of Kuopion Energia with Espoon Sähkö Oyj. In February 1998 the Espoo and Kuopio city boards considered the merger and decided to submit the matter to the city councils in March for their final decision. Espoo city council approved the proposal on 2 March. The aim is to further develop and expand the Kaupunkienergia concept.

Net sales

Espoon Sähkö Oyj's consolidated net sales rose 3 % to FIM 836 (809) million. Electricity sales and transmission increased 1.3 % and totalled FIM 554 (547) million. Electricity revenues rose more slowly than sales volume principally because of a change in electricity taxation. The tax on fuel used in electricity generation was replaced at the beginning of 1997 by an electricity tax. This tax is not charged against sales but is paid direct to the government; FIM 48 million was paid in 1997. District heat sales rose 9 % and totalled FIM 255 (234) million. The increase was the result of a higher number of customers and a price increase caused by a rise in the tax on fuel used for heat production. Other sales, construction and maintenance of external lighting, and sales of local heat and natural gas, totalled altogether FIM 27 (28) million.

Expenses

The Group's operating expenses came to FIM 539 (552) million. Energy expenses declined 2 % on the previous year, due mainly to a drop in the purchase price of electricity. The company's power plants produced the same amount of electricity as in the previous year, which represented 36 % (41 %) of the total amount purchased by the company. The lower percentage figure was due to a clear increase in total procurement. Operating expenses other than energy expenses came to FIM 175 (179) million. Interest income exceeded interest expenses by FIM 7.3 million.

Result

The Group's operating profit before depreciation was FIM 300 (260) million, which represented 36 % (32 %) of consolidated net sales. The operating profit increased 26 % to FIM 195 million, and the profit before provisions and taxes rose 30 % to FIM 203 (156) million. The main reason for

the profit improvement was successful trading on the Nordic power exchanges coupled with a higher sales volume.

Financing

The Group's liquidity is good. On 31 December 1997 interest-bearing debt was FIM 104 million, and financial assets totalled FIM 484 million. The solvency ratio, excluding connection charges, was 48 % (45 %) and including connection charges, 78 % (75 %). Other key indicators describing the company's financial performance and information on the company's shares are given in this annual report.

Investments

Investments in fixed assets amounted to FIM 82 million in 1997. FIM 21 million of this involved investments in the electricity network. Construction of the district heating network required FIM 24 million. Production investments totalled FIM 7 million. The largest project was the acquisition of the shares of Kirkkonummen Lämpö Oy.

Personnel

Personnel averaged 412 (413) during the year. The company had 387 (396) full-time employees at the year end.

Supervisory Board, Board of Directors and Auditors

The Annual General Meeting took place on 16 April 1997. The Meeting decided to amend the following matters in the Articles of Association: the company's name was changed to Espoon Sähkö Oyj with effect from 1 September 1997 and the company's auditors are required to be an auditing firm approved by the Central Chamber of Commerce. The Meeting appointed authorized public accountants Arthur Andersen Kihlman Oy to be the company's auditors.

The Meeting elected the following to the Supervisory Board for the next two-year term of office: Keijo Alho, Hannu Ervamaa, Jukka Erävuori, Timo Haapaniemi, Juhani Kangas, Matti Kaseva, Hans Korsbäck, Leena Luhtanen, Martti Merra, Leena Rehn, Pentti Rissanen and Mika Salonoja.

The Supervisory Board elected Leena Luhtanen as its chairman and Martti Merra as its deputy chairman.

On 29 April 1997 the Supervisory Board elected the following as members of the Board of Directors for the next two-year term of office: Ulf Johansson, Martti Kaasinen, Anne Leppälä-Nilsson, Heidi Mikkola, Olli Männikkö, Marja Rahkonen, Yrjö Rossi and Jukka Uosukainen.

The Board of Directors elected Olli Männikkö as its chairman and Martti Kaasinen as its deputy chairman.

Prospects for 1998

Integration in electricity trading will continue to be a leading trend in the Nordic electricity markets. Obstacles in the way of joint Nordic electricity trading are being removed all the time. On the one hand this will probably result in reduced sales margins and fiercer competition, but on the other hand it will generate a wider market. Successful operation in electricity trading will depend even more on achieving a balance between sales and purchasing of electricity, and also on maintaining and increase sales volumes.

In March 1998 the city councils of Espoo and Kuopio will convene to consider the merger of Kuopion Energia with Espoon Sähkö Oyj. If both give the go-ahead, Espoon Sähkö Oyj will direct a privileged issue of shares to the city of Kuopio, which in return will hand over the operations of Kuopion Energia to Espoon Sähkö Oyj, which will be renamed Kaupunkienergia Oyj (proposed name). Local operations such as electricity transmission, district heating and production and local electricity sales will be reconstituted into two local subsidiaries of the new company. The privileged share issue is planned to take place in April 1998, assuming that the city councils decide in favour of the merger. The aggregate net sales of the Kaupunkienergia Group companies (Espoon Sähkö Oyj and Kuopion Energia) totalled FIM 1,100 million in 1997 and they had altogether about 600 employees at the end of the year.

Espoon Sähkö Oyj's electricity sales volumes are forecast to increase in 1998. Fiercer competition is expected to reduce electricity trading margins further. The exceptionally favourable development of Nordic electricity trading during 1997 is not expected to continue during 1998. However, this forecast will depend on a number of external factors including general economic trends and the competitive situation.

Consolidated Income Statement

(FIM 1,000)	Note	I Jan.-31 Dec. 1997	%	I Jan.-31 Dec. 1996	%
Net sales	1	835,804	100	809,377	100
Other operational income	2	3,356		3,349	
Expenses					
Energy and fuels	3				
Purchases during the year		385,541		364,985	
Change in fuel stocks		-20,766		8,240	
Materials and supplies					
Purchases during the year		20,359		21,938	
Change in stocks		-2,428		1,769	
Personnel expenses	4	102,332		109,818	
Rents	5	5,881		4,455	
Other expenses	6	48,222		41,033	
		-539,140	65	-552,238	68
Operating profit before depreciation		300,020	36	260,488	32
Depreciation	7	-104,651	13	-105,158	13
Operating profit		195,369	23	155,330	19
Financial income and expenses	8				
Interest income		13,214		15,731	
Other financial income		140		0	
Exchange rate differences		-188		44	
Interest expenses		-5,314		-14,053	
Other financial expenses		-544		-1,334	
		7,308		389	
Profit before provisions and taxes		202,678	24	155,719	19
Direct taxes					
For the year		-57,087		-39,023	
Change in deferred tax liability		-619		-4,729	
For previous years		0		453	
		-57,706		-43,299	
Net profit for the year		144,972	17	112,419	12

Consolidated Balance Sheet

Assets

(FIM 1,000)	Note	31 Dec. 1997	%	31 Dec. 1996	%
Fixed assets and other long-term investments	9				
Intangible assets					
Intangible rights		20,324		9,651	
Other long-term expenses		15,571		16,597	
		35,895	2	26,248	2
Tangible assets					
Land and water areas		53,416		52,376	
Buildings and structures		260,451		268,894	
Power and district heat equipment		170,702		188,991	
Transmission and distribution network		324,720		336,374	
District heat network		190,124		179,594	
Machinery and equipment		16,984		13,413	
Other material goods		1,559		875	
Advance payments and work in progress		15,843		17,107	
		1,033,799	58	1,057,624	65
Stocks and other long-term investments					
Stocks and shares		5,505		3,081	
Other long-term investments		424		275	
		5,929	0	3,356	0
Current assets					
Inventories	10				
Materials and supplies		8,592		6,856	
Work in progress		2,984		2,292	
Fuels		90,840		70,074	
		102,417	6	79,222	5
Receivables					
Sales receivables		102,965		90,305	
Loan receivables		50		359	
Deferred charges		6,028		19,577	
		109,043	6	110,241	7
Financial assets					
Other securities		451,654	26	327,966	20
Cash in hand and at banks		32,132	2	25,347	2
		1,770,868		1,630,003	

Consolidated Balance Sheet

Liabilities

(FIM 1,000)	Note	31 Dec. 1997	%	31 Dec. 1996	%
Shareholders' equity	11				
Restricted equity					
Share capital		31,472		31,472	
Reserve fund		141,453		141,453	
		172,925		172,925	
Non-restricted equity					
Profit from previous years		519,320		440,834	
Profit for the year		144,972		112,419	
		664,291		553,253	
Shareholders' equity, total		837,217	47	726,178	45
Connection charges	13	532,230	30	491,814	30
Liabilities	14				
Long-term liabilities					
Loans from financial institutions		27,148		38,730	
Pension loans		0		64,736	
Other long-term loans		82		143	
Deferred tax liability		145,259		144,373	
		172,489	10	247,982	15
Current liabilities					
Loans from financial institutions		11,824		14,769	
Pension loans		64,735		4,873	
Advances received		13,731		16,273	
Accounts payable		48,200		43,687	
Deferred liabilities		89,973		83,938	
Other current liabilities		470		489	
		228,933	13	164,029	10
Liabilities, total		401,421	23	412,011	25
		1,770,868		1,630,003	

Consolidated Funds Statement

(FIM 1,000)	1997	1996
Source of funds		
Internal financing:		
Net profit	144,972	112,419
Depreciation	104,651	105,158
Change in provisions	619	4,729
Internal financing, total	250,242	222,307
Sale of long-term investments	349	793
Sale of fixed assets	894	576
Increase in connection charges	40,416	16,354
Total source of funds	291,901	240,030
Application of funds		
Investments	93,337	77,949
Repayment of long-term loans	19,461	131,562
Dividends	34,619	18,883
Total application of funds	147,417	228,394
Change in net operating capital	144,484	11,636
Change in net operating capital itemized:		
Cash in hand and at banks	130,474	37,625
Current financial assets	-1,198	343
Inventories	23,194	-10,010
Current liabilities	-7,986	-16,322
Total (+decrease/-increase)	144,484	11,636
Net operating capital 1 Jan,	398,389	386,753
Net operating capital 31 Dec,	542,872	398,389

Parent Company's Financial Statements

Income statement | Jan.-31 Dec.

(FIM 1,000)	Note	1997	1996
Net sales	1	828,996	809,930
Other operational income	2	436	1,039
Expenses			
Energy and fuels	3		
Purchases during the year		379,821	364,985
Change in fuel stocks		-20,766	8,240
Materials and supplies			
Purchases during the year		20,557	21,995
Change in stocks		-2,428	1,769
Personnel expenses	4	101,952	109,815
Rents	5	9,831	9,278
Other fixed expenses	6	46,202	39,874
		-535,169	-555,956
Operating profit before depreciation		294,264	255,013
Depreciation on fixed assets and other long-term expenditure	7	-99,013	-102,391
Operating profit		195,250	152,621
Financial income and expenses	8		
Interest income		14,340	17,056
Other financial income		40	0
Exchange-rate differences		-188	44
Interest expenses		-5,427	-14,153
Other financial expenses		-543	-1,334
		8,222	1,613
Profit before provisions and taxes		203,473	154,235
Increase in depreciation difference		-28,143	-34,093
Decrease in voluntary provisions		26,657	18,075
Direct taxes			
For the year		-56,707	-38,749
For previous years		0	453
		-56,707	-38,296
Net profit for the year		145,281	99,922

Source and application of funds

(FIM 1,000)	1997	1996
Source of funds		
Internal financing		
Net profit	145,281	99,922
Depreciation	99,013	102,391
Change in provisions	1,485	16,018
Internal financing, total	245,779	218,331
Sale of long-term investments	3,067	3,867
Sale of fixed assets	894	576
Increase in connection charges	25,221	16,354
Total source of funds	274,961	239,128
Application of funds		
Investments	82,033	77,915
Repayment of long-term loans	19,461	131,562
Dividends	34,619	18,883
Total application of funds	136,114	228,360
Change in net operating capital	138,847	10,768
Change in net operating capital itemized:		
Cash in hand and at banks	125,125	36,789
Current financial assets	-3,420	413
Inventories	23,194	-10,010
Current liabilities	-6,052	-16,424
Total (+decrease/-increase)	138,847	10,768
Net operating capital 1 Jan.	395,308	384,539
Net operating capital 31 Dec.	534,155	395,308

Parent Company's Balance Sheet

Assets

(FIM 1,000)	Note	31 Dec.1997	31 Dec.1996
Fixed assets and other long-term investments	9		
Intangible assets			
Intangible rights		9,666	9,651
Other long-term expenses		15,562	16,588
		25,229	26,239
Tangible assets			
Land and water areas		31,124	30,752
Buildings and structures		172,800	180,096
Power and district heat equipment		171,880	188,991
Transmission and distribution network		324,720	336,374
District heat network		181,889	179,594
Machinery and equipment		16,944	13,369
Other material goods		1,559	875
Advance payments and work in progress		15,843	17,107
		916,759	947,157
Stocks and other long-term investments			
Shares in subsidiaries		92,865	81,809
Other stocks and shares		5,505	3,081
Loan receivables		26,208	29,275
Other investments		330	275
		124,908	114,440
Current assets		1,066,895	1,087,836
Inventories	10		
Materials and supplies		8,592	6,856
Work in progress		2,984	2,292
Fuels		90,840	70,074
		102,417	79,222
Receivables			
Sales receivables		100,786	90,343
Loan receivables		50	359
Deferred charges		6,019	19,574
		106,856	110,275
Financial assets			
Other securities		451,654	327,966
		25,868	24,432
Cash in hand and at banks		25,868	24,432
		1,753,690	1,629,731

Liabilities

(FIM 1,000)	Note	31 Dec.1997	31 Dec.1996
Shareholders' equity	11		
Restricted equity			
Share capital		31,472	31,472
Reserve fund		141,453	141,453
		172,925	172,925
Non-restricted equity			
Profit from previous years		146,774	81,471
Profit for the year		145,281	99,922
		292,055	181,393
Shareholders' equity, total		464,980	354,318
Provisions	12		
Accumulated depreciation difference		515,247	487,104
Transition provision		0	26,657
		515,247	513,761
Connection charges	13	517,034	491,814
Liabilities	14		
Long-term liabilities			
Loans from financial institutions		27,148	38,730
Pension loans		0	64,736
Other long-term loans		82	143
		27,230	103,609
Current liabilities			
Loans from financial institutions		11,824	14,769
Pension loans		64,735	4,873
Advances received		13,731	16,273
Accounts payable		45,661	43,687
Deferred liabilities		89,851	83,294
Other current liabilities		3,397	3,333
		229,199	166,229
Liabilities, total		256,429	269,838
		1,753,690	1,629,731

Accounting Principles

Consolidation

The consolidated financial statements include the parent company, Espoon Sähkö Oyj, and the subsidiaries Kirkkonummen Lämpö Oy, Kiinteistö Oy Piispankylä 4, Kiinteistö Oy Espoon Energiatalo, Viikinki Energia Oy, Espower Ab and Espower As, 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 using the acquisition method. 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 statement as a change in the depreciation difference. Accumulated depreciation in excess of plan is shown in the balance sheet as a separate item under 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 President of the company has been arranged through pension insurance. The minor uncovered pension liability is shown in the notes to the financial statements.

Extraordinary income and expenses

No extraordinary income or expenses were recorded during 1997.

Direct taxes

In the income statement direct tax for the year is shown separately from tax for previous years. The taxes are calculated as paid. The accumulated depreciation difference and voluntary provisions are recorded in the consolidated balance sheet under shareholders' equity and the deferred tax liability, and changes to them are recorded in the consolidated income statement under change in deferred tax liability and profit for the year.

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 Bookkeeping 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.

Notes to the Financial Statements

(FIM 1,000)	Group		Parent company	
	1997	1996	1997	1996
1. Net sales				
Electricity	553,691	546,561	554,399	546,869
Heat	255,406	234,332	249,840	234,577
Non-core operations	26,707	28,483	24,758	28,483
Net sales, total	835,804	809,377	828,996	809,930
2. Other operational income				
Rents	3,296	2,937	376	627
Other income	60	412	60	412
Other operational income, total	3,356	3,349	436	1,039
3. Energy and fuels				
Purchasing of electricity	208,745	216,305	208,749	216,305
Purchasing of heat	5,899	373	176	373
Purchasing of fuels	170,897	148,306	170,897	148,306
Change in fuel stocks	-20,766	8,240	-20,766	8,240
Energy expenses, total	364,775	373,226	359,055	373,226
4. Personnel expenses				
Wages and salaries	75,933	75,183	75,930	75,180
Pension expenses	16,511	25,179	16,465	25,179
Other compulsory personnel expenses	8,489	7,878	8,420	7,878
Voluntary personnel expenses	1,399	1,578	1,137	1,578
Personnel expenses, total	102,332	109,818	101,952	109,815
Tax value of fringe benefits	470	425	470	425
Pay and other remuneration received by the members of the Board of Directors, the Supervisory Board and the President	1,131	809	1,080	807
Bonuses paid to management	100	0	100	0
Other pay	74,702	74,374	74,750	74,373
Pay, total	75,933	75,183	75,930	75,180
Pension commitments for employees have been taken care of through outside pension insurance.				
Pension liabilities for Board members and the President:				
The members of the Board of Directors and the President have pension benefits corresponding to those of other personnel.				
5. Rents				
Leasing fees	545	477	545	477
Other rents	5,336	3,978	9,286	8,801
Rents, total	5,881	4,455	9,831	9,278
6. Other expenses				
Outside services	30,060	27,105	28,791	26,472
Administrative expenses	16,948	12,659	16,459	12,675
Liability expenses and public charges	2,544	2,779	2,282	2,238
Expense adjustments	-1,330	-1,510	-1,330	-1,510
Other expenses, total	48,222	41,033	46,202	39,874

Notes to the Financial Statements

(FIM 1,000)	Group		Parent company	
	1997	1996	1997	1996
7. Depreciation				
Depreciation according to plan				
Other intangible rights	3,597	1,982	2,215	1,982
Other long-term expenditure	1,026	1,041	1,026	1,041
Buildings and structures	12,494	12,295	9,747	9,548
Power and district heat equipment	33,809	31,700	32,323	31,700
Transmission and distribution network	27,975	31,650	27,975	31,650
District heating network	20,321	20,171	20,321	20,171
Machines and equipment	5,183	6,050	5,159	6,030
Other material goods	247	268	247	268
Depreciation according to plan, total	104,651	105,158	99,013	102,391
Tax depreciation	102,441	140,124	100,498	136,484
Depreciation difference, total	-2,210	34,966	1,485	34,093
Depreciation difference on 1 Jan.			487,104	453,011
Increase			28,143	34,093
Depreciation difference on 31 Dec.			515,247	487,104
8. Financial income and expenses				
Interest income	13,214	15,731	14,340	17,056
Interest expenses	-5,314	-14,053	-5,427	-14,153
Net interest	7,900	1,678	8,913	2,903
Exchange rate gains	2,471	535	2,471	535
Exchange rate losses	-2,659	-491	-2,659	-491
Exchange rate differences	-188	44	-188	44
Other financial income	140	0	40	0
Other financial expenses	-544	-1,334	-543	-1,334
Other financial income and expenses	-404	-1,334	-503	-1,334
Intragroup financial income and expenses				
Interest income from Group companies			1,144	1,331
Interest expenses to Group companies			113	100
9. Fixed assets and other long-term expenditure				
Intangible rights:				
Acquisition cost 1 Jan.	24,627	20,275	24,627	20,275
Increases 1 Jan.-31 Dec.	14,270	4,352	2,231	4,352
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	38,897	24,627	26,857	24,627
Accumulated planned depreciation 31 Dec.	18,573	14,976	17,191	14,976
Book value 31 Dec.	20,324	9,651	9,666	9,651

Notes to the Financial Statements

(FIM 1,000)	Group		Parent company	
	1997	1996	1997	1996
Other long-term expenditure:				
Acquisition cost 1 Jan.	22,507	22,507	22,498	22,498
Increases 1 Jan.-31 Dec.	9	0	0	0
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	22,516	22,507	22,498	22,498
Accumulated planned depreciation	6,945	5,910	6,936	5,910
Book value 31 Dec.	15,571	16,597	15,562	16,588
Land and water areas:				
Acquisition cost 1 Jan.	52,376	44,175	30,752	22,551
Increases 1 Jan.-31 Dec.	1,040	8,232	371	8,232
Decreases 1 Jan.-31 Dec.	0	31	0	31
Acquisition cost 31 Dec.	53,416	52,376	31,124	30,752
Buildings and structures:				
Acquisition cost 1 Jan.	401,721	398,559	297,363	294,201
Increases 1 Jan.-31 Dec.	4,051	3,162	2,451	3,162
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	405,773	401,721	299,814	297,363
Accumulated planned depreciation 31 Dec.	145,321	132,828	127,014	117,267
Book value 31 Dec.	260,451	268,894	172,800	180,096
Power and district heating equipment:				
Acquisition cost 1 Jan.	491,678	485,823	491,678	485,823
Increases 1 Jan.-31 Dec.	15,546	5,906	15,237	5,906
Decreases 1 Jan.-31 Dec.	26	51	26	51
Acquisition cost 31 Dec.	507,198	491,678	506,889	491,678
Accumulated planned depreciation 31 Dec.	336,496	302,687	335,010	302,687
Book value 31 Dec.	170,702	188,991	171,880	188,991
Transmission and distribution network:				
Acquisition cost 1 Jan.	641,178	617,628	641,178	617,628
Increases 1 Jan.-31 Dec.	16,713	23,807	16,713	23,807
Decreases 1 Jan.-31 Dec.	392	258	392	258
Acquisition cost 31 Dec.	657,499	641,178	657,499	641,178
Accumulated planned depreciation 31 Dec.	332,778	304,804	332,778	304,804
Book value 31 Dec.	324,720	336,374	324,720	336,374
District heating network:				
Acquisition cost 1 Jan.	427,156	410,061	427,156	410,061
Increases 1 Jan.-31 Dec.	30,883	17,167	22,648	17,167
Decreases 1 Jan.-31 Dec.	32	72	32	72
Acquisition cost 31 Dec.	458,007	427,156	449,772	427,156
Accumulated planned depreciation 31 Dec.	267,883	247,562	267,883	247,562
Book value 31 Dec.	190,124	179,594	181,889	179,594

Notes to the Financial Statements

(FIM 1,000)	Group		Parent company	
	1997	1996	1997	1996
Machinery and equipment:				
Acquisition cost 1 Jan.	99,932	94,772	99,810	94,686
Increases 1 Jan.-31 Dec.	9,198	5,355	9,179	5,319
Decreases 1 Jan.-31 Dec.	444	195	444	195
Acquisition cost 31 Dec.	108,686	99,932	108,545	99,810
Accumulated planned depreciation 31 Dec.	91,701	86,519	91,601	86,442
Book value 31 Dec.	16,984	13,413	16,944	13,369
Other tangible assets:				
Acquisition cost 1 Jan.	3,394	3,390	3,394	3,390
Increases 1 Jan.-31 Dec.	931	3	931	3
Decreases 1 Jan.-31 Dec.	0	0	0	0
Acquisition cost 31 Dec.	4,324	3,394	4,324	3,394
Accumulated planned depreciation 31 Dec.	2,765	2,518	2,765	2,518
Book value 31 Dec.	1,559	875	1,559	875
Machinery and equipment's share of book value 31 Dec.	315,116	341,557	315,073	341,512

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
Kirkkonummen Lämpö Oy	72	100	43,200	10,912,625
Espower Ab		100		68,879
Espower As		100		74,750
				92,865,254

	Shareholders' equity	Profit/loss for the year
Kiinteistö Oy Piispankylä 4	18,215	655
Kiinteistö Oy Espoon Energiatalo	56,945	-841
Viikinki Energia Oy	100	-1
Kirkkonummen Lämpö Oy	16,100	335

	Number of shares	Nominal value	Book value
Shares in other companies:			
Asunto Oy Espoon Etelätie 41	115	4	395
HEX Ltd, Helsinki Securities and Derivatives Exchange, Clearing House	20,000	200	300
Helsinki Telephone Association	163	897	399
Helsingin Seudun Lämpövoima Oy	115	575	575
Innopoly Oy	2,465	247	198
Kiinteistö Oy Irmelinpesä	75	75	288
OKR-Liikkeeseenlaskijat Osuuskunta			90
Interkraft Trading ASA	4,000		2,833
Helsinki Telephone Corporation Ltd	1,630		90
Other companies			338

5,505

Notes to the Financial Statements

(FIM 1,000)	Group		Parent company	
	1997	1996	1997	1996
Transfer to shareholders' equity	373,523	371,246		
Deferred tax liability	145,259	144,373		
Provisions as booked	518,782	515,619		
Change affecting net profit	2,277	12,161		
Change in deferred tax liability	619	4,729		
Share of subsidiary's deferred tax liability	267	0		
Change in provisions as booked	3,162	16,890		
13. Connection charges				
Electricity connection charges 1 Jan.	237,245	231,689	237,245	231,689
Increase	10,707	5,556	10,707	5,556
Electricity connection charges 31 Dec.	247,952	237,245	247,952	237,245
Heat connection charges 1 Jan.	252,246	241,468	252,246	241,468
Increase	27,099	10,778	14,499	10,778
Heat connection charges 31 Dec.	279,346	252,246	266,745	252,246
Natural gas connection charges 1 Jan.	2,322	2,302	2,322	2,302
Increase	2,610	20	15	20
Natural gas connection charges 31 Dec.	4,932	2,322	2,337	2,322
Connection charges, total 31 Dec.	532,230	491,814	517,034	491,814
14. Liabilities				
Long-term liabilities				
Non-interest-bearing liabilities	145,259	144,373	0	0
Interest-bearing liabilities	27,230	103,609	27,230	103,609
Current liabilities				
Non-interest-bearing liabilities	152,373	144,388	152,639	146,587
Interest-bearing liabilities	76,559	19,642	76,559	19,642
Interest-bearing liabilities, total	103,789	123,250	103,789	123,250
Repayment schedule for long-term loans:	Bank loans	Pension loans	Other loans	Total
Repayments 1998	11,763	64,735	61	76,559
Repayments 1999	7,631	0	32	7,663
Repayments 2000	5,458	0	0	5,458
Repayments 2001	5,458	0	0	5,458
Repayments 2002	5,458	0	0	5,458
Repayments 2003-	3,142	0	50	3,192
Total 31 Dec. 1997	38,911	64,735	143	103,789
15. Contingent liabilities	1997	1996	1997	1996
Mortgages as security for loans	51,000	78,000	51,000	78,000
Pledges	4,334	3,804	4,334	3,804
Leasing commitments	2,166	2,593	2,166	2,593
Pension commitments	89	155	89	155

16. Derivative contracts on power exchanges

Forward contracts and placed option contracts totalled FIM 6.1 million on 31 December 1997.

Principles of separation

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 organization. The income and expenses of the divisions are booked as they occur. Corporate Services, which provides administrative and financial services for the Group, has standardized 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 sheets 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 769 GWh of electricity was transferred for sale at a price of FIM 142/MWh and 1,388 GWh of heat for FIM 93.50/MWh respectively.

Key financial indicators for Network operations

	1997	1996
Average personnel in network operations	123	121
Investments in distribution and transmission network, FIM 1,000	20,921	25,447
Other investments, FIM 1,000	4,656	1,376
Return on investment at balance sheet values, %	15.3	13.9
Return on investment when the network is valued at its technical current value and depreciation is calculated from replacement prices, %	8.7	8.3

Separated Income Statements | Jan. - 31 Dec. (FIM 1,000)

	Electricity Division		Network Division	
	1997	1996	1997	1996
Net sales	373,423	375,671	207,517	201,201
Other income	0	138	143	186
Energy and fuels	306,127	341,342	29,399	31,671
Materials and supplies	67	61	2,119	1,696
Personnel costs	9,810	9,475	14,430	17,976
Other fixed costs	13,049	7,652	42,354	38,914
Expenses, total	329,052	358,530	88,302	90,257
Operating profit before depreciation	44,371	17,278	119,358	111,130
Depreciation	1,152	1,056	32,564	36,139
Operating profit	43,218	16,223	86,794	74,992
Share of financial income and expenses	1,378	520	5,636	3,036
Profit before taxes	44,597	16,742	92,430	78,028
Taxes	12,487	4,688	25,880	21,848
Profit after taxes	32,110	12,054	66,549	56,180

Network Operation's Balance Sheet on 31 December (FIM 1,000)

Assets	1997	1996	Liabilities	1997	1996
Fixed assets and other long-term expenditure			Share of shareholders' equity and provisions	356,333	324,926
Intangible assets	10,199	10,862	Connection charges	247,952	237,245
Tangible assets			Share of long-term liabilities	9,076	36,309
Transmission and distribution network	324,720	336,374	Share of current liabilities	57,916	34,945
Other tangible assets, total	76,242	70,913	Total	671,278	633,425
Other tangible assets, total	400,963	407,287			
Inventories	4,261	3,585			
Receivables	27,776	25,901			
Share of other cash reserves	228,079	185,791			
Total	671,278	633,425			

Key Indicators

Group Financial Development

	1993	1994	1995	1996	1997
Net sales, MFIM	676.8	709.4	707.7	809.4	835.8
Operating profit before depreciation, MFIM	207.2	263.0	241.1	260.5	300.0
% of net sales	30.6	37.1	34.1	32.2	35.9
Operating profit, MFIM	103.1	160.0	137.6	155.3	195.4
% of net sales	15.2	22.6	19.4	19.2	23.4
Profit before extraordinary items, MFIM	47.2	137.7	131.3	155.7	202.7
% of net sales	7.0	19.4	18.6	19.2	24.2
Profit before provisions and taxes, MFIM	47.2	139.6	131.3	155.7	202.7
% of net sales	7.0	19.7	18.6	19.2	24.2
Balance Sheet, main items					
Shareholders' equity 1, MFIM (including connection charges)	743.1	1,016.2	1,108.1	1,218.0	1,369.4
Shareholders' equity 2, MFIM (excluding connection charges)	308.9	560.4	632.7	726.2	837.2
Interest-bearing debt, MFIM	549.5	338.9	254.8	123.3	103.8
Interest-bearing debt/balance sheet total, %	36.4	21.4	15.6	7.6	5.9
Gross capital expenditure on fixed assets, MFIM	86.0	60.3	77.2	77.9	82.0
% of net sales	12.7	8.5	10.9	9.6	9.8
Balance sheet total, MFIM	1,508.5	1,580.2	1,630.7	1,630.0	1,770.9
Key figures					
Return on investment, %	8.5	12.5	11.4	12.7	14.8
Return on shareholders' equity, % (including connection charges)	5.3	12.1	7.8	9.7	11.3
Return on shareholders' equity, % (excluding connection charges)	12.9	24.4	14.0	16.5	18.6
Solvency ratio 1, % (including connection charges)	49.3	64.3	68.0	75.5	77.9
Solvency ratio 2, % (excluding connection charges)	20.5	35.5	38.8	45.0	47.6
Gearing, % (excluding connection charges)	145.1	16.2	-9.6	-31.7	-45.4
Average personnel	513	467	422	413	412
Dividend, MFIM	3.1	11.0	18.9	34.6	59.8*)
Per share data					
Earnings per share, FIM	2.88	6.77	5.29	7.14	9.25
Dividend per share, FIM	0.24	0.70	1.20	2.20	3.80*)
Dividend payout ratio, %	8.3	10.4	22.7	30.8	41.1
Price/earnings ratio (P/E)		7.4	11.9	14.3	13.0
Shareholders' equity per share, FIM (including connection charges)	56.67	64.58	70.42	77.40	87.03
Shareholders' equity per share, FIM (excluding connection charges)	23.56	35.61	40.21	46.15	53.20
Adjusted number of shares	13,113,275	13,393,504	15,735,930	15,735,930	15,735,930
Number of shares at 31 Dec.	13,113,275	15,735,930	15,735,930	15,735,930	15,735,930
Dividend yield, %		1.4	1.9	2.2	3.2
Share price on 31 Dec., FIM		50	63	102	120
Market capitalization, MFIM		786.8	991.4	1,605.1	1,888.3
Trading volume, 1000 shares		226	2047	2649	2041
Trading volume, %		1.4	13.0	16.8	13.0

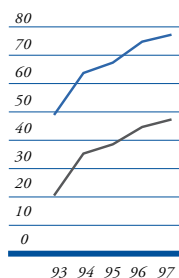
*) Board of Directors' proposal

Key Indicators

Principles of calculation

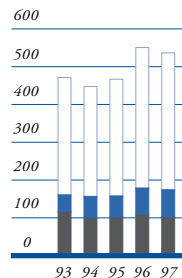
Shareholders' equity	Share capital + other restricted shareholders' equity + non-restricted equity + provisions - deferred tax liability on the balance sheet date	
Return on equity (ROE), %	$\frac{\text{Profit after financial items (= profit before extraordinary items) - taxes for the year}}{\text{Shareholders'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

Solvency ratio, %



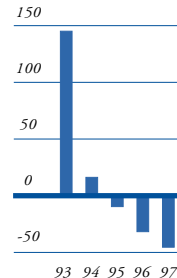
— Solvency ratio incl. connection charges
 - - Solvency ratio excl. connection charges

Operating expenses, MFIM



□ Energy expenses
 ■ Other expenses
 ■ Personnel expenses

Gearing, %



Shares and shareholders

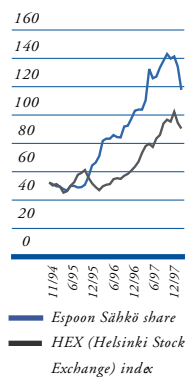
The company's registered and paid up share capital at the end of 1997 stood at FIM 31,471,860 and was divided into 15,735,930 shares with a nominal value of FIM 2 each. According to the Articles of Association the minimum share capital is FIM 20,226,550 and the maximum share capital is FIM 80,906,200, within which limits the share capital may be raised or lowered without amending the Articles of Association. Share are all equal and each share entitles the holder to one vote at shareholders' meetings.

The Espoon Sähkö Oyj share was listed on the Helsinki Stock Exchange on 24 November 1994. During 1997 altogether 2,041,480 shares (13.0 % of the share stock) were traded on the Helsinki Stock Exchange for a total value of FIM 250,450,907. The average quotation was FIM 122.68 per share. The highest quoted price during the year was FIM 151.00 and the lowest quoted price was FIM 102.00. The price quoted on the balance sheet date was FIM 120.00, according to which the market capitalization was FIM 1,888 million.

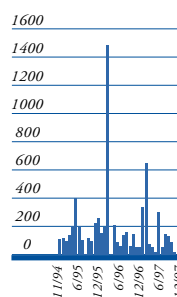
The company's Supervisory Board, the Board of Directors and the President together owned 855 Espoon Sähkö Oyj shares, which represented 0.01 % of the sharestock and voting power.

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.

Share price, FIM



Trading volume, 1,000 shares



Principal shareholders on 31 Dec. 1997

	Number of shares	% of shares and votes
1. City of Espoo	10,703,717	68.0
2. Industrial Insurance Oy	495,000	3.1
3. Ilmarinen Pension Insurance Oy	396,200	2.5
4. The Local Government Pensions Institution	313,000	2.0
5. Mutual Insurance Company Kaleva	258,000	1.6
6. Pension Varma Mutual Insurance Company	256,000	1.6
7. Suomi Mutual Life Insurance Company	226,500	1.4
8. Pension Varma Mutual Insurance Company	180,000	1.1
9. Mutual Pension Insurance Company Tapiola	145,200	0.9
10. Norvestia Oy Ab	120,000	0.8
Nominee-registered	744,925	4.7
Principal shareholders, total	13,838,542	87.9

Shareholder groups on 31 Dec. 1997

	Number of shareholders	% of shareholders and votes	% of shares
Companies	50	9.0	2.0
Financial and insurance institutions	29	4.6	16.0
Public entities	22	4.0	75.2
Non-profit organizations	19	3.4	1.0
Private persons	434	77.9	0.7
Foreign	6	1.1	5.1
	560	100.0	100.0

Ownership distribution on 31 Dec. 1997

	Number of shareholders	% of shareholders and votes	% of shares
1 - 100	254	45.4	0.1
101 - 1000	197	35.2	0.5
1001 - 10000	66	11.8	1.9
10001 - 100000	31	5.5	8.8
100001 - 1000000	11	2.0	20.7
1000001 -	1	0.2	68.0
	560	100.0	100.0

Proposal by the Board of Directors

The Group's non-restricted shareholders' equity according to the balance sheet on 31 December 1997 totalled FIM 664,291,343.25, which included distributable funds totalling FIM 290,768,580.07.

Espoon Sähkö Oyj's non-restricted shareholders' equity was FIM 292,054,925.31, which included the profit for the year totalling FIM 145,280,754.44.

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 3.80 per share or FIM 59,796,534.00 be distributed on the financial year and that FIM 232,258,391.31 be transferred to the retained earnings account.

Espoo, 4 March 1998

Olli Männikkö

Ulf Johansson

Anne Leppälä-Nilsson

Yrjö Rossi

Matti Manninen, President and CEO

Martti Kaasinen

Heidi Mikkola

Marja Rahkonen

Jukka Uosukainen

Auditors' Report

To the shareholders of Espoon Sähkö Oyj,

We have audited the accounting, financial statements and the administration of Espoon Sähkö Oyj for the financial period 1 January-31 December 1997. The financial statements prepared by the Board of Directors and the President 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 President have legally complied with the rules of the Companies Act. Mr Jarmo Lohi, APA was responsible for 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 President 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, 6 March 1998

Arthur Andersen Kihlman Oy
Authorized Public Accountants

Jarmo Lohi
APA

Supervisory Board's Statement

The Supervisory Board of Espoon Sähkö Oyj has examined the report of the Board of Directors, the financial statements and the auditors' report for the company and Group in 1997. 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, 10 March 1998

Leena Luhtanen
Chairman
Keijo Alho
Jukka Erävuori
Juhani Kangas
Hans Korsbäck
Pentti Rissanen

Martti Merra
Deputy Chairman
Hannu Ervamaa
Timo Haapaniemi
Matti Kaseva
Leena Rehn
Mika Salonoja

Group Management

Supervisory Board

Chairman

Leena Luhtanen, 57
MSc (Pol.Sc.), Member of Parliament

Deputy Chairman

Martti Merra, 38
LLM

Members

Keijo Alho, 61
Technician

Hannu Ervamaa, 51
LLM

Jukka Erävuori, 61, 1993 -
MSc (Pol.Sc.)

Timo Haapaniemi, 41, 1993 -
Managing Director

Juhani Kangas, 53
Planning Director

Matti Kaseva, 50
Managing Director

Hans Korsbäck, 66
MSc (Eng.)

Leena Rehn, 52 (1993-)
Secretary

Pentti Rissanen, 54
Attorney-at-law

Mika Salonoja, 33, 1993
MSc (Eng.)

Personnel representatives on the Supervisory Board

Markku Onnela, 53 (1993-)
Shift supervisor

Aimo Piispanen, 52
District heating fitter

Board of Directors

Chairman

Olli Männikkö, 53, 1989-
Managing Director

Deputy Chairman

Martti Kaasinen, 55, 1985 -
Deputy Director

Members

Ulf Johansson, 56
Editor-in-Chief

Anne Leppälä-Nilsson, 44 (1993-)
Director

Heidi Mikkola, 51
Lic.Phil.

Marja Rahkonen, 52
Journalist

Yrjö Rossi, 47 (1992-)
Managing Director

Jukka Uosukainen, 43
Special Counsellor

Operational management

Matti Manninen, 44
MSc (Eng.)
President and CEO 1993-

Erkki Ala-Risku, 51
BSc (Eng.)
Director, Electricity Division, 1994 -

Mauri Hätönen, 44
MSc (Eng.)
Director, Network Division, 1994 -

Launo Koskinen, 52
BSc (Eng.)
Director, Contracting Division, 1994 -

Matti Kuusisto, 51
MSc (Eng.)
Director, Energy Division, 1994 -

Reija Väätäinen, 42
MSc (Econ.)
Chief Financial Officer, 1996 -

Auditors

Arthur Andersen Kihlman Oy
Authorized Public Accountants
Jarmo Lohi, APA

Svensk resumé

Esbo Elektriska år 1997

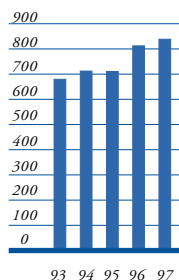
Esbo Elektriska Abp producerar, anskaffar och säljer elektricitet, fjärrvärme och naturgas. Företaget saluför konkurrenskraftiga heltäckande tjänster av hög kvalitet för att tillgodose kundernas energibehov. Verksamheten är organiserad i fem affärsområden: el, energi, nät och entreprenad. Organisationen omfattar dessutom en central stabsenhet för gemensamma företagstjänster. Bolaget grundades 1918 och har varit noterat vid Helsingfors Fondbörs sedan 1994.

Företaget äger nät för elektricitet och fjärrvärme som täcker Esbo, Grankulla och Kyrkslätt samt samproducerande anläggningar och värmecentraler i Esbo.

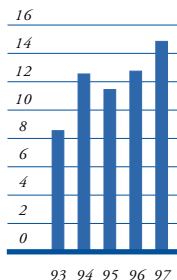
Koncernen Esbo Elektriska består av moderbolaget Esbo Elektriska Abp, Kyrkslätt Värme Ab samt fastighetsbolagen Kiinteistö Oy Espoon Energiatalo och Kiinteistö Oy Piispankylä 4.

	1997	1996	Förändring, %
Omsättning, Mmk	835,8	809,4	3,3
Driftsbidrag, Mmk	300,0	260,5	15,2
Rörelsevinst, Mmk	195,4	155,3	25,8
Resultat före reserveringar och skatter	202,7	155,7	30,2
Resultat/aktie (EPS), mk	9,25	7,14	29,6
Avkastning på investerat kapital, % (ROI)	14,8	12,7	16,5
Soliditet 1, % (anslutningsavgifter ingår i eget kapital)	77,9	75,5	3,2
Soliditet 2, % (anslutningsavgifter ingår ej i eget kapital)	47,6	45,0	5,8
Antal fast anställda 31.12.	387	396	-2,3

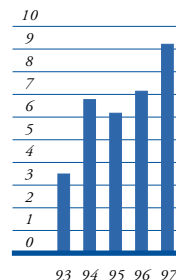
Omsättnings-
utveckling, Mmk



Avkastning på
investerat kapital
(ROI), %



Resultat/aktie, mk



Verkställande direktörens översikt



Esbo Elektriska tillhandahåller mångsidiga energitjänster inom det område där vi har egna distributionsnät och säljer elektricitet över hela landet. Verksamhetens bas är en kostnadseffektiv, lokalt integrerad organisation och en rikstäckande elhandel

som ger skalfördelar.

En av de faktorer som bidrar till ett regionalt energibolags framgång är det geografiska läget och ortens struktur. Företaget finns i Esbo, som är en stad i stark utveckling. Detta skapar goda förutsättningar för en framgångsrik verksamhet. En avsevärd del av Finlands ledande högteknologiföretag ligger inom vårt koncessionsområde och här finns även den största koncentrationen av forskningscentraler. Antalet invånare och företag växer snabbt och får en allt internationellare prägel. Den gynnsamma utvecklingen i regionen överlag har också medfört att Esbo har en klart lägre arbetslöshet än landet i genomsnitt.

Branschutveckling

Elmarknaden har avreglerats och öppnats för konkurrens mellan elföretag. Detta har haft en rad effekter på verksamheten i branschen. Det är uppenbart att den nordiska elmarknaden är beroende av en balanserad produktionskapacitet. I dagsläget har elbörserna en viktig roll när priset på el fastställs. Kapacitetsutnyttjandet var relativt lågt under året. Alternativen för anskaffning av el var fler än tidigare och det fanns ett stort antal fasta kontrakt för elanskaffning. Detta ledde till ett klart sjunkande marknadspris och pressade marginaler för elhandeln.

Det finns en stark press på att energibranschen skall omstruktureras. Branschen befinner sig i ett nytt läge, vilket avspeglar sig i omvärlden och aktörernas strategier. Esbo Elektriska har under de senaste åren utvecklat verksamhetsmodeller för att bättre kunna hantera kommande förändringar. Grundidén i den s k stadsenergi-modellen är att sammanföra effektiva, lokalt integrerade energibolag i städerna i en riksomfattande koncern. Företagen skulle som en grupp ha bättre förutsättningar att ta tillvara skal- och synergieffekter på riksplanet, framför allt inom elverksamheten.

Verksamhetsmodellen togs upp till offentlig diskussion med bolagets huvudägare Esbo stad i mitten av 1997. Detta hade ett klart syfte. Vi behöver debatt och beslutsfattande på lokalplanet för att kunna bilda en sammanlutning av städer enligt den beskrivna modellen. Modellen väckte omedelbart intresse och Esbo och Kuopio startade ett gemensamt förberedelsearbete under senare hälften av 1997. Avsikten är att inleda verksamhet med denna koncernstruktur som bas våren 1998.

Intern utveckling

Esbo Elektriska har en effektiv organisation som lägger grunden för en framgångsrik verksamhet även på en föränderlig marknad. Framöver bör alla länkar i verksamhetskedjan ha flexibilitet och hög kvalitet för att tillgodose kundernas behov. Kundservice, produktivitet och kostnadseffektivitet får en fortsatt ökande betydelse på en konkurrensutsatt marknad.

De anställda deltog under året i seminarier som behandlade företagets strategi och verksamhetens mål. I anslutning till detta startade vi en diskussion kring företagets värden. Vi vill skapa gemensamma synsätt som en plattform för verksamheten och säkra en fortlöpande förnyelse. Affärsområdena nät och entreprenad genom-

förde under året ett omfattande utvecklingsprojekt. Uppföljningen av resultaten fortsätter under 1998. En liknande process påbörjades inom affärsområde energi i slutet av året. Att planera marknadsföringen och produktifiera tjänsterna bjöd på de största utmaningarna inom affärsområde el. Kraftfulla satsningar gjordes för att öka kunskapen om riskhantering inom elhandel, på IT (informationsteknologi) och säljstödande verksamhet.

I samband med moderniseringen av nätverksamheten gjordes en bred kartläggning av personalens kompetens. Utifrån denna inledde affärsområde nät en omfattande behovsbaserad personalutbildning. Under 1997 startades ett långsiktigt chefsutvecklingsprogram inom hela företaget. Det är inriktat på tyngdpunktsområden som kartlades före själva programmet.

Planen för ett miljöledningssystem blev klar. Systemet kommer till största delen att införas och tillämpas under 1998, då även personalen utbildas. Företaget anslöt sig till ett avtal om energisparande i kraftverksbranschen som träffats mellan handels- och industriministeriet och centralförbundet för energi.

Resultatutveckling

Esbo Elektriska Ab:s roll som ett företag inriktat på el och värme stärktes i och med förvärvet av hela aktiestocken i Kyrksläotts Värme Ab.

Bolaget visade en fortsatt kraftig resultatutveckling under 1997. Satta mål uppnåddes inom alla affärsområden. Resultatet som uppgick till 203 Mmk var det historiskt sett bästa någonsin och motsvarade en ökning med 30 procent jämfört med 1996. Trots att marknads-

bilden för el generellt sett hårdnade, redovisade affärsområde el en markant resultatförbättring. Genom effektiva marknadsförings- och försäljningsinsatser lyckades vi öka volymen för elhandeln. Handeln på elbörserna i Finland och Nord Pool spelade en framträdande roll för hela elverksamheten inom företaget.

Före i utvecklingen även framöver

När konkurrensen på elmarknaden ökar och börjar omfatta praktiskt taget alla kundkategorier, blir organisatorisk struktur och effektivitet nyckelfaktorerna för framgång. Den snabba utvecklingen i branschen och kundernas växlande förväntningar kräver en genuin innovationsförmåga. Vi på Esbo Elektriska är glada över att få betjäna en kundkrets som räknas till de mest krävande i Finland. Detta är det säkraste sättet att vara före i utvecklingen även framöver. Jag vill tacka våra kunder för ett gott samarbete som baseras på långa relationer.

Esbo Elektriska har kraftfullt och framgångsrikt medverkat vid omstruktureringen av branschen. Detta har krävt betydande insatser av personalen och jag vill uttrycka mitt varma tack till alla medarbetare. Energisektorn och vårt företag upplever just nu den mest dynamiska och intressantaste epoken i sin historia.

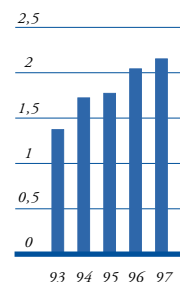
Esbo i mars 1998



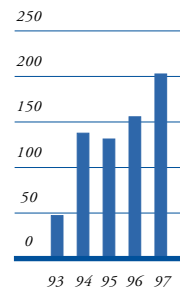
Matti Manninen

Verkställande direktör

Omsättning/
anställd, Mmk



Resultat före reserveringar och skatter,
Mmk



Styrelsens verksamhetsberättelse för 1997

Verksamhetsberättelse

Elförbrukningen i Finland steg med 5 procent under 1997 till totalt 73,5 TWh (miljarder kilowattimmar). Inom privat-hushållen låg elförbrukningen kvar på samma nivå som året innan, medan tjänstesektorn och den offentliga sektorn uppvisade en ökning med 2,4 procent. Industrin stod för den största tillväxten; elförbrukningen gick upp med 8,6 procent.

Esbo Elektriska Ab:s helårsförsäljning av el under 1997 uppgick till 2,1 TWh, vilket motsvarar en ökning med 14 procent. Försäljningen utanför eget koncessionsområde växte kraftigt, och en betydande del gick till den finländska elbörsen EL-EX. Överföringen av el inom eget koncessionsområde uppgick till 1 639 GWh, en ökning med 2,3 procent från föregående år.

Försäljningen av värme under 1997 uppgick totalt till 1 575 GWh, en minskning med tre procent jämfört med året innan. Räknet på basis av temperatur i förhållande till antalet dagar var det 7 procent varmare under 1997 än året före. Antalet fastigheter som anslutits till fjärrvärmenätet ökade med 4,9 (3,2) procent och uppgick till 3 673 vid utgången av året.

I april 1997 förvärvade Esbo Elektriska Apb aktierna i Kyrksläotts Värme Ab av Kyrksläotts kommun. Värdet på aktierna är 10,4 miljoner mk. I juni inleddes förhandlingar om ett närmare samarbete mellan Esbo Elektriska, Savon Voima och Kuopion Energia. Esbo Elektriska Apb lade ett köpbud på en minoritetsandel i Savon Voima Oy, som Kuopion Energias verksamhet skulle ha uppgått i. Planerna strandade till följd av att Savon Voima Oy:s aktieägare röstade mot förslaget om fusion. I januari 1998 offentliggjordes ett intentionsavtal mellan städerna Esbo och Kuopio att Kuopion Energias verksamhet skulle inlemmas i Esbo Elektriska Abp. Stadsstyrelserna i Esbo och Kuopio har behandlat frågan om en samgång i februari 1998 och beslutat förelägga respektive stadsfullmäktige sitt förslag för definitivt avgörande i mars. Stadsfullmäktige i Esbo behandlade ärendet den 2 mars och fattade ett positivt principbeslut. Avsikten är att vidareutveckla och utvidga begreppet stadsenergi.

Omsättning

Koncernen Esbo Elektriska ökade sin omsättning med 3 procent till 836 (809) miljoner mk. Försäljningen och över-

föringen av el steg med 1,3 procent till 554 (547) miljoner mk. Räknet i mark var försäljningsökningen för el något långsammare än den volymmässiga tillväxten, främst därför att praxis för beskattning av el har ändrats. Bränsleskatten på produktion av el slopades i början av 1997 och ersattes av en elskatt. Elskatten ingår inte i omsättningen utan avräknas och redovisas till staten. För 1997 redovisades 48 miljoner mk i elskatt. Försäljningen av fjärrvärme räknat i mark ökade med 9 procent till 255 (234) miljoner mk. Tillväxten berodde på ökat antal kunder och prishöjning, främst till följd av höjd bränsleskatt för produktion av värme. Övrig försäljning, byggande och underhåll av utomhusbelysning samt försäljning av närvärme och naturgas uppgick totalt till 27 (28) miljoner mk.

Kostnader

Koncernens driftskostnader uppgick totalt till 539 (552) miljoner mk. Kostnaderna för energi minskade med 2 procent från året innan, främst som ett resultat av att inköpspriset på el sjönk. Den el som producerades vid företagets egna produktionsenheter låg på samma volym som föregående år. Egen produktion stod för 36 (41) procent av den totala elanskaffningen. Att andelen sjönk berodde på att den totala elanskaffningen ökade kraftigt. Övriga driftskostnader fränsett kostnader för energi uppgick totalt till 175 (179) miljoner mk. Ränteintäkterna översteg räntekostnaderna med 7,3 miljoner mk.

Resultat

Koncernens driftsbidrag (resultat före bokslutsdispositioner och skatter) blev 300 (260) miljoner mk, vilket utgjorde 36 (32) procent av omsättningen. Rörelsevinsten ökade med 26 procent till 195 miljoner mk och koncernens resultat före reserveringar och skatter steg med 30 procent till 202 (156) miljoner mk. Resultatförbättringen förklaras till största delen av en framgångsrik handel med el i Norden och ökad försäljningsvolym.

Finansiering

Koncernen har en god finansiell ställning. Räntebärande skulder per 31.12.1997 uppgick till 104 miljoner mk och likvida medel till 441 miljoner mk. Soliditeten uppgick till 48 (45) procent, anslutningsavgifter borträknade, per 31

december 1997 och medräknat anslutningsavgifter till 78 (75) procent. Övriga nyckeltal som beskriver bolagets ekonomiska utveckling samt relationstal för aktien återfinns (med finsk text) på sidan 36. borträkna

Investeringar

Investeringar i anläggningstillgångar uppgick totalt till 82 miljoner mk under 1997. Av totalinvesteringarna användes 21 miljoner mk för elnät. I utbyggnad av fjärrvärmenätet investerades 24 miljoner mk. Investeringar i produktion uppgick totalt till 7 miljoner mk. Förvärvet av aktierna i Kirkkonummen Lämpö Oy Ab utgjorde den största enskilda investeringen.

Personal

Företaget hade 412 (413) anställda i medeltal under året. Antalet fast anställda uppgick till 387 (398) personer per 31.12.1997.

Förvaltningsorgan

Esbo Elektriska Abs: ordinarie bolagsstämma hölls 16.4.1997. Stämman beslutade om ändring av följande punkter i bolagsordningen: bolagets svenska namn skall vara Esbo Elektriska Abp från 1.9.1997 och en av Centralhandelskammaren godkänd revisionsbyrå skall utses att granska bolagets förvaltning och räkenskaper. Stämman utsåg CGR-auktoriserade revisionsbyrån Arthur Andersen Kihlman Oy till revisor:

Bolagsstämman utsåg följande ledamöter i förvaltningsrådet för nästa mandatperiod på två år: maskintekniker Keijo Alho, regionenhetsdirektör Hannu Ervamaa, pol mag Jukka Erävuori, VD Timo Haapaniemi, planeringsdirektör Juhani Kangas, VD Matti Kaseva, dipl ing Hans Korsbäck, riksdagsledamot Leena Luhtanen, vicehäradschef Martti Merra, arbetsmarknadssekreterare Leena Rehn, vicehäradschef Pentti Rissanen och dipl ing Mika Salonoja.

Förvaltningsrådet utsåg riksdagsledamot Leena Luhtanen till ordförande och vicehäradschef Martti Merra till vice ordförande.

Förvaltningsrådet utsåg 29.4.1997 följande ledamöter i styrelsen för nästa mandatperiod på två år: chefredaktör

Ulf Johansson, biträdande direktör Martti Kaasinen, direktör Anne Leppälä-Nilsson, fil lic Heidi Mikkola, VD Olli Männikkö, redaktör Marja Rahkonen, VD Yrjö Rossi och konsultative tjänstemannen Jukka Uosukainen.

Styrelsen utsåg VD Olli Männikkö till ordförande och biträdande direktör Martti Kaasinen till vice ordförande.

Utsikter för 1998

Utvecklingen på den nordiska elmarknaden går mot en fortsatt integrerad elhandel. Hindren för en samnordisk elhandel slopas successivt och detta bedöms medföra minskade marginaler för elhandeln och skärpt konkurrens. Å andra sidan leder detta till en expanderande marknad. Att nå balans mellan försäljning och anskaffning av el blir en allt centralare framgångsfaktor i elhandeln. En annan viktig förutsättning för framgång är att kunna hålla kvar och öka försäljningsvolymerna.

I mars 1998 kommer respektive stadsfullmäktige i Esbo och Kuopio att behandla frågan om en sammanslagning av Kuopion Energias verksamhet med Esbo Elektriska Abp. Om fullmäktige i bägge städer fattar positiva beslut, kommer Esbo Elektriska Abp att gå ut med en riktad emission till Kuopio stad och Kuopio stad att avyttra Kuopion Energias verksamhet till Esbo Elektriska Abp, som ändrar namn till Stadsenergi Abp (arbetsnamn). Lokala affärsområden som överföring av el, fjärrvärmeverksamhet, produktion och lokal elförsäljning avses ombildas till två regionala dotterbolag. Den riktade emissionen skall enligt planerna genomföras våren 1998, om respektive stadsfullmäktige fattar positiva beslut. De bolag som skulle ingå i stadsenergikoncernen (Esbo Elektriska Abp och Kuopion Energia) hade sammantaget en omsättning på 1 100 miljoner mark under 1997 och totalt ca 600 anställda per 31 december 1997.

Esbo Elektriska Abp förutsees uppvisa ökad försäljningsvolym för el under 1998. Den hårdnande konkurrensen beräknas medföra fortsatt lägre marginaler för elhandeln. Den exceptionellt gynnsamma utvecklingen av den nordiska elhandeln väntas inte fortsätta under 1998. En rad externa faktorer kommer att påverka utfallet av prognosen, t ex den allmänna konjunkturutvecklingen och konkurrensläget.

Information for Shareholders

Shareholders' meeting

The Annual General Meeting of Espoon Sähkö Oyj shareholders will be held on Wednesday 29 April 1998, beginning at 4.00 pm at Innopoli Oy in Espoo, street address Tekniikantie 12. 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 24 April 1998. 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 27 April 1998 either in writing to Espoon Sähkö Oyj, Share Register, 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 3.80 per share be distributed for the financial year 1997. The record date for dividend payments will be 5 May 1998 and the payment date will be 8 May 1998 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 1998

Espoon Sähkö Oyj will publish interim reports on the first four months of the year on 11 June 1998 and on the first eight months of the year on 15 October 1998.

Please write to the following address for financial publications: Espoon Sähkö Oyj, 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/>.



344 042.2



Good Environmental Choice

Pages 21 to 40 of this Annual Report are printed on Munken Lynx paper, which has been awarded the Nordic Environmental Label.

The other pages are printed on Munken Cream paper, which has been awarded the Bra Miljöval Environmental label.

All the people photographed in this Annual Report are Espoon Sähkö employees.

Espoon Sähkö
Piispanportti 10
P.O.BOX 109
02201 Espoo Finland
Tel. +358 9 804 801

